



AUDITOR-GENERAL

BUDGET AND STRATEGIC PLAN OF THE AUDITOR-GENERAL

April 2008 – March 2011



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GLOSSARY OF TERMS

ACCA	Association of Chartered Certified Accountants
AFROSAI	African Organisation of Supreme Audit Institutions
AFROSAIE–E	African Organisation of English-Speaking Supreme Audit Institutions
AG	Auditor-General: the institution
BEE	Black economic empowerment
BBBEE	Broad-based black economic empowerment
CA	Chartered accountant
CAATs	Computer assisted auditing techniques
CISA	Certified information systems auditor
CMM	Capability maturity model
CTA	Certificate in the Theory of Auditing
CPD	Continuing professional development
CSA	Control Self-Assessment
DAG	Deputy Auditor-General
EE	Employment equity
EXCO	Executive Committee
FMCM	Financial management capability model
HC	Human Capital
ICT	Information and communications technology
IPFA	Institute for Public Finance and Auditing
INCOSAI	International Congress of Supreme Audit Institutions
INTOSAI	International Organization of Supreme Audit Institutions
IRBA	Independent Regulatory Board for Auditors
ISA	International Standards on Auditing
MFMA	Municipal Finance Management Act
MQF	Minimum qualifications framework
NT	National Treasury
OM	Oversight mechanism
PAA	Public Audit Act
PAAB	Public Accountants' and Auditors' Board
PFMA	Public Finance Management Act
ROI	Return on investment
RPL	Recognition of prior learning
SADEC	Southern African Development Community
SAICA	South African Institute of Chartered Accountants
SAIGA	Southern African Institute of Registered Government Auditors
SCoAG	Standing Committee on the Auditor-General
SCOPA	Standing Committee on Public Accounts
UNBoA	United Nations Board of Auditors
UNIDO	United Nations Industrial Development Organization
WHO	World Health Organization



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1. AUDITOR-GENERAL'S STATEMENT OF POLICY AND COMMITMENT

I am pleased to present the strategic plan and budget for the medium term of April 2008 to March 2011. This strategic plan and budget reflects our strategic thrust and commitment to fulfil our constitutional mandate, raising our performance to a higher level and to engender public confidence in our organisation as a Chapter 9 Institution.

We have embarked on the strategic path of making our audit reports more relevant to our stakeholders so that they understand our functions. Messages to our stakeholders are centred around our independence and objectivity as stipulated in our constitutional mandate and how we contribute towards the accountability chain to ensure good governance of public funds.

This strategic and budget plan is focused on the increased quality of our audit processes and reports. Our audit coverage continues to innovatively respond to the needs and requirements of stakeholders.

In addition we continue to strive to greater professionalism in developing excellent leaders and professionals at all levels and make a constructive input into the accounting and auditing profession, which will ultimately ensure that we effectively fulfil our duties of strengthening South Africa's democracy.

At the pinnacle of transformation in South Africa, we are committed to supporting and accelerating transformational developments. We also recognise that the implementation of a BBBEE Strategy is an essential mechanism to meet the objectives as set out in the Freedom Charter to achieve sustainable and inclusive economic development, social stability and labour absorbing economic growth. As such, the AG aims to empower all audit firms so that they can build capacity within the auditing profession especially develop more black accountants.

The measurable strategic objectives will ensure that we deliver on our constitutional mandate. These measures and targets form the key drivers for the audit office and aim to ensure that our constitutional mandate is fulfilled in a cost-effective manner while at the same time adding value in the audit services we provide

Our April 2008 – March 2009 budget reflects an increase of 28% in audit fees, representing an amount of R1.29 billion in comparison of R1.01 billion for April 2007 – March 2008. The total estimated audit cost of R1.29 billion represents only 0,22%



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of total government expenditure of approximately R591.2 billion in comparison with the auditing cost of R1.01 billion for April 2007 – March 2008 representing 0,19% of the total government expenditure of R519.2 billion. The surplus before taking the operating cost in consideration is 18%, representing an amount of R402 292 471.



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2. OVERVIEW BY THE DEPUTY AUDITOR-GENERAL

As head of the Auditor-General's (AG's) administration, this is my first strategic plan and budget for the years 2008-2011 where I perform my duties and responsibilities in terms of section 32 and 43 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

This strategic plan and budget was crafted so that it puts the AG in a position to provide independent assurance on the spending and reporting of government's budget priorities which give expression to the State of the Nation's address by the President. We endeavoured to pay specific attention to the causes of our own service delivery blockages and instituted remedial actions in this planning and budgeting document to meet specific service delivery targets.

This strategic plan and budget undoubtedly has a more intense focus on the relevance of audit reports, thereby reiterating the importance of continuous improvement of our current auditing practices. A combination of IFAC and INTOSAI audit methodologies and standards are already applied throughout all our audits while we are simultaneously making concerted efforts to ensure that our support units are operating at the highest levels of operational excellence. Our ability to sustain and accelerate the gains we have made over the past few years, will be accomplished through developing appropriate policies, guidelines and procedures, proactive planning, disciplined implementation and, most importantly, a devoted work force, so that we can fulfil our role as a supreme audit institution

Our ability to attract and retain appropriate levels of skilled professionals will continue to be a key area of focus as we embark on a focussed drive to deepen our competencies in the audit service area.

It is imperative that the AG sustains highly professional innovations in order to stay relevant and cost effective in the public sector. Various innovative projects, particularly in the area of regularity audits, have already been launched with success while others in the areas of performance-related audits, auditing of performance information, investigations and special audits, and information systems auditing are already in progress.

Overall, for the AG to sustain the auditing mandate at an acceptable reputation level there is a need to optimise key success factors such as:



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- (1) Effective leadership that inspires stakeholder confidence,
- (2) Staff and supplier profiles that meet the transformation expectations as well as appropriate competency levels and
- (3) Business processes that deliver operational excellence.

The strategic objectives and measures relating to the business priorities that are highlighted above and on which the AG can be held accountable, are set out in this strategic plan and we will endeavour to meet them and exceed stakeholder expectations.

One of the very important developments in 2007 was the finalisation of the *Report by the ad hoc Committee on the Review of Chapter 9 Institutions* as submitted to the National Assembly of the Parliament of South Africa on 31 July 2007. The committee was tasked to assess whether the current and intended constitutional and legal mandate of chapter 9 institutions, of which the AG forms part, were suitable for the South African environment, whether their consumption of resources was justified in relation to their outputs and contribution to democracy, and whether a rationalisation of function, role or organisation was desirable or would diminish the focus on important areas. I am pleased that the committee, in general, considered the functioning of the AG to be consistent with its terms of reference, and in addition, the international recognition of the standards established by the AG reflected well on the institution.

I welcome the recommendations made by the committee to strengthen the position of the AG and for ease of reference, have made a further analysis of our strengths, opportunities and internal and external challenges, which to a large extent have informed the priorities of this strategic plan and budget.

2.1 STRENGTHS

2.1.1 Our mandate

The AG represents the only public sector audit institution in South Africa that is allowed through the Constitution of South Africa, 1996 (Constitution) and PAA to audit and report on the accounts, financial statements and financial management of public sector institutions and administrations. The public sector auditing skills and experience obtained as the supreme audit institution, places the AG in a leading and prominent position as the



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only external auditor of all national and provincial state departments and municipalities, and other institutions or accounting entities required by legislation to be audited by the AG.

2.1.2 Independence of the AG

Section 181 of the Constitution guarantees the AG's independence, while the PAA restates the constitutional provisions concerning independence. In addition, the constitutional and statutory framework contains provisions that are accepted markers of independence. This allows the AG to perform his powers and functions without fear, favour and prejudice. The task of the AG is to provide an independent investigation and evaluation of, as well as public reporting on, the financial administration of the executive authority of the public sector and it is through this information that it will assist Parliament or any other legislative body to exercise its oversight function.

2.1.3 Awareness of maturity cycle

The maturity levels of all the business processes are assessed on a continuous basis and remedial steps are taken to ensure that the AG climbs the maturity ladder. This initiative allows the AG to make informed decisions in terms of business efficiency and contribute to operational excellence throughout the core and support processes.

2.1.4 Global reputation

2.1.4.1 International Activities

The AG, as one of the international supreme audit institutions, contributes to the international fraternity where extensive audit services of an international nature are performed. The AG has audited the World Health Organization and is presently auditor to the United Nations (UN), the United Nations Industrial Development Organization (UNIDO) and the International Centre for Genetic Engineering and Biotechnology (ICGEB). These contracts have been obtained competitively and are evidence of the AG's good standing and professionalism. A clear legislative backing of this responsibility will be catered for during the next amendment of the PAA.

2.1.4.1 (a) INCOSAI and AFROSAI

The AG of South Africa will have the unique opportunity to host the forthcoming 20th Congress of the International Institution of Supreme Audit Institutions in 2010.



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INTOSAI is an important body for better governance because by setting internationally accepted standards and guidelines, it helps to promote accountability, sound financial management and accountability through the auditing of government accounts and operations. Through this, it strengthens parliaments and their oversight bodies and as such, it strengthens democracies even further. INCOSAI, which refers to the international congress of INTOSAI, affords an ideal opportunity to bring together the heads of supreme audit institutions to translate their expertise and skills into action at regional, national and international levels.

In his letter endorsing the hosting of this event, President Thabo Mbeki states: "INCOSAI 2010 will be an important event which will not only benefit the AG, but also South Africa as the host country as well as the greater African region. This is consistent with INTOSAI's motto *Mutual Experience Benefits All.*" The President also refers to INCOSAI 2010 as a prestigious event, which he believes will make an important contribution towards the struggle against poverty and underdevelopment.

While preparation for the hosting of INCOSAI 2010 has started in earnest, the AG is also preparing for another prestigious event – hosting AFROSAI, the congress for all Supreme Audit Institutions in Africa, in November 2008. This will provide us with another unique opportunity to work closely with our counterparts in addressing issues of mutual interest and share best practices to the benefit of all the people on the African continent.

2.1.4.1 (b) Peer Reviews

In 2003 a group of sixteen SAIs including the AG, decided to perform peer reviews of the performance audit work carried out in their respective organisations. Two SAIs have been reviewed thus far; the US Government Accountability Office (GAO) and the Netherlands Court of Audit (NCA). Participation in these reviews has proven to be valuable to us in terms of the wealth of knowledge and experience gained during the review.

The condition to our participation in the peer reviews is that we must also submit to being reviewed. We are scheduled for review in 2009. In the course of the next year and a half, we will be:

1. Reviewing our performance audit guidelines.



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2. Developing training modules on performance audit guidelines and training all our performance auditors.
3. Conducting an independent dry run of the performance review, to assess our readiness.
4. The actual performance review will then be conducted in 2009

The report emanating from the peer review will include an overall audit opinion providing an assurance of whether we comply with the necessary standards. During the course of the review, we will have the opportunity to look at the areas needing improvement and address them with specific action plans. Once finalised, the final peer review report will be tabled in the South African Parliament, providing government and the public at large the opportunity to scrutinise the effectiveness of the AG's performance audit capability. The timing of this report also has a particular significance for our organisation. As the review will take place in 2009, the resulting report will be tabled in 2010, the same year that we will be hosting the entire group of SAI's during the 20th INCOSAI conference. The organisation therefore will have the opportunity to show case its performance auditing capability to other SAI's from around the world.

2.1.4.2 Relationship with the executive

The AG has a close working relationship with the National Treasury and for some years the AG and National Treasury have held quarterly meetings on areas of mutual interest, and meetings of a technical nature on an informal basis. Given the technical nature of the work of the AG and the kinds of audit information required, the continued close working relationship with national and provincial treasuries is necessary for the AG to conduct its work effectively and efficiently.

The AG enjoys professional relations with all government departments, public entities and Parliament in obtaining information. Since there is a keen understanding of the role of the AG, bodies being audited also appreciate the importance of providing the AG with adequate and relevant information to facilitate a reliable audit outcome.

2.1.4.3 Relationship with Parliament

The AG has a highly structured relationship with Parliament. The AG accounts to the National Assembly through the Standing Committee on the AG (SCoAG), which was established in May 2006 as a dedicated committee for this purpose. Despite the fact that



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SCoAG has only recently been formed, it has already engaged with the AG on its strategic plan and budget for the next three years, as well as its latest annual report. This is similar to the oversight work of a portfolio committee in relation to a government department.

2.1.5 World-class audit methodology and standards

A recent survey conducted by the Professional Standards Committee of INTOSAI (PSC) indicated that South Africa is one of the leading countries in applying both the IFAC and INTOSAI standards in their audits. This demonstrates that the AG of South Africa is one of the leading public sector audit institutions that contributes to democratic insight and monitors the application and use of public funds.



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2.2 OPPORTUNITIES

2.2.1 Greater visibility

The AG intends to be more visible in the legislative sphere in that more interaction is required with other Oversight Committees in Parliament. This will ensure that the AG keeps abreast of the latest developments and decisions made by the various portfolios so that timeous action can be taken to incorporate the relevant aspects of these decisions in our audit interventions.

2.2.2 Stakeholder demands

Stakeholders and their perceptions play an increasingly prominent role in the day-to-day operations of the AG and it is clear that the AG needs to produce reader-friendly audit reports that meet the expectations and requirements of the stakeholders. Root cause reporting will also improve the AG's responsiveness to the needs of the primary stakeholders set within the parameters of the auditing and reporting standards. The AG strives to position itself as a "good citizen" that serves the environment by contributing to the accountability chain, enhancing processes to ensure quality, cost-effective and timeous reports to stakeholders.

2.2.3 Public awareness

As outlined by the chapter 9 review committee, which finds it unacceptable that many South Africans, including those in positions of leadership, are not fully aware of the important work of the AG. Therefore, the AG needs to continue to identify the need to inform the public of its work as a priority and engage with the media and civil society in this regard. In the case of civil society, it is becoming increasingly important to foster such relationships, particularly with regard to issues of corruption.

2.2.4 Technology

External sophistication is increasing, e.g. the State Information and Technology Agency is becoming so advanced that the AG needs to be aligned with respect to external IT expertise. This will require the AG to be smarter by considering the potential investment versus cost of upgrading technology to meet all the short to long term needs.



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2.3 INTERNAL CHALLENGES

2.3.1 Debt collection

The management of working capital and liquidity has over the years become a serious area of concern for the AG. Debt collection, as a key element of working capital, is not timely, particularly within Municipalities which results in undesirable cash flow strains for the organisation. The AG and National Treasury are currently in the process of considering various options to address the matter and more detailed information can be found in the section on the secondary focus area “key financial drivers”.

2.3.2 Maturity levels of business processes

The continuous improvement of the AG’s business processes undoubtedly poses a challenge to ensure that they are efficient, cost-effective and supportive of risk management and effective decision-making. The AG is currently busy identifying all the core support business processes in order to improve the maturity levels in terms of quality of management information as well as associated information and communications technology (ICT) systems.

2.3.3 Risk management

Specific risks have been identified over a number of years and processes have been instituted to ensure that these risks are adequately identified, assessed, managed and monitored across the organisation. Concerted efforts are made to reduce the residual risk by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

2.3.4 Leadership

The leadership-focused initiatives of competency assessment for senior leadership, research into leadership interventions, and implementation of high-impact leadership development and establishment of a leadership culture that the AG embarked on in 2007 must be unpacked and operationalised in order to ensure, through leadership, institutional performance at an acceptable level of excellence.

2.3.5 Retention of staff

The attraction and retention of qualified and skilled staff has been problematic for the institution in that the overall vacancy rates became an area of concern due to the short supply of accounting and auditing professionals. Compliance with the set employment



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equity targets is an additional challenge that can be negated through investment in black trainee accountants.

2.3.6 International activities: amendment of the PAA

The legal mandate for the international work performed by the AG will be clarified by legislation.

2.3.7 Complaints mechanism

The complaints mechanism that the AG implemented to deal with complaints against the AG is overly complex and steps will be taken to simplify the procedure as outlined by the chapter 9 review committee.

2.4 EXTERNAL CHALLENGES

2.4.1 Contract work

The auditing and support services workload of the AG is of such a nature that professional assistance in the form of contract work is a necessity. The contracting strategy assists the AG in managing workload during peak times and simultaneously limits idle time during periods of low activity. The challenge is to find a balance between operating at a level of performance excellence and only outsourcing work that cannot be dealt with after utilising all current resources at optimal levels. It is also necessary to develop internal management capacity with respect to the management of contract work due to the significant growth in this segment of our activities. These focussed interventions will assist us to proactively manage issues of quality; financial resources and planning of audit requirements.

2.4.2 Reputation

The AG has invested significant resources in enhancing its reputation by influencing the stakeholders' perceptions through a process of excellent performance and behaviour. The challenge is to ensure sound stakeholder relations through an effective stakeholder management drive that will filter through a process of creating a corporate culture (corporate behaviour identity), image and ultimately instilling a desired reputation/vision.

2.4.3 Quality audit reports

Quality audit reports are non-negotiable and it still remains a challenge to produce quality reports that meet the International Standards on Auditing. The AG will continue to



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develop and implement effective and efficient strategies to improve the quality of audits significantly and initiatives like ongoing technical training and quality management, annual pre-issuance reviews prior to finalisation of key audit reports, as well as consistency reviews to ensure consistent reporting will remain part of the primary focus areas in order to ensure focused product enhancement and development.

2.4.4 Transformation

The AG made transformation in terms of employment equity and broad-based black economic empowerment (BBBEE) one of its primary focus areas and the challenge for the institution is to maintain its current effort and continue to exceed the national employment equity statistics in terms of African, Coloured and Indian compared with the total representation in the financial sector. A comprehensive BBBEE strategy is currently being developed which will put the AG in a superior position in facilitating and contributing to BBBEE and capacity-building in public sector financial management.

2.4.5 Relationship with chapter 9 and associated institutions

A formal agreement with other chapter 9 institutions will be instituted to deal with any possibility of duplication or overlap of function. The AG will formalise its relationship with these bodies and establish mechanisms to track and monitor referred matters. Details of the number of complaints investigated, outcomes and referrals will also be included in the AG's annual report. Preliminary discussions have already taken place with the Office of the Public Service Commission to seek collaboration on matters of performance audit interventions as well as to develop a structured working relationship in the context of the Chapter 9 review recommendations.

2.4.6 Persistent disregard of the AG's recommendations

The AG will formulate and formalise a process/mechanism whereby the persistent disregard of its audit recommendations by government departments and other public institutions will be brought to the special attention of the National Assembly and other legislatures.

3. LEGISLATIVE MANDATE

3.1 CONSTITUTIONAL AND LEGISLATIVE MANDATE

The AG is governed by the Constitution and the PAA and is established as chapter 9 institution in terms of sections 181 and 188 of the Constitution.



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The Constitution, which establishes the AG as a state institution, defines the governing principles of the AG and its key functions. It also outlines the way in which the AG is appointed.

The PAA in turn provides for the establishment of a parliamentary oversight mechanism to assist and protect the AG to ensure the independence, impartiality, dignity and effectiveness of the AG and to advise the National Assembly.

3.2 REPORT OF THE AD HOC COMMITTEE ON THE REVIEW OF CHAPTER 9 AND ASSOCIATED INSTITUTIONS

The *Report by the ad hoc Committee on the Review of Chapter 9 Institutions* was submitted to the National Assembly of the Parliament of South Africa on 31 July 2007. The mandate of this committee was to assess whether the current and intended constitutional and legal mandate of chapter 9 institutions, of which the AG forms part, were suitable for the South African environment, whether the consumption of resources by them was justified in relation to their outputs and contribution to democracy, and whether a rationalisation of function, role or organisation was desirable. The committee was also further tasked to conduct its review with reference to collaboration and duplication of functions of the said institutions.

The very important conclusions that were reached by the committee are set out below. These conclusions together with the recommendations will be analysed by the AG and remedial steps will be proposed to ensure that we unconditionally comply and contribute to the strengthening of South Africa's constitutional democracy.

In general, the committee considered the functioning of the AG to be consistent with its constitutional mandate, and in addition, the international recognition of the standards established by the AG reflected well on the institution. In order to strengthen the efficiency and effectiveness of the AG further, the committee made the following recommendations:



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Recommendation by <i>ad hoc</i> committee	AG strategy to address recommendations
The legal mandate for the international work performed by the AG should be clarified by legislation	The AG will in future embark on changes to the PAA, to ensure that the need for the AG to conduct international work is clearly articulated
The AG should continue to develop its capacity to conduct performance audits of all national and provincial government departments and municipalities	In the strategic plan, the AG continues to place more emphasis on the need to increase the focus on performance auditing by ensuring that resources that are ploughed into performance auditing, increase year-on-year. For 2008-09, the AG expects to spend 10% of its resources on performance audits. Furthermore, the AG will consult with the SCoAG to define the longer term practical parameters relating to the AG's readiness for increased performance audit coverage.
The AG and the Standing Committee on Public Accounts should bring persistent disregard for the AG's recommendations by government departments and other public institutions to the special attention of the National Assembly	The AG, together with SCoAG, will continue to interact with the APAC to ensure that the AG's recommendations are actioned by the auditees. In addition to the current general reports on the audits conducted at all three spheres of government, a mechanism will be developed in conjunction with the APAC so that those issues that are persistently disregarded by government departments can be forwarded to the National Assembly and other legislatures in a formalised manner.
The AG should continue its efforts to increase public awareness of its activities	The AG has embarked on a number of broad stakeholder initiatives that will increase public awareness.
There should be a formal agreement with the other chapter 9 institutions to deal with	The AG will establish a referral mechanism between itself and the other



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<p>any possibility of duplication or overlap of function. This is particularly necessary where there is referral of cases or complaints to another body. Specifically, the committee recommends that the AG formalises its relationship with the Public Protector and establishes mechanisms to track and monitor referred matters. In addition, the AG should include details of the number of complaints investigated and their outcomes.</p>	<p>chapter 9 institutions. This mechanism will be formalised by way of a Memorandum of Understanding or Service Level Agreement (SLA) to avoid any possible duplication or overlap and ensure all referred complaints are co-ordinated.</p>
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4. CORPORATE GOVERNANCE STRUCTURE OF THE AG

Corporate governance in the AG is guided by the Constitution and the PAA. In addition the King Report II and other sources have been taken into consideration. The Constitution and the PAA established a one-person unitary board and the governance framework therefore strives to adhere to governance best practices within this unique hybrid framework.

The AG is in overall control of and accountable for the administration of his office in terms of section 30(2) of the PAA and the Deputy Auditor-General (DAG) is the head of administration and responsible for the administration of the office of the AG in terms of section 32 of the PAA, subject to the directions from the AG.

Even though the AG forms the unitary board, as the person that has the ultimate control of and accountability for the office, the AG may appoint advisory and other structures outside the AG to provide specialised advice to the AG, according to section 5(2)(b) of the PAA. It is in this context that the AG has inaugurated the Advisory Structure and the Remuneration Committee to assist him in fulfilling his duties and exercising his powers. The corporate governance of the AG is further strengthened by the Audit Committee which has been established in terms of sections 40 and 43 of the PAA.



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In keeping with the principles of good governance, the Executive Committee (EXCO) is also established to assist the DAG to fulfil his/her functions as the head of administration.

4.1 REMUNERATION COMMITTEE

In terms of section 34(3) of the PAA, the AG is responsible for determining the terms and conditions of employment of all AG employees. The AG has established the Remuneration Committee to assist him in this regard.

The Remuneration Committee of the AG is to provide specialised advice to the AG in respect of remuneration as well as human resources management and related issues, including terms and conditions of employment. The role of the Remuneration Committee is of an advisory nature.

4.2 AUDIT COMMITTEE

The Audit Committee of the AG has been established in terms of sections 40 and 43 of the PAA, to assist the DAG in discharging his/her duties relating to maintaining:

- A sound financial, risk management and internal control system; and
- An effectively functioning internal audit system.

In addition, the committee assists the DAG in overseeing:

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

Furthermore, the committee may communicate any concerns it may have to the:

- Auditor-General;
- External auditors of the AG appointed by the oversight mechanism in terms of section 39(1) of the PAA; and
- Oversight mechanism.



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The committee acts as an advisory body and does not perform any management functions or assume any management responsibilities.

An important role of the committee is to monitor and supervise the effective functioning of the 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.

4.3 EXECUTIVE COMMITTEE

Since both the AG and DAG can delegate any power and duty assigned to them in terms of legislation, an Executive Committee (EXCO) has been established to assist the DAG in managing the affairs of the institution. EXCO consists of the DAG as the chairperson and corporate executives.

Subject to those matters reserved for decision by the DAG, EXCO shall, in general, be responsible for managing the business and affairs of the institution in terms of the delegations as contained in the AG's management approval framework (MAF).

4.4 REPORTING RESPONSIBILITIES OF THE AG

The Constitution and the PAA determine the AG's reporting responsibilities.

4.4.1 Accountability

The AG is accountable to the National Assembly in terms of section 181(5) of the Constitution and section 3(d) of the PAA, and has to report on his/her activities and the performance of his/her functions in terms of section 10 of the PAA. The main accountability instruments are the AG's *Strategic Plan and Budget*, as well as the AG's *Annual Report*, which are tabled annually in the National Assembly. SCoAG, established in terms of section 10(3) of the PAA, oversees the performance of the AG on behalf of the National Assembly.

