Annual Report

2006-07

AUDITOR-GENERAL


WICKED

Preamble to the Constitution

We, the people of South Africa,

Recognise the injustices of our past;

Honour those who suffered for justice and freedom in our land;

Respect those who have worked to build and develop our country; and

Believe that South Africa belongs to all who live in it, united in our diversity.

We therefore, through our freely elected representatives, adopt this Constitution as the supreme law of the Republic so as to –

> Heal the divisions of the past and establish a society based on democratic values, social justice and fundamental human rights;
>
> Lay the foundations for a democratic and open society in which government is based on the will of the people and every citizen is equally protected by law;
>
> Improve the quality of life of all citizens and free the potential of each person; and
>
> Build a united and democratic South Africa able to take its rightful place as a sovereign state in the family of nations.

May God protect our people.

Nkosi Sikelel' iAfrika. Morena boloka setjhaba sa heso.

God seën Suid-Afrika. God bless South Africa.

Mudzimu fhaṭutshedza Afurika. Hosi katekisa Afrika.

The Auditor-General has developed the following promise, emanating from the Constitution:

Reputation promise of the Auditor-General

The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector, thereby building public confidence.

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Letter to the Speaker

Ms B Mbete
Speaker of Parliament
PO Box 15
Cape Town
8001

September 2007

Dear Madam Speaker

Report to the Speaker in terms of section 10(2) of the Public Audit Act, 2004 (Act No. 25 of 2004)

In terms of the provisions of section 10(2) of the Public Audit Act of 2004, I hereby submit my annual report, including the audited financial statements, for the financial year ended 31 March 2007.

The Audit Committee, which is established in terms of section 40 of the act, is satisfied with the audited financial statements, which contain an unqualified audit opinion. The report deals with the financial matters affecting the affairs of the Auditor-General, as well as the performance review against predetermined objectives.

I respectfully draw your attention to section 41(5) of the Public Audit Act of 2004, requiring submission within six months, and therefore request that this report be tabled in Parliament by 30 September 2007. The act also requires me to simultaneously submit a copy of this report to the Standing Committee on the Auditor-General. It would therefore be appreciated if the report could be referred to this committee for its consideration.

Yours faithfully

TN Nombembe
Auditor-General

> “The AG exists to strengthen our country’s democracy by enabling oversight, accountability and governance in the public sector, thereby building public confidence. That is our constitutional mandate.”

Terence Nombembe
Auditor-General

Terence Nombembe
Auditor-General of South Africa

Comment of the Auditor-General

This is my first annual report since I was appointed as Auditor-General on 1 December 2006, succeeding Shauket Fakie whose seven-year term of office expired on 30 November 2006. I would like to thank him for the contributions he has made to building the institution. His tenure can only be described as inspirational.

I am excited about my new role and the contribution that we as a chapter 9 institution will continue to make to strengthen our country's democracy. My predecessor was instrumental in helping to establish that foundation – one that emanates the principles of credibility, independence and transparency. My task is to protect these gains and take the institution to even greater heights.

This annual report focuses on audited performance results as required by the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA). This is the first year that performance results have been audited against the predetermined performance objectives in accordance with the provisions of the PAA. As promised in the 2005-06 annual report, the 2006-07 report is therefore augmented with more performance-orientated strategic information than was agreed with the Standing Committee on the Auditor-General.

Auditing and relevance of reporting

As the Supreme Audit Institution of South Africa, the Auditor-General (AG) has a responsibility to uphold and strengthen the country's democracy by enabling oversight, accountability and governance in the public sector, thereby building public confidence.

In a country where the majority of the population has participated in a democratic dispensation for little more than a decade, it is important to engender public confidence in state organs. Executive government must be seen and appreciated as torchbearers in complying with applicable legislation, adhering to generally accepted governance practices and using public resources effectively and efficiently. To hold all spheres of government accountable for their actions, objective information is needed.

As an impartial institution, the AG fulfils this role and performs its functions independently and objectively. Its functions fall within the realm of auditing and reporting on the accounts, financial statements and financial management of the public sector. This is a crucial step in adding credibility to information reported by executive government.

The AG performs a number of different audits. These include:
- regularity audits, including financial and compliance audits and the auditing of performance information
- specialised audits, including performance audits and special investigations.

I am pleased with the fact that overall, the quality of our audits continues to improve from year to year, as does our finalisation of audits within the prescribed time frames. The coverage of performance audits, although less than our target of seven per cent, increased significantly from the previous financial year.

In addition, we continue to explore ways to make audit reports more relevant. This course of action is aimed at enabling as wide a range of stakeholders as possible to use our reports and gain insight into the manner in which South Africa's public resources are utilised.

Towards greater professionalism

The environment within which the AG functions is becoming more demanding and requires ever-increasing levels of professionalism. The institution has embraced this challenge and in the past year we have implemented a number of initiatives to achieve appropriate standards of professionalism. Key among these initiatives was the implementation of a prior learning assessment programme for the Registered Government Auditor (RGA) qualification. This resulted in 88 employees that passed the RGA and now meet fully the minimum qualification framework that the AG has defined for its audit teams. This is in addition to the 37 employees that qualified as chartered accountants and another four employees who passed the Certified Information Systems Auditor examination. Overall this translates to 129 employees that passed final qualifying examinations during the performance year, which was well in excess of our target of 20 employees. The development of leaders at all levels, in addition to the base laid this year, is crucial and thus remains a primary focus area. In this regard, the AG's values and culture had to be re-examined and the outcome of this review will continue to inform the basis of our leadership training, communication and behaviour.

The AG recognises its employees as the most decisive factor in establishing an impeccable standard of professionalism. Accordingly, the institution has taken appropriate measures and allocated enormous resources to enable competency development among its employees at all levels.

While recognising these gains, we have set aside 2007-08 to address the high staff turnover rate by reviewing our policies relating to staff retention, succession planning and performance management.

Facilitating transformation

The accounting and auditing profession is one of the most under-represented sectors when it comes to broad-based black economic empowerment (BBBEE). In line with government's drive to change the face of the mainstream economy, the AG is committed to contribute towards making this profession more representative of the country's demographics.

In this regard the AG annually allocates substantial audit work to those audit firms that comply with stringent BBBEE criteria.

In addition, we have instituted an Employment Equity Forum that facilitates our employment equity initiatives. During the period under review we exceeded our affirmative action target – a clear indication of the prominence this business imperative enjoys in the institution.

Introducing a reputation index

Perhaps the most striking example of our determination to deliver on our constitutional mandate is the introduction of a reputation index. The decision to embark on this course of action was driven by a desire to understand how we are perceived by all our stakeholders, especially in terms of our delivery on the AG's constitutional mandate, for it is only when such knowledge is obtained that targeted corrective actions can be implemented.

This outcome-based approach to stakeholder relationship will provide us with valuable data which will assist us not only in designing appropriate interventions, but also in setting a baseline against which we will measure the institution's performance in years to come.

Conclusion

Going forward, "relevance of reporting" will be the institution's strategic thrust. I am grateful to the Standing Committee on the Auditor-General for their guidance and direction. With the support of all our stakeholders, I am confident that the AG will continue to make a contribution to strengthen our country's democracy.

I thank you.

Terence Nombembe

Auditor-General of South Africa


The Public
Audit Act

Corporate governance

The Constitution of the Republic of South Africa, 1996 establishes the AG as a state institution, outlines the manner in which the Auditor-General is appointed and defines the AG's governing principles and key functions. As such, it provides the framework for corporate governance with which the AG has to comply.

Corporate governance is furthermore defined by the PAA. The PAA facilitates the formation and defines the functions of a parliamentary oversight mechanism and other key structures of the AG, which include an audit committee.

Standing Committee on the Auditor-General

On 21 June 2006, the National Assembly established the Standing Committee on the Auditor-General (SCoAG) to maintain oversight over the AG as required by the PAA. In terms of the act, SCoAG is tasked with assisting and protecting the AG to ensure the independence, impartiality, dignity and effectiveness of the AG. SCoAG also provides advice to Parliament on a range of matters related to the AG.

In cooperation with the AG, SCoAG is in the process of reviewing the institution's governance model.

During the period under review SCoAG met in September and November 2006 and January, February and March 2007.

Table 1: Members of the National Assembly who serve on the Standing Committee on the Auditor-General

African National Congress	Mr PS Gabanakgosi Mr DM Gumede Ms BA Hogan (chairperson) Mr M Johnson Mr TL Mahlaba Rev. NW Ngcobo Mr MJ Nene Mr VG Smith[1] Mr BZ Zulu
Democratic Alliance	Mr M Stephens Mr EW Trent
Inkatha Freedom Party	Mr ET Vezi
United Party of South Africa	Mr S Simmons
National Democratic Convention	Dr GG Wood
Pan African Congress of South Africa	Mr MT Likotsi[1]

Quality Control Assessment Committee

The Auditor-General has established a Quality Control Assessment Committee to act as an oversight body and assist the Auditor-General and Deputy Auditor-General in fulfilling their responsibilities as required by the quality control standards of the International Standards on Auditing (ISA).

The quality control review reports of the Independent Regulatory Board for Auditors (IRBA) further enhance independent assurance on whether the AG is complying with professional standards.

The Quality Control Assessment Committee is guided professionally by the IRBA and is responsible for:

- approving the quality control strategy of the AG
- determining the review criteria
- communicating overall review results to the appropriate oversight body and Exco
- setting criteria for positive recognition and a framework for non-compliance
- considering whether review reports and recommendations are consistent and of an appropriate quality
- determining the outcome of individual review findings
- providing guidance with regard to problems and difficulties encountered.

Members of the assessment committee include the Auditor-General, Deputy Auditor-General and an external member. The table below indicates member attendance:

Table 2: Attendance record of the Quality Control Assessment Committee

Members	24 April 2006	12 February 2007
Mr S Fakie (chairperson)	Yes	N/A
Mr T Nombembe (as chairperson on 12 February 2007)	Yes	Yes
Prof. K Barac (external member)	Yes	Yes
Mr J van Schalkwyk (representing the Deputy Auditor-General on 12 February 2007)[2]	N/A	Yes

Audit Committee

The Audit Committee of the Auditor-General was established in terms of section 40(6)(a) of the PAA to assist the Deputy Auditor-General in discharging his/her duties, as set out in section 43, relating to:

- maintaining a sound financial and risk management and internal control system
- maintaining an effectively functioning system of internal audit.

In addition, the committee assists the Deputy Auditor-General in overseeing:

- the safeguarding of assets
- the operation of adequate systems and control processes
- the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

The Audit Committee must comment in the annual report of the AG on:

- the effectiveness of internal control
- its evaluation of the AG's financial statements.

Should the committee have concerns, it may communicate such concerns in terms of section 40(6)(b) to the:

- Auditor-General
- external auditor of the AG
- oversight mechanism.

The committee acts as an advisory body and does not

[1] Alternate
[2] Only for this meeting

perform any management functions or assume any management responsibilities. An important role of the committee is to monitor and supervise the effective functioning of internal audit, ensuring that the roles and functions of the external audit are sufficiently clarified and coordinated with internal audit to provide an objective overview of the operational effectiveness of the AG's systems of internal control and reporting. These matters are reflected on in the report of the Chairperson of the Audit Committee.

Remuneration Committee

In terms of section 34(3) of the PAA, the Auditor-General is responsible for determining the terms and conditions of employment of all employees in the institution. The Auditor-General established a Remuneration Committee to provide specialised advice to the Auditor-General in respect of remuneration and related issues in terms of section 5(2)(b) of the PAA.

The committee acknowledges that its role is of an advisory nature, and that final decision-making power rests with the Auditor-General, who is entitled to make decisions at his sole discretion.

The committee makes recommendations to the Auditor-General in respect of the following matters:

- General trends and practices regarding employment benefits, including the structuring of conditions of employment and remuneration packages.
- The framework or broad policy for the remuneration of executive and senior management.
- Within the terms of the agreed policy, the total individual remuneration packages of each executive member of the management team including, where appropriate, bonuses and incentive payments.
- Targets and rules for any performance-related pay schemes currently in operation, or yet to be instituted.
- General salary increases and mandates for negotiations, where applicable.
- Any other human resource management issue which the Auditor-General may wish to table for discussion by the committee.

The objective of the executive and senior management remuneration policy is to ensure that members of the executive management are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the institution.

The Remuneration Committee met on 12 March 2007 and advised the Auditor-General on the compensation principles to be implemented for 2007. Committee members[3] and their attendance are stipulated in table 3 below.

Table 3: Attendance record of the Remuneration Committee

Members	12 March 2007
Dr M Bussin (chairperson)	Yes
Mr D Edwards	Yes
Mr R Warren (special advisor)	Yes
Mr T Nombembe (acting Deputy Auditor-General)	Yes
Mr J van Heerden (acting chief operating officer)	Yes

Executive Committee

Legislation authorises both the Auditor-General and Deputy Auditor-General to delegate any power and duty assigned to them. In terms of the Delegation of Authority, as contained in the AG's management approval framework, an Executive Committee (Exco) has been established to manage the business and affairs of the institution.

Exco consists of the Deputy Auditor-General (chairperson) and five corporate executives. With the appointment of Terence Nombembe as Auditor-General on 1 December 2006, the post of Deputy Auditor-General became vacant. Mr Nombembe, however, continued to fulfil the role of Deputy Auditor-General and chaired Exco for the remainder of the period under review.

Simphiwe Cele and Lily Zondo served as Exco members for the past year. Imani Alexander and Nitasha Manik left the employ of the AG in November 2006 and March 2006, respectively. Pramesh Bhana was appointed to Exco on 1 October 2006. George Lourens was appointed in an acting capacity on 1 December 2006.

