

SIMPLICITY  
CLARITY COMMITMENT VISION  
teamwork Strategy MANAGEMENT  
PEOPLE leaders power skills BUSINESS effort GLOBAL

# INTEGRATED ANNUAL REPORT 2013-14

Leaving a legacy and building  
the foundations of the future

MISSION OBJECTIVES CORPORATE skills work involve challenge sustainable FINANCIAL  
work business social start project goal RESOURCES  
help management SUSTAINABLE. start  
VISIBILITY





# LETTER TO THE SPEAKER

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

**Dear Ms Mbete**  
**August 2014**

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

In terms of the provisions of section 10(2) of the Public Audit Act, it is an honour to submit my annual report, including the audited financial statements, for the financial year ended 31 March 2014.

It gives me great pleasure to announce that the audit committee, which was established in terms of section 40 of the Act, is satisfied with the Auditor-General of South Africa's audited financial statements and unmodified audit opinion.

The report presents the affairs of the AGSA in terms of our financial results as well as the review of our performance against predetermined objectives.

I respectfully draw your attention to section 41(5) of the Public Audit Act of, which requires submission within six months after the end of the financial year, and therefore request that this report be tabled in Parliament by 30 September 2014.

Yours sincerely



**Thembekile Kimi Makwetu**  
Auditor-General of South Africa

# PREAMBLE TO THE CONSTITUTION

**We the people of South Africa,  
Recognise the injustices of our past;  
Honour those who suffered for justice  
and freedom in our land;  
Respect those who have worked to  
build and develop our country; and  
Believe that South Africa belongs to all  
who live in it, united in our diversity.**

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

- Heal the divisions of the past and establish a society on democratic values, social justice and fundamental human rights;
- Lay the foundations for a democratic and open society in which government is based on the will of the people and every citizen is equally protected by law;

- Improve the quality of life of all citizens and free the potential of each person; and
- Build a united and democratic South Africa able to take its rightful place as a sovereign state in the family of nations.

**May God protect our people!**



# OUR VISION



To be recognised by all our stakeholders as a relevant Supreme Audit Institution that enhances public sector accountability.

# OUR MISSION

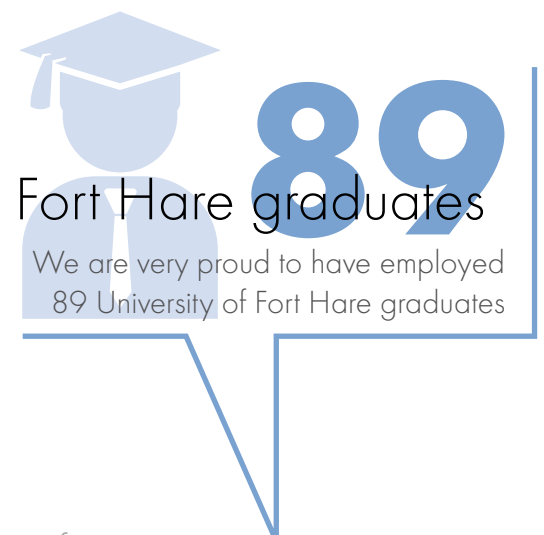


The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence. This is our reputation promise.

# OUR VALUES



- We value, respect and recognise our people.
- Our accountability is clear and personal.
- We are performance driven.
- We work effectively in teams.
- We value and own our reputation and independence.
- We are proud to be South African.



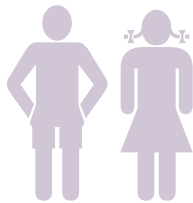
regularity audits  
**961**  
completed

We adopted schools and interacted with more than **15 000 learners**, mainly in grades 10-12, from rural areas across the country.

**157**

The external bursary programme funded

**118**  
students



As part of our  
**economic contribution**

to external stakeholders we allocated audit work to audit firms to the extent of  
**R665 MILLION**

Audit income is up by

**14,58%**  
to **R2 536 MILLION**



**56**

The number of Thuthuka students who joined our organisation as trainees since 2010 has reached 56.