4.4.2 Mandate and functions

In terms of his/her constitutional mandate, the AG must report on the accounts, financial statements and financial management of auditees in terms of section 188 of the



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Constitution and sections 4 and 5 of the PAA by tabling his/her own reports, or by permitting the incorporation of his/her audit reports in the annual reports of the auditees to relevant legislatures or municipal councils. Other functions of the AG may be prescribed by national legislation, such as the PAA. In carrying out his/her mandate, the AG must take into consideration any pertinent legislation.

His/her mandate is carried out through the AG's audits of the accounts, financial statements and financial management of auditees, and reporting thereon in the form of general reports, regularity audit reports (on financial and non-financial performance), performance audit or value-for-money reports and reports on special investigations.

4.4.3 Use of the AG's reports

The AG tables his/her reports to the legislatures with a direct interest in the audit, namely to Parliament, provincial legislatures or municipal councils. These reports are then utilised by the respective legislatures and councils in accordance with their own rules and procedures for oversight.



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5. STRATEGIC OVERVIEW OF THE AG

In 2001, the AG conducted an exercise of defining the vision, mission and strategic objectives of the organisation. Since then, the AG has introduced an excellent performance measurement system as well as alignment, monitoring and evaluation processes that will ensure effective and efficient service delivery within the organisation. Furthermore, the AG's strategic planning and budgeting processes continue to align the effective utilisation of resources to achieve the strategic priorities of the institution and its business units and centres, as well as service delivery targets.

The vision and the mission of the AG are as follows:

5.1 VISION

"We are the independent world-class provider of public sector audit and related value-added services"

5.2 MISSION

"Providing independent and objective quality audit and related value-added services in the management of public resources, thereby enhancing good governance in the public sector"



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6. SERVICE DELIVERY

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, i.e. "primary" and "secondary", to ensure that deliverables are clearly demarcated and acted upon.

The AG has made tremendous progress in implementing the PAA and some of the results, through a process of continuous improvement, are already visible in the audit and support sectors. The structure and focus of the AG's service delivery elements are guided by the Constitution and the PAA. While our strategic plan and budget span a three-year period April 2008 – March 2011 as stipulated by the National Treasury, it is noted that the strategic plan will be reviewed on an annual basis to ensure that the AG remains relevant and responds to external and internal stakeholders.

The strategic plan and budget for April 2008 – March 2011 has a more intense focus on relevance of audit reports, thereby reiterating the importance of continuous improvement of our current auditing practices. The related organisational support as enabler of the office's operational success is articulated in the strategic plan, to give a comprehensive view of the AG and highlight the activities that the internal administration has embarked on, to improve audit service delivery. The operational focus areas that should enjoy priority are grouped together under "primary focus areas" and other organisational support functions are classified as "secondary focus areas".

The service delivery environment of the AG's office is underpinned by the following principles in both the audit and support activities of the organisation:

- Efficiency and effectiveness of all operations
- Clarification of goals, measures and targets

The following sections with regard to the primary and secondary focus areas put the thrust of what the AG aims to accomplish, into perspective.



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6.1 PRIMARY FOCUS AREAS

The 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 three other areas, namely transformation, leadership and reputation, which are also primary because of the additional strategic focus that the AG will place on them.

The first primary focus area is auditing, which includes the following strategic focus areas:

- Relevance of reporting to ensure not only compliance with the PAA, but more specifically meeting stakeholder requirements, in terms of quality, timeliness and cost effectiveness;
- Auditing of performance information to ensure compliance with the PAA;
- Performance auditing to align our audits with government's overall drive towards policy implementation and service delivery; and
- International auditing to provide international auditing exposure to our staff which can then be utilised by the AG locally.

The second primary focus area is transformation as it exists within the broader South African context and is managed within the context of black economic empowerment. (BEE) and employment equity (EE), which are national priorities. The AG is making very specific commitments to ensure that the broader South African transformational objectives are achieved.

The third primary focus area is leadership where the aim is to enhance the strategic success of the AG through an appropriate process of effective and efficient internal leadership.

The fourth focus area is the reputation index. It is important for the AG to know how its stakeholders perceive the AG's service delivery and it has adopted a strategy to monitor the reputation index.



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6.1.1 Auditing

Auditing is the core business of the AG and requires primary strategic attention. Quality of the audit process and, specifically, the audit reports has always been a key strategic driver. Over time, with improved quality of the audit process and increased auditing competence in the AG, the emphasis has shifted more to the relevance of the audit product. Not only has this brought about an emphasis on understanding the stakeholder requirements, but it has also forced a rethink of the audit process itself.

New initiatives, such as root cause reporting, are aimed at improving the AG's responsiveness to the needs of its primary stakeholders, within the parameters set by the auditing standards. Issues such as the integration of the auditing of performance information and increasing the number of performance audits are prime examples of how the AG has responded to this challenge in recent years. The key emphasis over the coming years will be to fully explore the challenges posed by the AG's mandate (as defined in the Public Audit Act), essentially working towards defining the expanded audit responsibility beyond just financial/regularity auditing.

This refocused emphasis is also evident in the AG's newly adopted reputation promise:

The AG 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.

6.1.1.1 Relevance of audit reporting

In considering the AG's core business, the concept of relevance of reporting is a primary consideration. This implies a balancing act between the quality of auditing (which has been the main emphasis in audit product issues in recent years) and stakeholder requirements. These two requirements are brought together by a commitment to be responsive to stakeholder requirements within the parameters of the auditing standards. Currently this responsiveness is most evident through the relatively new concept of root cause reporting. Over time this will be extended to all audits in the public sector and fully contribute to the transformation of financial management and service delivery in the public sector.



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6.1.1.1 (a) Commitment to quality of audit processes and reporting

The cornerstone of the AG's auditing has always been dedication to the quality of audit processes and reporting. Although the processes in these areas are well established, they are revisited on a regular basis to ensure continued relevance and continuous improvement.

This commitment can be summarised as follows:

- **Proactive involvement in developments in the accounting and auditing profession, locally and internationally** – the AG is involved in a variety of activities, most notably audit standard-setting involvement at the Independent Regulatory Board for Auditors (IRBA) and INTOSAI, to ensure that the public sector perspective on the development of standards is adequately addressed. The AG also closely monitors the development and implementation of accounting standards at the level of the Accounting Standards Board (ASB) and National Treasury, to find the most appropriate audit response to these transforming developments.
- **Governance structures for technical development and interaction** – all technical matters in the AG are overseen by a Technical Committee, a subcommittee of the AG's Executive Committee. This committee is supported by a number of forums to allow for interaction with product champions (technical representatives from all AG business units) and the broader audit profession. It is further acknowledged that interaction with the broader profession on technical matters will become increasingly more important in years to come.
- **An annual process of reviewing and confirming auditing standards, after consultation with SCoAG** – the decision on the auditing standards to be applied is reviewed on an annual basis and, after consultation with SCoAG, is confirmed through a formal directive. For both the 2006-07 and 2007-08 financial years the AG has adopted the International Standards of Auditing (ISA).
- **An annual process of reviewing matters impacting the audit cycles and formalising appropriate audit responses in audit directives** – the AG interacts



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extensively with the governance champion for financial management in the public sector, the National Treasury, to confirm the accounting standards and guidance applicable for each audit cycle, and confirms an appropriate audit response to this. The audit response is contained in a formal audit directive.

- **AG auditing methodologies as aligned with adopted auditing standards and best auditing practices** – the AG’s auditing methodology is reviewed on an annual basis to ensure alignment with the auditing standards adopted, as well as international and local auditing benchmarks.
- **Integration of new audit developments into the core auditing methodology** – a core principle in the continued development of the AG’s auditing methodology is to integrate new developments into the core auditing methodology once the new process reaches a reasonable level of maturity. Currently the emphasis is on the integration of the auditing of performance information, information systems and value for money. The legal compliance side of the audit process continues to receive renewed attention due to the importance thereof as the foundation of good governance.
- **Continuously finding ways of auditing smarter** – the AG is committed to optimise its audit processes to ensure audits are performed in the most effective and efficient way. A number of initiatives are underway which include transversal audits, increased use of computer assisted auditing techniques (CAATs), standard auditing practices for auditing in similar environments, integration of audit processes and a tailored auditing practice for smaller audits. In addition the use of technology in the audit process is continuously being improved.
- **Provision of technical guidance** – all new developments and each audit cycle is fully supported by detailed guidance and information to guide auditors on the most appropriate and consistent approach to these.
- **Formalising the above as part of the technical learning curriculum** – the AG’s technical learning curriculum is revisited on an annual basis to reflect the latest developments and competence requirements for both trainees and permanent staff. The AG also strongly supports interventions to qualify



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appropriately skilled auditing professionals and continuing development opportunities for professionals.

- **Maintenance of a stringent quality process for all audits** – the AG has adopted a number of formal quality assurance processes that address all issues ranging from supervision and review per individual audit, to pre-issuance reviews and consistency reviews. The commitment to quality is also evident in the performance contracts of all audit staff.
- **Annual external review of the selected audits by IRBA** – over and above the in-house quality assurance processes referred to above, the AG has also committed to an external review by IRBA. These reviews take place per audit cycle and are based on a formalised programme of rotating reviews of all audits in the AG. This process is overseen by a dedicated external Quality Assurance Committee.
- **Performance of a firm level quality review** – the AG commissioned IRBA to conduct an organisation-wide quality assurance review at all levels of the AG. This review aims to identify key organisational drivers that affect the quality of the audit product and ensure that those drivers are given attention. The organisational quality control review is planned for 2009, preceded by a dry run in 2008.
- **Commitment to subject the AG to international peer reviews** – where applicable the AG has also committed to international peer reviews, performed by other supreme audit institutions. An international review of performance audit practices is currently scheduled for 2010, while similar reviews of issues such as relevance of reporting is being considered.

6.1.1.1(b) Commitment to be responsive to the needs and expectations of stakeholders

Although the commitment to quality of auditing remains the primary consideration for the AG, this commitment needs to be balanced with the need to respond to expanding external stakeholder expectations linked to enhanced communication with those charged with governance. Given the maturity of the AG's quality assurance processes around auditing, more and more time will be invested in this area.



- **Commitment to improve the usability of the AG's general reports** – with the AG's general reports being defined as the flagship products, improvements to the format, content and stakeholder focus will be prominent in 2008. Envisaged changes include general reporting per provincial establishment and a greater emphasis on reflection on developments in the environment in which an audit cycle takes place.
- **Optimising the opportunities for stakeholder responsiveness posed by new reporting formats** – although audit reporting formats are revisited on an annual basis to determine alignment with international auditing standards and best practices, specific attention needs to be invested in making the best of the formats introduced in the 2007 audit cycles and speeding up the move to expressing an opinion on performance information.
- **A commitment to “ease of use” in audit reporting** – this represents a new area that will focus on communicating with stakeholders in easy-to-understand language and allow for easy access to audit reports. The user-friendliness and usability of reports will also receive attention.
- **Regular consideration of the ideal product mix in the AG's audit portfolio** – it is accepted that the AG's contracting decisions, as well as its decision to opt not to perform the audits of certain public entities, should be based on a formalised process that takes into account government priorities, auditing themes, audit risk, AG organisational structures, etc. The most immediate need is to implement the process that has been designed as part of the PAA implementation project, which will govern decision-making on the auditing of public entities.

The mandate of the AG to opt to perform audit work on public entities not previously audited is derived from section 4(3) of the PAA. A research project is currently being conducted on the AG's readiness to commence with the auditing of public entities not previously audited by the AG. The focus of the research is to conduct a comprehensive needs analysis, feasibility study and resource readiness survey in order to define an appropriate strategy on public entities that



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will enable the AG to commence with public sector auditing and reporting on the public entities listed in section 4(3) of the PAA.

The key focus areas of the research will highlight the current status of the AG with specific reference to shortcomings and potential opportunities with respect to the following research components, so that the AG can make an informed decision when exercising his “first right of refusal” on the auditing of public entities:

- Ascertain what the rationale and expectations of the law-makers were when they included section 4(3) in the PAA, which stipulates that the AG now has the option to audit and report on public entities that it has not previously audited.
- Determine the stakeholders’ (public entities and private firms) reactions to the PAA, as well as specific expectations/concerns.
- Conduct comprehensive analysis of the availability, capacity and capability of resources to embark on the public sector auditing of public entities.
- Determine what the current status is of the AG’s standards in terms of audit approaches, methodologies and guidelines that can be used during the auditing and reporting process.

The auditing of Public Entities have been raised by our Trainee Accountants as a major focus point to drive our retention strategy into the management ranks in audit. While many of the Trainee Accountants have exposure to National Departments and Local Government, they generally do not get exposed to environments where Generally Accepted Accounting Practise and International Financial Reporting Standards are prescribed. This fuels the perception that they are constantly behind their peers in private audit firms in respect of exposure to high level financial reporting. Success in taking back some of the Public Entities will reinforce our efforts to make our environment an attractive option for highly skilled accounting professionals and therefore translate to better and quality staff retention outcomes.

- **Commitment to timely audit reporting** – a large investment will be made in terms of process redesign and database development to allow for a streamlined and timely process of audit reporting. The refinement of the processes that build up information up to management and audit report level and ultimately the general report, which was begun in 2007, will receive further attention.



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- **Optimising the flow of information from stakeholder feedback** – the volume of information that is being generated through the AG’s new stakeholder management processes has created a valuable source of data that can inform the technical development processes in the AG. A method for harnessing and analysing this information and the response thereto will be developed.

6.1.1.1 (c) Root cause reporting

The AG remains committed to develop and refine the concept of root cause reporting, which was embarked upon during the 2003-04 audit cycle and which has been developed and expanded during the 2006-07 cycle. This concept aims to focus reporting in a way that is relevant to the needs of users and should assist them to strategically focus transformation actions based on these reports. The concept is based on the principles of internal control as outlined in the International Standards of Auditing (ISA) and is closely structured around the financial management capability/maturity model that is being used by the National Treasury to reflect the maturity of internal control practices in public sector entities.

6.1.1.2 Performance Reporting (service delivery auditing)

The AG recognizes that as South Africa’s democracy matures, government is starting to need the assurance that service delivery is being implemented as planned. The government gets this assurance from annual report information. However, the AG has a role to play in giving credibility to this performance information represented in the annual reports. The AG does this in two-ways:

1. Auditing of performance information where the AG audits the auditee’s results of the objectives and measures as set out in the strategic plan. This audit ensures that what is reflected in the annual report is a true reflection of the auditee’s performance.
2. Performance auditing ensures that the auditee’s allocated resources are used economically, effectively and efficiently.

The AG will be preparing a position paper on the “The Role of Performance Information in the Fight against Poverty and Underdevelopment” as requested by the



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Association of Public Accounts Committees at their annual meeting in October 2007.

The position paper will articulate:

1. The nature, extent and scope of performance reporting as it is relevant to South Africa;
2. The relevant methodology and/or standards that exist or may have to be developed;
3. Specify the source documents that will be used for auditing e.g. strategic plans, budgets, etc; and
4. Detail the reporting format to be used for such reports.

This position paper will allow the AG to clearly articulate the roles and responsibilities of the various players involved in performance reporting (service delivery auditing).

6.1.1.2 (a) Auditing of performance information

The auditing of performance against predetermined objectives is carried out in terms of sections 20(2) (c) and 28(1) (c) of the PAA. This development is widely seen as an initiative that will bring a unique new context to auditing, bringing the processes of strategic planning, budgeting, execution/service delivery and reporting at public sector entities under the auditor's scrutiny. From an internal point of view, the development, once integrated with the core auditing methodology, is seen as the key driver in lifting the relevance of audit reporting and moving the scope of the audit to a stage where it fully encompasses the auditing of good governance in the South African public sector.

Over the past number of years the National Treasury has invested heavily in the development of a formalised framework for managing programme performance information, with a view to clarifying definitions and standards for performance information, improving integrated structures, systems and processes to manage performance information and defining roles and responsibilities. Since these developments would clearly inform the auditing of both the systems and processes involved and the information reported, the AG made a strategic decision to participate in these developments. As a result the AG, after consultation with relevant role players such as the National Treasury, adopted a 5-year phasing-in plan for the auditing of performance information (See Annexure 4). This phasing-in approach recognises the need for the establishment of a framework for performance information and formalising of



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systems and processes within public sector entities to facilitate the definition, collection, reporting and use of performance information.

In short, the phasing-in approach accepts a process that, from an audit point of view, started with a basic process review at public sector entities in the 2005-06 financial year and will reach full implementation with a reasonable assurance opinion potentially being expressed in the 2009-10 financial year. Obviously the phasing-in of the auditing process is heavily dependent on progress made with implementation of the National Treasury process. Given the recent completion of the *Framework for Managing Programme Performance Information*¹ it is clear that the process is still on track.

Technical developments to enable the AG to fully respond to this phasing-in audit approach have reached a fairly advanced stage, with the emphasis currently on integrating this development into the core auditing methodology of the AG. Given the level of the audit approach, it is expected that the AG will have to invest heavily in the development of staff to be able to fully cope with the challenges of these stepped-up requirements.

The requirements of the phasing-in approach of the auditing process will be confirmed through the annual publication of an audit directive on the topic of auditing of performance information, to formalise and guide the audit profession's response to this development.

6.1.1.2 (b) Performance auditing

Performance auditing focuses on the evaluation of measures implemented by management to ensure that allocated resources are used economically, efficiently and effectively. Performance auditing is done through two approaches:

1. To integrate the auditing of economy and efficiency with the core regularity auditing methodology by adding a "value-for-money" assertion for the evaluation of certain specifically selected groupings of transactions/themes.
2. Performing dedicated and stand-alone performance audits. This allows the AG the opportunity to focus on specific performance aspects relating to certain key strategic government initiatives, either at specific auditees or



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transversally across a number of auditees, over and above its already wide mandate.

In the 2007- 08 financial year regularity audit activities constituted 92% of the AG's auditing resources, leaving 8% for performance audits. It is a strategic imperative for the AG to gradually utilise more of its resources to conduct performance audits. As a strategic and primary focus area, the AG envisages expanding the extent of performance audits to 10% of its total resources in the 2008-09 financial years. Further increases will be informed by an evaluation of the level of maturity of financial management, stakeholder priorities and audit cost considerations.

The key theme over the next five years in conducting stand-alone performance auditing is the auditing of **investment in infrastructure**. The AG will maintain a strategic focus on the developments with respect to the preparations for the Soccer World Cup in 2010. The anticipated increased expenditure in the National Fiscal Framework will be closely monitored and performance in its various phases of procurement and development will be assessed. Owing to the vast extent of any audit of infrastructure, the focus area will be spread over a period of five years, covering the following aspects of infrastructure development:

- Planning, design and tender processes
- Project implementation, closure and commissioning of completed projects
- Utilisation and maintenance of existing and newly built infrastructure

The AG is reviewing its performance auditing strategy. This review includes an assessment of the performance auditing methodology and approach, with a view to, inter alia:

- Ensuring the application of the latest developments, techniques and tools
- Improving the identification of focus areas, coupled with the flexibility to respond to changing priorities and topical issues. This reflection will include the value-for-money themes planned for 2008 – 2009 such as:
 - **Human resource management** in all national and provincial departments as well as high capacity municipalities.
 - **Supply chain management** in all national and provincial departments, public entities and high capacity municipalities.
 - **HIV/Aids** in all provincial Departments of Health and Education.



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- **Learner transport services** in all provincial departments of Education.
 - Performance audits on **certain critical environmental issues** are also envisaged. These audits will be mainly conducted in co-operation with other Southern African audit-offices, as part of the AFROSAI-E development and capacity-building initiatives.
 - **Other transversal audits** – The AG is in the process of planning a transversal performance audit on the purchase and disposal of state owned properties. It is envisaged that these audits will be conducted at national and provincial departments of public works.
- Broadening interaction to include all key stakeholders, such as Parliamentary Portfolio Committees and civil society organisations, throughout the performance audit process.
 - Better utilizing work performed by evaluators and internal auditors.
 - Improving co-ordination and management of transversal performance audits to enhance the comprehensiveness and relevance of analysis and outcomes.
 - Increasing the utility of performance audit reports.

The AG recognizes that to conduct performance audits of all government departments, it is important to build its own capacity and resources for this purpose in sync with the maturity of the auditees. This will require a systematic review of AG resources, including personnel.

In keeping with its commitment to the quality of auditing, the AG has committed to undergo an international peer review of its performance auditing practices in 2010. Preparations in this regard have commenced, starting with a detailed review of standards, practices and methodologies during 2007-08, followed by a clearly defined programme of upskilling staff and sourcing specialists that understand specialized operational government disciplines.

6.1.1.3 International auditing

The AG has for the past number of years 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



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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. Our participation in International Auditing also gives us a competitive edge in the recruitment and retention of the scarce auditing and finance professionals.

On the African continent, the AG currently conducts the audit of the Special Court for Sierra Leone, on a cost-recoverable basis.

International auditing will be underpinned by the following key principles:

- Resources allocated to international auditing will not impact our local auditing mandate, which is our constitutional mandate.
- International auditing activities will not constitute more than 5% of our audit income or resources.
- The cost of international auditing will not be borne by the South African taxpayer.

The AG ensures that its participation in international audits does not impact its ability to fulfill its local constitutional mandate and care is also taken that international participation does not impede its constitutional mandate to audit and report on the accounts, financial statements and financial management of public sector administrations and institutions.

Other international activities

The AG also actively participates in the International Organization of Supreme Audit Institutions (INTOSAI) and has agreed to host the international conference of this organisation in South Africa in 2010.

The AG is also a member of the African Organisation of English-speaking Supreme Audit Institutions (AFROSAI-E) and continues to play a leading role in promoting public accountability in Africa. AFROSAI-E is a subsidiary of AFROSAI, which aims to foster a fruitful and requisite relationship of cooperation among the supreme audit institutions on the African continent.

The AG also provides secretariat functions to AFROSAI-E. A dedicated team from the South African audit office is assigned on a full-time cost-recovery basis to AFROSAI-E to manage the organisation and administer its activities. In addition, subject matter experts



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are made available to AFROSAI-E on an ad hoc basis to assist the organisation with specific assignments.

The AG also serves on the Board of Governors of the African Organisation of Supreme Audit Institutions (AFROSAI) and has agreed to host the next General Assembly of the organisation in South Africa in 2008.

International strategy

The AG is currently finalising its international strategy with full implementation in 2008. This strategy has taken all the expectations of the relevant stakeholders into account as well as part of a benchmarking process all the international best practices, standards, approaches etc that will put the AG in a much better position itself with regard to international activities including Africa. It is envisaged that this strategy will, in all material respects, be aligned to the perspectives or principles articulated in 6.1.1.3 under International Auditing.

The main goals of the international strategy are, inter alia, to achieve the following:

- Maintain a stable portfolio of international audits, which includes the delivery of related public sector audit services in the international arena.
- Make a positive impact in the development of public sector auditing capacity to promote good governance and accountability on the African continent, including capacity building as a means of discharging our social responsibility.
- Participate in all international auditing and related audit research and development forums in which the AG should participate.

6.1.1.4 Timeliness

Timeliness of our audit reports remains a priority. According to the PFMA, the AG has two months to complete all audit reports on national departments, provincial departments, departmental entities and public entities. Thus these audit reports are expected to be finalised by the end of July in any given year. In terms of the MFMA, for local authorities and their entities the AG has three months to complete audit reports. Thus these audit reports are expected to be finalised by the end of November in any given year.



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As a result, the AG has set up internal processes that give timely guidance relating to the PFMA and MFMA audit cycles. This guidance takes cognisance of the following:

- The need for preparatory/debriefing sessions around these audit cycles, as follows:
 - April/May – PFMA debriefing/preparation; and
 - August/September –/MFMA debriefing/preparation.
- The need for confirmation of specific audit directives to drive the audit processes – ideally to be confirmed in the period January to March of each year, depending on the timing of similar guidance from the National Treasury, which serves as trigger for the audit directives.
- The need to plan for formalised guidance in each cycle – which is done in a specific annual project charter to drive technical support.
- The need to plan for specific processes (such as consistency reviews) as part of the finalisation of each of the audit cycles.
- The need to create a better understanding of the individual audit reports before they are tabled through the general reports and road shows. The general report for the PFMA and MFMA audit reports happens two months after the end of the PFMA and MFMA period.
- The importance of optimizing audit resources such that there is a balance between our own hours and work that is contracted out to the private audit forms. This has led to the need to normalize spans of control in the four large provinces i.e. KwaZulu-Natal, Western Cape, Eastern Cape and Gauteng; and the creation of two new national business units; National E and F.

6.1.1.5 Cost of auditing (to government and other governing bodies)

The cost of auditing for the government is driven by government and AG factors.

The government factors include:

- Scope and size of the audit
- Inherent risks relating to the audit
- Capability maturity of financial management within the government.



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The AG factors include:

- Span of control within the audit units and teams
- Mix between own staff and contract work
- Recovery ratio of individuals within the teams
- Tariff structures for own staff and contracting out to private audit firms
- Operational excellence within the AG (refer to section 7.2.1 (b)).

The AG business model is based on a pyramid model. Our business model dictates that ideally one senior manager should have three managers, one assistant manager and 11 trainee accountants. The assistant manager level is aimed at accommodating trainees who have completed their traineeship and need additional management training, before they become managers.

However, the AG is still not operating at its optimal level because of legacy issues. Our audit staff establishment still has a group of auditors that do not as yet have the prescribed minimum professional qualifications and therefore operate and are remunerated at levels that may be incompatible with their years of experience with the AG.