Exco met twelve times during 2006-07, the exception being July 2006 when they did not meet due to the finalisation of annual national and provincial audits in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

The past year saw the creation of the post of chief operations officer (COO). Established at the level of corporate executive, the incumbent is responsible for managing the non-audit operations of the AG. Corporate executive Wally van Heerden acted as COO from 1 December 2006 until 1 August 2007 when the new COO, Lindelwa Jabavu, assumed duty.

The Tender Committee and Technical Committee are subcommittees of Exco. Chaired by a corporate executive, membership of these committees consists of staff at various levels and there is also external representation in the case of the Technical Committee.

[3] Subsequently, Mpuseng Tlhabane was appointed in April 2007

The Auditor-General and members of the Executive Committee:

Top from left to right: Terence Nombembe (AG), Thembekile Kimi Makwetu (DAG), Pramesh Bhana (CE), Wally van Heerden (CE)

Bottom from left to right: Lindelwa Jabavu (COO), Simphiwe Cele (CE), Lily Zondo (CE)

Report of the Chairperson of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 2007 in terms of section (40)(6)(a) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA). Among other things, the PAA requires us to report on the effectiveness of internal controls and our evaluation of the annual financial statements.

In addition to complying with the above statutory responsibilities, the committee has adopted appropriate formal terms of reference as its audit committee charter and has regulated its affairs in terms of this charter.

Committee membership and attendance

During the year under review, the committee comprised the following external members and held three meetings as set out in the table below. In line with the requirements of the PAA, the committee was composed entirely of non-executive members.

Table 4: Attendance record of the Audit Committee

Members	Attendance	Apology	Total
Mr MP Moyo (chairperson)	2	1	2
Mr RJ Biesman-Simons	3	-	3
Prof. K Barac	3	-	3
Ms NP Mbele	3	-	3

Meetings were also attended by representatives of the internal auditors (Deloitte) and external auditors (BDO Spencer Steward). Representation from management included Terence Nombembe (in his capacity as acting Deputy Auditor-General), Wandile Tutani (Business Executive: Governance) and Vincent Ndadza (Risk Manager).

Both the internal and external auditors were regularly afforded opportunities to discuss their concerns without the presence of management.

Key activities during the financial year

Key activities undertaken by the committee during the year under review and the period leading up to the date of this report included the following:

- Approval of the internal audit coverage plan and internal audit fees for the 2007-08 financial year.
- Approval of the revised terms of reference of the Audit Committee.
- Approval of the criteria and procedures for the appointment of the external auditors of the AG.
- Review of management's implementation of recommendations made by the internal and external auditors.
- Approval of the reappointment of Deloitte as the internal auditors of the AG.

Effectiveness of internal controls

Section 43(2)(b) of the PAA requires the Deputy Auditor-General to establish an effective, efficient and transparent system of financial and risk management and internal control, as well as an internal audit function.

The system of controls is designed to provide cost-effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In line with the requirements of the PAA and the King II Report on Corporate Governance, internal audit provides the Audit Committee and management with assurance that the internal controls are adequate and effective to mitigate risk applicable to the AG.

The AG uses a control self-assessment tool (CSA), a web-based measurement tool, to monitor the institution's compliance with key controls designed to prevent, detect and monitor its key risks. The tool contains a series of questions with "Yes/No" options as answers – if a control is not met, the answer should be "No". Although reliance is placed on the integrity of staff to answer the questions honestly and accurately, the results are also validated by either the internal or external auditors or the risk management unit. Areas of non-compliance are investigated and appropriate action is taken to address deficiencies.

The system of internal controls is further supported by the internal auditors who provide an independent and objective evaluation of the AG's system of internal controls.

There are plans to enhance this system further during the 2007-08 financial year through the development and implementation of an enterprise-wide risk management framework, including the establishment of a risk management committee to support both Exco and the Audit Committee with regard to risk-related matters. The Audit Committee will review these initiatives, as well as management's actions on the matters reported by the internal and external auditors, on an ongoing basis.

Based on the information received from management and the internal and external auditors, the Audit Committee is satisfied with the current state of internal controls within the AG and we believe that these controls functioned as intended. Furthermore, the internal accounting controls could be relied upon for preparing the annual financial statements.

Evaluation of annual financial statements

The Audit Committee has:

- reviewed and discussed the audited annual financial statements included in this annual report with the external auditors, the Deputy Auditor-General and the Auditor-General
- reviewed changes in accounting policies and practices
- reviewed significant adjustments resulting from the audit
- reviewed the external auditor's management letter and management's responses thereto.

Following our review of the financial statements for the period ended 31 March 2007, we are of the opinion that they comply with the relevant requirements of the PAA and they fairly present the state of affairs of the AG, including business, financial results and financial position.

We therefore recommend that the audited financial statements, as submitted, be approved by the Deputy Auditor-General.

On behalf of the Audit Committee, I would like to express my sincere gratitude for the cooperation received from the Auditor-General, Terence Nombembe, and his staff. We wish to commend the AG's management for their commitment to resolving the committee's resolutions and addressing the recommendations of the internal and external auditors. Finally, we are grateful for the guidance and cooperation received from the Standing Committee on the Auditor-General under the astute leadership of Barbara Hogan.

Mthandazo Peter Moyo
Chairperson of the Audit Committee
27 August 2007

Thembekile Kimi Makwetu
Deputy Auditor-General

Review of the Deputy Auditor-General

Terence Nombembe continued to function as the Deputy Auditor-General since his appointment as the Auditor-General on 1 December 2006. The new Deputy Auditor-General, Thembekile Kimi Makwetu, was appointed with effect from 1 July 2007.

The Deputy Auditor-General is the head of administration of the AG. As such, he is the accounting officer and accountable to the Auditor-General and performs his duties in terms of sections 32 and 43 of the PAA.

The AG has distilled its legislative mandate, as provided for in the Constitution and PAA, into a single key concept that defines the institution's intent and focuses its strategic thrust. "Service delivery" is regarded as a business imperative, and so resolute is the AG to entrench this philosophy throughout the institution that it has been subdivided into two distinct focus areas to ensure that deliverables are clearly demarcated and acted upon.

Primary focus areas are linked to the institution's operational arena and are instrumental to the realisation of "service delivery". The AG defines its primary focus areas as public sector auditing, together with four other areas, namely employment equity, broad-based black economic empowerment, leadership and reputation. A process has commenced to improve delivery across all these areas.

Overall six of the ten (60%) primary focus areas were met. The four areas in respect of which the targets were not met, were:

- quality – although the target for excellent performance was met, the target to improve on poor performance was not
- cost of auditing – gross contribution to fixed and operating costs
- timeliness of audits
- performance auditing.

Secondary focus areas are linked to institutional focus and consist of key efficiency measures and financial performance. Secondary focus areas fall within the realm of daily activities and/or services rendered by the internal administration of the institution. To ensure it is done efficiently and effectively, stringent and clearly defined goals, measures and targets have been adopted for all secondary focus areas.

Only two of the five (40%) secondary focus areas were met. The three areas where the targets were not met, were:

- retention of staff
- efficiency gains
- debt collection – debtors days for national and provincial departments were well within the target, while the target for local government and statutory bodies was not met.

A summary of actual performance against targets for the year ended 31 March 2007 is contained in the table below (p.23), followed by the full report.

Footnotes to table 5 on p.23

[4] Includes national and provincial departments and listed public entities
[5] Includes Circular 1 entities, constitutional institutions, other entities, statutory bodies, trading entities and unlisted entities
[6] Includes municipalities, consolidated municipal financial statements and municipal entities
[7] The target did not factor in the results of the Registered Government Auditors examination at the time of setting the target
[8] Level 1 – no standard process exists
[9] Level 2 – processes are standardised, but the tracking of compliance is not formalised through the control self-assessment process
[10] Level 3 – processes are standardised, documented, communicated and tracked formally through the control self-assessment process

Summary of actual performance against predetermined objectives (targets)

Table 5: Performance against predetermined objectives

Main focus area	Sub-focus area	Target	Actual performance
Primary focus areas			
1. Auditing	1.1 Quality	Excellent performance: 70% Good performance: 30% Poor performance: 0%	Excellent performance: 75% Good performance: 10% Poor performance: 15%
	1.2 Cost of auditing	Additional 1% on the projected 31% gross profit margin	27% gross profit margin
	1.3 Timeliness	Finalise 95% of audit reports within the prescribed deadline for financial statements submitted on time	Of financial statements submitted as per the legislated dates, the AG finalised within the prescribed deadline: • 90% of PFMA organisations[4] • 95% of other PFMA organisations[5] • 42% of MFMA organisations[6]
	1.4 Auditing of performance information	100% compliance with predetermined audit coverage milestones	100% compliance with predetermined audit coverage milestones
	1.5 Performance auditing	At least 7% of total audit resources allocated to performance auditing	6% of total audit resources allocated to performance auditing
	1.6 International audits	Not more than 5% of total audit income	Income from international audits is 2% (R18.2 million) of total audit income, which is in the targeted range
2. Employment equity		80% from targeted groups and 20% from non-targeted groups	84% from targeted groups and 16% from non-targeted groups
3. Broad-based black economic empowerment (BBBEE)		100% compliance with BBBEE criteria	100% compliance with criteria for contract work and all centralised procurement
4. Leadership	4.1 Leadership effectiveness	Determine baseline	Culture index baseline of 14% established
5. Reputation	5.1 Reputation index	Determine baseline	Reputation index baseline of 19% established
Secondary focus areas			
6. People	6.1 Learning and growth	Minimum of 20 qualified professionals	129 staff members passed final professional qualifying examinations, consisting of: • 37 chartered accountants • 88 registered government auditors[7] • 4 certified information systems auditors
	6.2 Retention of staff	Less than 12% staff turnover rate	16.1% (excluding trainee accountants)
7. Process	7.1 Operational excellence	Level of maturity of business processes at least: • 0% at level 1 • 75% at level 2 • 25% at level 3	Level of maturity of business processes: • 19% at level 1[8] • 69% at level 2[9] • 13% at level 3[10]
8. Financial performance	8.1 Net surplus	Additional 3% on projected net surplus	Deficit of R1.8 million incurred – (0% additional percentage on projected net surplus)
	8.2 Debt collection	National and provincial debtors not more than 45 days Local government debtors not more than 100 days	National and provincial debtors – 17 days Local government debtors – 116 days

See bottom of page 22 for footnotes

Primary focus areas

Auditing

Audit quality

The annual quality control 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. The credibility of this review process is enhanced by the performance of the reviews by an external entity, the Independent Regulatory Board for Auditors (IRBA). Together with the AG's quality control component, reviews are performed of both the AG's own and contracted-out work.

The AG has implemented effective strategies to improve the quality of audits significantly. These initiatives include ongoing training in auditing and quality management, annual pre-issuance reviews prior to finalisation of key audit reports and consistency reviews to ensure consistent reporting.

The higher rate of excellent performance against the target performance, as reflected in table 6 below, attests to the effectiveness of the implemented initiatives.

Table 6: Annual quality control results

Target 2006-07	Performance 2006-07
• Excellent performance: 70% • Good performance: 30% • Poor performance: 0%	• Excellent performance: 75% • Good performance: 10% • Poor performance: 15%

The rate of poor performance is higher than expected. The AG is in the process of investigating all cases of poor performance to determine the underlying causes. To address the overall performance on quality more holistically, the AG has already taken steps to continuously improve and enhance quality control processes.

Figure 1 below reflects the positive impact of the implemented initiatives from 2004 to 2007. The dedication of auditing staff and the efforts of the support services in this regard are acknowledged.

Cost of auditing

The cost of auditing within the AG is influenced by the pay level of audit staff and the efficiency with which business unit span of control is managed, balanced with the amount of work that is contracted out and on which no contribution is made to overheads.

The above-mentioned factors are all taken into account in the calculation of the gross contribution to fixed and operational cost margins and are crucial factors in determining whether the AG will ultimately achieve its desired net surplus.

Table 7 below indicates that the AG achieved a gross contribution to fixed costs and operational costs of 27 per cent compared to the target of an additional one per cent on the budgeted figure of 31 per cent (refer to table 8 for a detailed breakdown).

Table 7: Percentage of gross contribution to fixed and operational cost margins

Target 2006-07	Performance 2006-07
Additional 1% on the projected 31% gross contribution to fixed and operational costs	27% gross contribution to fixed and operational costs

It is important to understand that the AG's business model is designed to minimise the cost of auditing, while ensuring that the income derived primarily from audit work is at a level that is not excessive to the public sector, but sufficient to meet the necessary expenditure of the institution in the fulfilment of its constitutional mandate.