**32**  
DAYS

Average creditor payment days are **32**, compared to a target of **45** days

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# SECTION 1

**The achievements we have recorded over the past 10 years would not have been possible without the selfless dedication and commitment of all the people of the AGSA. I unreservedly thank them for putting the interests of the country first and making many sacrifices towards the attainment of a transparent and accountable public service. The fruits of their labour will be recognised and enjoyed by many in years to come.**

– Kimi Makwetu

## LEADERSHIP MESSAGES

## SECTION CONTENTS



# MESSAGE FROM THE AUDITOR-GENERAL



**THEMBEKILE KIMI MAKWETU**  
**AUDITOR-GENERAL**

It gives me great pleasure to present the Integrated Annual Report 2013-14 of the Auditor-General of South Africa. This is my first annual report since my appointment as Auditor-General on 1 December 2013.

The beginning of my tenure coincides with the start of the Fifth Parliament and I believe that it will add to the achievements of the previous parliament in building confidence in the ability of the public sector to deliver the required services to the citizens of our country. We welcome the new parliament with positive anticipation, as our important stakeholder in instilling a culture of accountability in the public sector.

In this past year we bade farewell to the former Auditor-General, Mr Terence Nombembe. I personally thank him for steering our ship with precision and utmost professionalism during his term.

Another significant change at the top leadership level was the appointment of Ms Tsakani Ratsela as Deputy Auditor-General. I trust that she will take exceptional care of the administration of the AGSA. A few other executives have been appointed but, based on a carefully crafted and managed succession plan, we have maintained stability and enhanced continuity during the leadership transition period.

Such stability allowed us to complete all planned audit assignments and to maintain our approach of providing simple, clear and

relevant audit recommendations. The quality of the reports remained high as confirmed by the Quality Control Assessment Committee.

The journey towards transparent financial management and accountability is proceeding forward. There are still many challenges and obstacles to be overcome by leadership in all three spheres of government in order for audit outcomes to improve. The institution is gearing up and consolidating its resources and effort for an impactful outcome over the next decade.

Our stakeholder engagements, where we discuss audit recommendations and secure commitments, have been more fruitful as a result of the implementation of our improved visibility programme to the extent that we believe we have achieved the initial intent of this strategic goal. We will be increasing the intensity of the insights provided during every interaction in order to achieve greater impact and stimulate improvements in the public sector.

Financial stability has always been of paramount importance to the organisation as it guarantees the viability of the organisation. The leadership has ensured that our activities are performed in an economical, efficient and effective manner. We also performed better

in collecting outstanding debt from local government by engaging with stakeholders at the appropriate level.

The execution of our mandate is strongly dependent on the availability of staff with the required qualifications and attitude. Our extensive trainee auditor scheme not only satisfies our needs by producing scores of chartered accountants and government auditors but also contributes to the creation of accounting skills for the country. Last year we decided to do away with fixed-term contracts at senior management and business executive level, which is expected to contribute towards improvement in the quality of our products and stability of leadership.

We have retained our high standards in each area of our operations, striving continuously to be a model organisation. Our governance structures have assisted the organisation in managing our business risks and maintaining a system of effective internal controls.

In the international arena, the AGSA is well recognised and respected. We successfully completed our term as chair of the International Organisation of Supreme Audit Institutions and have been elected to lead the INTOSAI's

Capacity Building Committee. Our expertise and insights contributed to the successful operation of a number of working groups and production of guidance documents and standards.

At the time of completion of this report, our senior management is passionately working on the final touches of the next phase of our strategic path, namely a vision and strategy that will carry the organisation forward in the next 10 years. The enhancements will be reflected in the Strategic plan and budget 2015 - 2018 and executed from April next year.

Many of the achievements we have recorded over the past 10 years would not have been possible without the selfless dedication and commitment of all the people of the Auditor-General of South Africa. I unreservedly thank them for putting the interests of the country first and making many sacrifices towards the attainment of a transparent and accountable public service. The fruits of their labour will be recognised and enjoyed by many in years to come.

Impunzi ayiyekwa ibanjwe ngeempondo noba seyidlokoval

**Kimi Makwetu**  
**Auditor-General**

# OVERVIEW OF PERFORMANCE BY THE DEPUTY AUDITOR-GENERAL



**TSAKANI RATSELA**  
**DEPUTY AUDITOR-GENERAL**

As the DAG I head the administration of the AGSA and perform my duties in terms of sections 32 and 43 of the PAA. The ultimate responsibility for the overall performance of the organisation is vested in me and I am directly accountable to the Auditor-General.