The minimum qualification policy, introduced in 2006, allows for a five-year window for the institution to move towards the ideal span of control as outlined above. Therefore, in the next four years, as individuals in the auditor category obtain the prescribed qualifications, they will be placed at the appropriate levels of the span of control and remunerated accordingly.

The other factor that has an influence on the cost of auditing is the recovery ratio that is used to determine the level of recoverable audit hours for each band in our establishment. The level of these recovery rates is arrived at after providing for sufficient time for essential non-recoverable activities such as annual leave, study leave, sick leave, management and supervision, which are in line with the norms in the profession.

The final variable that has an influence on the cost of audit is the tariff structure that is used as a basis for pricing our audit work. The detailed determination of these tariffs is based on a comprehensive pricing model that is largely influenced by the total costs of running the office and the margin that is provided in order for the AG to break even or



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remain with a net surplus of no more than 3%. These tariffs are then categorised and allocated to each level of staff within the audit establishment. Their impact on the cost of auditing is therefore influenced by the pay levels of audit staff and the efficiency with which the span of control of each business unit is managed. In this regard, the closer the audit business is to the ideal span of control, the more cost effective its auditing will be.

The cost of auditing is also influenced by contract work that the AG outsources to private audit firms. The contracting-out strategy assists the AG in managing workload during peaks and limits idle time during valleys. A specific formula (salary divided by recoverable hours multiplied by mark-up factor – to cover overheads and a fair return) is used to determine the contract work tariffs and annual increases. This increase is limited to inflationary increases that are agreed during a consultation process. A working group has been initiated in 2007-08 to provide best practice and benchmark information to motivate either a model change or a specific formula change, or a combination thereof. The results should be available before the end of 2007-08 for consideration. This information will also be used to consider future funding models for the AG as a whole.

The AG has budgeted R1.29 billion audit fees towards auditing activities for the April 2008 – March 2009 financial year. This figure constitutes a 28% increase from the April 2007 – March 2008 budget fees totalling R1.01 billion. The total estimated audit cost of R1.29 billion represents only 0,22% of total government expenditure of approximately R591.2 billion in comparison with audit cost for April 2007 – March 2008 which represented 0,19% of the total government expenditure of R519.2 billion. The budgeted audit fee is then expected to increase to R1.46 billion and R1.55 billion in April 2009 – March 2010 and April 2010 – March 2011 respectively. This audit fee increase is driven largely by the following items:

- The impact of an inflationary increase in own hours and contract work tariffs.
- The impact of an inflation-related salary increase per annum and periodic market alignment salary adjustments.
- The impact of the implementation of the ISA. This trend will continue for at least the next two to four years.
- The introduction of new computer systems by government will give rise to an increase in audit work for the AG's information systems auditors.
- An increase in the number of public entities that the AG will be auditing in the April 2008 – March 2009 financial year.



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- The continuous introduction of procedures for the auditing of performance information as required by both the AG's legislation and the PFMA. This trend is expected to continue for the next two to four years when the reporting framework for this legislative requirement will be fully matured and audited comprehensively.
- The increased shift towards performance auditing that is expected to continue into the future considering the stakeholders' expectation of enhanced service delivery by government entities.

The AG will establish a capability within the core audit business to create a dedicated focus on, identifying, implementing and measuring efficiencies. These measures will be an addition to the current accounting based measures of audit efficiency, whose focus is on maximising trading contribution margins. It is envisaged that 2008-09 will be a formative year and additional efficiency targets will be set for subsequent years based on recommendations from the new unit.

6.1.2 Transformation

The AG wants to provide the leading edge in terms of transformation in South Africa. The AG's passion in contributing towards strengthening our democracy has given rise to accelerated planning in terms of transformation processes. The thrust of transformation legislation has its roots in the Constitutional Bill of Rights, section 9(2) which stipulates that equality includes the full and equal enjoyment of all rights and freedoms by all people irrespective of their race, gender or related profiles. It specifically provides that in order to achieve this objective, legislation gives preferential rights to previously disadvantaged individuals may be promulgated.

The strategic focus for the next five years at the AG will be in accordance with the respective legislation that has been set out by government, that is, the Employment Equity Act, 1998 (Act No. 55 of 1998), Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003) and the BBBEE Codes of Good Practice.

In the AG's quest to comply with the BBBEE legislation, the AG will draft a comprehensive strategy on BBBEE and implement activities to comply with the codes of good practice addressed in the BBBEE Act, which cover the following areas:



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- Management
- Employment equity
- Skills development
- Enterprise development
- Preferential procurement
- Social investment

The AG is committed to BBBEE and will therefore comply with the generic codes as set by the Department of Trade and Industry. The medium- to long-term strategy will focus on the following areas:

- Employment equity and skills development – transformation initiatives will be integrated into all human resources processes.
- Procurement – the AG is committed to ensuring that contract work is planned and implemented effectively and fairly by utilising code 500 as a compliance mechanism. The focus of the AG is to contribute to the growth of black accountants in South Africa. This could be achieved by empowering all audit firms, big to small, to work cooperatively on strategies to that would build the capacity of the auditing profession to train and develop more black accountants. As such, the BBBEE strategy of the AG, which is currently under development, will place particular attention to the creation of incentives that will encourage such coordination and capacity building in the auditing profession.
- Corporate social development – the nature of the work of the AG provides sufficient scope for enhancing social development initiatives in South Africa. The AG therefore will place specific emphasis on entrenching the execution of its work towards achieving its constitutional mandate. The benefits that flow through to society as a result of enhanced reporting; financial accountability; transparency and efficient; effective and economical utilisation of resources will reconfirm the depth of corporate social investment that the AG puts into the environment in which it operates.

All of the above areas will be supported by a monitoring process which will ensure compliance in the areas of key deliverables as outlined in the core audit mandate.

The AG's employment equity plan has four strategic focus areas:



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Affirmative action plan: The numerical goal for the next five years is maintaining the 80:20 overall target, where 80% of our employees are from the target groups and 20% are from the non-target groups. The objective is to ensure that supporting strategies like succession planning and a retention policy are in place to support the achievement of the numerical goals.

Our affirmative action targets are set for the entire organisation and also for the individual hierarchical levels with an added focus on the senior levels within the AG. These targets are then monitored to ensure diversity is not compromised and that the principle of equal opportunities is upheld, and annually reported to the Department of Labour.

Management of diversity: A statement of commitment has been formulated on diversity. The aim for the next five years is to host awareness workshops, conduct information sessions and enable effective, ongoing communication. The ultimate objective is sustainability of the management of diversity – we are aiming to create a platform that is conducive to all.

Elimination of unfair discrimination: This is to ensure there are no barriers to entry, a clear understanding of the discrimination concepts and alignment of the discrimination policy with the respective legislation (Employment Equity Act, No. 55 of 1998 and Promotion of Equality and Prevention of Unfair Discrimination Act, No. 4 of 2000).

Equalising opportunities: The objective is to ensure the opportunities within the AG are equalised. This will be done by close monitoring of all recruitment processes and reviewing of all human resources initiatives to ensure equity is practised and maintained.

6.1.3 Leadership

The leadership initiative was launched with the objective of enhancing leadership practices within the institution. A healthy culture and motivated employee corps are the ultimate reflections of the effectiveness of the leadership of an organisation and that is why a percentage improvement in the AG's annual culture index is used as the organisational measure for leadership.

During 2006, an independent research house conducted a series of focus group discussions at all levels in the institution (qualitative research) to determine the key drivers of the AG's culture. This was followed by quantitative research, to determine the AG's performance on each of these drivers and get a single percentage score to reflect the AG's overall performance on culture.



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The outcome of this was the setting of a baseline for an AG-specific culture index.

A blueprint of the AG's desired culture is currently under development. The baseline culture index is 14% compared to the average culture index of 40%. The key drivers that need to be addressed in order to improve the index are the following:

1. Morale which was found to be influenced by Fixed-term contracts, limited succession planning, minimum qualifications framework, recruitment & retention, and recognition & reward schemes.
2. Compensation which was found to be influenced by our compensation policy including benefits, and overtime policy.
3. Performance Management measurement criteria and process.

Since the implementation of the desired culture is dependent on the leadership of the institution, senior management (all senior managers and above) will receive targeted training on how to become effective communicating leaders as part of rolling out the culture change programme. Since culture change is a long-term initiative, the focus during the performance year 2008-09 and beyond, will continue to:

- Support the senior leadership team to implement and cultivate the desired culture of the institution;
- Develop leadership in the area of emotional intelligence; and
- Implement on a limited scale coaching and mentoring processes for senior managers.

This multi-year programme is intended to improve the AG's reputation as an employer of choice and impact issues such as employees' levels of motivation and trust in the institution. The area of improvement will be such that it has high impact with minimal disruptions to the institution. It is believed that the development of a motivated and committed employee corps – fostered through effective leadership – is a strategic imperative; and that it is the only way in which this institution can elevate and sustain organisational performance to a level of excellence.

In addition to focusing on actions to improve the key culture drivers (as indicated in the results of the annual culture index), all relevant policies and procedures would be revisited to ensure that these support the desired culture of the AG. The AG's transformation initiatives will also clearly be linked and integrated into the AG's culture change programme, to effect overall transformation in the fullest sense of the



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word. The measurement for the AG's performance in this regard would continue to be a percentage improvement on the previous year's culture index results

6.1.4 Reputation

"The AG 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"

This is the AG's reputation promise and it is directly linked to the strategic product that the AG has to deliver – to make a difference in SA by fulfilling its constitutional mandate.

The AG will know that it has delivered on this strategic mandate and reputation promise when:

- All its stakeholders know and understand the unique role that the AG plays as a supreme audit institution; and
- All its stakeholders recognise the AG to be making a relevant contribution in strengthening South Africa's democracy.

This is why the AG has embarked on a comprehensive process to review its reputation and stakeholder management strategy and survey process. During 2006, an independent research house conducted a series of focus group discussions with representatives of all key stakeholder groups (qualitative research) to determine the key drivers of the AG's reputation. This was followed by quantitative research, to determine the AG's performance on each of these drivers and get a single percentage score to reflect the AG's overall performance on reputation.

The outcome of this was the setting of a baseline for an overall AG-specific reputation index (RI) (annexure 8), with a clear indication – in order of priority – of the AG's performance on each of the key reputation drivers. An RI baseline score was also set for each of the stakeholder groups surveyed, again with a clear indication – in order of priority – of the AG's performance on each of the key reputation drivers for each group.



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The baseline reputation index is 19% compared to the average reputation index of 40%. The key drivers that need to be addressed in order to improve the index are the following:

1. The way the AG is being perceived by the external stakeholders..
2. Enhancing our reputation promise.
3. Improving our corporate communication.

We have embarked on a number of initiatives including road shows, media, etc. to improve these key drivers.

During 2007, the primary strategic focus area for reputation and stakeholder management was to strengthen the foundations of reputation and stakeholder relationship management. A comprehensive action plan was developed to improve the overall key reputation drivers (as indicated in the results of the reputation index). Furthermore, specific action plans, tailored for and aimed at addressing the issues relevant to each stakeholder group, were developed. A more comprehensive database of all stakeholders was also developed (albeit a manual system).

For the performance year 2008-09 and beyond, the focus would be to continue to implement and refine the planned actions per stakeholder group, with the aim of improving the reputation index results, first per stakeholder group and, through that, the AG's overall reputation index. The results of the annual reputation index would be used to measure improvement and continuously guide and direct the strategies and actions that need to be implemented.

Based on the results of the RI survey the following are proactive action plans that will improve the reputation and relationships with all key stakeholders, and continue to receive specific attention during 2008-09 and beyond:

- Continued focus on improving and strengthening media liaison, since the media is a key channel to keep the South African public informed of the AG's role and contribution to strengthening our country's democracy.
- Increased focus to create awareness and understanding of the AG's mandate and performance, by improving and strengthening all the internal and external corporate communication messages and channels to effectively reach all its key stakeholders.



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- Continued investment in further building and improving the AG's corporate identity (branding), both in terms of its physical environment as well as all tangible forms of visual presentation, to ensure that the way in which the organisation visually presents itself is fully aligned with and in support of its desired reputation and culture. This is a multi-year programme.
- Continued focus on supporting the AG's initiative to make its audit reports more relevant and user-friendly, by helping the institution to communicate more effectively both in the reports and about the reports, in order to get the AG's message across to all relevant stakeholders. This is a multi-year programme.



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

Primary focus area (performance outcome)	Strategic objective	Measure	Target 2008-09	Target 2009-10	Target 2010-11
1. Auditing					
1.1 Quality	Deliver audit conclusions that meet professional quality requirements for audits (Annexure 8)	Compliance with International Auditing Standards (ISA)	Excellent performance (C2 and C3): 80% Good performance (R1): 20% Poor performance (R2) : 0%	Excellent performance (C2 and C3): 85% Good performance (R1): 15% Poor performance (R2) : 0%	Excellent performance (C2 and C3) :85% Good performance (R1): 15% Poor performance (R2) : 0%
Details of the measurement process	Internal Quality Control conducts quality control assessment on audits Internal assessment reports are then compiled and used to determine frequency of future quality reviews IRBA conducts external quality reviews of audit reports and audit process annually				
Tool	Quality control assessment				



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Primary focus area (performance outcome)	Strategic objective	Measure	Target 2008-09	Target 2009-10	Target 2010-11
1.2 Cost of auditing to government	1.2.1. Provide cost-effective public sector auditing	Exceed budgeted audit efficiency ratios	Additional 1% on the projected efficiency ratios	Additional 1% on the projected efficiency ratios	Additional 1% on the projected efficiency ratios
Details of the measurement process	Calculated the additional 1% efficiency over and above the efficiency ratio as reflected in the projected income statement				
Tool	Monthly variance report				
1.3 Timeliness of audit reports	Finalise audit reports within legislative deadlines for financial statements submitted on time (PFMA (2 months) and MFMA (3 months))	Number (%) of audit reports finalised within legislative deadlines	(1) PFMA organizations 95% (2) Other PFMA organizations 95% ² (3) MFMA organization 50%	(1) PFMA organizations 100% (2) Other PFMA organizations 95% (3) MFMA organization 60%	(1) PFMA organizations 100% (2) Other PFMA organizations 95% (3) MFMA organization 75%

² Includes circular 1 entities, constitutional institutions, other entities, statutory bodies, trading entities and unlisted entities



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Primary focus area (performance outcome)	Strategic objective	Measure	Target 2008-09	Target 2009-10	Target 2010-11
Details of the measurement process	AG introduced an audit tracking tool that is used to store and capture all audit information, including audit deadlines. The deadlines can then be tracked using the tool to ensure that deadlines are met.				
Tool	Audit tracking tool				
1.4 Auditing of performance information	Phasing-in of the auditing of performance information (Annexure 4)	% compliance with predetermined audit-coverage milestones as defined in section 7.1.1(d)	Achievement of all the defined phases-in milestones set per annum (see Annexure 4)	Achievement of all the defined phases-in milestones set per annum (see Annexure 4)	Achievement of all the defined phases-in milestones set per annum (see Annexure 4)
Details of the measurement process	The AG will measure whether the project milestones as defined in the Auditing of Performance Information section above, have been met				
Tool	Project progress report				
1.5 Performance auditing	Expand the extent of performance audits	Ratio of performance audits to regularity audits	10%	10%	10%
Details of the measurement process	Business units indicate the % of resources that will be allocated to performance audits separately from other audit activities, during annual budgeting. This information is then tracked throughout the year using an automated report from PeopleSoft (ICT system)				
Tool	Automated PeopleSoft report				



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Primary focus area (performance outcome)	Strategic objective	Measure	Target 2008-09	Target 2009-10	Target 2010-11
1.6 International auditing	Maintain international audits within reasonable norms	% audit income derived from international auditing	No more than 5% of total audit income	No more than 5% of total audit income	No more than 5% of total audit income
Details of the measurement process	International resource allocation (budgeted) per annum may not exceed 5% of total audit income. This is tracked annually				
Tool	Calculation using PeopleSoft report				
2. Employment equity (as part of Transformation)	Maximise AG's contribution to the national EE initiative	Achievement of affirmative action targets	80% from targeted groups 20% from non-targeted groups	80% from targeted groups 20% from non-targeted groups	80% from targeted groups 20% from non-targeted groups
Details of the measurement process Affirmative action	Analysis per business unit with regard to compliance with set targets as outlined in the AG Employment Equity Plan. The Employment Equity Plan actions and timelines are predetermined to meet the requirements of the Employment Equity Act No. 55 of 1998. Affirmative action targets - review of each BU performance in terms of race, gender and disability. Each BU should maintain their status as per the targets set for 2007, maintenance of optimal points for bands C and D.				
Tool	Manual tracking and progress report				



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Primary focus area (performance outcome)	Strategic objective	Measure	Target 2008-09	Target 2009-10	Target 2010-11
3. Black economic empowerment (as part of Transformation)	Maximise the AG 's contribution to BEE and capacity building, including a dedicated focus on broad-based BEE (Annexure 6)	% compliance with BEE criteria as determined by the AG	Compliance with all the BEE criteria relevant to the procurement item (see Annexure 6)	Compliance with all the BEE criteria relevant to the procurement item (see Annexure 6)	Compliance with all the BEE criteria relevant to the procurement item (see Annexure 6)
Details of the measurement process	AG monitors that all procured goods and services, including audit contract work, comply with BEE criteria as determined by the AG Compliance in terms of the procurement policy should be met 100%– template to measure this has been formulated.				
Tool	Manual BEE compliance report				



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Primary focus area (performance outcome)	Strategic objective	Measure	Target 2008-09	Target 2009-10	Target 2010-11
4. Leadership	Enhance leadership effectiveness (reflected in the organisational culture)	Narrow the gap between desired culture and current culture	No measurement for 2008-2009 (Three-year survey cycle to allow time to implement the corrective actions identified during the survey)	No measurement for 2009-2010 (Three-year survey cycle to allow time to implement the corrective actions identified during the survey)	2% increase from established baseline
Details of the measurement process	The culture index survey will be conducted on an annual basis by an independent and external party, to determine % improvements				
Tool	Independent quantitative survey conducted by an independent external research house.				



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Primary focus area (performance outcome)	Strategic objective	Measure	Target 2008-09	Target 2009-10	Target 2010-11
5. Reputation	Improve the corporate reputation and branding of the AG in relation to all its stakeholders , internal and external (Annexure 8)	Percentage (%) improvement on overall reputation index as well as per stakeholder group	No measurement for 2008-2009 (Three-year survey cycle to allow time to implement the corrective actions identified during the survey)	No measurement for 2009-2010 (Three-year survey cycle to allow time to implement the corrective actions identified during the survey)	2% increase from established baseline (see Annexure 8)
Details of the measurement process	The reputation index survey will be conducted on an annual basis by an independent and external party, to determine % improvements				
Tool	Independent quantitative survey conducted by an independent external research house				

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



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6.2 SECONDARY FOCUS AREAS

The secondary focus areas are linked to activities and/or services rendered by the internal administration of the institution. The AG recognises that to achieve its strategic objectives and targets set out in the primary focus areas, the enabling environment needs to be continuously improved to ensure cutting-edge service delivery within the institution. The internal environment, underpinned by efficiency, effectiveness and economic principles outlined in the sections below, focuses on key efficiency and financial drivers.

The AG continues to improve its service delivery through the following key processes:

- Method of work, to ensure that it enables a timeous, cost-effective and quality product, and that our method of work is standardised across the institution and also with our contractors.
- Quality assurance for both the audit and support environment, which will ensure that our quality assurance processes are not only reactive (after the fact) but also proactive and address quality issues in our structures and processes.
- Project management, to ensure that the activities within the institution are scheduled effectively and do not compromise the quality of our core audit product. The performance year was changed so that performance reviews are conducted outside our busy auditing periods and does not impact on the auditing project plans.

6.2.1 Key efficiency measures for the organisation

The key efficiency drivers are divided into two components (perspectives) i.e. people and operational excellence. It is noted that the two components do not operate in isolation and are linked to all the other strategic initiatives.

6.2.1.1 People

6.2.1.1(a) Human resource management

Human Capital (HC) developed an HC strategy in 2007 that stresses:



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“The AG is an organisation that relies on its people in producing the required results. Therefore an effective human resources strategy that covers recruitment and selection (the right people in the right jobs at the right time and thus effectively managing the vacancy rate), continuous learning in the continued drive to professionalise the AG, succession planning to ensure that the span of control within our business model remains efficient, and facilitating a culture of knowledge sharing and protecting intellectual capital, are critical ingredients for the sustainable success of the organisation”

The HC strategy addresses the following HC core processes:

- Our recruitment processes (placing the right people in the right jobs at the right time).
- Our retention policies including succession planning that ensures the talent that has been recruited and nurtured remains within the organisation.
- Performance management (ensuring that high performers are rewarded and recognised and poor performance is dealt with in a mutually beneficial and constructive manner).
- Exit strategies to ensure that the issues highlighted during the exit interviews are captured and addressed in the future, in the quest of becoming employer of choice.

6.2.1.1(b) Professional assistance

Continuous professional development (CPD) is a process in the AG that ensures that the skills and competencies of the audit and support staff are continuously enhanced to the highest professional levels in the public sector environment.

The AG provides the following indirect professional assistance to employees:

- Study leave that is comparable to that offered by most audit firms.
- Study loans for staff that do not qualify for bursaries.
- Additional study classes and mentorship for part-time students offered by qualified staff on a voluntary basis. This is a remarkable gesture and symbol of unprecedented commitment by our staff, which the AG applauds as truly admirable.



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Proper policies, control mechanisms and tracking systems are in place to ensure that the professional assistance provided by the AG is managed effectively.

Minimum qualifications framework

The MQF review will enable the institution to employ professionally qualified candidates that do not necessarily have the SAICA training, but have studied for qualifications that enable them to function in an auditing and accounting environment. In addition to this the AG needs to comply with the requirements of the national qualifications framework (NQF) legislation so as to afford people with experience access to the employment opportunities in the institution. Policies and guidelines on applying the NQF guidelines within the AG environment are being prepared.

Trainee accountant scheme

The AG adopted an all-inclusive approach when taking on trainee accountants that meet the minimum criteria irrespective of which professional body they are associated with. The intention of the AG is to support all trainee accountants in their endeavour to obtain the basic auditing skills and also to provide them with the tools and know-how to advance to higher competency levels.

The shortage of auditing and accounting skills in the country has necessitated the AG to embark on a process of building capacity for these skills. The trainee accounting scheme was initiated as a mechanism to allow the institution to develop and build capacity for auditing and accounting skills to enable the AG to deliver and perform according to its mandate. A number of developmental opportunities for aspirant students in these study fields have been created over time and the AG has already benefited from these initiatives. To further leverage on these, the TA scheme is being repositioned to deliver results above expectations. In order to fully derive the strategic benefits from the scheme the AG will focus on the following areas:

- Focused and strategic recruitment of the trainee accountants.
- Developing and implementing mechanisms for academic support to trainee accountants.



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- Developing and implementing interventions that would allow for a higher retention rate of TAs after the completion of their articles.

6.2.1.1(c) Summary of initiatives to address vacancies

In past years, the AG has not been able to attract a sufficient number of suitably qualified people to meet its organisational needs. To a significant extent this is indicative of the highly competitive nature of the financial services employment marketplace and in particular the competition for scarce accounting and audit professionals. The competitiveness of this employment marketplace has been recognised by the professional audit firms who devote considerable resources to the attraction of young professionals and their ongoing development, management and retention.

The AG recognises the fact that it experiences serious staff shortages and that the current vacancy rates are abnormally high. HC has embarked on the following initiatives to address its vacancy shortages:

- Strengthened our relationship with professional bodies and institutions e.g. AWCA, SAIGA, SAICA, Fort Hare University, etc
- Sourced recruitment service providers with expertise that will assist us with the recruitment of trainee accountants and auditing professionals on our management levels. This recruitment drive will be supplemented by media campaigns, road shows and targeting potential employees at the school-level e.g. the Thuthuka Bursary scheme.
- Our recruitment will also focus on other professional audit qualifications, not just CAs. This will allow us to expand our recruitment base.
- Established a pay premium for critical/skills/qualifications that are scarce, particularly in regions that have the highest demand for such skills.
- Continue with the employment equity targets exemptions for critical bands without compromising on our overall Employment Equity Plan commitment with the Department of Labour.
- Developed a process that enables us to recruit people with potential and then embark on an in-house development programme. This has meant re-looking at our assessment tools to focus on identifying talent.



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- The AG recognises the fact that to continuously bring new ideas into the organisation, its senior leadership will continue to be on a fixed-term contract. However the term has been extended to potentially ten years with constant evaluation at critical intervals. The evaluation intervals are expected to commence with a probation period of one year, followed by another evaluation after eight years, with a possible extension of another two years. At this point, the term becomes non-renewable.
- HC will develop a retention strategy that will target retention in the organisation as a whole but with specific emphasis on the trainee accountants.
- Over the years the AG has pioneered initiatives aimed at building core competencies for its operations. This has resulted in most of its employees acquiring the critical and core skills necessary for business continuity. At this point, a number of its most experienced employees will be retiring during the next few years. This poses a risk to the AG. In order to minimise the risk, the AG will design, develop and implement processes to facilitate the transfer of the critical skills. The processes will allow talent nurturing through targeted on-the-job development. The initiatives will be complemented by mentoring and coaching programmes aimed at equipping the more experienced employees to transfer institutional knowledge and expertise to younger talent.
- The initiatives will be complemented by mentoring and coaching programmes aimed at equipping the more experienced employees to transfer institutional knowledge and expertise to younger talent. This will also enable emerging talent to be given early exposure to high level auditee engagements with the appropriate supervision and coaching.