Figure 1: Annual quality control results

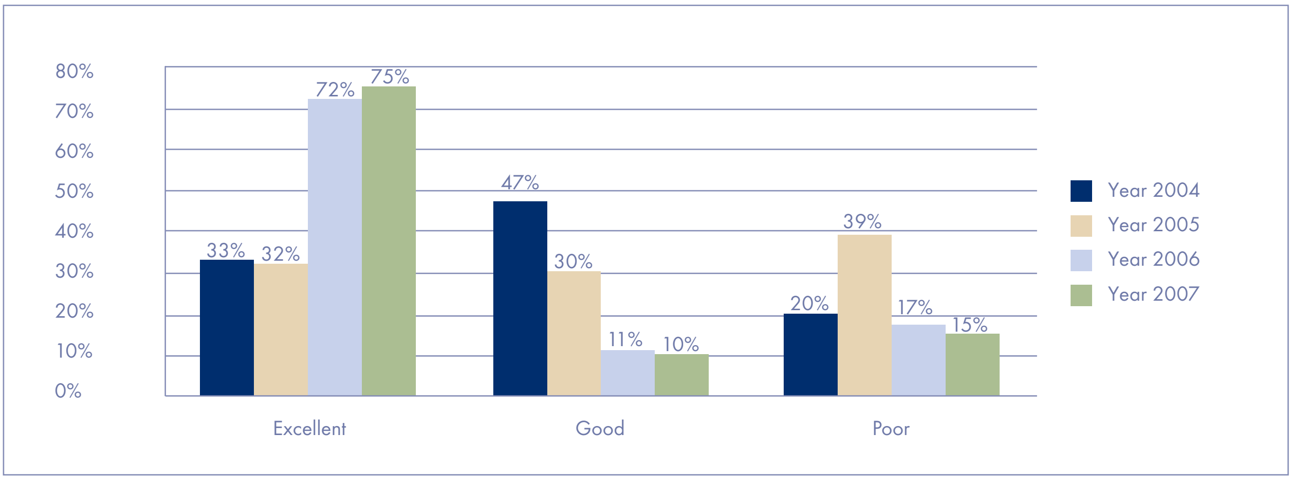


Table 8 below provides details on the key drivers that impact on the gross contribution to fixed costs and operational costs. These are audit income and direct expenditure that includes salaries of audit staff, the cost of contract work and audit-related subsistence and travel expenses.

The main contributors to the 27 per cent gross contribution to fixed and operational costs for 2006-07 were the following:

- Actual audit staff costs were five per cent (R16 million) higher than the budgeted amount. The budget estimate did not include recoverable expenses related to overtime (R2.4 million) and various contractors, as well as temporary staff (approximately R13.6 million).
- Contract work was 21 per cent (R53 million) higher than the budgeted amount. The contracting-out strategy assists the AG in managing workload during peaks and limits idle time during low periods. The additional level of contract work was required to accommodate employee vacancies in excess of an assumed level of 10 per cent, as well as unforeseen catch-up audit work, particularly for local government audits. The additional contract work should also be viewed against the backdrop of the staff turnover rate (refer to table 23 on p.32 and figure 7 on p.33) and the challenge to attract and retain qualified candidates in a highly competitive market.

The difference between the actual and budgeted audit income, broken down into the AG's own income and contract work, is shown in figure 2 below.

Figure 2 indicates that the actual audit income from own hours was lower than the budgeted audit income, while contracted audit income was significantly higher than the budgeted amount. Therefore, while overall audit income exceeded the budgeted audit income, the majority of that amount was attributable to contracted audit income, which does not contribute towards the gross margin of the AG.

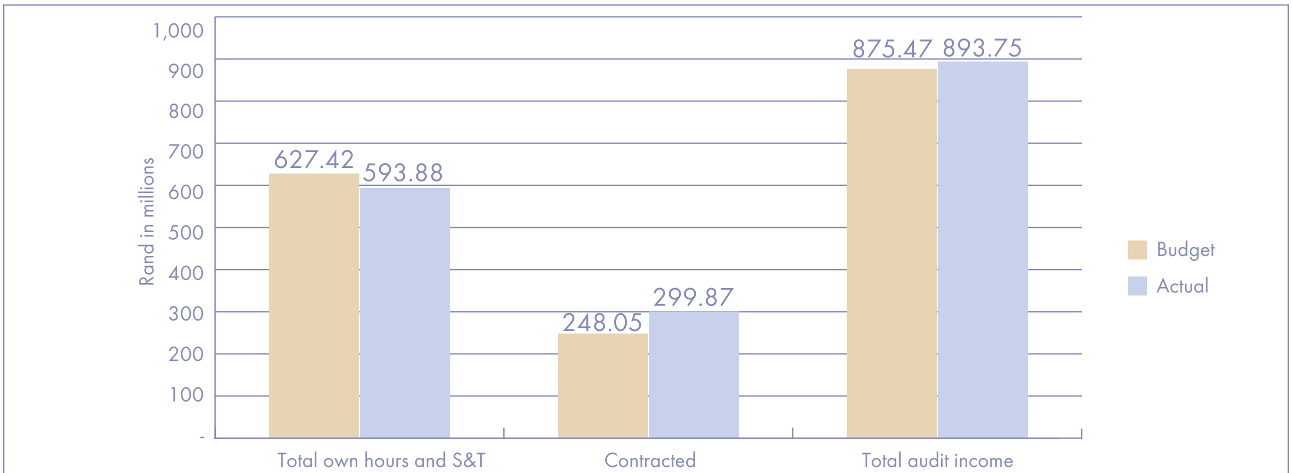
Timeliness

The PFMA, the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), as well as the PAA set stringent reporting requirements for all auditees and it is evident that not all of them manage to meet their deadlines. These deadlines are directly impacted by the internal deadlines of auditees. Receiving financial statements after the prescribed deadline not

Table 8: Cost of auditing – actual performance in 2006-07 compared to 2005-06

	Year-on-year % change	2006-07 Budget		2006-07 Actual		2005-06 Actual	
		Rm	%	Rm	%	Rm	%
National departments		216	25%	194	22%	181	24%
Provincial departments		273	31%	235	26%	223	30%
Local government		208	24%	256	29%	193	26%
Listed and other entities		150	17%	191	21%	137	18%
International audits		29	3%	18	2%	17	2%
Audit income	**19%**	**876**	**100%**	**894**	**100%**	**751**	**100%**
Audit staff expenses	18%	307	35%	323	36%	274	36%
Contract work – audit related	26%	248	28%	301	33%	238	32%
S&T – audit related	6%	49	6%	33	4%	31	4%
Direct expenditure	**21%**	**604**	**69%**	**657**	**73%**	**543**	**72%**
Gross contribution to fixed and operational costs	14%	272	31%	237	27%	208	28%

Figure 2: Comparison of actual to budgeted audit income for 2006-07



only impacts on the ability of the AG to perform its function in this regard, but could impact on the ability of the auditees to perform within the accountability framework.

Table 9 below sets out the results of the AG's reporting timelines in relation to the legislated deadlines.

Table 9: Reporting timelines by the AG (within two months of receipt of the financial statements)

Target 2006-07	Performance 2006-07
Finalise 95% of audit reports within the prescribed deadline for financial statements submitted on time	Of financial statements submitted as per the legislated dates, the AG finalised within the prescribed deadline: • 90% PFMA organisations[11] • 95% other PFMA organisations[12] • 42% MFMA organisations[13]

While the AG has taken a proactive approach in dealing with auditees, planning for audits and tracking audit progress in order to meet all legislated deadlines, the reasons for the non-achievement of reporting timelines were not always within the control of the AG.

The main reasons for the delayed completion of audit reports within the timelines as required by legislation related to:

- audit capacity constraints to deal with the finalisation of such backlogs
- material changes to annual financial statements
- delays in the submission of supporting documentation during the audits.

These factors impacted on the availability of the AG's resources, which resulted in the AG not meeting the reporting timelines.

The AG has continued to follow up on remedial steps already taken, in conjunction with the National Treasury, to ensure ongoing improvement in the quality and submission of financial statements. The National Treasury is commended for its efforts in supporting the various levels of government in this regard.

Table 10 below illustrates the performance of the AG in relation to the auditing of submitted financial statements, as required by legislation for the different types of organisations.

Since the implementation of PFMA compliance requirements in 1999, institutions in the national and provincial spheres of government have shown a steady improvement in submitting financial statements on time. Local government, too, has significantly improved its ability to submit financial statements on time. This improvement has been ongoing since 2004-05 when the MFMA was first implemented.

Auditing of performance information

The PAA[14] requires the AG to provide an opinion or conclusion on the performance of the auditee against predetermined objectives. Section 13 of the PAA requires that the AG determines the standards to be applied in performing such audits. The AG has adopted a phased-in approach in complying with the relevant sections of the PAA with regard to the auditing of performance information. It is anticipated that the required maturity level will only be reached during the 2009-10 financial year.

Table 11 below shows the percentage of compliance with predetermined audit coverage milestones.

Table 11: Percentage of compliance with predetermined audit coverage milestones in the auditing of performance information

Target 2006-07	Performance 2006-07
100% compliance with predetermined audit coverage milestones	100% compliance with predetermined audit coverage milestones *(First phase of the auditing of performance information project was completed)*[15]

The AG will continue to audit performance information in line with the phased-in approach for compliance with the relevant sections of the PAA until such time as the necessary standards have been developed and the auditees have developed performance information reporting to a higher level of maturity so as to provide reasonable audit assurance in the form of an audit opinion or conclusion.

Table 10: Performance of the AG in meeting reporting timelines in relation to the submission of financial statements, as required by legislation for the different types of organisations

	Submission of financial statements as prescribed by the PFMA/MFMA as a percentage of total audits performed by the AG		Completion of the audit by the AG within the statutory deadlines where financial statements were submitted in accordance with PFMA/MFMA requirements	
	%	Number	%	Number
PFMA organisations	91%	315	90%	284
Other PFMA organisations	72%	79	95%	75
MFMA organisations	67%	259	42%	109

[11] Includes national and provincial departments and listed public entities
[12] Includes Circular 1 entities, constitutional institutions, other entities, statutory bodies, trading entities and unlisted entities
[13] Includes municipalities, consolidated municipal financial statements and municipal entities
[14] Sections 20(2)(c) and 28(1)(c)
[15] The revised phased-in strategy to audit performance information covers five phases. Phase one, on which is reported, includes obtaining an understanding of the entity and its environment, including its internal controls relating to performance information and determining the level of performance reporting

Performance auditing

In line with government's overall drive towards policy implementation and service delivery, the AG has made a concerted effort to prioritise performance auditing and regards increasing its resources towards performance audit as a strategic imperative.

Table 12 below indicates that the AG has allocated six per cent of its total audit resources to performance audits for the period under review against a target of seven per cent – refer to table 13 below for the proportion of performance audits in relation to other audit activities.

Table 12: Percentage of total resources allocated to performance audit

Target 2006-07	Performance 2006-07
At least 7% of total audit resources allocated to performance auditing	6% of total audit resources allocated to performance auditing

Table 13 below indicates that regularity audits continue to make up the largest proportion of the AG's auditing activities. These audits are conducted for the key purpose of providing assurance that the financial statements fairly present the activities of departments and entities and that the transactions comply with the prescribed legislation.

Table 13: Audit resources between April 2006 and March 2007 by audit type

Audit type	Audit resource R millions	Percentage of total
Regularity audits	830.8	93%
Special investigations	11.2	1%
Performance audits	51.8	6%
Total	893.8	100%

The audit costs of R893.8 million reflected in table 13 above are inclusive of the portion of work allocated to audit firms (R301 million – refer to table 8) to be done on behalf of the AG. Further information on the basis of allocation of work to audit firms in line with the broad-based black economic empowerment initiatives of the AG are outlined in table 16.

The performance audits listed in table 13 above, include a number of value-for-money procedures carried out as part of the regularity audit process. The focus areas of these procedures included human resource management, HIV/Aids initiatives and supply chain management.

International audits

Since 1997 the AG has made a concerted effort to obtain more exposure to the international public sector organisations. The AG has built up a small, but prestigious portfolio of international auditees, which includes the United Nations and its funds and programmes, the United Nations Industrial Development Organization and the International Centre for Genetic Engineering and Biotechnology. This approach has resulted in a number of benefits, which enable the AG to apply international good practices in the local environment and conversely, we have opportunities to demonstrate the institution's proficiency on the international stage.

The AG ensures that its participation in international audits does not impact its ability to fulfil its local constitutional mandate. In addition, care is taken that international participation does not take place at the expense of the taxpayer. The AG has, therefore, stipulated that income from international audits should not exceed five per cent of total audit income.

Table 14: Percentage of income from international audits

Target 2006-07	Performance 2006-07
Income from international audits should not make up more than 5% of total audit income	Income from international audits makes up 2% (R18.2 million) of total audit income, which is within the targeted range

Going forward, the AG will continue to maintain the target of five per cent of total audit income. The AG has also made good progress in developing an international strategy to better position itself with regard to international activities, specifically in Africa.

The AG participates in the International Organization of Supreme Audit Institutions (INTOSAI) and has agreed to host INTOSAI's international conference in South Africa in 2010. The President of South Africa as well as the Speaker of the national Parliament endorsed this initiative. This event will benefit the AG, our country as well as the greater African region, and will allow South Africa to influence the strategic direction of INTOSAI in a direct and meaningful way in shaping world-class public sector accounting and auditing standards and practices.

As a member of the African Organisation of English-speaking Supreme Audit Institutions (AFROSAI-E), the AG continues to play a leading role in promoting public accountability in Africa. The AG also provides secretariat functions to AFROSAI-E.

The Auditor-General serves on the Board of Governors of the African Organisation of Supreme Audit Institutions (AFROSAI). The AG will host the 11th General Assembly of AFROSAI in South Africa in 2008 and will also assume the role of chairperson of the organisation, an important responsibility to drive the unification of all Auditors-General in Africa.

Employment equity

The AG continually strives to make progress in the field of employment equity through affirmative action; promoting and managing diversity; eliminating all forms of unfair discrimination and equalising opportunities to ensure that its employee profile reflects the diversity of the South African society.

For the 2006-07 year, the AG focused on affirmative action by maintaining the ratio of employees from target groups to employees from non-target groups above 80:20, as shown in table 15 below.

Table 15: Ratio of employees from target groups to employees from non-target groups

Target 2006-07	Performance 2006-07
80% of employees from target groups and 20% from non-target groups	84% of employees from target groups and 16% from non-target groups

Figure 3 below provides an analysis of the AG's actual affirmative action figures in terms of race, gender and disability.