The AG has a number of employees studying to become audit professionals through various professional bodies i.e. SAICA, ISACA, ACCA, SAIGA, etc. According to our estimates, the AG will have 74 students writing final examinations in 2008, 158 final students in 2009 and 175 in 2010. The HC initiatives above will assist the AG in ensuring that these numbers come to fruition.

6.2.1.1(d) Intellectual capital (information and knowledge management)

During 2007, the AG developed an integrated records and document management system (including a file plan approved by the National Archivist), as the foundation to enable the institution's initiatives to preserve the AG's intellectual capital and to ensure



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the effective management of the life cycle of all its records and documents. During 2008-09, the focus will be on the implementation of this strategy to effectively establish the basics first, before expanding the initiatives to establish a culture of knowledge-sharing.

In addition, the Information and Knowledge Management Centre together with ICT will focus on the following:

- Managing and publishing the electronic content on the AG's Intranet, Internet, AG Net and Industry Net.
- Developing and managing AG databases effectively as collaboration tools to ensure consistent communication between the AG and all its stakeholders.

6.2.1.2 Operational excellence

Operational excellence is an expression of the delivery of excellent results in a cost-effective manner. The AG is driving towards obtaining accurate and reliable management information that can assist management in its decision-making. This can only be accomplished when there is a continuous effort to improve the processes in order to ensure that they are efficient, cost effective and supportive of risk management. These business processes are enabled by mature ICT systems that require further integration and optimisation to further improve the quality of our management information. The capability maturity model is currently being used to measure the maturity of the AG's own business processes. The AG also uses the Control Self-Assessment (CSA) Tool to document and monitor compliance with key controls in respect of all critical business processes.

6.2.1.2(a) Risk management

As part of the AG's quest to improve its operational excellence strategically, in 2005-06 the AG conducted a strategic risk assessment that culminated in the identification of 16 risk focus areas. Action plans to mitigate these risks were outlined in the AG's 2007-10 strategic plan.

In November 2006, the AG embarked on an exercise to evaluate the maturity level of processes and procedures in 16 risk focus areas. This process involved documenting, and identifying process and control weaknesses as well as developing action plans to ensure that the AG achieves the CMM targets as set. Based on the



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assessment that was done in 2006, some of the processes to manage the strategic risks were standardised, documented and communicated within the organisation. However, these processes still need to be integrated within the organisational business processes. The different strategic risks, their maturity levels and a timetable for each business process to reach maturity level 3 are outlined in annexure 9.

The action plans around the strategic risk areas are monitored and tracked through the following:

- Periodic meetings between the risk manager and risk champions;
- Quarterly progress reports submitted to the DAG and EXCO, with reporting to the AG;
- Independent reporting, by our internal auditors, provided to EXCO and the Audit Committee on the progress being made in addressing strategic risks;
- During the 2007/08 financial year, some of the strategic risk areas will be re-assessed for their relevance and importance.



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6.2.1.2(b) The role of ICT

Information and Communications Technology (ICT) exists to support the achievement of the strategic goals of the institution. All ICT strategies will therefore be closely aligned with the overall strategic goals, in such a way as to assist with the delivery of these goals.

Audit as the core business, must of necessity provide the driving force behind the ICT strategy. ICT's long-term vision (2013-14) is to provide systems that support and facilitate the audit environment and which will reduce administration, allowing auditors to spend more quality time on auditing.

To achieve this, the initial focus will be on the PeopleSoft system, which drives the billing and cash collection, as well as the payroll and development of staff. This application needs to be upgraded and additional modules such as the Balanced Scorecard module should be implemented and fully integrated, thereby eliminating any duplicated work, facilitating reporting and reducing the administrative burden on the audit staff. As much information as possible will be provided electronically through this tool.

As the nature and extent of audit increases, there is a parallel and increasing need for help tools and searchable databases or audit encyclopaedias to which the auditors can refer. ICT is planning to incrementally develop databases for audit in conjunction with Audit Research and Development.

In alignment with the planned increase in the percentage of performance audits, there will be an increasing need for the auditors to have access to and the necessary skills to make use of analytical tools. Part of the long-term vision for ICT is the provision of these analytical tools, as well as the provision of training and support on these tools. This will be investigated in conjunction with Audit Research and Development in order to ensure that the most appropriate tool is selected and implemented.

An additional facet of this planning is the provision of "just-in-time" learning in small modules for the auditors, which will assist in uplifting their knowledge levels. E-learning is an area where ICT believes great value can be added through providing appropriate learning anywhere, and at any time.



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Money will be invested in enhancing the communications infrastructure in alignment with a shift in technology which will combine telephones and computers via software, again with the intention of reducing administration and releasing time for auditing.

Information security and the need to protect the AG's intellectual capital is an area that requires ICT to be ever vigilant. User education is also a vital part of this and will be an ongoing training as well as communication area driven by ICT.

A key element of ICT's planning is thorough research to ensure that tools selected provide value for money, are appropriate to the AG environment and meet the business need. The ICT governance framework has been developed with this in mind and provides a structure for planning and decision-making within ICT that gives the AG peace of mind by knowing that a vigorous process is applied to all decisions and all developments in ICT.

6.2.1.2(c) Business processes

The AG strives to maximise the impact of its services to the public sector through continuous improvement and innovations in its business processes. The main objective is to enhance operational excellence and the quality of products and services provided by the AG. In this context, the AG has embarked on service delivery intervention to ensure that:

- The internal processes of the organisation are efficient, effective and enhance service delivery within a shorter turnaround time.
- AG business processes, standard operating procedures and policies are geared to address all the AG's strategic objectives and its legislative mandate.
- The information flow within the AG and amongst its stakeholders is effective and efficient.

Business processes in the AG are being mapped, evaluated and re-engineered across the institution. This is a long-term project, which is initially focusing on key processes within Corporate Services. Thereafter, the processes of the entire organisation will be put through the same evaluation process. This is part of a continuous improvement approach which is spearheaded by ICT in order to align the re-engineered processes within the systems, which shows that there is considerable alignment and integration between the process re-engineering and the optimisation of the systems within the AG.



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6.2.1.2(d) Other organisational quality reviews

The focus on improving the quality of audits is at the heart of professionalising the AG and assists in cultivating a culture of delivering on our constitutional mandate to strengthen democracy, through world-class and value-added audit products and services that enable accountability in the public sector.

Corporate Services quality control reviews

Quality control review criteria for Corporate Services were developed during 2006 and compliance with these criteria is being measured in the 2007 performance year. Quality reviews of CS BUs are limited to submission to EXCO, submissions to EXCO and MIS deliverables. The purpose of quality control reviews is to ensure that the submissions/deliverables are reliable (accurate), comprehensive (complete), effective (planned vs actual usefulness) and relevant.

The envisaged documentation, mapping and re-engineering of the business processes in Corporate Services as described in paragraph 7.2.1(b)(iii) will enhance the quality aspects and ensure that these are integrated in all business processes. Quality control reviews in future will therefore be focusing on the compliance of all the business units with these quality requirements.

6.2.2 Key financial drivers

The achievement of the key financial drivers will be measured as part of the secondary performance output measures. The summary of the financial information on which these measures will be based is reflected in the projected income statement and balance sheet.

Achieving a turnaround from the 2007-08 forecast deficit of R16.5 million to sustaining adequate surpluses for the foreseeable future and restoring a sustainable level of free cash flows from operating activities is dependent upon a number of critical success factors which include the following:

- Recruiting a significantly increased number of adequately qualified new audit staff before the start of the new financial year.



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- Securing interim funding for the significant arrear municipal and public entity debtors.
- Securing a change to a more optimal funding model.
- Establishing a number of sustainable new audit business units and centres.
- Progressing to the next level of financial management capability maturity.
- The AG has established formal projects, including appropriate risk management, to ensure the successful delivery of these critical success factors.

6.2.2.1 Retention of surplus

The principles according to which the AG considers whether to retain or surrender the surplus to the National Revenue Fund are outlined in detail in sections 8.1, 8.2 and 8.3. This is in line with the requirements of the PAA, which states that the AG may, after consultation with the National Treasury and by agreement with the oversight mechanism, retain for working capital and general reserve requirement, any surplus as reflected in the financial statements or a portion thereof.

6.2.2.2 Cash flow and funding model

As the AG is a non-profit service organisation, bills the government for its services on a monthly basis and depends significantly on audit work performed by private firms, working capital management is of paramount importance. The collection of funds from the various government entities and the payment of creditors become critical in the efficient management of working capital.

The AG's current collection terms are 30 days for national and provincial government and 90 days for local government. The payment terms for creditors are 45 days on average from the date of the statement. The results in practice are that the AG collects 60 days on average and pays 45 days on average. This contributes significantly to an ongoing need for working capital funding. A number of factors exacerbate the funding problem further, including the following:

- Slow and non-paying debtors. Total arrears at the beginning of 2007-08 amounted to R59.6 million (local government R35.2m). Included in the arrears are a number of local authorities, mostly in the Eastern Cape, North West and



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Limpopo provinces, which have been unable to pay the past two years' audit charges amounting to R21 million.

- Significant growth in audit work performed by private firms for which the AG receives no compensation for administration and funding costs. The forecast for 2007-08 is R 360.6 million.
- The need to invest continuously in, amongst others, technology and improvement, firstly to protect the sustainability of and secondly to grow and improve the organisation.

As a result the AG finds itself stretched in terms of funding its operating activities, let alone funding investing activities, including maintaining adequate reserves for future liabilities.

The AG has engaged with the National Treasury to assist. The National Treasury has commenced engagements with the relevant municipal authorities to expedite the arrear collections. It is unlikely that the current limitations of the AG's funding can be resolved without a change to the model. The AG has initiated research into the possible options and will advise the recommendations in due course.



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

Secondary focus area (performance outcome)	Goal	Measure	Target 2008-09	Target 2009-10	Target 2010-11
People					
6. Learning and growth	Narrow the competency gap between the required and the actual knowledge, skills and abilities	% of the trainee accountants that are employed full-time by the AG after qualifying	30%	40%	50%
Details of the measurement process	AG to measure number of audit professionals who were trained and qualified during the year per learning institutions (SAICA, SAIGA, IPFA, ACCA and CISA)				
Tool	Manual tracking of number of qualified audit professionals				



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Secondary focus area (performance outcome)	Goal	Measure	Target 2008-09	Target 2009-10	Target 2010-11
7. Retention of staff	Reduce staff turnover to be within the financial services industry norm of 16% to ensure that the AG benefits from its professional assistance investment	Staff turnover rate per year <i>Range statement: Only to be measured on organisational level</i>	16%	16%	16%
Details of the measurement process	Determine the % of staff turnover rate on an annual basis				
Tool	Automated tool that will provide staff turnover rate				
Process					



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Secondary focus area (performance outcome)	Goal	Measure	Target 2008-09	Target 2009-10	Target 2010-11
8. Operational excellence	All key business processes have reached a level of compliance and control w.r.t. the capability maturity model	Level of maturity of business processes weighted in terms of importance	Processes are standardised, documented and communicated though training. The organisation has infrastructure to support the environment (<i>level 3</i>): 20% Processes are standardised but communication has not been done. There is high reliance on the knowledge of the individuals (<i>level 2</i>): 80% No standard processes (<i>level 1</i>): 0%	Processes are standardised, documented and communicated though training. The organisation has infrastructure to support the environment (<i>level 3</i>): 20% Processes are standardised but communication has not been done. There is high reliance on the knowledge of the individuals (<i>level 2</i>): 80% No standard processes (<i>level 1</i>): 0%	Processes are standardised, documented and communicated though training. The organisation has infrastructure to support the environment (<i>level 3</i>): 20% Processes are standardised but communication has not been done. There is high reliance on the knowledge of the individuals (<i>level 2</i>): 80% No standard processes (<i>level 1</i>): 0%
Details of the measurement process	Internal auditors to determine the maturity levels of critical business processes with regard to the six maturity levels set for the AG. The result will indicate whether the focus should be on the improvement of controls (level 1 – 3) or performance (level 4 – 6). Please refer to annexure 4				



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Secondary focus area (performance outcome)	Goal	Measure	Target 2008-09	Target 2009-10	Target 2010-11
Tool	Final report from Internal Audit				
Financial performance					
9. 1.Efficiency gains	Exceed target on the budgeted efficiency gains as tabled in the projected income statement	% excess achievement of budgeted efficiency gains	Additional 1 % on projected efficiency gains	Additional 1 % on projected efficiency gains	Additional 1 % on projected efficiency gains
Details of the measurement process	Calculate additional % efficiency gain on the projected income statement				
Tool	Analysis of the projected income statement				
9.2. Debt collection	Timely collection of cash from debtors	Debtors days outstanding	National and provincial not more than 30 days Local government not more than 90 days	National and provincial not more than 30 days Local government not more than 90 days	National and provincial not more than 30 days Local government not more than 90 days
Details of the measurement process	The optimal cash flow will be measured by determining the age of debtors for the different tiers of government.				



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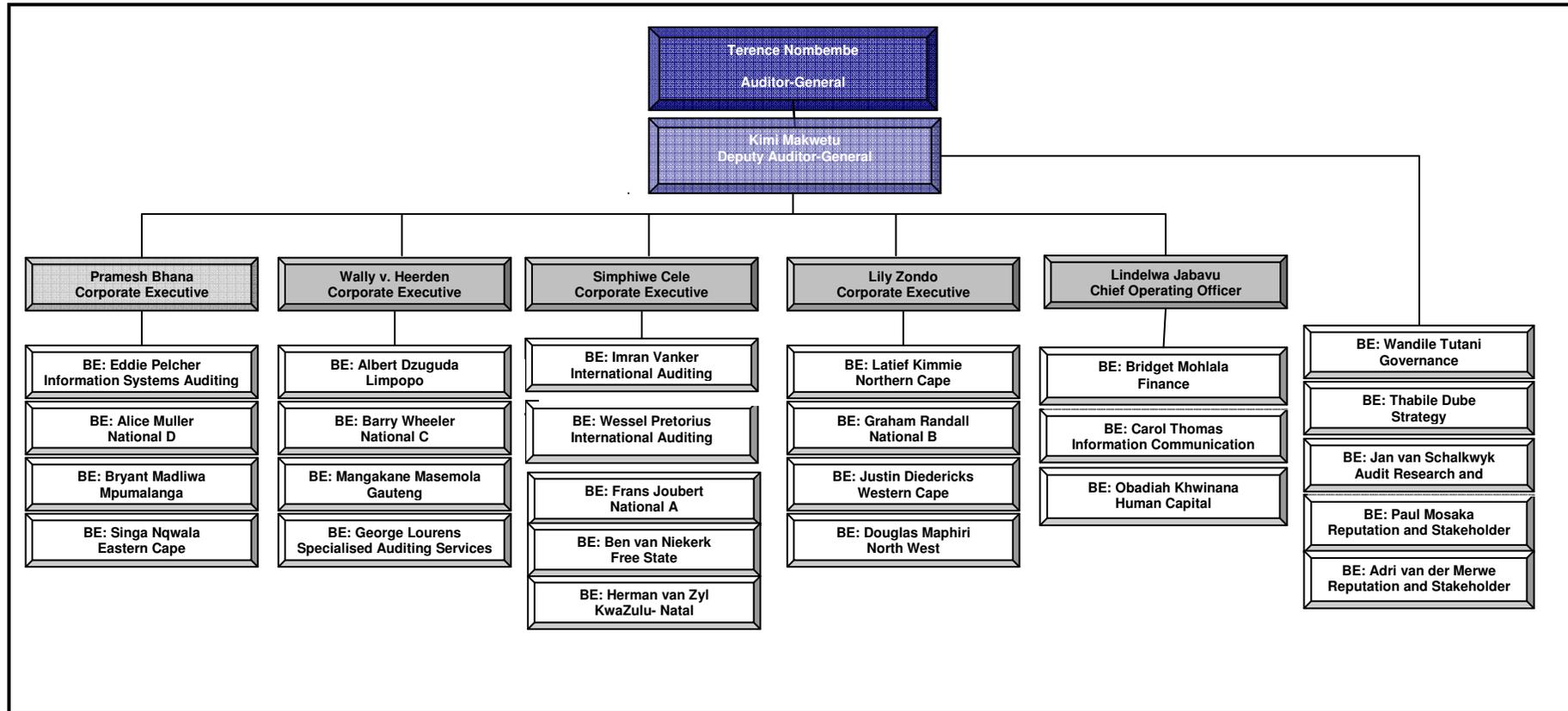
Secondary focus area (performance outcome)	Goal	Measure	Target 2008-09	Target 2009-10	Target 2010-11
Tool	Automated age analysis report				

Table 2: Secondary focus areas: measurable objectives and medium-term output targets



6.3 PROPOSED EXECUTION OF OPERATIONAL OBLIGATIONS

6.3.1 Management structure until 31 October 2007





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6.3.2 Background

The structure as articulated in the strategic plan and budget 2007 – 2010 (see above) has been refined. The changes will be effective as from 1 November 2007. The changes that were made to the structure are the following:

Operations

The Chief Operations Officer (COO) position has been filled and all organisational transactional and operations activities fall within this role. Over the next 3 years, we plan to get all operations areas to provide cost effective and value-adding services, to ensure that the core audit business has all the resources required to execute its constitutional mandate. The COO has already undertaken steps to ensure that there is a proper alignment of these services to the whole AG. This will ensure that all audit Corporate Executives dedicate most of their time driving the implementation of the core audit mandate.

Governance and Change Management

The DAG has set up a Corporate Office from the existing Governance, Strategy and Transformation business units. The primary focus of this office is to monitor and track the implementation of the agreed strategic priorities while ensuring that the change and transformation programme is given sufficient focus and momentum. In addition, the overall governance and risk management drive will be taken into the rest of the AG through this office. This is to ensure that governance priorities are given attention at the right level. All the constituent elements of the Corporate Office will continue to enjoy independent existence while striving for close collaboration in servicing the AG.

Audit Division

All the four audit execution portfolios remain intact and will continue to ensure that audits are delivered timely with added focus on efficient execution and quality standards. These as before, will continue to be the primary focus of the Corporate Executives across all three spheres of government including public entities that we plan to bring into our own hours.

To ensure that innovation and best practice is constantly given attention as well as the ongoing quest for better ways, an Audit Support unit has been constituted. This unit will drive the ongoing Research and Development initiatives and explore ways in which we



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can integrate other audit disciplines into our delivery strategy. The focus will also be to elevate the Performance Auditing perspective and help provide a firm and solid foundation for the AG to launch this important dimension of our audit efforts.

Because of the interrelated initiatives and the need to integrate the full audit value chain, we feel it is important for proper leadership to drive the entire audit business so as to give it clear strategic direction as we venture into more exciting but potentially challenging areas in our audit life-cycle development.

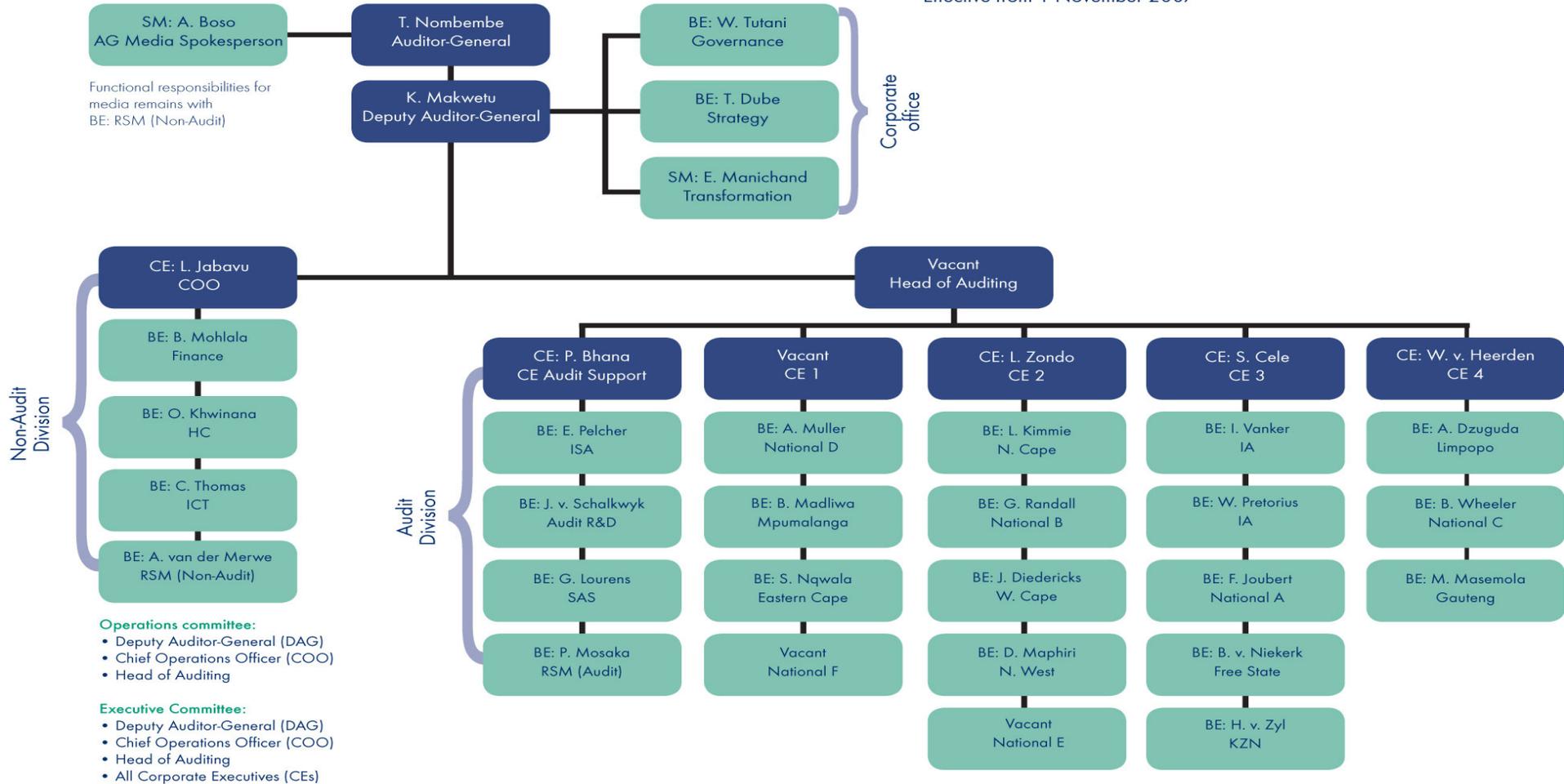
In the context of the above, and taking into account the attended complexities that might arise, it is important to develop a pro-active risk management capability as we execute the overall strategy. In this regard the DAG, COO and the Head of Auditing will constitute an Operations Committee (OPSCO) whose main focus will be to ensure that all initiatives and tactical operational matters continue to be aligned to the overall strategy. These OPSCO engagements will continue to feed into the Executive Committee which assists the DAG in the performance of the work of the AG.

We firmly believe that the structure as articulated below will go a long way towards assuring that our resources as properly planned and put in areas that will generate the best possible results as we implement the plan that we have committed to.



Management Structure Auditor-General

Effective from 1 November 2007





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7. OVERVIEW OF THE MEDIUM-TERM BUDGET



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7.1 PROJECTED INCOME STATEMENT

7.1 Projected income statement

	Actual	Forecast	Budget	Budget	Budget
	31 March 2007	31 March 2008	31 March 2009	31 March 2010	31 March 2011
	Rm	Rm	Rm	Rm	Rm
AUDIT INCOME	887	1,024	1,226	1,414	1,668
Ownous	536	679	871	1,024	1,152
S&T recoverable	342	538	672	726	777
Contract work	299	306	383	394	380
DIRECT AUDIT EXPENDITURE	652	782	886	922	1,014
Personel	332	377	438	502	657
S&T recoverable	328	538	676	726	777
Contract work	31.2	306	383	394	380
OW% of audit income & S&T	3%	3%	3%	2%	2%
Gross income	266	292	380	421	554
Own gross profit	26	29	38	42	56
Gross margin% of audit income	2%	2%	3%	3%	3%
Other income	134	129	93	100	101
Gross profit plus other income	200	380	423	482	556
Other expenses	231.1	273	349	481	510
Other expenses% of audit income	2%	2%	2%	2%	3%
Depreciation	207	22	290	327	392
Net surplus/(deficit)	(19)	(165)	84	213	153
Net surplus% of audit income	0%	-2%	1%	1%	1%



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7.2 PROJECTED BALANCE SHEET

7.2 Projected Balance Sheet

Actual	Forecast	Budget	Budget	Budget
31 March 2007	31 March 2008	31 March 2009	31 March 2010	31 March 2011
Rm	Rm	Rm	Rm	Rm

Capital employed

Capital	133.3	116.8	125.1	146.4	161.8
- Reserves	129.8	128.0	111.5	119.8	141.2
- Special Audit Services Fund	5.3	5.3	5.3	5.3	5.3
- Staff training reserve	-	-	-	-	-
- Net income for the year	-1.8	-16.5	8.4	21.3	15.3
Long-term liabilities	75.5	81.8	88.1	99.4	111.0
Interest bearing borrowings	13.9	12.0	7.9	8.0	7.6
Medical Aid Liability	61.6	69.9	80.2	91.4	103.4
Current liabilities	157.2	136.6	157.6	179.8	200.7
Trade and other payables	124.2	100.2	116.3	136.1	150.8
Leave liability	22.5	26.2	31.6	37.9	44.9
Current portion of long-term loan	10.5	10.1	9.6	5.8	5.0
	365.9	336.1	370.8	425.6	473.5

Employment of capital

Fixed assets	49.4	56.3	74.8	104.0	130.5
Cash investment	94.4	98.2	120.7	143.7	167.8
Current assets	222.1	180.7	175.3	178.0	175.2
Trade and other debtors	177.9	196.4	193.4	194.6	181.7
Bank and cash	44.2	-15.7	-18.1	-16.6	-6.5
	365.9	336.1	370.8	425.6	473.5

Working capital assumptions

1. Trade and other payables are calculated on a 45-day payment period.

2. Trade debtors are calculated on a weighted average of 40-day collection period, based on 30 days for the national and provincial departments and 90 days for local authorities.