The AG continues to exceed the national statistics in terms of African, Coloured and Indian compared to the total for the financial sector and the total for national (which includes all sectors, except financial).

The AG has an independently chaired Employment Equity Forum that functions as the main facilitator of the institution's employment equity policies, plans and programmes. The forum is committed to upholding transformation and the employment equity plan is therefore monitored effectively. In addition, the forum addresses queries and provides constructive feedback to staff around employment equity issues that affect individuals and the institution as a whole.

The following progress has been achieved up to 31 March 2007:

- Promoting awareness of employment equity among staff via various communication channels.
- Promoting transparency on all employment equity-related matters.
- The targets of the institution have moved from a ratio of 60:40 to 80:20 with an overall achievement of 84 per cent of employees from target groups and 16 per cent from non-target groups.
- Finalisation of a policy on unfair discrimination.
- Finalisation of the diversity statement and workshops with all staff on "Managing Diversity".

Broad-based black economic empowerment

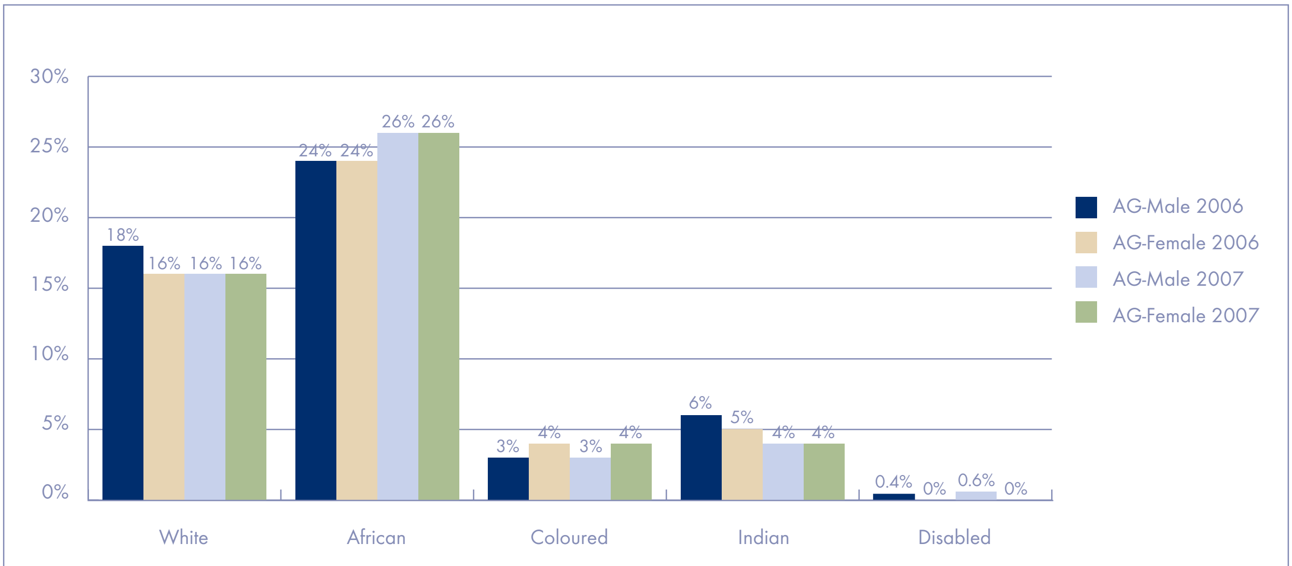
One of the AG's strategic imperatives is to facilitate and contribute to BBBEE and capacity-building in public sector financial management. In its quest to comply with BBBEE legislation, the AG is making good progress in developing a comprehensive strategy on BBBEE.

The AG allocates no less than 20 per cent of its audit budget to audit firms annually in order to manage the additional need for resources during peak times.

In appointing these firms, a number of key criteria are applied – refer to table 18 below (p.29) for the level of compliance with the criteria. Audit work is allocated to audit firms that have:

- the necessary proficiency and technical knowledge as shown in the quality control results
- a BEE profile that meets the minimum threshold as determined by the AG and agreed to with firms in advance.

Figure 3: Achievement of affirmative action targets: 2006-07



The allocation criteria and weighting are indicated in table 16 below.

Table 16: Allocation criteria and weighting

Criteria	Weights
Quality control results (as reviewed by IRBA)	30%
BEE (as defined in the AG's external guide)	70%

Another important criterion is the capacity of the firm to cope with the work allocated by the AG. In this regard, the size of the firm and conflict of interest are the primary considerations in determining the final allocation. Table 17 below reflects the basis for such allocation using the budgeted and actual allocation for the 2006-07 period.

Table 17: Allocation of audit work to private audit firms for 2006-07

Size of firms	Allocation targets	Budget[16] R million	% of budgeted total	Actual R million	% of actual total
Big and large	45%	74.6	45%	125.4	42%
Medium	35%	58.7	35%	102.4	34%
Small	20%	34.3	20%	73.4	24%
Other[17]	-	80.4	-	-	-
	100%	248.0	100%	301.3	100%

During the period under review the procurement policy was aligned with the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000). The goal for 2006 was to ensure that procurement complied 100 per cent with BBBEE criteria. These criteria required the following factors to be evaluated when considering a potential vendor:

- Substance of ownership and control.
- The institution's employment equity.
- The extent to which the AG is involved in both internal and external capacity building.

Table 18 below indicates that the AG was successful in its compliance with the BEE criteria for contract work and centralised procurement.

Table 18: Compliance with black economic empowerment criteria for contract work and centralised procurement

Target 2006-07	Performance 2006-07
100% compliance with BEE criteria	100% compliance with criteria for contract work and all centralised procurement

Leadership effectiveness

The AG believes that effective leadership plays a decisive role in the institution's ability to elevate and sustain institutional performance to a level of excellence. The AG launched its leadership initiative in 2005 with the objective of enhancing leadership practices within the institution.

During 2006-07 the AG undertook three primary leadership-focused initiatives:

- Competency assessments of senior leadership in five business units to determine the profile of leadership within the institution. The programme was then extended to include the whole of senior management. Feedback from the assessments was provided to all participating individuals to serve as a basis for learning and individual development interventions.
- Research into learning interventions and how best to implement high-impact leadership development. Initial research indicated that key leadership skills and perspectives within a corporate culture are related to aspects of emotional intelligence (EQ) – defined as the mental capabilities that enable a person to understand and use his or her emotions in an intelligent manner to produce personal and socially desirable outcomes.
- Establishing a culture index. This was deemed necessary, because institutional culture is impacted by the quality and effectiveness of leadership.

A culture index of 14 per cent has been established as a baseline for evaluating leadership performance, as per table 19 below (p.30). The ultimate outcome of good leadership will be expressed as an improvement in institutional culture as measured by the index.

In the AG's 2006 culture survey, employees were asked to indicate their agreement with statements related to the AG as an employer of choice on a scale of 0 to 10, where 0 meant "Totally disagree" and 10 meant "Totally agree".

The AG's 2006 culture index of 14 per cent represents only the top two box scores, which means that, on average, 14 per cent of the AG employees surveyed strongly agreed with the statements made about the AG as an employer of choice.

Disagree					Agree			Totally agree	
1	2	3	4	5	6	7	8	9	10

The industry benchmark for an index based on the top two box scores is 40 per cent. The AG has set as an objective to reach this industry benchmark over time by improving on its current culture index baseline of 14 per cent.

It has also set as an objective to move the majority of employees up on the agreement scale and to close the gap between the 6-10 and 9-10 ratings, since this would imply a positive culture and a reputation as an employer of choice. The role of the AG leadership in effecting this improvement is of critical importance, which is why the culture index is used as a measure of leadership effectiveness.

[16] The budgeted allocation covers the 20 per cent allocated to audit firms annually, while the actual amount includes the 20 per cent allocation, in addition to other contract work related to the 10 per cent budgeted for vacancies and catch-up audit work

[17] This category relates to contract work not allocated to any specific audit firm to accommodate employee vacancies in excess of an assumed level of 10 per cent, as well as unforeseen catch-up audit work, particularly for local government audits. The actual amount is included in the other categories of big and large, medium and small firms. Also refer to table 8 for the budgeted and actual amounts for audit-related contract work

Table 19: Baseline for leadership

Target 2006-07	Performance 2006-07
Determine the leadership baseline for the AG	Culture index baseline of 14% was established for leadership

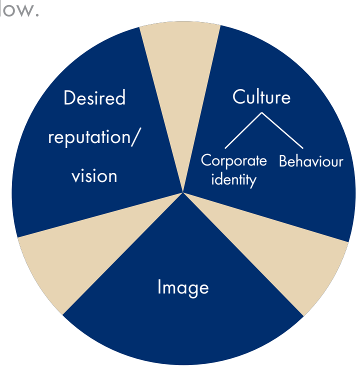
During 2007-08 the leadership of the AG will focus on managing and improving those critical elements that determine the institution's culture, including morale, compensation, performance and corporate social responsibility.

In addition, leadership will engage employees to determine the institution's desired culture that will be embodied in our institutional values. This will be a consultative process that will require optimum communication capabilities. In this regard, programmes are in progress to assist leadership in refining their communication skills and improving their EQ.

Reputation

The concept "reputation" is closely linked to stakeholder management. The reason for this is because an institution's reputation is determined by the collective opinion of stakeholders. Such an opinion is formed over time and results from perceptions about an institution's performance and behaviour. This inter-relationship has compelled the AG to commit to effective stakeholder management in order to engender a strong corporate reputation.

The year under review saw the AG embark on a new approach towards improving the institution's reputation. As a first step, a new reputation model was established, as depicted below.



This model consists of three key elements, namely desired reputation/vision, culture and image. In this reputation model:

- the desired reputation element represents what the AG as an institution wants to become (ideal), in relation to the AG's vision and reputation promise
- the culture element represents how the AG is (reality), both in terms of the current culture or behaviour, and in terms of how the institution visually represents or identifies itself in all aspects – from its documents to its office environments to its signage – in relation to the values of the institution
- the image element represents how the AG is seen or experienced by all its stakeholders (perception) when they interact with the AG in any way, in relation to how the AG as an institution wants to be perceived.

The goal is to conceptualise and implement a range of strategies to ensure that there are no discernable gaps among the various elements. It is only when such synergy has been achieved that a positive reputation will result.

Devising appropriate interventions to enable reputation and stakeholder management depends first and foremost on reliable data. Such data is required to determine the drivers of reputation, and to establish a baseline per stakeholder group, including an index for employees – a critical stakeholder group.

The AG's research methodology included the opinions of stakeholders such as Parliament, auditees and the public. Following an exhaustive research process, a reputation index of 19 per cent was established, as indicated by table 20 below. Seven primary reputation drivers were established, with the top four that require urgent attention by the AG being perception, brand promise, corporate communication, and leadership and management.

Similar to the culture index, the 2006 baseline of 19 per cent for the AG's reputation index represents only the top two box scores, which means that, on average, 19 per cent of all the stakeholders surveyed strongly agreed with the statements made about the AG as an institution that is delivering on its constitutional mandate and reputation promise. This is an indication that there are still clear gaps between what the AG wants to be, how it really is (both in terms of how it acts and what it looks like) and how it is perceived by its stakeholders.

In this respect, the AG has also set itself the objective to reach the industry benchmark of 40 per cent for the top two box scores over time, by improving on its current reputation index baseline of 19 per cent. It has also set itself the objective to move the majority of stakeholders up on the agreement scale and to close the gap between the 6-10 and 9-10 ratings, since this would imply a positive reputation for the AG as an institution that is effectively delivering on its constitutional mandate.

Table 20: Reputation index baseline

Target 2006-07	Performance 2006-07
Determine baseline reputation index of the AG which can be used to compare movement against	Reputation index baseline of 19% was established

The AG has begun the process of strategy formulation and will measure progress to bring about a significant improvement in corporate reputation during 2007-08.

Secondary focus areas

People

Learning and growth

The AG is committed to delivering a professional service and relies on its employees to produce the required results. To achieve the desired level of professionalism, the AG embarked on a process to narrow the competency gap between required and actual knowledge, skills and abilities among its employee base.

This strategic goal was supported by assistance from the AG to the value of R34.6 million (2005-06: R24.5 million). A breakdown of the various categories is reflected in table 21 below.

The investment in learning and growth is directed towards trainee accountants and other staff who are studying full-time or part-time towards professional qualifications, continuing professional development of qualified professionals, as well as innovation and learning projects. The AG also provides for the membership fees of qualified professionals, whose numbers have steadily increased over the last couple of years.

This investment is coupled with the AG's commitment to contribute to the increase in the number of black accounting professionals through its support of the Thuthuka Bursary Fund, which is managed by the South African Institute of Chartered Accountants (SAICA) on behalf of the AG and major audit firms. Another key initiative in this regard has seen the AG provide financial support to the University of Fort Hare in the form of subsidies for the cost of hiring additional lecturers to help train future accountants and meet SAICA's accreditation requirements.

To entrench greater professionalism in the institution, the AG has also introduced a minimum qualification framework. This framework serves as a yardstick to measure the success of the various competency initiatives, particularly the number of employees who pass the final examinations required to be a professional practitioner.

Qualifying examinations include the following:

- Professional Public Examination (PPE – final IRBA examination)
- Certified Information Systems Auditor (CISA) examination
- Association of Certified Chartered Accountants (ACCA) 3rd year examination
- Registered Government Auditor (RGA) examination.

The number of qualified professionals is reflected in table 22 below.

Table 22: Number of qualified professionals

Target 2006-07	Performance 2006-07
Minimum of 20 qualified professionals	129 staff members passed their professional examinations consisting of: • 37 chartered accountants • 88 registered government auditors • 4 certified information systems auditors

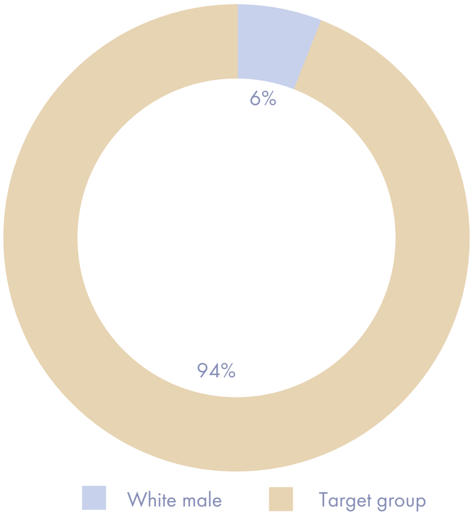
Table 21: Categories of study support and learning and growth

Assistance	Actual (R million)	%	Budget (R million)	%
Bursaries for tuition, study material and accommodation	4.85	14%	6.28	15%
Study support by tuition providers that monitor study progress and provide motivational support on study and examination techniques	7.09	20%	9.36	22%
Training and related costs that complement the academic information that staff acquire through studies and qualifications	12.04	36%	16.75	39%
Membership fees for staff that are registered with professional bodies as trainees or qualified professionals	3.61	10%	2.96	7%
The skills development levy, which the institution recovered from the SETA for Finance, Accounting, Management Consulting and other Financial Services	0.71	2%	1.82	4%
Innovation and learning development projects	6.31	18%	5.46	13%
Total	**34.61**	**100%**	**42.63**	**100%**

The AG is pleased that 129 employees passed their professional examinations compared with the target of 20. Thirty-seven (37) out of 58 employees (64%) who registered to write PPE passed. It is also heartening that 88 out of 113 employees (78%) passed the "recognition of prior learning" RGA examination. The pass rate also includes four employees who passed their CISA examination.

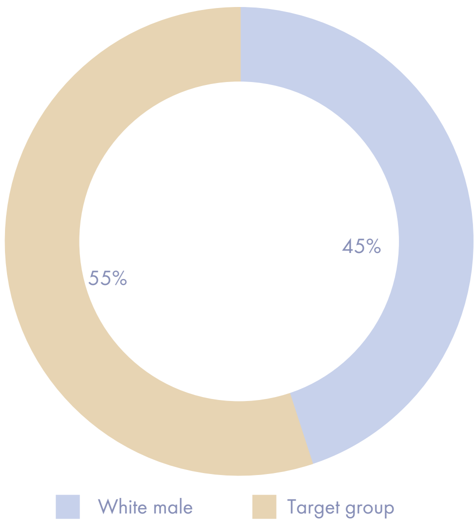
One of the key initiatives contained in the employment equity plan is to contribute to the number of black professionals in the trainee accountant scheme. During 2006-07, the AG had 681 SAICA trainees, eight RGA trainees[18] and 34 CISA trainees, the demographics of which are shown in figure 4 below.

Figure 4: Trainee accountants at the Auditor-General



The AG had 337 staff registered with SAICA, ACCA, CISA or SAIGA. More than half of them are from the target groups, as shown in figure 5 below.

Figure 5: Registered professionals at the Auditor-General



Retention of staff

As a professional services provider, the AG's key resource is its human capital. Unless the AG can attract and retain qualified and talented people, the institution will not be able to achieve its objective of service delivery.

Staffing issues are made more pertinent by the fact that the AG operates in an environment where accounting and auditing professionals are in short supply. In addition, the employment equity imperative has to be met to contribute to the South African transformational agenda.

The AG strives to keep its staff turnover rate below the market average by attracting and retaining talent. Challenges still remain to ensure that the AG is successful in this endeavour, as is evident from table 23 below.

Table 23: Staff turnover

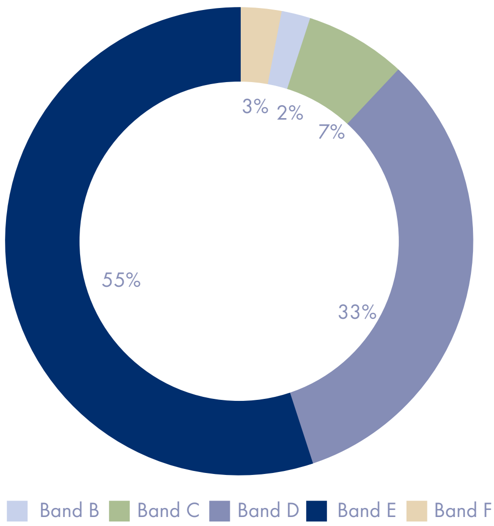
Target 2006-07	Performance 2006-07
Staff turnover[19] should not exceed the industry average of 12%	16.1% staff turnover (excluding trainee accountants)

As shown in figure 7 below (p. 33), the gains made by the AG in 2005-06 to lower staff turnover have returned to levels similar to 2004-05 for the period under review when staff turnover was 16.1 per cent.

It is of concern that staff turnover manifests primarily on the levels of manager and assistant manager. Combined, these levels make up 88 per cent of staff turnover – refer to figure 6 below for an analysis of the staff turnover per band.

It is heartening that the AG has achieved success in excellent quality review results despite the staff turnover. Going forward, the AG will review its recruitment and retention policies, especially in the light of the shortage of black professionals, to attract and retain talent.

Figure 6: Staff turnover per band as % of total turnover



[18] These eight RGA trainees form part of a pilot project to produce professionals aligned with the requirements of the Southern African Institute of Government Auditors. The project commenced in 2006 and will run for four years before this initiative is formalised

[19] Does not include turnover of trainee accountants or other temporary staff

To become an employer of choice in 2007-08, the AG will focus on leadership effectiveness as discussed on p. 29 and implement action plans to improve the culture index within the institution.

Process

Operational excellence

The AG continuously improves its business processes to ensure that they are efficient, cost-effective and supportive of risk management and effective decision-making. These processes are enabled by mature information and communication technology systems that require further integration and optimisation to further improve the quality of management information. Process maturity reflects operational excellence and is therefore used as a measurement of operational excellence. The capability maturity model is being used to measure the maturity of the AG's business processes and the CSA tool is used to document and monitor compliance with key controls in respect of business risks. Process maturity reflects operational excellence and is therefore used as a measurement of operational excellence. The capability maturity model is being used to measure the maturity of the AG's business processes.

An assessment of the maturity of the processes within 16 previously identified risk areas was conducted in November 2006 to assess the maturity against the targets set for the AG to reach by end 2007. The assessment revealed that 19 per cent (three of 16) of the risk focus areas were found to be without standardised processes (level 1), while 69 per cent (11 of 16) and 13 per cent (2 of 16) of the risk focus areas were found to be at levels 2 and 3, respectively. Table 24 below indicates the performance against the targets.

In 2006, our steps were focused on determining all the processes present within the institution at a high level. Initial steps undertaken by Information and Communication Technology included the establishment and mapping of current processes, as well as activities within the processes against an internationally benchmarked process framework. The benefits of mapping against such a framework are that the processes can be measured against those of other institutions.

During the course of 2007, certain key processes will be evaluated and re-engineered, where applicable, to ensure that they are at a minimum of level 3 on the maturity model. These processes include areas related to product innovation, quality control, human capital, leadership and corporate governance. Quality checks related to specific processes will be incorporated, enabling a co-coordinated and complete review of each process.

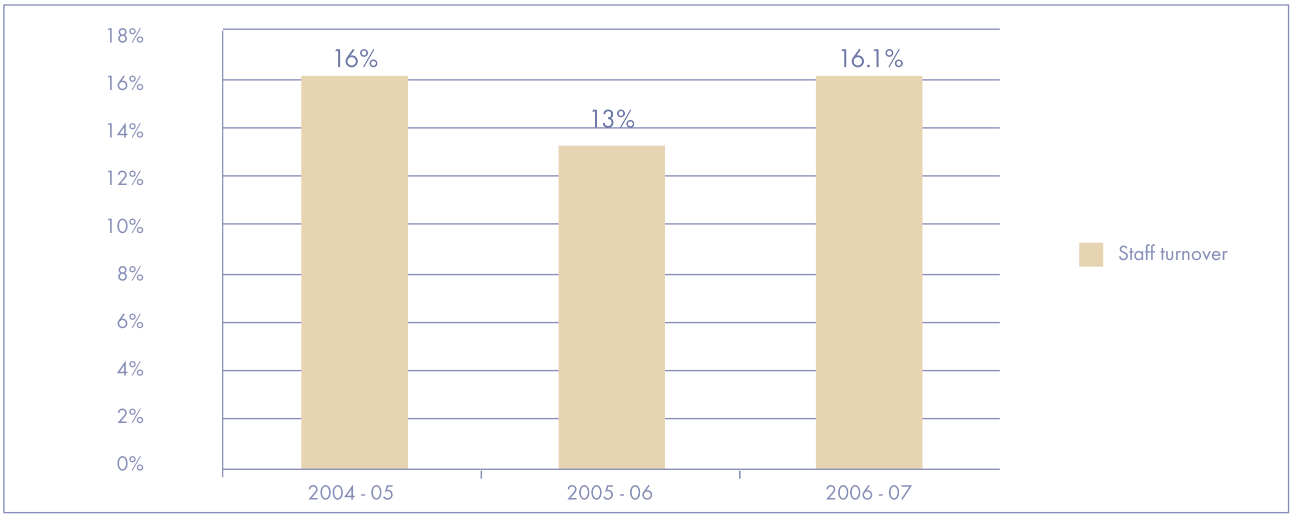
Corporate services restructuring

With the restructuring of corporate services in November 2005, the overall objective was to achieve better and more focused service delivery to the rest of the institution. Because the benefit of the restructuring process was not immediately visible, the AG has allowed for a two-year transitional period to successfully implement and refine the relevant processes by November 2007.

Table 24: Number of business processes by maturity level

	Level 1		Level 2		Level 3	
	%	No. of business processes	%	No. of business processes	%	No. of business processes
Target 2006-07	0%	0	75%	12	25%	4
Performance 2006-07	19%	3	69%	11	13%	2

Figure 7: Staff turnover from 2004-05 to 2006-07



Further refinements were made to the corporate services reporting structure to allow those responsible for the coordination and management information in the areas of finance, human capital and information and communication technology the space and time to be dedicated to and more focused on this task.

This process led to the creation of the position of a chief operating officer who will head the transactional activities. The AG is confident that the investment in the restructuring of corporate services will yield the required results. Ongoing feedback to the Standing Committee on the Auditor-General will be provided on the progress and effectiveness of corporate services.

Financial performance

Net surplus

As the AG is not profit driven, it has a duty to ensure that it operates with maximum efficiency. Key to the successful running of any business is the ability to compile, manage and achieve its budget. The AG set itself a target to achieve an additional three per cent on the projected net surplus of R13.3 million.

Table 25: Target on projected net surplus

Target 2006-07	Performance 2006-07
Additional 3% on projected net surplus	Deficit amounting to R1.8 million – 0% additional on projected net surplus

Table 25 above indicates that the AG recorded a deficit of R1.8 million for 2006-07. It is worthy to note that the deficit is significantly lower compared with 2005-06, when the AG incurred a R20 million deficit compared to a budgeted surplus of R44 million.

Table 26 below (p.35) provides a breakdown of the main contributors to the deficit of R1.8 million.

The R15.1 million difference between the actual deficit (R1.8 million) and budgeted surplus (R13.3 million) is due to a combination of the following:

- Vacancies resulted in a lower recovery rate and higher contract work. As a result, the gross contribution to fixed and operational costs was R34.6 million less than budgeted.
- Other income: balances in the investment account were higher than originally anticipated, which contributed to the increase in interest received of R3 million compared to the budgeted amount.
- Support staff expenditure was R4.9 million less than budgeted due to vacancies.
- A saving of R11.6 million was achieved on other expenditure – this included underspending on course fees and study assistance due to low pass rates and on the minimum qualification framework requirements which were not fully implemented; savings on planned information communication technology activities which were not fully implemented; and deliberate cost-saving plans and strict control to reduce stationery costs.

Debt collection

The management of the AG's working capital and liquidity is of the utmost importance. The most important element in working capital is debtors.

Table 27 below (p.35) indicates that the debtors days outstanding for national and provincial departments are well within the target of 45 days. While the days outstanding relating to the categories for local government and statutory bodies have improved compared to 2005-06, a need remains to improve the collection for these categories of debtors to levels closer to the 30-day mark, as required by legislation. The ability of local government and statutory bodies to settle their accounts on time remains of concern.

The AG and the National Treasury are in the process of considering various options to address this matter. The trends in debtors days outstanding between 2005-06 and 2006-07 are reflected in figure 8 below (p.35).