7.3 PROJECTED FUNDING STATEMENT

7.3 Projected Funding Statement

Explanation of funding schedule

The projected funding requirements schedule seeks to categorise the funding requirements that originate from the commitments reflected in the AG's balance sheet and those that will be funded from the expected surplus, when it occurs, in four distinct part

- employee liabilities and reserve for special audits; (Part 1)
- working capital; (Part 2)
- capital expenditure; (Part 3)
- hosting of prestigious events. (Part 4)

In part 5 the sum of these items is compared to the cash and cash equivalents to determine the extent of the surplus or deficit on funding.

Key principles

1. This is a schedule to determine the basis of retention of surplus by the AG. To the extent that the funding position reflects a surplus, the AG would be in a position to return the surplus to the revenue fund. However if the funding position reflects

2. The funding deficit (part 5) is considered temporary in nature and within an acceptable norm provided that the amount thereof is less than the working capital requirements (part 2), as in this instance the cash is normally collectable on average within

	Actual 31 March 2007 Rm	Forecast 31 March 2008 Rm	Budget 31 March 2009 Rm	Budget 31 March 2010 Rm	Budget 31 March 2011 Rm
Part 1					
<u>Reserves and Staff liabilities</u>					
Staff Liabilities	84.0	96.1	111.8	129.3	148.3
- Post Retirement Medical Aid (PRMA)	61.6	69.9	80.2	91.4	103.4
- Leave Liability	22.5	26.2	31.6	37.9	44.9
Office reserves	5.3	20.2	16.9	18.7	20.3
- Special Audit Services Fund	5.3	5.3	5.3	5.3	5.3
- Performance Bonus	0.0	14.9	11.7	13.5	15.0
	89.3	116.2	128.8	148.0	168.6
Part 2					
<u>Working capital</u>					
Current assets (excluding bank)	177.9	196.4	193.4	194.6	181.7
Current liabilities (excluding leave liability)	(124.2)	(100.2)	(116.3)	(136.1)	(150.8)
Net working capital	53.7	96.2	77.1	58.5	30.9
Part 3					
<u>Capital expenditure</u>					
Interest bearing borrowing payments	11.9	14.8	17.2	15.8	12.3
Fixed assets acquisitions	10.9	21.1	40.2	52.0	56.5
Capital requirement of the Office	22.8	35.9	57.4	67.8	68.8
Part 4					
<u>Prestigious events (INCOSAI)</u>		5.0	5.0	5.0	10.0
Part 5					
<u>Comparison to available cash reserves</u>					
Cash and cash equivalents	138.6	102.6	102.6	127.1	161.3
Office funding requirements (1+2+3+4)	165.9	253.4	268.3	279.4	278.4
Surplus/(Deficit) on funding of the Office	(27.3)	(150.8)	(165.7)	(152.3)	(117.1)

Conclusion

Based on the above projections and in relation to the key principles outlined above,

1. the AG would not be in a position to return the surplus to the revenue fund and
2. the funding deficit is considered to be outside an acceptable norm.



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8. ANNEXURES

Annexure 1: Detailed budget

Detailed budget 2008-09												
 <p>Auditor-General DETAILED BUDGET FOR 2008-09</p>												

Description	Notes	2007-08 Budget (A)	2007-08 Forecast (B)	Variance (B-A) (C)	Variance % (B-A)/A (D)	2008-09 Budget (E)	Variance (E-B) (F)	Variance % (E-B)/B (G)	Variance (E-A) (H)	Variance % (E-A)/A (I)	2009-10 Forecast	2010-11 Forecast
AUDIT INCOME	2	1,013,229,814	1,072,351,028	59,121,214	6%	1,292,642,514	220,291,486	21%	279,412,701	28%	1,464,373,514	1,606,824,352
Own hours	2.1	700,722,000	657,912,902	(42,809,098)	-6%	857,097,251	199,184,349	30%	156,375,251	22%	1,012,381,331	1,151,152,272
Contract work	2.2	250,524,918	360,614,785	110,089,867	44%	368,302,333	7,687,549	2%	117,777,416	47%	379,369,818	377,966,150
S & T	2.3	45,210,937	40,554,030	(4,656,906)	-10%	56,170,915	15,616,884	39%	10,959,978	24%	60,664,588	64,911,109
International S&T	2.3	16,771,959	13,269,311	(3,502,648)	-21%	11,072,015	(2,197,296)	-17%	(5,699,944)	-34%	11,957,776	12,794,820
DIRECT AUDIT COST		683,286,708	782,172,029	98,885,321	14%	899,632,405	117,460,376	15%	216,345,697	32%	992,223,716	1,061,383,802
Staff Remuneration - Audit Business Units	3.3.1	370,778,896	367,733,903	(3,044,993)	-1%	463,779,838	96,045,935	26%	93,000,943	25%	540,231,533	605,711,722
Contract Work - Recoverable	2.2	250,524,923	360,614,785	110,089,862	44%	368,302,334	7,687,549	2%	117,777,411	47%	379,369,818	377,966,150
S&T: Recoverable	2.3	45,210,930	40,554,030	(4,656,900)	-10%	56,478,218	15,924,188	39%	11,267,288	25%	60,664,588	64,911,109



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GROSS PROFIT		329,943,106	290,178,998	(39,764,107)	-12%	393,010,109	102,831,111	35%	63,067,003	19%	472,149,798	545,440,550
GROSS PROFIT PERCENTAGE		33%	27%			30%					32%	34%
OTHER INCOME		12,311,593	12,865,677	554,084	5%	9,282,362	(3,583,315)	-28%	(3,029,231)	-25%	10,024,951	10,126,146
Interest	2.4	10,153,057	11,351,525	1,198,468	12%	7,943,810	(3,407,715)	-30%	(2,209,247)	-22%	8,579,315	8,579,315
Africa Projects	2.4	2,158,536	1,514,152	(644,384)	-30%	1,338,552	(175,600)	-12%	(819,984)	-38%	1,445,636	1,546,831
SURPLUS BEFORE OPERATING COST		342,254,699	303,044,675	(39,210,023)	-11%	402,292,471	99,247,796	33%	60,037,772	18%	482,174,749	555,566,696
OPERATING COST		299,869,567	297,335,056	(2,534,511)	-1%	364,920,492	67,585,436	23%	65,050,925	22%	428,120,191	500,982,513
Staff Remuneration - Support Business Units	3.3.2	95,557,625	94,362,180	(1,195,444)	-1%	118,114,314	23,752,134	25%	22,556,689	24%	130,122,316	141,894,055
Staff Remuneration - Africa Projects	3.3.2	3,042,829	2,356,441	(686,388)	-23%	2,047,064	(309,377)	-13%	(995,765)	-33%	2,190,359	2,321,780
Other Personnel expenditure		23,178,865	23,963,218	784,353	3%	32,482,354	8,519,135	36%	9,303,489	40%	43,398,535	62,979,157
Leave pay provision	3.1	3,761,304	3,761,304	-	0%	5,388,464	1,627,160	43%	1,627,160	43%	6,276,725	7,037,512
Medical aid provision	3.2	10,287,178	8,287,178	(2,000,000)	-19%	10,365,716	2,078,538	25%	78,538	1%	11,194,973	11,978,621
Group Retirement Fund		-	51,549	51,549	100%	-	(51,549)	-100%	-	100%	6,725,442	22,497,827
Group Life Scheme	3.4	5,602,848	3,024,254	(2,578,594)	-46%	3,500,000	475,746	16%	(2,102,848)	-38%	4,115,059	4,657,363
Long service awards & other	3.4	252,500	277,000	24,500	10%	385,000	108,000	39%	132,500	52%	415,800	444,906
Performance bonus		-	5,571,547	5,571,547	100%	9,000,000	3,428,453	62%	9,000,000	100%	10,088,163	11,248,913
UIF: Employer contribution	3.5	2,173,435	1,941,201	(232,234)	-11%	2,583,178	641,976	33%	409,743	19%	3,037,123	3,437,370
Workmen's Compensation Premiums	3.5	400,000	300,000	(100,000)	-25%	440,000	140,000	47%	40,000	10%	517,322	585,497
BU Recognition Scheme	3.4	701,600	749,185	47,585	7%	819,996	70,811	9%	118,396	17%	1,027,929	1,091,148
Contract Work - Irrecoverable	4	13,052,143	11,673,318	(1,378,825)	-11%	18,329,242	6,655,924	57%	5,277,099	40%	19,795,581	21,181,272
Subsistence & Travelling - Irrecoverable	5	7,098,003	5,842,831	(1,255,172)	-18%	7,349,541	1,506,711	26%	251,539	4%	7,937,505	8,493,130



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Accommodation	6	32,762,018	32,011,730	(750,288)	-2%	42,322,272	10,310,542	32%	9,560,254	29%	53,054,252	56,317,190
Rental	6.1	21,492,512	21,078,362	(414,150)	-2%	27,878,235	6,799,873	32%	6,385,723	30%	34,947,531	37,096,871
Operating costs	6.2	11,269,506	10,933,368	(336,138)	-3%	14,444,037	3,510,669	32%	3,174,531	28%	18,106,721	19,220,319
Liaison	7	13,568,942	11,374,414	(2,194,529)	-16%	19,998,907	8,624,493	76%	6,429,965	47%	23,359,903	49,887,013
Liaison Internal Stakeholder	7.1.1	4,821,094	3,614,161	(1,206,933)	-25%	6,534,836	2,920,674	81%	1,713,742	36%	7,057,623	32,551,656
Liaison External Stakeholder	7.1.2	2,357,485	2,032,711	(324,775)	-14%	3,200,318	1,167,607	57%	842,833	36%	4,011,847	4,258,583
Liaison	7.1.3	1,280,221	1,128,343	(151,879)	-12%	1,776,771	648,428	57%	496,549	39%	2,227,320	2,364,305
Constitutional Liaison		-	-	-	100%	295,885	295,885	100%	295,885	100%	319,556	341,925
Non Constitutional Liaison		-	-	-	100%	370,000	370,000	100%	370,000	100%	399,600	427,572
Regional congresses	7.2	4,025,842	3,295,047	(730,795)	-18%	5,168,711	1,873,664	57%	1,142,869	28%	6,479,380	6,877,875
Foreign Visitors	7.3	84,300	85,422	1,122	1%	84,600	(822)	-1%	300	0%	91,368	97,764
Overseas travel	7.4	1,000,000	1,218,730	218,730	22%	2,567,787	1,349,057	111%	1,567,787	157%	2,773,210	2,967,334
Control Bodies	8	946,520	889,000	(57,520)	-6%	448,932	(440,068)	-50%	(497,588)	-53%	484,847	518,786
Oversight Bodies		724,435	666,915	(57,520)	-8%	448,932	(217,983)	-33%	(275,503)	-38%	484,847	518,786
Parliamentary Liaison		222,085	222,085	-	0%	-	(222,085)	-100%	(222,085)	-100%	-	-
Audit Expenses	9	4,190,435	4,050,435	(140,000)	-3%	4,100,000	49,565	1%	(90,435)	-2%	4,428,000	4,737,960
Audit fees	9.1	1,870,000	1,730,000	(140,000)	-7%	1,900,000	170,000	10%	30,000	2%	2,052,000	2,195,640
Internal audit costs	9.2	2,320,435	2,320,435	-	0%	2,200,000	(120,435)	-5%	(120,435)	-5%	2,376,000	2,542,320
Bank Charges		186,720	215,888	29,168	16%	246,720	30,832	14%	60,000	32%	266,458	285,110
Bank charges		180,000	209,528	29,528	16%	240,000	30,472	15%	60,000	33%	259,200	277,344
Foreign bank charges		6,720	6,359	(361)	-5%	6,720	361	6%	-	0%	7,258	7,766
Finance Charges	10	1,920,197	2,646,004	725,807	38%			-5%		31%	3,154,481	3,348,488



AUDITOR - GENERAL

				2,516,383	(129,621)		596,186					
Finance Charges		1,920,197	2,646,004	725,807	38%	2,516,383	(129,621)	-5%	596,186	31%	3,154,481	3,348,488
Recruitment Expenses	11	12,031,100	12,055,984	24,884	0%	11,018,628	(1,037,356)	-9%	(1,012,472)	-8%	13,424,130	14,270,285
Advertising		800,000	812,664	12,664	2%	500,000	(312,664)	-38%	(300,000)	-38%	626,789	665,338
Personnel agency fees		8,500,000	8,461,247	(38,753)	0%	8,280,000	(181,247)	-2%	(220,000)	-3%	10,379,623	11,017,989
Interviews		210,000	260,973	50,973	24%	488,628	227,655	87%	278,628	133%	527,718	564,659
Transfer & relocation expenses		2,521,100	2,521,100	-	0%	1,750,000	(771,100)	-31%	(771,100)	-31%	1,890,000	2,022,300
Professional Assistance	12	48,415,504	43,066,144	(5,349,360)	-11%	53,054,913	9,988,769	23%	4,639,409	10%	63,378,520	67,606,215
Membership fees	12.1	3,710,765	3,725,304	14,539	0%	5,530,902	1,805,598	48%	1,820,137	49%	6,933,415	7,359,833
Internal training	12.2	1,570,141	1,437,644	(132,497)	-8%	1,946,372	508,728	35%	376,230	24%	2,439,928	2,589,988
External training	12.2	8,422,327	6,622,389	(1,799,937)	-21%	10,030,526	3,408,136	51%	1,608,199	19%	12,574,042	13,347,370
S&T: Training	12.2	7,226,508	3,876,209	(3,350,299)	-46%	3,371,415	(504,794)	-13%	(3,855,094)	-53%	4,226,330	4,486,257
Study assistance: Employees	12.3	9,473,994	9,393,350	(80,644)	-1%	12,944,778	3,551,428	38%	3,470,785	37%	16,227,284	17,225,293
I&L Development Projects	12.4	5,744,150	5,756,673	12,523	0%	5,810,000	53,327	1%	65,850	1%	6,274,800	6,714,036
Bursaries	12.5	10,114,595	10,104,073	(10,522)	0%	10,500,000	395,927	4%	385,405	4%	11,340,000	12,133,800
Skills development levy		4,525,836	4,421,189	(104,647)	-2%	5,841,841	1,420,652	32%	1,316,006	29%	6,725,442	7,499,276
Skills Dev. Levy - Recovered		(2,372,812)	(2,270,688)	102,124	-4%	(2,920,921)	(650,233)	29%	(548,109)	23%	(3,362,721)	(3,749,638)
Employee Wellness Programmes (EWP fees to independent service provider)	20	1,921,850	1,921,850	-	0%	1,729,950	(191,900)	-10%	(191,900)	-10%	2,068,724	2,201,237
Employee Wellness Programmes		1,921,850	1,921,850	-	0%	1,154,400	(767,450)	-40%	(767,450)	-40%	1,447,130	1,536,131
Employee Social Responsibility		-	-	-	100%	118,250	118,250	100%	118,250	100%	127,710	136,650
AG Social Responsibility (General)		-	-	-	100%	457,300	457,300	100%	457,300	100%	493,884	528,456
Technological Services	13	25,480,461	24,929,916	(550,544)	-2%	28,913,977	3,984,061	16%	3,433,517	13%	35,741,433	37,966,274
Computer services	14	21,816,003	21,572,714	(243,290)	-1%	25,022,936	3,450,222	16%	3,206,933	15%	31,368,193	33,297,396



AUDITOR - GENERAL

Hiring of equipment - Rental	13.1	2,865,076	2,535,402	(329,673)	-12%	2,906,375	370,972	15%	41,299	1%	3,138,885	3,358,607
Hiring of equipment - Copy charges		799,382	821,800	22,419	3%	984,666	162,866	20%	185,285	23%	1,234,356	1,310,271
Insurance & Legal Fees	15	1,777,113	1,976,598	199,485	11%	2,041,291	64,693	3%	264,178	15%	2,204,594	2,358,916
Insurance	15.1	817,113	1,014,366	197,253	24%	811,291	(203,075)	-20%	(5,822)	-1%	876,194	937,528
Legal costs		960,000	962,232	2,232	0%	1,230,000	267,768	28%	270,000	28%	1,328,400	1,421,388
Auxiliary Services	16	9,270,642	8,149,385	(1,121,256)	-12%	13,163,067	5,013,681	62%	3,892,425	42%	15,400,892	16,428,848
Cleaning: Contracts/services		435,826	480,073	44,247	10%	1,443,622	963,549	201%	1,007,796	231%	1,567,996	1,685,595
Cleaning: Materials		328,458	126,769	(201,690)	-61%	312,694	185,925	147%	(15,765)	-5%	339,634	365,106
Office improvements		415,426	440,148	24,722	6%	2,135,911	1,695,763	385%	1,720,485	414%	2,319,928	2,493,922
Refreshments		591,143	687,304	96,161	16%	1,144,717	457,413	67%	553,574	94%	1,434,991	1,523,246
Publications		803,098	744,133	(58,966)	-7%	762,467	18,334	2%	(40,631)	-5%	955,811	1,014,596
R&M: Computer equipment & software		604,280	610,598	6,318	1%	553,748	(56,850)	-9%	(50,532)	-8%	694,166	736,859
R&M: Furniture and equipment		222,262	225,902	3,640	2%	226,324	422	0%	4,062	2%	244,430	261,540
R&M: Site and buildings		183,125	138,584	(44,541)	-24%	202,428	63,844	46%	19,303	11%	218,622	233,926
R&M: Office vehicles		411,199	297,304	(113,894)	-28%	506,392	209,088	70%	95,194	23%	546,904	585,187
Printing of audit reports		998,569	1,078,508	79,939	8%	1,479,413	400,905	37%	480,845	48%	1,597,766	1,709,610
Stationery and printing		3,877,355	2,942,363	(934,993)	-24%	4,226,726	1,284,363	44%	349,370	9%	5,298,529	5,624,398
Artwork & design		50,000	50,000	-	0%	52,500	2,500	5%	2,500	5%	56,700	60,669
Medical examinations		100,000	100,000	-	0%	-	(100,000)	-100%	(100,000)	-100%	-	-
Freight and removal		249,900	227,700	(22,200)	-9%	116,125	(111,575)	-49%	(133,775)	-54%	125,415	134,194
Communication	17	5,468,601	5,244,052	(224,549)	-4%	6,195,037	950,985	18%	726,436	13%	7,709,662	8,186,798
Cell phone charges	17.2	1,451,394	1,231,017	(220,377)	-15%	1,610,352	379,335	31%	158,958	11%	2,018,702	2,142,856
Postage & courier services		804,944	703,944	(101,000)	-13%	713,770	9,826	1%	(91,174)	-11%	838,468	893,012
Telephone charges	17.1	3,212,263	3,309,091	96,828	3%	3,870,915	561,824	17%	658,652	21%	4,852,492	5,150,930



AUDITOR - GENERAL

Other expenses		-	10,605,668	10,605,668	100%	847,900	(9,757,768)	-92%	847,900	100%	-	-
Write off provision		-	2,126,668	2,126,668	100%	-	(2,126,668)	-100%	-	100%	-	-
Bad debts provision		-	8,479,000	8,479,000	100%	847,900	(7,631,100)	-90%	847,900	100%	-	-
SURPLUS / (DEFICIT) BEFORE DEPRECIATION		42,385,132	5,709,620	(36,675,512)	-87%	37,371,979	31,662,360	555%	(5,013,153)	-12%	54,054,558	54,584,183
Depreciation	18	28,226,492	22,216,738	(6,009,755)	-21%	29,012,601	6,795,864	31%	786,109	3%	32,736,988	39,246,600
Depr. Motor vehicles		320,745	314,112	(6,633)	-2%	299,465		0%	(21,280)	-7%	323,422	346,062
Depr. Furniture & Equipment		3,264,574	1,161,859	(2,102,715)	-64%	2,156,594	994,735	86%	(1,107,980)	-34%	2,499,299	3,186,251
Depr. Computer equipment		15,570,869	11,518,698	(4,052,171)	-26%	17,893,406		0%	2,322,537	15%	18,838,337	18,701,824
Depr. Computer software		8,263,629	6,895,086	(1,368,543)	-17%	7,185,443		0%	(1,078,186)	-13%	9,478,399	15,296,691
Depr. Leasehold improvements		806,675	2,326,981	1,520,306	188%	1,477,693		0%	671,018	83%	1,597,531	1,715,772
NET SURPLUS / (DEFICIT) Net surplus ratio before capital expenditure		14,158,640	(16,507,118)	(30,665,758)	-217%	8,359,378	24,866,496	-151%	(5,799,262)	-41%	21,317,571	15,337,583
		1%	-2%			0.6%					1.5%	1.0%
CAPITAL	19	38,997,760	29,071,389	(9,926,371)	-25%	50,140,795	21,069,406	72%	11,143,035	29%	61,897,879	65,785,977
Motor vehicles - Cost	19.1	-	531,098	531,098	100%	429,474	(101,624)	-19%	429,474	100%	463,832	496,300
Furniture & Equipment	19.2	11,243,721	5,604,109	(5,639,612)	-50%	13,072,171	7,468,062	133%	1,828,450	16%	16,386,981	17,394,811
Computer equipment - Cost	19.4	15,850,262	10,850,911	(4,999,351)	-32%	29,580,900	18,729,989	173%	13,730,638	87%	27,081,954	29,362,565
Computer software - Cost	19.5	9,242,759	8,295,894	(946,865)	-10%	1,784,500	(6,511,394)	-78%	(7,458,259)	-81%	12,237,009	12,374,590
Leasehold improvem.- Cost	19.3	2,661,018	3,789,377	1,128,359	42%	5,273,750	1,484,373	39%	2,612,732	98%	5,728,104	6,157,712
CAPEX AS % OF TOTAL INCOME		3.8%	2.7%			3.9%					4.2%	4.1%
TOTAL BUDGET		(24,839,120)	(45,578,507)	(20,739,387)	83%	(41,781,416)	3,797,090	-8%	(16,942,297)	68%	(40,580,308)	(50,448,394)



AUDITOR - GENERAL

Annexure 2: Notes on budget

NOTES ON BUDGET

INCOME

Budget item	Ref.	2007-08	2007-08	Variance		2008-09	Change	
		Budget	Forecast	'000	%	Budget	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Own hours	2.1	700,722	657,913	(42,809)	-6%	857,097	156,375	22%
Contract work	2.2	250,525	360,615	110,090	44%	368,302	117,777	47%
Subsistence and travelling	2.3	45,211	40,554	(4,657)	-10%	56,171	10,960	24%
International subsistence and travelling		16,772	13,269	(3,503)	-21%	11,072	(5,700)	-34%
Total audit income		1,013,230	1,072,351	59,121	6%	1,292,643	279,413	28%

EFFECT OF THE ESTIMATES OF THE OFFICE FOR 2008-09 ON TOTAL STATE EXPENDITURE

The total estimated audit costs of R 1.293 billion for 2008-09 (2007-08: R 1.013 billion) when compared with the estimate of state expenditure for 2008-09 of approximately R591.2 billion amounts to only 0.22 per cent (2007-08: 0.19 per cent). The estimate of the office has no material effect on the total state expenditure.

Calculation of own hours income

The calculation of own hours income takes into account three variables, namely number of staff (including vacancies to be filled), recoverable hours and tariffs. The tables below reflect the step-by-step detailed analysis of own hours income:

Number of staff

The staff numbers and span of control constitute critical variables and thus a logical starting point in the computation of audit revenue for the office. Analysis has been further carried out on the office current span of control and it was decided to keep the ratios the same but with a different structure constituting a business unit. For the 2008/2009 budget year it has been decided that a business unit should comprise 6 centres with total staff number of approximately 105. This resulted in the creation of two new business units at national level and changes in some provinces. 4 provinces (Eastern Cape, KwaZulu Natal, Gauteng and Western Cape) have split into two business units for each. Smaller provinces and business units have created new centres to comply with this decision on the span of control. Business units have been urged to work towards the achievement of this span of control supported by the new recruitment strategy. Benefits to flow from this proposed change are discussed in the strategy section of this document.



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Audit staff	Medium-term target		2007-08 Budget	2008-09 Budget	2007-08 Budget	2008-09 Budget	Change		Comments
	Span of control assuming 10% vacancies for managers and trainees		Span of control ratio	Span of control ratio	Staff numbers	Staff numbers	Staff numbers	%	
					(1)	(2)	(2)-(1)	(2)-(1)	
- Business executives	19				17	19	2	11.76%	The increase is in line with the proposed change in the span of control, business units structures as well as 18 additional centres and 2 National Business Units.
- Senior managers	136	1.0	1.0	1.0	96	131	35	36.46%	
- Audit managers	388	2.9	3.0	2.5	286	324	38	13.29%	
- Auditors	136	1.0	4.2	2.9	406	379	(27)	-6.65%	The decrease is in line with the proposed ideal span of control and business units structures
- Trainee accountants	1,428	10.5	8.4	7.2	806	939	133	16.50%	The increase is in line with the proposed change in the span of control, business units structures as well as 18 additional centres and 2 National Business Units. The deviation on trainee accountant ideal span of control is due to budgeting for vacancies
- Admin	121	0.8	1.0	1.1	114	164	50	43.86%	
- Business unit admin managers	18	0.9	0.9	0.9	15	18	3	20.00%	
Total audit staff	2,246	17.1	18.5	15.6	1,740	1,974	234	13.45%	

Own hours - recoverable hours and ratios

The next logical variable in the computation of audit income is the recoverable hours. This variable is influenced solely by the recovery rate that is determined for each staff band within the audit business units. The level of these recovery rates is arrived at after providing for sufficient time for essential non-recoverable activities such as annual leave, study leave, sick leave, management and supervision. These are in line with the norms in the profession.

The calculation of recoverable hours is based on (the total available hours of 2025 hours multiplied by (X) the recovery rate per band multiplied by (X) number of staff per band per 2.1.1 above).

The detailed analysis of recovery ratio and recoverable hours per band is reflected below:



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Budget item	2007-08 Expected recovery ratio per band	2008-09 Expected recovery ratio per band	2007-08	2008-09	Change		Comments
			Budget	Budget	Hours		
			Hours	Hours	(2)-(1)	(2)-(1)	
Audit staff			(1)	(2)	(2)-(1)	(2)-(1)	
- Business executives	50%	50.00%	17,077	19,238	2,161	12.65%	The increase is due to the proposed increase in staff numbers as well as having two more working days than the previous budget year.
- Senior managers	63%	62.50%	121,504	165,797	44,293	36.45%	
- Audit managers	70%	70.00%	402,202	459,270	57,068	14.19%	
- Auditors	73%	72.50%	591,349	556,419	(34,930)	-5.91%	
- Trainee accountants	71%	71.00%	1,149,670	1,350,047	200,377	17.43%	
Total			2,281,802	2,550,771	268,969	11.79%	

Budget item	2008-09 Ratios						2008-09 Budget hours		2007-08 Budget hours	
	Annual leave	Sick leave	Study & other	Training	Management & supervision	Total	Total	Per capita	Total	Per capita
- Business executives	9.0%	5.0%	2.0%	4.0%	30.0%	50.0%	19,238	1,013	17,077	1,005
- Senior managers	9.0%	5.0%	2.0%	6.0%	15.5%	37.5%	99,478	759	71,350	743
- Audit managers	9.0%	5.0%	2.0%	6.0%	8.0%	30.0%	196,830	608	172,372	603
- Auditors	9.0%	5.0%	4.0%	6.0%	3.5%	27.5%	211,056	557	224,305	552
- Trainee accountants	9.0%	5.0%	6.0%	6.0%	3.0%	29.0%	551,428	587	469,584	583

Note 1

The non-recovery ratio for senior managers was revised from 37% to 37.5%, based on the detailed work study that confirmed a need for an additional 0.5% increase in the management and supervision time for this group.

Recommended tariffs

This is the final and important variable to compute the own hours audit income. The detailed determination thereof is reflected in Annexure 3 which assumed a 4% increase in tariffs from 2007-08. Normally, any deviation in the tariff increase in excess of the 4%, would be influenced largely by the movement in pay levels of audit staff and the staff mix (span of control) in each business unit. The analysis of the recommended average tariffs per band is as follows:

Budget item	2007-08	2008-09	Change		Comments
	Budget	Budget	Rand / hour	%	
	(1)	(3)	(3)-(1)	(3)-(1)	
Audit staff					
- Business executives	920	957	37	4%	The increase is limited to the normal tariff increase which is in line with the historical practice.
- Senior managers	895	936	41	5%	Tariff increase for these bands is more than the 4% adjustment due mainly to appointment of staff that meet the competency requirements. As a result, their salary levels are adjusted to match such competencies in line with the market. This trend is expect
- Audit managers	609	673	64	11%	
- Auditors	290	310	20	7%	
- Trainee accountants	139	150	11	8%	
Office average	307	336	29	9.5%	

Refer 2.1.4 for calculation of total own hours income. Refer



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also to Annexure 3 for the detailed internal tariff schedule for 2008-09

Calculation of own hours income

Own hours income is based on the recoverable hours calculated in 2.1.2 above multiplied by (X) the average charge out tariff in 2.1.3

Budget item	2007-08 Budget	2008-09 Budget	Change		
			(3)-(1)	%	
Recoverable hours	2,281,802	2,550,771	268,969	12%	
Average tariff	307	336	29	9%	
Total own hours income	700,722	857,097	156,375	22%	
Own hours income (R'000)	700,722	857,097	156,375	22%	<i>Note 2</i> <i>Refer 2.1.5 below</i>

Note 2

The 22 % increase in own hours income is mainly due to the increase in the average tariff of 9.5% as explained in 2.1.3 above and the change in the volume of audit work that is explained in 2.1.5

Own hours analysis by segment

This analysis reflects the main drivers of the cost of audits and is split between the regularity audit and specialised audit segments. The table below focuses on the change from the 2007-08 budget to the 2008-09 budget.



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CHANGE IN OWN HOURS BETWEEN BUDGET 2007-08 AND BUDGET 2008-09			
Regularity audits			
		2007-08	2008-09
Existing audits	Hours	185,325	97,919
	Rand '000	85,300	57,157
Catch-up work	Hours	(13,168)	(1,848)
	Rand '000	(3,873)	(1,079)
New audits	Hours	5,907	45,632
	Rand '000	5,989	26,636
Increase in scope	Hours	85,352	124,254
	Rand '000	26,299	72,530
Total	Hours	263,416	265,957
	Rand '000	113,715	155,244
Specialised audits			
		2007-08	2008-09
Specialised audit work	Hours	3,801	3,012
	Rand '000	8,659	1,131
Total change in	Hours	267,217	268,969
	Rand '000	122,374	156,375

Note 1

Existing audit work (increase by R57,2m on 2007-08) due to:

- 1) the continued reduction in vacancy levels resulting in a return of audit work from private firms. R57.8 million
- 2) a greater emphasis on the review of audit work due to increased reporting requirements. R1.2 million
- 3) a reduction in hours due to the consolidation of entities into structures, R1.9 million

Note 2

Catch-up work (decrease by R1.1 million on 2007-08) due to:

- 1) the extent of the late submission of financial statement by municipal entities in 2007-08, estimated at 33%
- 2) the extent of the late submission of financial statements by municipal entities is estimated to be at a similar level in 2008-09

Note 3

New audits work (increase by R26.6 million on 2007-08) due to:



AUDITOR - GENERAL

The planning by the AG to take back audits performed by outside firms which were not part of the original portfolio. The Rail Commuter Corporation and Emoyeni are examples.

Note 4

Increase in scope (increase by R72.5 million) due to: Increase in scope (increase by R72.5 million) due to:

- 1) the increased focus on the audit of performance information, this was reported last year and continued in this year.
- 2) the higher expectation and reporting requirement from National Treasury on the audit of assets
- 3) the scale of operations of many auditees is increasing and requires more work.
- 4) the adoption of the capability model when assessing audit risk has resulted in additional work

Note 5

Specialised audit work (increase by R1.1 million on 2007-08) due to:

- 1) the transversal auditing of infrastructure projects in 2007-08, where the tender phase was the focal point
- 2) the implementation of these projects will become the focal point in 2008-09. Further emphasis will be placed on the development and implementation of additional focus areas.

Contract work movement

Given the importance of audit firms in contributing strategic resources towards the audit process, it is the AG's practice to allocate at least 20% of audit work to the firms. In addition to the transformation objective, this particularly assists the AG to optimise its own staff efficiencies whilst simultaneously offering a meaningful proportion of work to the private audit firms. In keeping with the previous year's practice, specific provision has been made for additional contract work to accommodate employee vacancies as well as staff working on international audit assignments.

Budget item	2007-08	2008-09	Comments
	Budget	Budget	
	'000	'000	
20% norm	168,601	242,813	This represents 20% of audit income excluding S&T income, which is in line with the AG practice of awarding at least 20% of work to private audit firms.
Pre-Issuance	7,967	19,714	This is an independent review of audit report before presentation to the auditees.
Vacancies	66,999	101,595	Provision for additional contract work to accommodate the vacancy assumption, which has been changed from 5% in 2007-08 to 10% in the 2008-09. The vacancy assumption is based on the rate of staff turnover and scarcity of skills in the industry.
International	6,958	4,180	
Total	250,525	368,302	

Subsistence and travelling recoverable



AUDITOR - GENERAL

Budget item	2007-08 Budget	2007-08 Forecast	Variance		2008-09 Budget	Change		
	'000	'000	'000	%	'000	'000	%	
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)	
Subsistence and travelling recoverable	45,211	40,554	(4,657)	-10.30%	56,171	10,960	24.24%	Ref. 2.3.1
International S&T	16,772	13,269	(3,503)	-20.88%	11,072	(5,700)	-33.98%	Ref. 2.3.2
Total	61,983	53,823	(8,160)	-13.16%	67,243	5,259	8.48%	

Budget 2007-08 to budget 2008-09 change

The domestic increase is driven largely by an increase in rates at levels of 25% for car travel, 12% for accommodation and 14% for flights as well as increase in number of staff. These rate increases were contained in the budget guidelines provided by service providers.

The decrease in international S&T is due to the reclassification of foreign allowances which were previously included in S&T and is now budgeted under personnel costs as this is fully recoverable.

Other income

Budget item	Ref	2007-08 Budget	2007-08 Forecast	Variance		2008-09 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Interest received	2.4.1	10,153	11,352	1,198	11.80%	7,944	(2,209)	-21.76%
Africa Projects	2.4.2	2,159	1,514	(644)	-29.85%	1,339	(820)	-37.99%
Total		12,312	12,866	554	-18%	9,282	(3,029)	-59.75%

Interest received

The decrease between budget 2007-08 and forecast 2007-08 is due to the withdrawal of R35 million from investment reserves for known future liabilities to fund working capital shortfall. As a result of funding model shortfall and municipalities arrears, it is unlikely that the full amount can be replenished.

Africa Projects

In terms of the Memorandum of Understanding, monthly recoveries from AFROSAI-E in respect of seconded staff are based on total package plus 10% for overheads excluding the Business Executive. The decrease in recoveries is due to a reduced number of seconded staff.



AUDITOR - GENERAL

PERSONNEL EXPENDITURE

Budget item	Note	2007-08	2007-08	Variance		2008-09	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Leave pay provision	3.1	3,761	3,761	-	0.00%	5,388	1,627	43.26%
Medical aid provision	3.2	10,287	8,287	(2,000)	-19.44%	10,366	79	0.76%
Normal salary and benefits ***	3.3	469,379	464,453	(4,927)	-1.05%	574,357	104,978	22.37%
Overtime		-	-	-	0.00%	9,584	9,584	100.00%
Other incentives	3.4	6,557	4,050	(2,507)	-38.23%	4,705	(1,852)	-28.24%
UIF & WCA	3.5	2,573	2,241	(332)	-12.91%	3,023	450	17.48%
Total		492,558	482,793	(9,766)	-1.98%	607,424	114,865	23.32%
% of total income		48.6%	45.0%			47.0%		

*** A more detailed analysis is shown in the tables below

Leave pay provision

Leave pay provision is influenced by the accumulation of leave days allowed in terms of the policy as well as pay increase levels for staff. The level of accumulated leave is expected not to deviate from last year, as new appointments are no longer entitled to accumulated leave. Therefore the increase in the estimate is largely based on the increase of 7% in salaries.

Post-retirement medical aid provision

The PRMA estimates were based on actuarial projections for the 2007-08 forecast and 2008-09 budget. This figure now includes new medical benefits provided for band F and G. The implementation of the band D & F medical aid for 2007-08 budget year took place in September.

Normal salary

Audit staff

Employee group	Total		Average salary per band	Positioning against benchmark -	Comments
	No	000			
Business executive	19	19,641	1,034	703 - 1,215	In-line with benchmark range. We have been recruiting CA's in the Auditors group at a slightly higher cost based on the scarcity.
Senior manager	131	94,348	720	651 - 940	
Managers	324	141,877	438	413 - 657	
Auditors	379	85,137	225	64 - 214	
Trainee accountants	939	89,152	95	48 - 124	
Admin staff	164	15,076	92	126 - 208	
Business unit admin managers	18	7,531	418	413 - 657	
Total	1,974	452,762			

Note: The total Audit Staff costs excludes overtime, foreign allowance and contracted staff (R11.018 million)



A U D I T O R - G E N E R A L

Support staff

Employee group	Total		Average salary per band	Positioning against benchmark - Range '000	Comments
	No	000			
Corporate executive group	20	15,662	783		
AG, DAG and corporate executives	9	11,649	1,294	997 - 1,386	This average salary includes the salaries of the CE's, DAG and AG.
Support team	11	4,014	365	398 - 689	Slightly below industry due to the upgrading of corporate secretaries to band D.
Business executives	8	8,084	1,010	703 - 1,215	In line with the benchmark range
Corporate Services	8				
Senior managers	34	22,976	676	542 - 928	In line with the benchmark range
Africa Projects	1				
Corporate Services	32				
Employment Equity	1				
Managers	110	46,005	418	398 - 689	In line with the benchmark range
Africa Projects	2				
Corporate Services	107				
Employment Equity	1				
Specialists and practitioners	100	21,391	214	209 - 348	In line with the benchmark range
Africa Projects	2				
Corporate Services	97				
Employment Equity	1				
Admin staff	30	3,997	133	126 - 208	
Africa Projects	1				
Corporate Services	29				
Transformation	0				
Total Corporate Services	296	116,067			
Total Africa Projects	6	2,047			
Total	302	118,114			In line with benchmark range

Total staff



AUDITOR - GENERAL

Business focus areas	2007-08 Total		2008-09 Total		Comments
	No	'000	No	'000	
Total audit staff (including foreign allowance)	1,740	362,432	1,974	452,762	The increase is influenced mainly by the increase in audit activity, span of control as well the creation of new centres and business units. The costs excludes overtime, foreign allowances and contracted staff.
Total Corporate Services staff	253	95,521	296	116,067	This increase is based on critical additional positions (Finance, Human Capital, Information Technology, Research & Development and Governance) which were not included in the structure during restructuring. The costs excludes overtime, foreign allowance
Total Africa Projects - secondments	9	3,043	6	2,047	In terms of the Memorandum of Understanding, monthly recoveries from AFROSAI-E in respect of seconded staff will be based on total package plus 10% for overheads. This excludes the cost of the BE and Secretary, hence the recovery of R1,339 million, includ
Total	2,002	460,996	2,276	570,876	The 24% increase is explained below.

From the above analysis it is clear that the average salary levels are in line with the industry norm that was established in the previous year, hence the rate increase of 7% is in line with budget. The additional driver of the increased salary costs is the increased number of staff of 13% in line with increased audit activity.

Other incentives

Budget item	2007-08 Budget	2007-08 Forecast	Variance		2008-09 Budget	Change		Comments
	'000	'000	'000	%	'000	'000	%	
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)	
Group life scheme	5,603	3,024	(2,579)	-46.02%	3,500	(2,103)	-37.53%	The decrease is due to the change in Service Provider which resulted in lower rates and improved benefit for staff members. The movement between forecast 2007-08 and budget 2008-09 is due to the reclassification of band F & G medical aid scheme to medical
Long service awards	253	277	25	9.70%	385	133	52.48%	This is based on the number of entitlements as per the Human Capital database.
Business unit recognition scheme	702	749	48	6.78%	820	118	16.88%	This is used for team excellence recognition initiatives and is driven by number of staff.
Total	6,557	4,050	(2,507)	-30%	4,705	(1,852)	31.82%	



AUDITOR - GENERAL

UIF & WCA

Budget item	Budget 2007-08	Budget 2008-09	Change		Comments
	000	000	000	%	
	(1)	(2)	(2)-(1)	(2)-(1)	
UIF employer's contribution	2,173	2,583	410	19%	Increase is due to increase in number of staff
Workmen's compensation premiums	400	440	40	10%	
Total	2,573	3,023	450	17.48%	

These levies are based on the full staff complement and have been calculated for the full year. The rate used is in terms of the relevant legislation.

CONTRACT WORK – IRRECOVERABLE

Budget item	2007-08 Budget	2007-08 Forecast	Variance		2008-09 Budget	Change	
	'000	'000	'000	%	'000	'000	%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Contract work - irrecoverable	13,052	11,673	(1,379)	-10.56%	18,329	5,277	40.43%
- Ongoing	3,893	3,482			13,042		
- Once-off	9,159	8,192			5,288		
Total	13,052	11,673	(1,379)	-10.56%	18,329	5,277	40.43%
% of total income		1.3%		1.1%			1.4%

The analysis below reflects details of the nature of expenditure. As these activities are by nature not repetitive, the comparatives and commentary for the previous year are not provided, since these do not relate to the 2008-09 budget.



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Budget item	Budget 2007-08			Budget 2008-09			Comments
	Ongoing 000	Once-off 000	Total 000	Ongoing 000	Once-off 000	Total 000	
QC	1,530	0	1,530	1,576	473	2,049	Peer review, mandated firm level review, independent Corporate Services quality check, Independent Regulatory Board for Auditors mandatory file review, Independent Regulatory Board for Auditors mandatory internal process quality control review and investi
Risk				350	0	350	Various risk assessments including health and safety; assessment of the organization exposure to fire hazards and assessment of our organization's resilience to ICT vulnerabilities.
Independent stakeholder survey	1,253		1,253	1,992	0	1,992	Reputation Index and Culture Index surveys , additional surveys: Customer Needs Analysis and strategic alignment plus content and visual audit
Branding	528		528	657	0	657	Space planner, brand manual and AG Centenary Book
Reporting				496	0	496	Hours short on reporting, translation of reports during peak periods.
Feasibility study of language practitioners				0	150	150	Revision of the language practitioners' role and capacity for audit business units; effectively support the AG-wide initiative to make the AG's reports more relevant and user-friendly to all stakeholders. SMW 2007 Resolution – Relevance of reporting
Benchmarking	415	898	1,313	148		148	Annual salary benchmarking for staff including trainees salary levels which are adjusted twice per annum in line with industry norms.
ICT development	0	6,017	6,017	3,043	4,052	7,095	2008-09 is the second phase of the 5 year ICT road map that will stabilise the systems to ensure optimum use of the current anchor software and infrastructure. The AG's ICT spend in the past 2 to 3 years has been sub-optimal and significant additional i
EE Forum	167		167	210	0	210	The amount is for the following projects: * Bi monthly meetings with the external chair and the women's day event, * Diversity audit * BEE Strategy
Technical Development				2,159	0	2,159	The costs are based on audit technical developments required in respect of peer review, performance audit, quality assurance and Public Audit Manual.
HC Projects				2,410	613	3,023	Projects includes amongst others, Implementation of Leadership Development Programme and advice on strategic Innovation management.
Total	3,893	9,159	13,052	13,042	5,288	18,329	



A U D I T O R - G E N E R A L

S&T IRRECOVERABLE

Budget item	2007-08 Budget	2007-08 Forecast	Variance		2008-09 Budget	Change	
	'000	'000	'000	%	'000	'000	%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
S&T irrecoverable	7,098	5,843	(1,255)	-17.68%	7,350	252	3.54%
Total	7,098	5,843	(1,255)	-17.68%	7,350	252	3.54%
% of total income	0	0.5%			0.6%		

In addition to the details in the table below the main components of the S&T irrecoverable include travel for assessments in respect of leadership development and recruitment of Band D.



AUDITOR - GENERAL

Business unit	Total amount without video-conferencing	Reduction due to video-conferencing	2007-08 Budget	Total amount without video-conferencing	Reduction due to video-conferencing	2008-09 Budget	Comments (nature of expense)
	'000	'000	'000	'000	'000	'000	
Audit Services	2,246	518	1,728	2,757	612	2,145	The S&T is mainly for provinces where there is more than one office, (Eastern Cape, KwaZulu-Natal, Mpumalanga and North West provinces) and influenced by the increased staff numbers and cost associated with S&T (travelling allowances and accommodation)
Corporate Executives	1,784	412	1,372	1,197		1,197	The costs relates to travelling to enhance strategic alignment and leadership effectiveness of the business unit leaders. This costs are also to improve visibility of senior executives with senior officials such as premiers and speakers.
Africa Projects	59	14	45	36	-	36	Reduced participation in administrative AFROSAI-E activities, as a result of the formation of a full-time AFROSAI-E secretariat.
Governance	319	74	245	518	30	488	The costs are based on audit technical developments required in respect of peer review, performance audit, quality assurance and Public Audit Manual.
Finance				319	96	223	Engagement with core audit business planned in order to improve relevance of financial reporting.
Information Systems				181	-	181	ICT already make use of remote management tools, and video conferencing. This amount is reduced to the regional visits for set up of new equipment or centres.
Human Capital				1,309	302	1,007	This is in respect of recruitment & assessments that relate to the proactive recruitment drive particularly for trainees & CA's throughout the country.
Research & Development				1,330	820	510	The costs related to new governance structures (technical committee and related forums) provided for. The costs related to the product champion forums were reduced by making use of video-conferencing
Operational & Transactional Management	2,340	540	1,800	-	-	-	Operations and Transaction Management has been split into two Business Unit i.e. Finance & Human Capital.
Stakeholder Management	1,799	415	1,384	1,379	301	1,078	Essential travelling relating to facilitating action plans on the reputation index in the form of EWP workshops, parliamentary staff alignment and senior management advisory sessions
Special & Strategic Projects	206	-	206	-	-	-	Special and Strategic Projects has been split into two Business Units i.e. Research & Development as well as Information Technology.
Strategy	168	39	129	173	40	133	Strategy review will necessitate consultative workshop process with business units.
Transformation	246	57	189	352	-	352	This is due to the S&T for the following (meetings) that would be taking place: * Benchmarking meetings - Transformation related; * Meetings with the external chairperson; * Creation of new committee - Gender and Disability Committees; * EE Forum
Total	9,166	2,068	7,098	9,551	2,201	7,350	

AC



AUDITOR - GENERAL

ACCOMMODATION

Rentals

The 26% increase in rentals from 2007-08 budget to 2008-09 is as a result of increase in square metres occupied due to new premises for Pretoria and Eastern Cape. These new premises are required to accommodate an additional 210 staff.

Location	Monthly cost per square metre : 2007-08	Square metres occupied	Total staff establishment	Annual cost	AG - square metres per staff member	Industry benchmark square metres per staff member	Monthly cost per square metre : 2008-09	Industry benchmark monthly cost per square metre	Comments
Western Cape	62	1,436	161	1,024,356	8.9	15.6	59	102	Below Benchmark
Eastern Cape	55	2,628	217	2,778,867	12.1	15.6	88	88	In line with the benchmark
Mpumalanga	61	1,010	80	944,200	12.6	15.6	78	100	Below Benchmark
KwaZulu-Natal	82	2,236	176	1,869,529	12.7	15.6	70	75	Below Benchmark
North West	79	1,645	116	1,374,318	14.2	15.6	70		No benchmark available
Limpopo	66	1,415	85	1,215,120	16.6	15.6	72	75	In line with the benchmark
Northern Cape	49	1,022	76	772,156	13.4	15.6	63		No benchmark available
Johannesburg	93	2,710	176	2,013,331	15.4	15.6	62	67	Below Benchmark
Free State	47	1,828	122	1,446,224	15.0	15.6	66	75	
Pretoria	75	13,604	1,067	14,440,134	15.2	15.6	88	95	In line with the benchmark
Total	70	29,534	2,276	27,878,235	13.0	15.6	79	85	
% of total income				2008-09 budget	2.2%				
				2007-08 budget	2.1%				

Operating costs

When comparing the 2007-08 budget to the 2008-09 budget, the increase of 30% is based on service agreements, most of which are linked to the rental agreements. A number of units moved in 2007-08 or are planned to move into new premises for increased capacity reasons. The increased capacity is driven by the planned additional staff.

LIAISON

Budget item	Ref.	2007-08 Budget	2007-08 Forecast	Variance		2008-09 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Liaison	7.1.1	4,821	3,614	(1,207)	-25.03%	6,535	1,714	35.55%
Internal stakeholder	7.1.2	2,357	2,033	(325)	-13.78%	3,200	843	35.75%
External stakeholder	7.1.3	1,280	1,128	(152)	-11.86%	1,777	497	38.79%
Total		8,459	6,775	(1,684)	-19.90%	11,512	3,053	36.09%
% of total income			0.8%	0.7%		0.9%		

STAKEHOLDER RELATIONSHIP

Liaison

The increase in costs is influenced by the preparation to host the AFROSAI in 2008 and INCOSAI to be held in South Africa in November 2010. In addition, increased engagement between executive level staff and the auditees is planned.