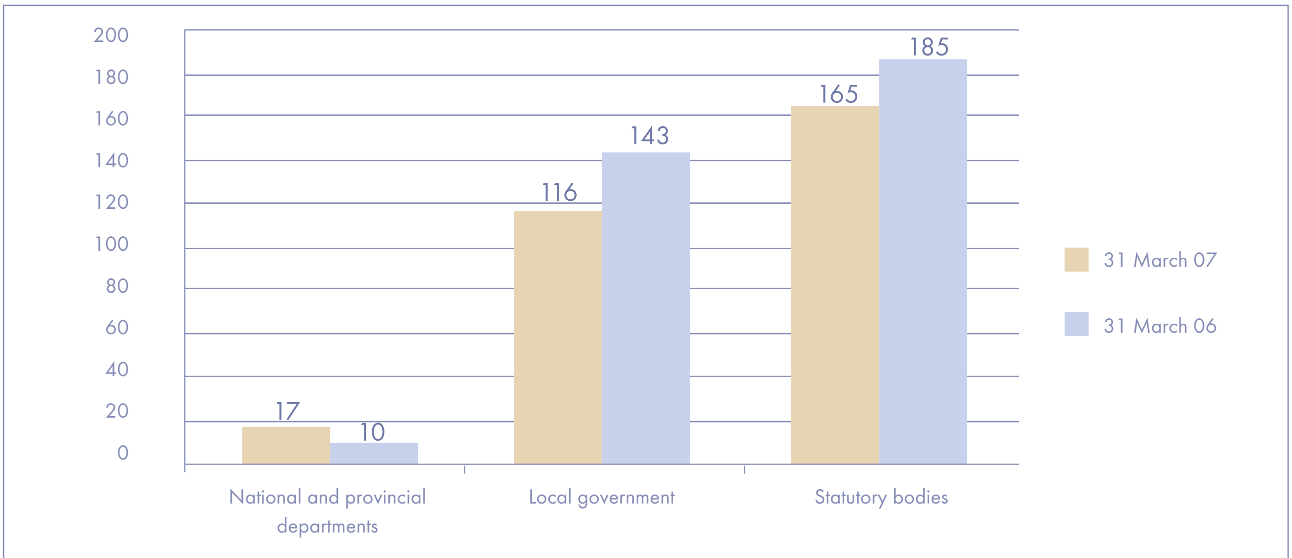
Table 26: Summary of financial performance

	2006-07 Budget		2006-07 Actual		Deviation	
	Rm	%	Rm	%	Rm	%
Audit income	875.5	100%	893.7	100%	18.2	2%
Direct expenditure	603.7	69%	656.5	73%	52.8	9%
Gross contribution to fixed and operational costs	271.8	31%	237.2	27%	-34.6	-13%
Other income	11.0		14.0		3.0	27%
Support staff expenses	87.9	10%	83.0	9%	-4.9	-6%
Other expenditure	181.6	21%	170.0	19%	-11.6	-6%
Total overheads	**269.5**	**31%**	**253.0**	**27%**	**-16.5**	**-6%**
Total income	**886.5**		**907.7**		**21.2**	**2%**
Total expenditure	**873.2**	**100%**	**909.5**	**100%**	**36.3**	**4%**
Net (deficit) / surplus	13.3		-1.8		-15.1	

Table 27: Ageing for major categories of debtors

	Target of outstanding days	31-Mar-07		31-Mar-06	
		Rm	Days outstanding	Rm	Days outstanding
National and provincial departments	45	66.1	17	55.6	10
Local government	100	74.3	116	50.2	143
Statutory bodies	-	26.9	165	19.9	185

Figure 8: Debtors days outstanding



Annual financial statements

The reports and statements set out below comprise the annual financial statements:

The following supplementary schedules do not form part of the annual financial statements and are unaudited:

Report of the independent auditors

We have audited the accompanying financial statements of the Auditor-General, which comprise the balance sheet as at 31 March 2007, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 41 to 65. In addition we have audited the reported information relating to the performance of the Auditor-General against predetermined objectives set out on page 23 for the year ended 31 March 2007.

Deputy Auditor-General's responsibility for the financial statements and performance information

The Deputy Auditor-General is responsible for the preparation and fair presentation of these financial statements and performance information in accordance with International Financial Reporting Standards, and in terms of section 41 of the Public Audit Act, 2004 (Act No. 25 of 2004). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements and performance information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements and performance information based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and performance information are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and performance information. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements and performance information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements and performance information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Deputy Auditor-General, as well as evaluating the overall presentation of the financial statements and performance information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Financial statements

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Auditor-General as of 31 March 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Public Audit Act, 2004 (Act No. 25 of 2004).

Performance information

In our opinion, the performance information presents fairly, in all material respects, the performance of the Auditor-General against predetermined objectives for the year ended 31 March 2007 in the manner required by the Public Audit Act, 2004 (Act No. 25 of 2004).

BDO SPENCER STEWARD
Chartered Accountants (South Africa)
Registered Auditors

BDO Spencer Steward

PO Box 95436
Waterkloof
0145
Pretoria
Tel: (012) 348-2000
Fax: (012) 348-2010
27 August 2007

Deputy Auditor-General's responsibilities and approval

The Deputy Auditor-General is required by the Public Audit Act, 2004, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is his responsibility to ensure that the annual financial statements fairly present the state of affairs of the Auditor-General as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Deputy Auditor-General acknowledges that he is ultimately responsible for the system of internal financial control established by the Auditor-General and places considerable importance on maintaining a strong control environment. To enable the Deputy Auditor-General to meet these responsibilities, the Auditor-General, after consultation with the parliamentary oversight committee, sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Auditor-General and all employees are required to maintain the highest ethical standards in ensuring the Auditor-General's business is conducted in a manner that in all reasonable circumstances is above reproach.

The focus of risk management in the Auditor-General is on identifying, assessing, managing and monitoring all known forms of risk across the Auditor-General. While operational risk cannot be fully eliminated, the Auditor-General endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Deputy Auditor-General is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Deputy Auditor-General has reviewed the Auditor-General's cash flow forecast for the year to 31 March 2008 and, in the light of this review and the current financial position, he is satisfied that the Auditor-General has or has access to adequate resources to continue in operational existence for the foreseeable future.

The Deputy Auditor-General is not aware of any matter or circumstance arising since the end of the financial year that will materially affect these annual financial statements.

The annual financial statements set out on pages 41 to 67, which have been prepared on the going concern basis, were approved and signed by the Deputy Auditor-General on 27 August 2007 on behalf of the Auditor-General.

Thembekile Kimi Makwetu
DEPUTY AUDITOR-GENERAL

Balance sheet

	Note	2007 R'000	2006 R'000
ASSETS			
Non-current assets		49,438	41,563
Property, plant and equipment	2	33,603	23,916
Intangible assets	3	15,835	17,647
Current assets		316,484	305,855
Trade and other receivables	4	177,890	140,424
Cash and cash equivalents	5	138,594	165,431
Total assets		**365,922**	**347,418**
EQUITY AND LIABILITIES			
Equity		133,259	135,037
General reserve	6	116,701	116,701
Special audit services reserve	7	5,270	5,270
Staff development reserve	8	-	355
Retained earnings	9	11,288	12,711
Liabilities			
Non-current liabilities		75,503	62,441
Obligation under instalment sale agreements	10	13,938	5,801
Retirement benefit obligations	11	61,565	56,640
Current liabilities		157,160	149,940
Trade and other payables	12	146,648	142,169
Current portion of obligation under instalment sale agreements	10	10,512	7,771
Total equity and liabilities		**365,922**	**347,418**

Income statement

	Note	2007 R'000	2006 R'000
Revenue	13	893,750	751,252
Local services rendered		875,538	734,337
International services rendered		18,212	16,915
Other income		1,496	3,294
Foreign exchange gain		621	375
Staff cost	14	(454,292)	(378,073)
Depreciation expense	15	(15,928)	(15,843)
Amortisation expense	16	(4,778)	(3,955)
Operational expenditure	17	(124,832)	(134,154)
Contract work recoverable	18	(301,201)	(238,111)
Retirement benefit obligations	11	(6,665)	(12,768)
Deficit from operations		(11,829)	(27,983)
Interest received		11,940	9,283
Finance charges	20	(1,889)	(1,226)
Net deficit for the year		**(1,778)**	**(19,926)**
		-	-

Statement of changes in equity

	General reserves R'000	Special audit services reserve R'000	Staff development reserve R'000	Retained earnings R'000	Total R'000
Opening balance at 1 April 2005	116,701	5,270	1,575	31,417	154,963
Staff development reserve utilised	-	-	(1,220)	1,220	-
Transfer of retained income to reserves	-	-	-	-	-
Net deficit for the year	-	-	-	(19,926)	(19,926)
Balance at 31 March 2006	116,701	5,270	355	12,711	135,037
Staff development reserve utilised	-	-	(355)	355	-
Transfer of retained income to reserves	-	-	-	-	-
Net deficit for the year	-	-	-	(1,778)	(1,778)
Balance at 31 March 2007	**116,701**	**5,270**	**-**	**11,288**	**133,259**

Cash flow statement

	Note	2007 R'000	2006 R'000
Cash flows from operating activities			
Cash (used by) / generated from operations	24.1	(19,635)	22,384
Interest received		11,940	9,283
Realised foreign exchange (loss) / gain		(605)	412
Net cash (outflow) / inflow from operating activities		*(8,300)*	*32,079*
Cash flow from investing activities			
Additions to property, plant and equipment	24.2	(25,864)	(12,176)
Additions to intangible assets	24.3	(3,360)	(4,917)
Proceeds from sale of property, plant and equipment	2.0	350	1,241
Net cash outflow from investing activities		*(28,874)*	*(15,852)*
Cash flow from financing activities			
Payment on obligations under instalment sale agreement		(11,894)	(13,644)
Increase in instalment sale agreement borrowings		20,883	6,375
Net cash inflow / (outflow) from financing activities		*8,989*	*(7,269)*
Net (decrease) / increase in cash and cash equivalents		(28,185)	8,958
Cash and cash equivalents at the beginning of the year		165,431	156,508
Exchange differences in cash and cash equivalents		1,348	(35)
Cash and cash equivalents at the end of the year	24.4	**138,594**	**165,431**

Accounting policies

1. Presentation of annual financial statements

The annual financial statements have been prepared in accordance with International Financial Reporting Standards and the Public Audit Act, 2004 (Act No. 25 of 2004). The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value, or amortised cost, and incorporate the principal accounting policies set out below. These accounting policies are consistent with the previous year.

a) Amendments to published standards effective in 2007

IAS 19 (Amendment), Employee Benefits, is mandatory for the Auditor-General's accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. As the Auditor-General does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment only impacts the format and extent of disclosure presented in the accounts.

b) Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Auditor-General's operations:

- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions

- IAS 39 (Amendment), The Fair Value Option

- IAS 39 and IFRS 4 (Amendments), Financial Guarantee Contracts

- IAS 21 (Amendment), Net Investments in a Foreign Operation

- IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources

- IFRS 6, Exploration for and Evaluation of Mineral Resources

- IFRIC 4, Determining whether an Arrangement contains a Lease

- IFRIC 5, Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

- IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies

c) Interpretations of existing standards that are not yet effective and not relevant for the Auditor-General's operations

- IFRS 7, Financial Instruments: Disclosures

- IFRS 8, Operating Segments

- IFRIC 8, Scope of IFRS 2

- IFRIC 9, Reassessment of Embedded Derivatives

- IFRIC 10, Interim Financial Reporting and Impairment

- IFRIC 11, IFRS 2, Group and Treasury Share Transactions

- IFRIC 12, Service Concession Arrangements

- IFRIC 13, Customer Loyalty Programmes

- IFRIC 14, IAS 19, The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction

1.1 Significant judgements

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. In addition management is required to exercise its judgement in the process of applying the Auditor-General's accounting policies. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Accounting policies

Provision for impairment of receivables

A provision for impairment of trade receivables is established when there is objective evidence that the Auditor-General will not be able to collect all amounts due according to the original terms of receivables. The calculation of the amount to be provided for impairment of receivables requires the use of estimates and judgements (refer to note 4).

Annual evaluation of property, plant and equipment and intangibles

The Auditor-General reviews its property, plant and equipment and intangibles for possible impairment, changes in useful life and changes in residual values at the end of each financial year in accordance with notes 2 and 3.

1.2 Property, plant and equipment

Property, plant and equipment (owned and leased) are stated at historical cost less depreciation and adjustment for any impairments. Costs include costs incurred initially to acquire an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it if it is probable that future economic benefits associated with the replacement will flow to the Auditor-General and the cost can be measured reliably. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. Depreciation is calculated on the straight-line method to write off the cost, less residual value, of each asset over their estimated useful lives as follows:

Item	Useful life
Computer equipment	3 years
Motor vehicles	5 years
Furniture and fittings	6 years
Office equipment	3 years
Leasehold improvements	Over the period of the lease

The depreciation charge for each period is recognised in profit or loss.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.3 Intangible assets

Computer software

Acquired computer software licences are carried at cost less any accumulated amortisation and any impairment losses. Amortisation on these costs is provided to write down the intangible assets, on a straight-line basis, over their useful lives as follows:

Item	Useful life
PeopleSoft	10 years
Other software	3 years

Expenditure on research is recognised as an expense when it is incurred.

Internally generated brands are not recognised as intangible assets.

1.4 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable at balance sheet date. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The Auditor-General assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated. The

Accounting policies

increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in profit or loss.

1.5 Financial instruments

Financial instruments carried on balance sheet include cash and bank balances, trade and other receivables, trade and other payables and borrowings. These instruments are generally carried at their amortised cost.

Financial assets

The Auditor-General classifies its financial assets as loans, receivables, cash and bank balances. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet (note 4).

Financial assets are recognised on the Auditor-General's balance sheet when the Auditor-General becomes party to the contractual provisions of the instrument. Loans and receivables are recognised initially at cost. After initial recognition financial assets are measured at amortised cost using the effective interest method.

Financial liabilities

Financial liabilities are recognised on the Auditor-General's balance sheet when the Auditor-General becomes party to the contractual provisions of the instrument. Financial liabilities are recognised initially at cost. After initial recognition financial liabilities are measured at amortised cost using the effective interest rate method.

Gains and losses

Gains or losses arising from changes in financial assets or financial liabilities carried at amortised cost are recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

1.6 Trade and other receivables

Trade and other receivables are recognised initially at cost and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Auditor-General will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "operational expenditure".