AUDITOR - GENERAL

Internal stakeholder

Budget item	2007-08 Budget			2008-09 Budget			Variance		Comments
	No	Amount	Total	No	Amount	Total	Rate	Volume	
	(1)	(2)	000	(3)	(4)	000	(3)-(1)	(3)-(1)	
BU team interventions	1,894	800	1,515	2,276	1,000	2,276	200	382	Increase in number of employees and the rate per employee. Rate increase by inflation and the fact that actual costs are higher than R800 a head.
CE-led strategic alignment interventions			842			924	82	-	These are activities that occur every year and integrated into the CE's strategic alignment in order to achieve maximum impact and cost effectiveness
Total			2,357			3,200	282	382	

External stakeholder

Budget item	2007-08 Budget			2008-09 Budget			Variance	
	No	Allowance	Total	No	Allowance	Total	Rate	Volume
	(1)	(2)	000	(3)	(4)	000	(3)-(1)	(3)-(1)
BE - National	16	10,000	160	18	10,000	180	-	20,000
BE - Provincial	9	20,000	180	9	20,000	180	-	-
SM	126	5,000	630	165	5,000	825	-	195
Exco	7	44,317	310	9	65,778	592	150,225	131,556
Total	158		1,280	201		1,777	150,225	151,751

Each senior management level has a fixed amount for external stakeholder interactions. The standard amount has not changed from the previous year. The executive are planned to have increased regional and auditee engagements.

Regional Congresses (Strategic Alignment workshops (VA/OA))

Budget item	2007-08 Budget			2008-09 Budget			Variance	Comments
	No	Amount	Total	No	Amount	Total	(3)-(1)	
	(1)	(2)	'000	(3)	(4)	'000		
BU / CE workshop	2,002	1,312	2,626	2,276	2,271	5,169	2,543	The cost is based on an average of R2,292 p/p, the increase is due to staff numbers.
Senior Management Workshop			1,400	-	-	-	(1,400)	The cost for 2008-09 is included under S&T irrecoverable
Total	2,002		4,026	2,276		5,169	1,143	



AUDITOR - GENERAL

Foreign visitors

Budget item	2007-08	2007-08	Variance		2008-09	Change	
	Budget	Forecast			Budget		
	'000	'000	'000	%	'000	'000	%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Foreign visitors	84	85	1	1.33%	85	0	0.36%

These relate to hospitality expenses for foreign visitors from Supreme Audit Institutions on a reciprocal basis. This is based on the expected visitors for the following year.

Overseas travel

Budget item	Ref.	2007-08	2007-08	Variance		2008-09	Change		Comments
		Budget	Forecast			Budget			
		'000	'000	'000	%	'000	'000	%	
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)	
Auditor-General & DAG	7.4.1	500	609	109	21.87%	1,620	1,120	224.00%	Planned trips for the AG's and DAG participation in the Commonwealth and INTOSAI forums.
Research and Development	7.4.2	500	609	109	21.87%	948	448	89.56%	This is in respect of Corporate Services to trips abroad for training, conferences and research. These are however subject to approval by DAG.
Total		1,000	1,219	219	21.87%	2,568	1,568	156.78%	

AG and DAG

- AG INTOSAI global working group
- AFROSAI activities AG now actively involved in the board
- Contingency for unplanned visits to countries on invitation
- Commonwealth and Global Working Group

Various international technical and study tours.

All overseas travel will be supported by a detailed motivation and be approved according to Management Approval Framework. The amount is allocated in equal amounts to people management, product (audit) and process improvements.

CONTROL BODIES



AUDITOR - GENERAL

Budget item	2007-08	2007-08	Variance		2008-09	Change		Comments
	Budget	Forecast	'000	%	Budget	'000	%	
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)	
Parliamentary Oversight Mechanism	130	130	-	0.00%	-	(130)	0.00%	
Labour & staff relations (Union and consultative forum meetings)	318	319	1	0.25%	255	(63)	100.00%	The amount is in respect of consultative forums with the AG in common matters of Policy. Same number of meetings as previous years expected to be held in 2008-09 budget year.
Corporate Governance Boards (AG Advisory Board, Audit Committee and Quality Control Assessment Committee)	276	218	(58)	-20.97%	194	(82)	-29.73%	Separate classification of the parliamentary oversight mechanism and reduction of frequency of meetings in line with the governance review study.
Parliamentary liaison	222	222	0	0.00%	-	(222)	0.00%	The budget has been reclassified to Liaison budget item.
Total	946	889	(57)	-6.03%	449	(275)	-29.08%	
% of total income	0	0.1%			0.0%			

AUDIT FEES

External audit fees

Budget item	2007-08	2007-08	Variance		2008-09	Change		Comments
	Budget	Forecast	'000	%	Budget	'000	%	
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)	
Financial audit	1,300	1,061	(239)	-18.38%	959	(341)	-26.23%	The audit costs are based on the estimates provided by Auditors
Performance information audit (Balanced Scorecard)	300	399	99	33.00%	703	403	134.33%	The costs are based on the time estimated to conduct Balanced Score Card Audit. The 2006 performance year's experience indicated that more hours were needed to perform the balance score card audit.
Due diligence	90	90	-		0	(90)		
Tender Committee	120	120	-	0.00%	100	(20)	-16.67%	
Salary review	60	60	-	0.00%	138	78	130.00%	The increase is due to more time required to conduct the audit due to increase in staff numbers as well as increase in scope.
Total	1,870	1,730	(140)	-7.49%	1,900	30	1.60%	
% of total income	0.2%	0.2%			0.1%			

Internal audit fees



AUDITOR - GENERAL

Budget item	2007-08	2007-08	Variance		2008-09	Change	
	Budget	Forecast			Budget		
	'000	'000	'000	%	'000	'000	%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Routine financial audits	523	523	-	-	909	386	73.80%
Routine human capital related audits	205	205	-	-	200	(5)	-2.44%
Routine internal controls audits	122	122	-	-	122	-	0.00%
Business unit visits	572	572	-	-	599	27	4.72%
Ad hoc assignments and System queries	236	236	-	-	210	(26)	-11.02%
Project management and attendance of Audit Committee meetings	407	407	-	-		(407)	-100.00%
Risk management meetings and strategic risk assessment	207	207	-	-	100	(107)	-51.69%
Disbursements	48	48	-	-	60	12	25.00%
Total	2,320	2,320	-	-	2,200	(120)	-5.17%
% of total income	0.2%	0.2%			0.2%		

The forecast 2007-08 and budget 2008-09 is reflection of the internal audit costs based on the audit coverage plan.

FINANCE CHARGES

Budget item	2007-08	2007-08	Variance		2008-09	Change	
	Budget	Forecast			Budget		
	'000	'000	'000	%	'000	'000	%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Finance charge	1,920	2,646	726	37.80%	2,516	596	31.05%
% of total income	0.2%	0.2%			0.2%		

The increase in finance charges of 31% in 2007-08 to 2008-9 budget is largely attributed to the interest rate increase as well as additional notebooks financed.



AUDITOR - GENERAL

RECRUITMENT EXPENSES

Budget item	2007-08 Budget	2007-08 Forecast	Variance		2008-09 Budget	Change		COMMENTS
	'000	'000	'000	%	'000	'000	%	
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)	
Advertisements	800	813	13	1.58%	500	(300)	-37.50%	The use of other strategic recruitment partners reduces the costs for this recruitment budget item
Personnel agency fees	8,500	8,461	(39)	-0.46%	8,280	(220)	-2.59%	Slight reduction in costs however significant amount will continue to be invested to ensure robust pipeline of recruitment
Interviews	210	261	51	24.27%	489	279	132.68%	The increase is in line with the recruitment drive aimed at reducing vacant positions.
Transfer and relocation expenses	2,521	2,521	-	0.00%	1,750	(771)	-30.59%	The decrease is due to a more accurate budget for 2008-09. The policy on rotation is still being reviewed by EXCO.
Total	12,031	12,056	25	0.21%	11,019	(1,012)	-8.42%	
% of total income	1.2%	1.1%			0.9%			

PROFESSIONAL ASSISTANCE

This relates to the investment the office is making towards continuous learning and development of staff, the details of which are as follows:

Budget item	Ref.	2007-08 Budget	2007-08 Forecast	Variance		2008-09 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Membership fees	12.1	3,711	3,725	15	0%	5,531	1,820	49%
Training	12.2	19,019	11,936	(7,083)	-37%	15,348	(3,671)	-19%
Study assistance: employees	12.3	10,177	9,393	(784)	-8%	12,945	2,768	27%
HC development projects	12.4	3,241	5,757	2,516	78%	5,810	2,569	79%
Bursaries	12.5	10,115	10,104	(11)	0%	10,500	385	4%
Skills development levy		4,526	4,421	(105)	-2%	5,842	1,316	29%
Skills dev. levy - recovered		(2,373)	(2,271)	102	-4%	(2,921)	(548)	23%
Total		48,416	43,066	(5,349)	-11%	53,055	4,639	10%
% of total income		4.5%	4.3%			4.1%		

Internal Training

The schedule below details the main drivers of internal training expenditure:



AUDITOR - GENERAL

Type of expense	2007-08 Budget		2008-09 Budget		Change		Comments
	% breakdown	000	% breakdown	000	000	%	
Meals	18.6%	1,121	34.7%	1,172	51	5%	Trend is in line with the increase in staff numbers
Internal presenters - S&T cost to region	2.2%	227	9.7%	327	100	44%	Influenced by multiple trips to cover increased staff numbers and general increase in travel expenses.
Venue costs	10.3%	371	11.1%	376	5	1%	
S&T	67.8%	7,294	44.5%	1,501	(5,793)	-79%	Influenced by multiple trips which have been incorrectly budgeted for
Total internal training	100%	9,014	100%	3,376	(5,638)	-63%	

In addition to the ATCOR courses for trainee accountants there is an increased emphasis on external training to provide i) continuing professional development (CPD) programmes for an extended number of employees in both audit and non-audit disciplines ii) promote full compliance with the minimum qualification framework (MQF) requirements.

Study assistance: employees

The movement in this figure is influenced by the requirements of the study support policy that offers bursaries only to employees that meet the academic progress requirements. In addition to the new intake of trainees, the academic progress assumption based on the historical trend is set at 30%. From 2007-08 budget candidates will be required to fund 30% of the total costs, this is expected to have a positive impact on the commitment and pass rate.

Course of study	2007-08 Budget	2008-09 Budget	COMMENTS
	'000	'000	
Diploma	894	179	
Degree	1,129	2,840	In line with the AG's preference to focus on graduate students as well as the increase in number of students (150%).
CTA / Honours	2,883	4,783	increase is due to growth (33%) in the number of students.
FQE support courses	3,514	3,700	In line with the AG's focussed recruitment of post graduate CTA students that are ready to write FQE
Other	22	426	
MBA	122	113	
Post-graduate	612	623	New trend relating primarily to Corporate Services staff pursuing MQF requirements
Registered Government Auditor - examination fees 150 persons	200	236	Pilot programme study support for RGA trainees
Train the Trainer	98	45	To obtain trainers accreditation status by existing trainers in line with MQF requirements.
Total	9,474	12,945	



AUDITOR - GENERAL

HC development projects

Type of project	2007-08 Budget	2008-09 Budget	Comments
Development of technical courses	809	1,163	Development of courses is focusing on improving audit efficiencies and quality, which is intended to train audit staff at all levels in the enhanced and standardised audit methodology. The other focus area relates to the development of leadership effect
Development of non-technical courses	350	2,011	
Competency development	2,082	2,627	
Total	3,241	5,801	

External student bursaries

This programme of awarding bursaries to outside students is in line with the medium to long-term strategic intent to invest in people development relating to AG,s business. This will also attract adequately qualified trainees that are ready to write the final qualifying exams.

Institution	No. of students	Level	Budget 2007-08	No. of students	Level	Budget 2008-09
NSOA/FLB	40	CTA	2,877	40	CTA	2,520
Under Graduates	64	B.com	2,138	40	B.com	1,752
Fort Hare	25	CTA	1,050	20	CTA	1,368
Fort Hare lecturer's	-		3,000			3,600
Thuthuka	30		1,050	30		1,260
Total	159		10,115	130		10,500



AUDITOR - GENERAL

Bursaries are awarded using the following process:

A number of student is budgeted for by the AG

Applications are then invited from prospective accountancy students

Interviews are conducted and selections made

Bursaries awarded on the production of university admission of selected candidates by participating universities.

Participating universities in addition to NSOA and University of Fort Hare are

WITS University

University of Johannesburg

University of Pretoria

University of South Africa

University of Cape Town

TECHNOLOGICAL SERVICES

Budget item	Ref.	2007-08	2007-08	Variance		2008-09	Change	
		Budget	Forecast	'000	%	Budget	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Computer services	14	21,816	21,573	(243)	-1.12%	25,023	3,207	14.70%
Hiring of equipment - rental	13	2,865	2,535	(330)	-11.51%	2,906	41	1.44%
Hiring of equipment - copy charges		799	822	22	2.80%	985	185	23.18%
Total		25,480	24,930	(551)	-2.16%	28,914	3,434	13.48%
% of total income		2.4%	2.5%			2.2%		

Hiring of equipment – rental

The costs decrease in forecast and future budget is due to a decrease in number of multi-functional devices. This is as a result of more efficient usage of the devices.



AUDITOR - GENERAL

COMPUTER SERVICES

Budget item	Ref.	2007-08	2007-08	Variance		2008-09	Change		Comments
		Budget	Forecast	'000	%	Budget	'000	%	
		'000	'000	(2)-(1)	(2)-(1)	'000	(3)-(1)	(3)-(1)	
IT maintenance and support	14	5,599	5,537	(62)	-1.11%	11,981	6,381	113.96%	The increase is mainly due to a more accurate budgeting in 2008-2009, restructuring of OTIT and SSP as well as the reclassification of IT related expenditure items.
Networks	14	7,759	7,672	(87)	-1.12%	6,511	(1,248)	-16.09%	
Security	14	2,345	2,319	(26)	-1.11%	554	(1,791)	-76.39%	
Telecommunications	14	6,113	6,045	(68)	-1.11%	5,978	(135)	-2.20%	
Total		21,816	21,573	(243)	-1.11%	25,023	3,207	14.70%	
% of total income		2.2%	2.0%			1.9%		0.00%	

INSURANCE AND LEGAL FEES

Insurance premiums

Budget item		2007-08	2007-08	Variance		2008-09	Change		Comments
		Budget	Forecast	'000	%	Budget	'000	%	
		'000	'000	(2)-(1)	(2)-(1)	'000	(3)-(1)	(3)-(1)	
Insurance premiums	817	1,014	197	24.14%	811	(6)	-0.71%	Reduction of the premiums is due to process of obtaining competitive rates.	
Legal fees and contingency	960	962	2	0.23%	1,230	270	28.13%	The increase is due to an increase in anticipated court cases, amendments to PAA and issues of regulation to PAA.	
Total	1,777	1,977	199	11.23%	2,041	264	14.87%		
% of total income		0.2%	0.2%			0.2%			



AUDITOR - GENERAL

AUXILIARY SERVICES

Budget item	2007-08	2007-08	Variance		2008-09	Change	
	Budget	Forecast			Budget		
	'000	'000	'000	%	'000	'000	%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Auxiliary Services	9,271	8,149	(1,121)	-12.09%	13,163	3,892	41.99%
Total	9,271	8,149	(1,121)	-12.09%	13,163	3,892	41.99%
% of total income	0.9%	0.8%			1.0%		

The increase of 42% in Auxiliary Services is mainly due to increases in:

- i) Cleaning Services, where a R1m increase is driven by cleaning contracts for new buildings R0.3m, recassification of costs R0.5m and increase in existing contracts of R0.2m.
- ii) Office improvements, where R1.720m increase is mainly driven by the establishment of new offices R1.70m and replacement of old office items R0.015m.
- iii) Refreshment, where the increase of R0.553m is mainly driven by increase in number of staff.

COMMUNICATION

Budget item	Ref.	2007-08	2007-08	Variance		2008-09	Change	
		Budget	Forecast			Budget		
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Telephone charges	17	3,212	3,309	97	3.01%	3,871	659	20.50%
Cell phone charges	17	1,451	1,231	(220)	-15.18%	1,610	159	10.95%
Postage and courier services		805	704	(101)	-12.55%	714	(91)	-11.33%
Total		5,469	5,244	(225)	-4.11%	6,195	726	13.28%
% of total income		0.5%	0.5%			0.5%		

Telephone charges

The costs are mainly influenced by the number of staff, the nature of the job and the inflation rate

Cell phone charges

The increase from the 2007-08 budget to the 2008-09 budget is due to an increase in the number of phones budgeted, the allowance has been kept the same at R585 per month.



AUDITOR - GENERAL

DEPRECIATION

Budget item	2007-08	2007-08	Variance		2008-09	Change	
	Budget	Forecast			Budget		
	'000	'000	'000	%	'000	'000	%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Motor vehicles	321	314	(7)	-2.07%	299	(21)	-6.63%
Furniture & equipment	3,265	1,162	(2,103)	-64.41%	2,157	(1,108)	-33.94%
Computer equipment	15,571	11,519	(4,052)	-26.02%	17,893	2,323	14.92%
Computer software	8,264	6,895	(1,369)	-16.56%	7,185	(1,078)	-13.05%
Leasehold improvements	807	2,327	1,520	188.47%	1,478	671	83.18%
Total	28,226	22,217	(6,010)	-21.29%	29,013	786	2.79%
% of total income	2.8%	2.1%			2.2%		

The depreciation expense budget is based on existing assets and the expected capital expenditure using the current office policy. This is in line with capital expenditure movements.

CAPITAL EXPENDITURE BUDGET

As part of the cash flow management principle, the office has introduced the capex capping principle for the audit business units. This is aimed at limiting capex (excluding ICT expenditure) to no more than the following limits of current year's own hours income.

- '- 0.5% capping on own hours turnover
- '- 1.5% capping on own hours turnover for centralised ICT capex.

Motor vehicles

Description	2007-08	Acquisitions	Depreciation	2008-089
	Forecast			Budget
	NCV			NCV
	'000	'000	'000	'000
Motor vehicles	1,201	429	299	1,331
Total	1,201	429	299	1,331

Location	2007-08	2007-08	2008-09
	Budget	Forecast	Budget
	'000	'000	'000
Pool Car for Eastern Cape	350	531	429
Contingency for the insurance excess	200	200	-
Total	550	731	429



AUDITOR - GENERAL

Office furniture and equipment

Description	2007-08 Forecast	Acquisitions	Depreciation	2008-09 Budget
	NCV			NCV
	'000	'000	'000	'000
Furniture and equipment	7,245	13,072	2,157	18,161
Total	7,245	13,072	2,157	18,161

Location	2007-08 Budget	2007-08 Forecast	2008-09 Budget	Comments
	'000	'000	'000	
KwaZulu-Natal	1,860	1,242	975	Replacement of old furniture
Eastern Cape	3,285	2,470	487	Furniture for new premises.
North West	369		96	New furniture
Gauteng	2,820		3,292	Furniture for new premises.
Limpopo	206	29		New furniture
Mpumalanga	641		510	Replacement of old furniture
Pretoria	1,938	1,765	6,882	New furniture
Free State	75	52	18	Replacement of old furniture
Northern Cape	49	46	792	Replacement of old furniture
Western Cape	-		20	New furniture
Total	11,243	5,604	13,072	

Leasehold improvements

Description	2007-08 Forecast	Acquisitions	Depreciation	2008-09 Budget
	NCV			NCV
	'000	'000	'000	'000
Leasehold improvements	7,705	5,274	1,478	11,501
Total	7,705	5,274	1,478	11,501



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Location	2007-08 Budget	2007-08 Forecast	2008-09 Budget	Comments
	'000	'000	'000	
Eastern Cape	792	957		
North West	27	27	27	Work planned to improve signage in line with the branded norms.
Gauteng	750	2,486		
Head office	900	123	5,169	Leasehold improvements for the new offices for National E & F.
KZN	186	187	78	
Northern Cape	6	9		
Total	2,661	3,789	5,274	

The increase is linked to the planned move of office premises.

Computer hardware

Description	2007-08 Forecast	Acquisitions	Depreciation	2008-09 Budget
	NCV			NCV
	'000	'000	'000	'000
Computer hardware	22,905	29,581	17,893	34,593
Total	22,905	29,581	17,893	34,593

Budget item	Ref.	2007-08 Budget	2007-08 Forecast	Variance		2008-09 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Regional equipment	19.4.1	3,585	2,454	(1,131)	-31.54%	12,602	9,017	251.56%
Networks	19.4.2	558	382	(176)	-31.54%	4,060	3,502	627.68%
Security	19.4.3	221	151	(70)	-31.54%	3,028	2,807	1272.00%
Notebooks	19.4.4	11,487	7,864	(3,623)	-31.54%	9,891	(1,596)	-13.89%
Total		15,850	10,851	(4,999)	-31.54%	29,581	13,731	86.63%

Regional equipment

These are critical requirements to replace out of date regional servers, printers and other equipment which are ell beyond their 3-year life cycle.

Networks

The network equipment budgeted for is to ensure the upgrade and replacement of old and dated equipment at the provincial offices and Pretoria to improve the speed and response times over the wide area network.

Security

Upgrade of security relating to audit and the information stored

Notebooks

Replacement of 313 and acquisition of 424 notebooks. The increase is in line with the trend of the office to replace approximately a third of the total notebooks annually.



AUDITOR - GENERAL

Computer software

Description	2007-08 Forecast	Acquisitions	Depreciation	2008-09 Budget
	NCV			NCV
	'000			'000
Computer software	17,235	1,785	7,185	11,834
Total	17,235	1,785	7,185	11,834

Budget item	Ref.	2007-08 Budget	2007-08 Forecast	Variance		2008-09 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Regional systems	19.5.1	30	27	(3)	-10.24%	488	458	1526.67%
Systems	19.5.2	7,649	6,865	(784)	-10.24%	1,010	(6,639)	-86.79%
Security		1,564	1,404	(160)	-10.24%	286	(1,278)	-81.72%
Total		9,243	8,296	(947)	-10.24%	1,784	(7,459)	-80.70%

Regional systems

	2007-08 Budget	2007-08 Forecast	2008-09 Budget
Scheduling and process software	30	27	-
Various software upgrades	-	-	208,000
Desktop Publishing Software	-	-	50,000
Monitoring Software (Event Logs)	-	-	30,000
Network Monitoring (HP)	-	-	200,000
Total	30	27	488,000



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Systems

Budget item	2007-08 Budget	2007-08 Forecast	2008-09 Budget
	'000	'000	'000
CSA Tool enhancement and development	508	456	
Oracle Enterprise Management	444	399	
People soft Cash Management	250	224	
SAS Business Intelligence Toolset	150	135	
Portfolio Manager Toolset	150	135	
Business Process Management	1,036	930	
ADOBE Acrobat Reader	73	65	5
TAMS	1,300	1,167	
MS Enterprise Select Agreement	3,038	2,727	
Other (Document Management & Cold fusion Web Software)	700	628	
E-Learning Software			250
FrontPage upgrade			5
Ghost Software			500
Purchase of PS budget module if feasibility study is successful			250
Total	7,649	6,865	1,010

Most of the items budget for 2007-08 are expected to be implemented as originally planned hence the decrease in 2008-09 budget year.

EMPLOYEE WELLNESS PROGRAMME

Budget item	2007-08 Budget	2007-08 Forecast	Variance		2008-09 Budget	Change	
	'000	'000	'000	%	'000	'000	%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Employee Wellness Programme	1,922	1,922	-	0%	1,730	(192)	-10%
Total	1,922	1,922	-	0%	1,730	(192)	-10%

The Employee Wellness Programme is expected to continue to experience high usage in 2008-09. For the next budget cycle the wellness programme will be extended to cover special focus on prevalence testing, management intervention on MIS, treatment and support for employees, employee education and awareness. This proactive initiative will be managed with the assistance of a wellness service provider.