1.7 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Accounting policies

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the balance sheet at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease liability. This liability is not discounted. Any contingent rents are expensed in the period they are incurred.

1.9 Employee benefits

Pension plans

Contributions to a pension plan, of the employee's choice, in respect of service in a particular period are included in the employees' total cost of employment and are charged to the income statement in the year to which they relate as part of the cost of employment. Certain employees who transitioned under the Audit Arrangements Act, 1992 (Act No. 122 of 1992) chose to retain membership of the Government Employees Pension Fund (GEPF). The Auditor-General has no legal or constructive obligation to pay further contributions if the GEPF does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Post-employment medical care benefits

The Auditor-General provides post-retirement medical care benefits to its employees and their legitimate spouses. The entitlement to post-retirement medical benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using the project unit credit method. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to income in the period in which it occurs. Valuations of these obligations are carried out annually by independent qualified actuaries.

1.10 Provisions

Provisions are recognised when the Auditor-General has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the obligation can be made.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.11 Trade and other payables

Trade and other payables are measured initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.12 Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue arising from rendering of audit services consists of the net invoiced value charged net of value-added tax. Revenue arising from fixed sum contract audits where the outcome can be estimated reliably is recognised by reference to the stage of completion of the contract activity at balance sheet date.

1.13 Interest received

Interest is recognised on a time proportion basis which takes into account the effective yield on the asset over the period it is expected to be held.

1.14 Foreign currencies

Transactions in foreign currencies are accounted for at the rates of exchange ruling on the date of the transactions. Gains and losses arising from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Unrealised differences on monetary assets and liabilities are recognised in the income statement in the period in which they occur.

1.15 Irregular or fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of the Public Audit Act (Act No. 25 of 2004). Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised. All irregular, fruitless and wasteful expenditure is charged against income in the period it was incurred.

1.16 Losses through criminal conduct

Losses through criminal conduct, and any amounts recovered, are disclosed separately.

Notes to the annual financial statements

2. Property, plant and equipment

2007	R'000 Cost	R'000 Accumulated depreciation	R'000 Carrying amount
Computer equipment	65,402	(41,829)	23,573
Motor vehicles	3,727	(2,743)	984
Office equipment	2,288	(1,696)	592
Furniture and fittings	12,716	(10,504)	2,212
Leasehold improvements	10,603	(4,361)	6,242
	94,736	**(61,133)**	**33,603**

Assets under instalment sale agreements included above comprise:

Computer equipment (Refer to note 10)	**45,144**	**(25,451)**	**19,693**

The net book values can be reconciled as follows:	R'000 Opening carrying amount	R'000 Re-allocations	R'000 Additions	R'000 Disposals	R'000 Depreciation charge	R'000 Closing carrying amount
Computer equipment	16,579	394	19,436	(619)	(12,217)	23,573
Motor vehicles	1,376	-	-	-	(392)	984
Office equipment	260	-	572	-	(240)	592
Furniture and fittings	3,100	-	405	(15)	(1,278)	2,212
Leasehold improvements	2,601	-	5,451	(9)	(1,801)	6,242
	23,916	**394**	**25,864**	**(643)**	**(15,928)**	**33,603**
Assets under instalment sale agreements included above comprise:						
Computer equipment (Refer to note 10)	**10,670**	**-**	**18,320**	**(657)**	**(8,640)**	**19,693**

	2007 R'000
Proceeds on disposal of property, plant and equipment	**350**

2006	R'000 Cost	R'000 Accumulated depreciation	R'000 Carrying amount
Computer equipment	57,970	(41,391)	16,579
Motor vehicles	3,697	(2,321)	1,376
Office equipment	1,765	(1,505)	260
Furniture and fittings	12,579	(9,479)	3,100
Leasehold improvements	7,827	(5,226)	2,601
	83,838	**(59,922)**	**23,916**
Assets under instalment sale agreements included above comprise:			
Computer equipment (Refer to note 10)	**38,234**	**(27,564)**	**10,670**

The net book values can be reconciled as follows:	R'000 Opening carrying amount	R'000 Re-allocations	R'000 Additions	R'000 Disposals	R'000 Depreciation charge	R'000 Closing carrying amount
Computer equipment	17,954	1,468	10,812	(351)	(13,304)	16,579
Motor vehicles	1,736	-	-	(66)	(294)	1,376
Office equipment	397	(103)	173	(1)	(206)	260
Furniture and fittings	3,654	85	897	(78)	(1,458)	3,100
Leasehold improvements	4,425	(1,537)	294	-	(581)	2,601
	28,166	**(87)**	**12,176**	**(496)**	**(15,843)**	**23,916**
Assets under instalment sale agreements included above comprise:						
Computer equipment (Refer to note 10)	**14,926**	**-**	**5,592**	**(609)**	**(9,239)**	**10,670**

	2006 R'000
Proceeds on disposal of property, plant and equipment	**1,241**

Notes to the annual financial statements

3. Intangible assets

2007	Cost R'000	Accumulated amortisation charge R'000	Carrying amount R'000
Computer software - purchased			
PeopleSoft	16,036	(7,718)	8,318
Other software	26,268	(18,751)	7,517
	42,304	**(26,469)**	**15,835**

The net book values can be reconciled as follows:	Opening carrying amount R'000	Re-allocations R'000	Additions R'000	Disposals R'000	Amortisation charge R'000	Closing carrying amount R'000
Computer software						
PeopleSoft	9,921	-	-	-	(1,603)	8,318
Other software	7,726	(394)	3,360	-	(3,175)	7,517
	17,647	**(394)**	**3,360**	**-**	**(4,778)**	**15,835**

2006	Cost R'000	Accumulated amortisation charge R'000	Carrying amount R'000
Computer software - purchased			
PeopleSoft	16,036	(6,115)	9,921
Other software	22,897	(15,171)	7,726
	38,933	**(21,286)**	**17,647**

The net book values can be reconciled as follows:	Opening carrying amount R'000	Re-allocations R'000	Additions R'000	Disposals R'000	Amortisation charge R'000	Closing carrying amount R'000
Computer software						
PeopleSoft	11,525	-	-	-	(1,604)	9,921
Other software	5,073	87	4,917	-	(2,351)	7,726
	16,598	**87**	**4,917**	**-**	**(3,955)**	**17,647**

4. Trade and other receivables

	2007 R'000	2006 R'000
Trade receivables [1]	184,005	149,281
Provision for impairment of receivables	(13,520)	(13,582)
Net trade receivables	170,485	135,699
Staff debtors	4,097	2,366
Prepayments	2,935	2,194
Other debtors	373	165
	177,890	**140,424**

[1] Included in trade receivables are amounts, the collectability of which may be dependent on the assistance of the government. Refer to note 23.2 Credit risk.

5. Cash and cash equivalents

	2007 R'000	2006 R'000
Call account at Public Investment Corporation		
Investment reserved for specific liabilities (PIC 1) [2]	87,982	80,990
Investment to fund working capital requirements (PIC 2)	6,418	54,649
Current bank account	35,190	27,144
Foreign bank accounts	9,004	2,648
	138,594	**165,431**

[2] Investment reserved for specific liabilities

The investment is earmarked for the following liabilities:

	2007 R'000	2006 R'000
Post-retirement benefits: medical care contributions (Refer to note 11)	61,565	56,640
Bonus provision (Refer to note 12)	2,392	2,645
Leave pay provision (Refer to note 12)	22,476	17,866
The National Treasury for salary over-payments in the former TBVC states	3,321	3,278
Advances from the National Treasury for assistance on the local authority debtors (Refer to note 12)	6,363	6,363
Payments made by staff in terms of the Auditor-General's notebook ownership policy	2,033	1,404
	98,150	**88,196**

The future service liability for post-retirement benefits: medical care contributions totalling R22,276,760 (2006: R17,971,000) is not included in the investment reserved for specific liabilities.

Notes to the annual financial statements

6. General reserve

	2007 R'000	2006 R'000
General reserve		
Opening balance	116,701	116,701
Transfer of retained income to reserves	-	-
Closing balance [3]	**116,701**	**116,701**

[3] The general reserve was approved by the Minister of Finance (in terms of section 38(4) of the Public Audit Act, 2004 (Act No. 25 of 2004) for purposes of recapitalising the Auditor-General.

7. Special audit services reserve

Opening and closing balance	**5,270**	**5,270**

A fund set aside to finance special investigations or audits for which the Auditor-General may not be able to recover the cost from a specific auditee. The amount was capped by the Audit Commission with further guidance to be provided by the oversight mechanism established in terms of section 55(2)(b)(ii) of the Constitution.

8. Staff development reserve

Opening balance	355	1,575
Utilisation of reserve	(355)	(1,220)
Closing balance	**-**	**355**

A once-off special reserve created from the surplus set aside for staff development, utilised for the full-time post-graduate students which will in future be budgeted for as an expense.

9. Retained earnings

Opening balance	12, 711	31,417
Transfer of retained income to reserves	-	-
Staff development reserve utilised	355	1,220
Net deficit for the year [4]	(1,778)	(19,926)
Closing balance	**11,288**	**12,711**

	2007 R'000	2006 R'000

[4] The retained income, of the 2005, 2006 and 2007 financial years, available to fund the Auditor-General's ongoing activities is subject to approval by the Minister of Finance (in terms of section 38(4) of the Public Audit Act, Act No. 25 of 2004) for the surplus to be retained.

10. Instalment sale agreements

	2007 R'000	2006 R'000
Wesbank - A division of FirstRand Bank Limited	24,450	13,572
Less: Current portion included in current portion of obligation under instalment sale agreements	(10,512)	(7,771)
	13,938	**5,801**

Liabilities under instalment sale agreements payable over periods from 1-3 years at an effective interest rate of prime less 2%. Secured by computer equipment with a carrying value of R19,693,000 (2006: R10,670,000). (Refer to note 2)

	Up to 1 year R'000	1 to 3 years R'000	More than 3 years R'000	Total R'000
2007				
Minimum lease payments	12,551	15,072	-	27,623
Finance cost	2,039	1,134	-	3,173
Present value	**10,512**	**13,938**	**-**	**24,450**
2006				
Minimum lease payments	8,512	6,156	-	14,668
Finance cost	741	355	-	1,096
Present value	**7,771**	**5,801**	**-**	**13,572**

11. Retirement benefit obligations

	2007 R'000	2006 R'000
Post-retirement benefits: medical care contribution	**61,565**	**56,640**

Notes to the annual financial statements

11. Retirement benefit obligations (continued)

	2007 R'000	2006 R'000
The liability can be reconciled as follows:		
Opening balance	56,640	45,578
Current year provision	6,665	12,768
- Current service cost	1,446	1,370
- Actuarial loss	1,102	7,124
- Interest adjustment	4,117	4,274
Less: Payments made	(1,740)	(1,706)
Closing balance	**61,565**	**56,640**
The amounts recognised in the income statement are as follows:		
Current service cost	1,446	1,370
Actuarial loss	1,102	7,124
Interest cost	4,117	4,274
Total	**6,665**	**12,768**

Liabilities to staff are covered by an investment of R87,982,492 (2006 - R80,989,809) with the Public Investment Corporation. (Refer to note 5)

The oblgation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was performed on 31 March 2007 by Alexander Forbes using the Projected Unit Credit Method.

The valuation is based on the following principal actuarial assumptions:

	2007	2006
The discount rate reflects the timing of benefit payments and is based on market bond yields.	7.8%	7.5%
Subsidy increase rate	4.8%	4.5%
Expected retirement age	63	63
Number of employees	341	394

No explicit assumption was made about the mortality or health care cost due to HIV/Aids.

12. Trade and other payables

	2007	2006
Trade payables	73,981	70,744
Accruals	31,416	36,759

	2007 R'000	2006 R'000
Bonus provision (Refer to note 5)	2,392	2,645
Accrued leave pay provision and deferred compensation (Refer to note 5)	22,476	17,866
Staff creditors	4,571	3,781
Value-added tax	5,449	4,011
Advance on local authority debtors (Refer to note 5)	6,363	6,363
	146,648	**142,169**

13. Revenue

	2007 R'000	2006 R'000
Local services rendered	875,538	734,337
Own hours	549,545	474,010
Contract work	299,743	234,348
Subsistence and travel	26,250	25,979
International services rendered [5]	18,212	16,915
Own hours	10,098	8,614
Contract work	129	775
Subsistence and travel	7,985	7,526
	893,750	**751,252**

[5] International revenue comprises income from the audit of certain United Nations accounts, funds and programmes. International revenue has been reduced by R4,706,178 (2006 - R6,501,601), being the difference between the time billed based on the Auditor-General chargeout rates and the amount based on the fixed fee contract.