A U D I T O R - G E N E R A L

Budget item			Budget 2007-08	Budget 2008-09			
			Total	Ongoing	Once-off	New	Total
Prevalence testing			729	343			343
Management intervention on MIS.			438	325			325
Treatment and support for employees			299	165			165
Employee education and awareness and corporate social responsibility			306	717			717
Health and safety			150	180			180
Total			1,922	1,730	0	0	1,730



AUDITOR - GENERAL

Annexure 3: Proposed internal rates

AUDITOR-GENERAL

PROPOSED INTERNAL RATES (AT A 4% INCREASE) FOR 2008-09

1		2	3	4	5	6	2007/08 Budget
PACKAGE		Total	Standard	Recoverable	Total own	Proposed tariffs as per markup	tariff
From	To	staff	recoverable hours	hours	hours income		
SENIOR MANAGER		131					
700,000	-	72	1,265.6	91,125	85,293,000	936	900
680,000	- 699,999	11	1,265.6	13,922	13,030,875	936	900
660,000	- 679,999	5	1,265.6	6,328	5,923,125	936	900
640,000	- 659,999	21	1,265.6	26,578	24,877,125	936	900
620,000	- 639,999	6	1,265.6	7,594	7,107,750	936	900
600,000	- 619,999	4	1,265.6	5,063	4,738,500	936	900
580,000	- 599,999	5	1,265.6	6,328	5,923,125	936	900
560,000	- 579,999	5	1,265.6	6,328	5,923,125	936	900
540,000	- 559,999	2	1,265.6	2,531	2,341,406	925	889
520,000	- 539,999	0	1,265.6	-	-	891	857
500,000	- 519,999	0	1,265.6	-	-	859	826
		131		165,797	155,158,031	936	895
						4.6%	
AUDIT MANAGER		324					
470,000	-	86				732	704



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			1,417.5	121,905	89,234,460		
450,000	- 469,999	56	1,417.5	79,380	58,106,160	732	704
430,000	- 449,999	63	1,417.5	89,303	62,511,750	700	673
410,000	- 429,999	39	1,417.5	55,283	36,983,993	669	643
390,000	- 409,999	25	1,417.5	35,438	22,609,125	638	613
370,000	- 389,999	12	1,417.5	17,010	10,308,060	606	583
350,000	- 369,999	4	1,417.5	5,670	3,248,910	573	551
330,000	- 349,999	9	1,417.5	12,758	6,889,050	540	519
310,000	- 329,999	6	1,417.5	8,505	4,337,550	510	490
290,000	- 309,999	8	1,417.5	11,340	5,409,180	477	459
270,000	- 289,999	9	1,417.5	12,758	5,689,845	446	429
250,000	- 269,999	0	1,417.5	-	-	415	399
230,000	- 249,999	7	1,417.5	9,923	3,800,318	383	368
210,000	- 229,999	0	1,417.5	-	-	349	336
190,000	- 209,999	0	1,417.5	-	-	318	306
				459,270	309,128,400	673	609
AUDITOR	379					10.5%	
270,000	-	70	1,468.1	102,769	41,107,500	400	384
250,000	- 269,999	37	1,468.1	54,321	21,728,250	400	384
230,000	- 249,999	59	1,468.1	86,619	31,962,549	369	355
210,000	- 229,999	61	1,468.1	89,556	30,359,357	339	326
190,000	- 209,999	36	1,468.1	52,853	16,331,423	309	297
170,000	- 189,999	14	1,468.1	20,554	5,693,389	277	266
150,000	- 169,999	15	1,468.1	22,022	5,417,381	246	237



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130,000	-	149,999	9	1,468.1	13,213	2,840,822	215	207
110,000	-	129,999	15	1,468.1	22,022	4,074,047	185	178
100,000		109,999	15	1,468.1	22,022	3,567,544	162	156
90,000	-	99,999	16	1,468.1	23,490	3,453,030	147	141
80,000	-	89,999	14	1,468.1	20,554	2,692,541	131	126
70,000	-	79,999	18	1,468.1	26,426	3,039,019	115	111
40,000	-	69,999	0	1,468.1	-	-	100	96
					556,419	172,266,851	310	290
							6.8%	
TRAINEE		939						
150,000	-		30	1,437.8	43,133	10,481,198	243	234
140,000	-	149,999	9	1,437.8	12,940	2,950,263	228	219
130,000	-	139,000	70	1,437.8	100,643	21,134,925	210	202
120,000	-	129,999	37	1,437.8	53,197	10,532,957	198	190
110,000	-	119,999	37	1,437.8	53,197	9,575,415	180	173
100,000		109,999	148	1,437.8	212,787	35,322,642	166	160
90,000	-	99,999	42	1,437.8	60,386	8,997,440	149	143
80,000	-	89,999	304	1,437.8	437,076	58,568,184	134	129
70,000	-	79,999	254	1,437.8	365,189	43,457,432	119	114
60,000	-	69,999	5	1,437.8	7,189	733,253	102	98
50,000	-	59,999	3	1,437.8	4,313	375,253	87	84
40,000	-	49,999	0	1,437.8	-	-	70	67
					1,350,047	202,128,959	150	139
TOTAL AUDIT PERSONNEL			1,904	1,012.5	2,531,534	838,682,242	7.7%	



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BUSINESS EXECUTIVES TOTAL RECOVERABLE	19	1,012.5	19,238	18,415,010	957	920
			2,550,771	857,097,251	336	307



1,923 2,550,771 857,097,251 9.5%

Notes:

1. Based on the salaries per level
2. Total staff per budget (see note 3.4)
3. Standard recovery hours (see note 2.1.2)
4. Recoverable hours = total staff (2) X standard recoverable hours (3)
5. Total own hours income = recoverable hours (4) X proposed tariff (6)
6. Proposed tariff = average salary per band (1) / standard recoverable hours (3) X factor of 2.07



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Annexure 4: Auditing of performance information

The auditing of performance against predetermined objectives is subject to sections 20(2)(c) and 28(1)(c) of the PAA. Section 13 of the PAA furthermore requires of the AG to determine the standards to be applied in performing such audits. In the absence of specific auditing standards at this stage, the AG has adopted a 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.

It is anticipated that this maturity level will only be reached during the April 2009 – March 2010 financial year.

A phased-in approach

The phased-in approach has the following advantages:

- It will provide structure and discipline to the processes used by the management of reporting organisations to measure and report on performance information, which will facilitate their implementation of the necessary systems.
- It will provide an appropriate level of assurance on the quality of performance information reported by organisations in each phase of the implementation.

The audit report will not be qualified in respect of performance information during the initial phases, until the April 2008 – March 2009 financial year, while the auditees set up the necessary systems to report on performance information in the future.

Audit procedures

The audit procedures for auditing the performance information of the April 2005 – March 2006 financial year, as part of the phased-in approach, included the following:

- Obtain an understanding of the entity and its environment, including its internal controls relating to performance information.
- Determine the level of performance reporting by evaluating the following aspects:
- The existence of and reporting against predetermined objectives:



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- The existence of the SMART principles relating to measurable objectives, namely specific, measurable and time-bound
- The consistency of reporting on predetermined objectives
- The format and presentation of the performance information in the annual report

For audits of the April 2005 – March 2006 financial year, deficiencies were reported in the management letters to the relevant auditees. Furthermore, an “emphasis of matter”, not affecting the audit opinion, was included in the audit reports, if the following circumstances existed:

- Non-compliance with requirements of the PFMA to report on performance against predetermined objectives.
- Objectives are reported on in the annual report, while these objectives have not been predetermined in the strategic plan.
- Objectives reported on in the annual report are materially different from the predetermined objectives specified in the strategic plan.
- The reported performance information is materially inconsistent in comparison to the evidence gathered during the evaluation.

Audit approach: April 2007 – March 2010

The audit approach and procedures described above, will be used as a basis for the audits of the April 2006 – March 2007 and subsequent financial years. More detailed audit work will be performed on the controls and systems used in the generation of and reporting on performance information. The approach and procedures for each financial year will be communicated to all auditees by way of the audit engagement letter and audit plan.

From April 2007 – March 2008 to April 2008 – March 2009 the AG’s audit approach and procedures will also be focusing on the application of the principles as provided for in the framework for performance information which the National Treasury plans to issue for implementation by all auditees as from 1 April 2007. The procedures to be performed should be suitable to provide the auditor with the level of comfort to express a limited level of assurance (negative opinion).



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From April 2009 – March 2010 auditors should obtain sufficient appropriate audit evidence as part of a systematic process that includes substantive procedures and testing the operational effectiveness of controls to a level of reasonable assurance.



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Annexure 5: Capability maturity model

The financial management capability model (FMCM) was initially used to assess the financial management maturity of the auditees as part of the audit planning phase. The AG, however, decided to use the same measurement framework in order to ascertain the maturity levels of its own business processes and risks, thus extending the FMCM to be an integrated capability maturity model (CMM) that not only covers financial management, but looks at the AG processes holistically.

A capability model can be defined as: “A yardstick against which it is possible to judge, in a repeatable way, the maturity of an organisation’s processes and compare it to the state of practice in the industry”

It is a tool to measure the current status of an organisation, determine process areas of improvement, and plan, prioritise and evaluate the implementation of the areas of improvement.

Maturity models therefore provide best practices, measurement standards and improvement paths.

The term “maturity” refers to the effectiveness of an organisation’s development processes. If an organisation uses no processes at all, it is considered immature and thus operates in an environment where risk is high and predictability is low. If the organisation uses refined processes it is considered mature and thus operates in an environment where predictability is high and risk is low.

The levels of maturity are the following:

Level 1: Start-up level where no proper control framework exists

There is evidence that the organisation has recognised that the issues exist and need to be addressed. There are however no standardised processes. The organisation as a whole is not process-orientated. Instead there are ad hoc processes that tend to be applied on an individual or case-by-case basis. The overall approach to management is disorganised. The success or failure of these organisations depends on the talents of staff, good luck or good fortune. The key focus for improvement at this level would be disciplined processes.

Level 2: Development level where a proper internal framework is developed



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Processes have developed to the stage where similar processes are followed by different people undertaking the same task. There is no formal training or communication of standard procedures and responsibility is left to the same individual. There is a high degree of reliance on the knowledge of individuals and therefore errors are likely. Here the key focus for improvement would be standard consistent processes.

Level 3: Control level which focuses on the compliance and control

Procedures have been standardised and documented and communicated through training. Projects are managed using repeatable processes and the organisation has the infrastructure to support a process-driven environment. It is however left to the individual to follow these processes and it is unlikely that deviations will be detected. The procedures themselves are not sophisticated but are the formalisation of existing practices. The key focus for improvement would be predictable processes.

Level 4: Information level that measures the utilisation of resources with effective results

The economic, efficient and effective utilisation of resources is managed, measured and reflected in reliable financial information.

Level 5: Management level that will determine the utilisation of resources with effective results

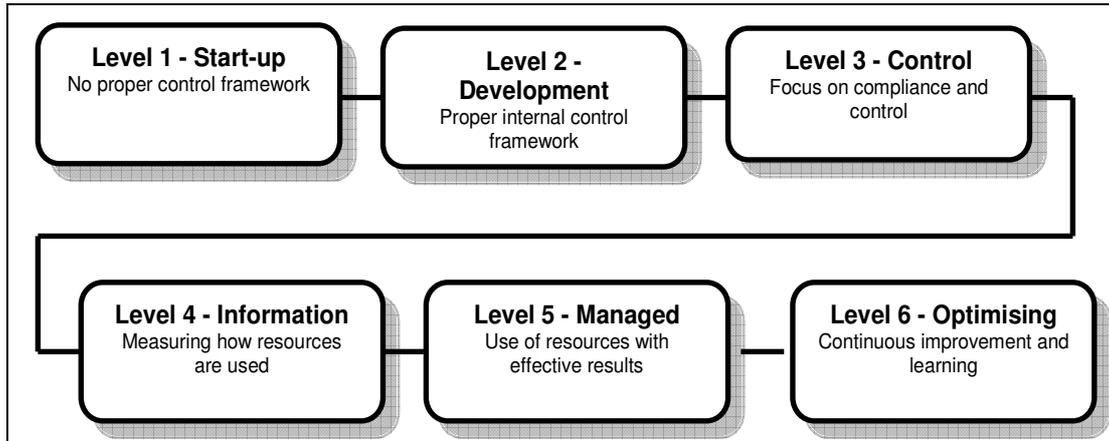
It is possible to monitor and measure compliance with procedures and take action where processes appear not to be working effectively. Processes are under constant improvement and provide good practice. Automation and tools are used in a limited or fragmented way. At this level we are looking at continuously improving processes.

Level 6: Optimisation level which enables continuous improvement and learning

This is the highest level of maturity. Processes have been refined to a level of best practice, based on the results of continuous improvement and maturity modelling with other organisations. Information technology is used in an integrated way to automate the workflow, providing tools to improve quality and effectiveness, making the enterprise quick and adaptable.



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Annexure 6: Black economic empowerment criteria

Black economic empowerment

1 Introduction

The AG's strategic direction is to facilitate and contribute to black economic empowerment (BEE) and capacity building in the financial management of the public sector. In its contribution to BEE and capacity building the office will allocate work on the basis of points obtained for meeting the appropriate criteria in the categories listed below.

1.1 Category A: Ownership and control

This relates to the ratio of black and gender representation in ownership and control of the firm on a national basis. Because of the various forms of legal entities under which firms operate, firms are required to submit a written profile that clearly reflects the "substance" of the ownership and control relationship that exists in that firm. The submission has to be updated on an annual basis or whenever a material change has occurred. In preparing this profile, the following definitions need to be taken into consideration:

- A black firm: is 50,1% owned and managed by black people
- An empowered firm: is at least 25,1% owned and managed by black people
- A black influenced firm: is 5 - 25% owned and managed by black people
- An engendered firm: is at least 30% owned and managed by women
- The level of representation among designated group partners in the executive decision-making authority of the firm should also be included in the profile.

1.2 Category B: Employment equity

This relates to the extent to which the firm is supporting and promoting the principles and objectives of employment equity. In this regard, the following criteria will be considered:

- The number of trainee accountants from the designated groups
- The number of CAs from the designated groups
- The overall staff representation from the designated groups



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- The firm's demonstrated conversion rate for designated group trainees to CAs
- Whether the firm has a clear employment equity policy which should be in line with the guidelines set by the Department of Labour, and be supported by an implementation plan aimed at the economic improvement of designated groups.

1.3 Category C: Capacity building

This reflects the extent to which the firm is involved in both internal and external capacity-building initiatives in the following areas:

- The ratio of discretionary procurement awarded to black companies
- The ratio of bursaries and study support given to black trainees
- The ratio of bursaries and study support given to other black staff
- The ratio, against turnover, of financial support to corporate social responsibility programmes

Classification of firms

Firms are divided into four groups based on their size. Subject to the discretion of the AG, the apportionment of the total contract rand value is as follows. Non-BEE firms are encouraged to accelerate transformation within themselves and within the profession as a whole – BEE criteria therefore have a 70% weighting.

The firms will be classified according to the following criteria:

Firm category	Number partners	Number of TAs	Number of CAs	Maximum work allocation per annum
Big (4) firms	70+	400+	120+	45%
Large firms	51-70	80 - 400	25-120	
Medium firms	11-50	20-80	7-25	55%
Small firms	1-10	4-20	1-7	

The above classification and allocation criteria will be reviewed annually by the Contract Work Committee.



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3. Criteria for awarding contracts to audit firms

The extent of the work contracted out is based on capacity shortfall ($\pm 20\%$).

Contract work is awarded to audit firms using preset criteria defined in the contract work guideline. The guideline was developed in consultation with the audit firms, SAICA and the BEE Commission in 2001.

The criteria consist of two major areas:

- Black economic empowerment – 70% weighting
- Quality control – 30% weighting
- In order to be considered, the following minimum score must be achieved:
- Gauteng and KwaZulu-Natal – 50 points
- North West and Limpopo – 33 points
- All other provinces – 40 points
- Work is not allocated to firms who do not achieve the minimum score.
- Work is not contracted out where a conflict of interest might exist (independency issues).
- The audits of certain key auditees, e.g. SARS and the National Treasury, are also not contracted out.

4. Capacity building

Small firms may be assisted with capacity-building initiatives to enable them to compete successfully and grow their practices. Preference will be given to firms that obtain the highest scores in respect of the criteria listed above. The following capacity-building and support initiatives are available:

- The awarding of guaranteed medium-term contract work for a minimum of three years and a maximum of five years per term (this guarantee is subject to meeting the required quality standards)
- Access to AG quality control checklists
- Access to AG audit software
- Access to AG training programmes and facilities
- An orientation workshop for partners or firms that is new to the AG environment



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- An annual updating session for small and medium firms on various issues relating to public sector auditing
- The AG will also establish an appropriate process whereby quality control deviations can be properly reviewed and assessed, enabling the firm to take timeous corrective action.



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Annexure 7: Audit quality criteria in the IRBA process

Quality control process

1. Auditor-General and Deputy Auditor-General

The DAG has the ultimate responsibility for the AG's entire system of quality control. The DAG has assigned certain operational responsibilities for some parts of the quality control to individuals with sufficient and appropriate experience and the ability and authority necessary to assume the operational responsibilities. The monitoring is delegated to the Quality Control component within Governance. The authority delegated by the AG and the DAG enables those individuals (in the business units) to implement and comply with the set policies and procedures and standards.

The AG, together with the DAG, has established an Assessment Committee (AC) which will act as an oversight body in assisting the AG and DAG to fulfil their responsibilities. In addition, reports of Governance and IRBA further enhance the independent assurance on whether the AG is complying with set professional standards.

2. The Assessment Committee

The AC will approve the procedures and policies of the AG's quality control system, reach decisions on engagement review reports and determine a review recognition framework. The AC will consist of the AG, the DAG and an external member. The AC's method of work is included as annexure A.

The committee will meet twice a year for MFMA and PFMA audits to fulfil their mandate. The decisions of the AC in respect of the review results, based on sound due process and factual findings, as well as recommendations on matters requiring specific attention, are communicated to the appropriate corporate executive. Governance and IRBA will provide the necessary support in this regard.

3. Monitoring

3.1 Governance (Quality Control)/Independent Regulatory Board for Auditors (IRBA) reviews



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The responsibility for monitoring the quality control process of the AG has been entrusted to Governance. In terms of the strategy, the Quality Control unit of Governance and the practice review department of IRBA will monitor the system of quality control through engagement reviews. The objective of the reviews is to monitor compliance with professional standards and give guidance to auditors to assist them in improving the AG standards. The reviews will include the following:

3.1.1 Engagement reviews

This review is of an individual engagement manager and not the business unit as a whole. All engagements are subjected to the review process. The AC will determine on an annual basis the extent of the reviews that should be allocated to IRBA. The reviews will concentrate specifically on the whole spectrum of the audit process from pre-engagement to reporting.

3.1.2 Engagement re-reviews

In instances where the AC rates an engagement as “non-comply”, a re-review will be performed in terms of the criteria set out in annexure D.

3.1.3 Firm level reviews

The firm level review is a review of established quality control framework and policies and procedures that are in place for the AG as a whole. It is a requirement of the quality control standard ISQC1. In preparing for such a review the following timetable is anticipated:

- Performance year 2008: Preparation of the AG for a firm level review.
- Performance year 2009: External review by IRBA.

3.2 IRBA – Quality control system (Governance)

The practice review unit of IRBA will perform a review of the compliance or non-compliance with the quality control system within Governance.

3.3 Quality control review process



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The senior manager (QC) contacts the quality control champion in the business unit to set a date for a review and discussion of the report.

All relevant documentation as required by the reviewer is sent to Governance, if documentation is not on TeamMate.

The reviewer performs a review of the TeamMate file saved on the server (this is regarded as the final version of the work performed) and all other relevant information presented to him/her at commencement of the review and compiles a report on findings.

A second reviewer scrutinises the report and should concur with the findings.

Management members involved in the engagement are required to provide written comments on the findings.

Discussions are held with the engagement manager responsible for the engagement. It is mandatory for the BEs and CEs to attend the discussions. If they cannot attend the discussions as scheduled by Governance the review reports will be finalised at engagement manager level.

The final report is prepared and signed by the reviewer and the engagement manager responsible.

The BEs and responsible CEs are informed of the findings per engagement manager after the discussions.

All quality control findings with their related comments that contain unresolved differences of opinion will be collated in an anonymous document. The document will be reviewed at an ad hoc committee meeting of EXCO and they will then make recommendations to the AC regarding these unresolved differences of opinion.

The reports on the reviews, inclusive of any further comments on findings from all parties involved, are presented to the AC, which determines, on an anonymous basis, the review status of the engagement manager.

The relevant corporate executive notifies the responsible engagement manager of the committee's decision in writing.

The engagement manager must undertake in writing to implement the corrective action.



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3.3.1 Approved criteria for “comply” results

Where, in the opinion of the AC, the risk is low, the decision will either be:

Comply C2: Review in two years' time

or

Comply C3: Review in three years' time

Approved criteria for “non-comply” results

Where, in the opinion of the AC, the risk is high, the decision will either be: Non-comply R1: Review in one year's time on any one file

or

Non-comply R1*: Review in one year's time on the current year of the previously reviewed file

or

Non-comply R2: Review in one year's time on two files, being any one file plus review of current year of the previously reviewed file.

or

Non-comply R2 *: Review in one year's time on two files, being any one file plus review of current year of the previously reviewed file and, in addition, immediate follow-up as determined by the DAG.



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Annexure 8: Reputation index

A reputation index is a percentage that represents the total view of all of the AG's stakeholders regarding its reputation. This percentage is the average of the percentage of each of the stakeholder groups and is determined by asking a number of questions which relate to certain drivers related to reputation.

Achieving a desirable reputation lies in closing the gap between what our stakeholders perceive (image) of us, the current (culture) behaviour within the AG and what we would like to be seen as by our stakeholders (our reputation promise).

The reputation index survey focuses on the following stakeholder groups:

- The Legislature in national, provincial and local government spheres. Include decision-makers (speakers and chairpersons of committees) as well as end-users (Public Accounts Committees and Portfolio Committees (Chairpersons of the Portfolio Committees only))
- The Executive in national, provincial and local government (metros only) spheres. Include national ministers, premiers, MECs, executive mayors and mayoral committees
- Auditees in national, provincial and local government spheres. Include CFOs and accounting officers (National: DGs; provincial: heads of departments; local: municipal managers)
- AG governance structures. Include SCoAG, Audit Committee and Remuneration Committee
- Standard-setters. Include the National Treasury (Accountant-General and team), ASB, IRBA and CFAS
- Professional bodies. Include SAICA, IPFA, ISACA, ACCA, SAIPA and SAIGA
- Service providers. Include audit firms, professional service providers (AG's internal and external auditors and consultants) and other vendors
- Media. Include print and broadcast media
- General public



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- Chapter 9 institutions
- Prospective employees. Include Thutuka bursary students at university
- International bodies. Include INTOSAI and AFROSAI
- Employees
- Employees, which are regarded as the most important stakeholders within any organisation.

To influence how employees feel about the AG, the AG has to know which buttons (drivers) to press, i.e. what is important to the employees. This has a snowball effect – to change the way employees feel, you have to change the way they think; once they think differently, you will change their behaviour. A change in behaviour will impact on the reputation. This applies to all stakeholders. Each of the stakeholders attaches different values to each of the reputation drivers; therefore the percentage of the stakeholders will differ.

Another key stakeholder group is the media. There has been an increase in the media management as well as the media monitoring efforts of the AG. Media management manages the long-term process of building the relationship with the media and promoting the AG to the general public to create an awareness and understanding of the AG and the role the AG plays in fulfilling its mandate of building a better democracy.

Media monitoring deals with the day-to-day media releases. The media releases report on articles where mention is made of the AG as an organisation and the AG as a person. Media monitoring also gives a monthly review of the media coverage, whether the coverage was negative or positive, the amount of coverage and the impact the media coverage had on the general public. Out of the preliminary results it is evident that the AG is not visible enough to the public and needs attention. The media will play an important role in making the AG more visible to the general public.



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Annexure 9 – Strategic risks

RISK CATEGORY	SUB-RISK CATEGORY	FOCUS AREA	CMM LEVEL	COMMENTS
Relevance of the AG	Product innovation	Non-audit service	Level 2	Although processes and procedures around this area have been standardised, the documentation and communication thereof have not been formalised.
		Audit product	Level 2	Although processes and procedures are standardised, the documentation and communication thereof have not been formalised.
Quality of product	Quality control	Quality control – non-audit services	Level 3	Although there are standardised and documented procedures around this area, these have not been integrated within business processes of corporate services business units. Extensive communication, through training, needs to happen to embed quality assurance processes in corporate services business units.
		Quality control – audit	Level 3	There are standardised, documented and communicated



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RISK CATEGORY	SUB-RISK CATEGORY	FOCUS AREA	CMM LEVEL	COMMENTS
				processes for this risk area as evidenced by regular quality monitoring of audit business units.
	Human capital	Resource availability	Level 2	The only developed procedure with regard to this area is on recruitment, but even this process has weaknesses as it does not provide certainty to business units as to the amount of time it takes to recruit staff. Retention and succession planning procedures have not yet been developed.
		Competencies of staff	Level 2	Although there are standardised processes and procedures, the documentation and communication thereof have not yet been formalised.
		Productivity	Level 2	Although there are standardised processes and procedures, these have not been documented and communicated.
Internal	Business	Technological availability	Level 2	Although there are standardised, documented and



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RISK CATEGORY	SUB-RISK CATEGORY	FOCUS AREA	CMM LEVEL	COMMENTS
process	continuity			communicated processes around this risk area, the AG will need to improve on its back-up systems for critical information systems such as TeamMate and PeopleSoft.
		HIV/Aids	No standard process	Will focus on this in 2008
		Financial stability	No standard process	Will focus on this in 2008
Reputation and image	Leadership	Leadership	Level 2	The leadership strategy will be finalised before the end of the 2007-08 financial year.
	Corporate governance	Structural design adequacy	Level 2	Although corporate governance structures have been established, the functioning and purpose of these structures have not been widely communicated. The governance



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RISK CATEGORY	SUB-RISK CATEGORY	FOCUS AREA	CMM LEVEL	COMMENTS
				framework will be finalised before the end of the 2007-08 financial year.
		Monitoring and compliance adequacy	Level 2	Although there are standardised and documented procedures to monitor compliance through the CSA Tool, other policies and legislation applicable to the AG are still monitored on an ad hoc basis.
	Stakeholder relationships	Knowledge management effectiveness	Level 2	The knowledge management strategy, including the filling plan has been finalised, and this will be fully rolled out in 2008.
	Transformation	Employment equity	Level 3	There are mature, standardised, documented and communicated processes around this risk focus area.
		Black economic empowerment	Level 2	Although there are mature processes around this area for the contract work, a comprehensive broad-based BEE strategy will be finalised during the current financial year –



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RISK CATEGORY	SUB-RISK CATEGORY	FOCUS AREA	CMM LEVEL	COMMENTS
				2007-08.