14. Staff cost

Total short-term, long-term and termination benefits paid to management

Management Position	Name	Appointment date	Termination date	2007 R'000	2006 R'000
Auditor-General	SA Fakie	1 December 1999	30 November 2006	2,070	1,876
Auditor-General	TM Nombembe	1 December 2006		550	-
Deputy Auditor-General	TM Nombembe	1 June 2000		1,000	1,418
Corporate Executive	N Manik	2 May 2002	31 March 2006	-	1,071
Corporate Executive	P Bhana	1 October 2006		572	-
Corporate Executive	IS Cele	15 November 2005		1,249	443
Corporate Executive	JE van Heerden	1 September 1991		1,066	1,062
Corporate Executive	DEL Zondo	1 November 2005		1,302	499
Corporate Executive	IKM Alexander	16 April 1999	31 October 2006	1,726	1,074
				9,535	**7,443**

Notes to the annual financial statements

14. Staff cost (continued)

	2007 R'000	2006 R'000
Compensation to management is summarised as follows:		
Short-term employee benefits	8,418	7,270
Long-term benefits	116	173
Termination benefits	1,001	-
	9,535	**7,443**
Other staff		
Salaries	399,391	341,446
Course fees and study assistance	34,613	24,549
Accrued leave pay provision	10,753	4,635
	444,757	**370,630**
Total staff cost	**454,292**	**378,073**
Average number of staff	**1,782**	**1,581**

15. Depreciation

	2007	2006
Computer equipment	12,217	13,304
Motor vehicles	392	294
Office equipment	240	206
Furniture and fittings	1,278	1,458
Leasehold improvements	1,801	581
	15,928	**15,843**

16. Amortisation

	2007	2006
Computer software		
PeopleSoft	1,603	1,604
Other software	3,175	2,351
	4,778	**3,955**

17. Operational expenditure

	2007 R'000	2006 R'000
Audit Commission / Corporate Governance Board fees and expenses	191	111
Auditor's remuneration		
Statutory audit services	1,646	1,075
Other audit services	235	335
Contract work irrecoverable	6,374	11,300
ICT services	13,282	14,801
Internal audit fees	2,825	2,137
Other operational expenses	10,678	10,710
Operating leases - land and buildings	29,926	27,358
Operating leases - equipment	2,427	2,770
Recruitment costs	5,277	2,752
Restructuring cost	181	12,016
Stationery and printing	3,886	3,330
Subsistence and travelling	42,098	38,785
Telephone and postage	5,451	5,454
Utilisation of staff development reserve	355	1,220
	124,832	**134,154**

18. Contract work recoverable

Contract work recoverable	**301,201**	**238,111**

This represents work done by external audit firms on behalf of the Auditor-General. The income is included in revenue at no additional margin.

19. Material losses written off to the income statement

Notebook computers stolen at net book value	**(404)**	**(421)**

No amounts have been recovered due to the fact that the Auditor-General self-insures notebook computers. The stolen notebooks have been reported to the police for investigation.

Notes to the annual financial statements

20. Finance cost

	2007 R'000	2006 R'000
Interest on obligation under instalment sale agreements	**1,889**	**1,226**

21. Commitments

21.1 Operating lease commitments

The future minimum commitments are as follows:

	2007 R'000	2006 R'000
Due within one year	23,186	23,219
Accommodation	18,169	21,865
Communication equipment	3,150	
Office equipment	1,867	1,354
Between one and five years	81,031	70,338
Accommodation	74,147	70,290
Communication equipment	3,150	
Office equipment	3,734	48
More than five years	109,536	15,050
Accommodation	109,536	15,050
Office equipment	-	-
	213,753	**108,607**

The office premises are leased for periods between three and 10 years. The average lease payments are R1,514,068 (2006 - R1,822,080) per month. The lease agreements are renewable at the end of the lease term and the Auditor-General does not have the option to acquire the buildings.

Certain items of communication equipment are leased for a period of two years. The average lease payments are R262,500 per month.

Certain items of office equipment are leased for a period of three years. The average lease payments are R155,601 (2006 - R152,931) per month.

Notes to the annual financial statements

22. Contingent liability

Guarantees provided by the Auditor-General to various financial institutions for portions of home loans granted to staff.	255	380

23. Financial instruments

23.1 Foreign exchange risk

The Auditor-General delivers a portion of its audit services on fixed sum contracts in foreign currencies. Trade accounts receivable include receivables of R58,223 (2006: R3,393,880) in respect of services delivered in foreign currencies not hedged by forward exchange contracts.
Included in the bank balances at 31 March 2007 is an amount of 1,244,341 USD (2006: 430,368 USD). These balances have been translated at the year-end exchange rate of 1 USD = R7.2363 (2006 - 1 USD = R6.1533).

It is the policy of the Auditor-General not to take out cover on foreign exchange transactions.

23.2 Credit risk

Financial assets which potentially subject the Auditor-General to concentrations of credit risk consist principally of cash and short-term deposits placed with high credit quality financial institutions. Trade receivables are presented net of the allowance for doubtful receivables. Credit risk with respect to trade receivables is limited to some degree due to the constitutionally ensconced audit mandate of the Auditor-General. However, the Auditor-General has a significant concentration of credit risk with local government and statutory bodies. R59,569,000 (2006 - R35,887,000) of debtors, comprising 32.4 per cent (2006 - 24%) of total debtors, is in arrears. Local government arrears comprise R35,150,000 (2006 - R22,887,000) or 59 per cent (2006 - 63.8%) of total arrears. All financial assets are unsecured. The carrying amounts of financial assets included in the balance sheet represent the Auditor-General's exposure to credit risk in relation to these assets. Investment in the Public Investment Corporation is governed by the Auditor-General's investment strategy which requires 95 per cent of funds to be invested in money market instruments and the balance in cash.

A breakdown of the concentration of credit risk that arises from the Auditor-General's receivables in relation to the type of auditees is:

Notes to the annual financial statements

2007 Debtor type	Total	Current	30 - 120	120+
National	37,915	30,951	6,927	37
Provincial	38,693	33,550	3,914	1,229
Local	72,829	37,679	17,204	17,946
Statutory	31,344	22,256	2,475	6,613
Other (including unallocated deposits)	3,224	-5,738	-431	9,393
	184,005	118,698	30,089	35,218

2006 Debtor type	Total	Current	30 - 120	120+
National	40,202	39,845	52	305
Provincial	33,378	31,572	3,298	-1,492
Local	50,809	27,922	12,923	9,964
Statutory	20,038	14,055	2,183	3,800
Other (including unallocated deposits)	4,854	-14,973	4,043	15,784
	149,281	**98,421**	**22,499**	**28,361**

23.3 Interest rate risk

The Auditor-General's exposure to interest rate risk and the effective interest rates on financial instruments at balance sheet date is:

31 March 2007	Effective interest rate	Fixed interest rate maturing		Total
		1 year or less	1 to 5 years	
	%	R'000	R'000	R'000
Assets				
Trade and other receivables	0%	177,890	-	177,890
Cash				
- *Local*				
- Current account	7.75%	35,190	-	35,190
- Call account	8.50%	94,400	-	94,400
- Foreign	4.64%	9,004	-	9,004
Total financial assets		**316,484**	**-**	**316,484**

Liabilities				
Interest-bearing borrowings	10.5% - 11.5%	10,512	13,938	24,450
Trade and other payables	0%	146,648	-	146,648
		157,160	**13,938**	**171,098**
Net financial assets / (liabilities)		**159,324**	**(13,938)**	**145,386**

31 March 2006	**Effective interest rate %**	**Fixed interest rate maturing 1 year or less R'000**	**1 to 5 years R'000**	**Total R'000**
Assets				
Trade and other receivables	0%	140,424	-	140,424
Cash				
- *Local*				
- Current account	5.75%	27,144	-	27,144
- Call account	6.50%	135,639	-	135,639
- Foreign	3.78%	2,648	-	2,648
Total financial assets		**305,855**	**-**	**305,855**
Liabilities				
Interest-bearing borrowings	8.50%	7,771	5,801	13,572
Trade and other payables	0%	142,169	-	142,169
		149,940	**5,801**	**155,741**
Net financial assets / (liabilities)		**155,915**	**(5,801)**	**150,114**

23.4 Fair values

At 31 March 2006 and 2007 the carrying amounts of cash, accounts receivable, accounts payable, accrued expenses and short-term liabilities approximated their fair values due to the short-term maturities of these assets and liabilities.

Notes to the annual financial statements

24. Notes to the cash flow statement

24.1 Cash (utilised in) / generated from operating activities

	2007 R'000	2006 R'000
Net deficit for the year	(1,778)	(19,926)
Adjusted for:		
Interest received	(11,940)	(9,283)
Finance charges	1,889	1,226
Foreign exchange gain	(621)	(375)
Depreciation	15,928	15,843
Amortisation	4,778	3,955
Loss / (Profit) on the disposal of property, plant and equipment	293	(745)
	8,549	(9,305)
Working capital changes	(28,184)	31,689
Increase in trade and other receivables	(37,588)	(24,343)
Increase in trade and other payables	4,479	44,970
Increase in provision for post-retirement medical aid benefits	4,925	11,062
Cash (utilised in) / generated from operations	**(19,635)**	**22,384**

24.2 Acquisition of property, plant and equipment

Computer equipment and software	(19,436)	(10,812)
Office equipment	(572)	(173)
Furniture and fittings	(405)	(897)
Leasehold improvements	(5,451)	(294)
	(25,864)	**(12,176)**

24.3 Acquisition of intangible assets

Computer software		
Other software	(3,360)	(4,917)
	(3,360)	**(4,917)**

Notes to the annual financial statements

24.4 Cash and cash equivalents

	2007 R'000	2006 R'000
Call account at Public Investment Corporation		
Investment to fund working capital requirements	6,418	54,649
Investment reserved for specific liabilities	87,982	80,990
Current bank account	35,190	27,144
Foreign bank accounts	9,004	2,648
	138,594	165,431

25. Taxation

No provision is made for income tax as the Auditor-General is exempt in terms of section 10(1)(cA)(i) of the Income Tax Act, 1962 (Act No. 58 of 1962).

26. Professional indemnity insurance

It is not the policy of the Auditor-General to take professional indemnity insurance cover.

Comparison of actual results with the approved budget

	Note	Actual R'000	Budget R'000	Deviations R'000
Revenue		**907,807**	**886,210**	**21,597**
Audit fees earned	1	893,750	875,466	18,284
Other income		1,496	2,547	(1,051)
Interest received	2	11,940	8,197	3,743
Foreign exchange gain		621	-	621
Expenditure		**(902,565)**	**(867,681)**	**(34,884)**
Audit Commission / Corporate Governance Board fees and expenses		(191)	(602)	411
Auditor's remuneration				
Statutory audit services		(1,646)	(1,409)	(237)
Other audit services		(235)	-	(235)
Contract work recoverable	1	(301,201)	(248,046)	(53,155)
Contract work irrecoverable	3	(6,374)	(8,061)	1,687
Course fees and study assistance	4	(34,613)	(42,635)	8,022
Depreciation expense		(15,928)	(14,504)	(1,424)
Amortisation expense		(4,778)	(5,503)	725
Finance charges		(1,889)	(1,055)	(834)
Internal audit fees	5	(2,825)	(1,876)	(949)
ICT services	6	(13,282)	(21,803)	8,521
Operating leases - equipment	7	(2,427)	(3,602)	1,175
Operating leases - land and buildings		(29,926)	(29,415)	(511)
Other expenses		(10,678)	(14,283)	3,605
Provision for accumulated leave benefits	8	(10,753)	(3,548)	(7,205)
Recruitment costs		(5,277)	(6,561)	1,284
Restructuring cost		(181)	-	(181)
Staff expenses (normal staff exp.)		(405,880)	(400,068)	(5,812)
Special exp.: perf. bonus & overtime		(3,046)	-	(3,046)
Stationery and printing	9	(3,886)	(6,018)	2,132
Subsistence and travelling	10	(42,098)	(53,589)	11,491
Telephone and postage		(5,451)	(5,103)	(348)
Increase in post-retirement medical aid benefit provision	11	(6,665)	(5,629)	(1,036)
Staff development reserve utilised		(355)	-	(355)
Net (deficit) / surplus for the year		**(1,778)**	**12,900**	**(14,678)**

The budget was submitted for approval, in terms of section 38 of the Public Audit Act, 2004 (Act No. 25 of 2004), to the oversight mechanism on 29 November 2005 and tabled in Parliament on 12 April 2006 in terms of the same section.

Explanation of material differences in actual results compared with the approved budget

1. Audit fees earned

The increase in audit fees earned compared to budget was mainly due to the additional contract work caused by additional local government audit work and staff vacancies which resulted in a loss of own hours revenue. The vacancies also contributed to less recovery of S&T expenses than budgeted.

2. Interest received

This was mainly due to the interest income that was higher than budgeted due to the balances in the investment account being higher than originally anticipated as well the increase in interest rate.

3. Contract work irrecoverable

The main contributor to this favourable variance is the result of underspending by Corporate Services due to the delay in the implementation of the Trainee Accountant Management Programme and the Memory Tool.

4. Course fees and study assistance

The underspending is the result of a number of reasons: Firstly, due to a low pass rate, candidates who did not pass but were budgeted for, were financed through study loans, per the rules. Secondly, during the compilation of the budget, much emphasis was put on MQF requirements and business units budgeted accordingly, but this requirement has not been fully implemented.

5. Internal audit fees

The budgeted amount reflects an estimated amount before the audit coverage plan was completed and approved.

6. ICT services

Savings is a result of planned activities by ICT not being fully implemented. Most of the savings came from consultancy fees which were budgeted for special projects to be carried out on the network which have since been moved to the following financial year.

7. Operating leases - equipment

The favourable variance in equipment rental is mainly due to the actual rates incurred being lower than originally anticipated.

8. Provision for accumulated leave pay

The increase in the leave pay provision was mainly influenced by the number of days accrued as well as the increase in salaries.

9. Stationery and printing

Stationery usage has been less than anticipated due to strict controls and a deliberate cost-saving plan to reduce costs. Printing of audit reports budgeted for did not happen as anticipated and some of the report printing costs were borne by the auditees. The use of multi-functional devices also contributed to this favourable variance.

10. Subsistence and travelling

The underspending was mainly due to more work contracted out due to vacancies.

11. Post-retirement medical aid benefit

An additional provision had to be made for the post-retirement medical aid benefit due to the use of adjusted post-employment mortality tables during the valuation process.