As the Deputy-Auditor General (DAG) of the Auditor-General of South Africa (AGSA), I head the administration of the institution and perform my duties in terms of sections 32 and 43 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA). The ultimate responsibility for the overall performance of the organisation is vested in me and I am directly accountable to the Auditor-General (AG).

The appropriate use of and accounting for public funds and assets are cornerstones of our young democracy. It is our role to provide assurance on the financial status and stewardship of public organisations and entities and by reporting publicly on our findings we promote accountability and transparency. As such, our performance as the country's supreme audit institution is of great interest to the citizens of South Africa, the executive and legislative authorities, the media and international role players.

This report is an account of our performance against the predetermined objectives and targets codified in the strategic plan and budget 2013-16. Our strategy remains anchored around the following five strategic goals:

- **Goal 1:** Simplicity, clarity and relevance of messages in all communication with our internal and external stakeholders
- **Goal 2:** Visibility of our leadership to all

internal and external stakeholders

- **Goal 3:** Funding our operations in an economical, efficient and effective manner
- **Goal 4:** Strengthening our human resources to achieve a skilled, high-performing and diverse workforce
- **Goal 5:** Leading by example in all our internal processes.

## SIMPLICITY, CLARITY AND RELEVANCE OF OUR AUDIT MESSAGES

We have undertaken to present our reports in a clear and relevant manner in order to inform sustainable improvement in the management of our public finances.

During the year under review, we completed 961 regularity audits. Ten general reports were prepared and tabled for each of our two audit cycles, MFMA and PFMA. Our 2012-13 PFMA general report was tabled four months earlier than in the previous cycle and the content was more concise, yet "digestible", which also increased its relevance for stakeholders.

In the area of non-regularity audits, we tabled eight performance audit reports on the use of consultants as well as a stand-alone performance audit on sanitation at the Department of Human Settlements.

Furthermore, transversal performance audits at the Department of Basic Education and Higher Education and Training were completed and will be reported on during the 2014-15 year.

We remain committed to our vision of taking on the audits of key state-owned enterprises so as to drive audit messages that are relevant to stakeholders, while creating opportunities for greater exposure for our staff. In the year under review, the AGSA took over the regularity audits of the following three state-owned enterprises: SAFCOL, SA Express and SABC. We also took back the audits of 15 Further Education and Training (FET) colleges.

In line with our strategy, we made significant inroads towards integrating the work of our specialist audit experts into the regularity audit process. Our Information Systems Auditing and Investigations teams provide direct input towards the planning and execution of and reporting on regularity audits in both the PFMA and MFMA audit cycles.

A project commenced in 2013-14 to improve the efficiency and effectiveness of our audit methodology and its further alignment with the requirements of the PAA, the audit standards and local and international best practices in auditing. We expect to implement the updated audit methodology as from 2015-16.

We continued to intensify our efforts to assist our auditees to improve their audit outcomes by identifying the key controls that should be in place, assessing these on a regular basis and sharing the assessment with executive authorities, accounting officers and authorities, as well as audit committees, in a dashboard report to simplify our communication.

## VISIBILITY OF THE AGSA'S LEADERSHIP TO STAKEHOLDERS

Interactions and continuous engagements with both our internal and external stakeholders are of paramount importance to the impactful delivery of our organisational mandate.

Engagements with the administrative and executive leadership of our auditees matured to a point where we are confident that we have achieved our original intent with this goal – sharing knowledge and insights in a proactive way to empower leadership to take action on these and ensure solid financial and performance management.

We have successfully maintained our presence in the work of INTOSAI through its various working groups. We chaired the international Working Group on the Value and Benefits of Supreme Audit Institutions which successfully formulated and approved the new INTOSAI Standard, ISSAI 12: *The Value and Benefits of SAIs*. Furthermore, the new Auditor-General, Kimi Makwetu, was selected to chair the INTOSAI Capacity Building Committee.

We have continued to support public accounts and portfolio committees in their oversight work. During the year, our staff provided portfolio committees with critical insights for use in their annual assessment of departments in preparation for their budgetary review and recommendation reports. Building on the pilot conducted in the prior year, we provide portfolio committees with insights from the proactive review of departmental annual performance plans prior to tabling of these in Parliament.

Numerous and ongoing interactions with coordinating ministries (Ministry for Performance Monitoring and Evaluation, Ministry of Public

Service and Administration, CoGTA and National Treasury) served as platforms for proactive engagement on transversal and systemic challenges to effective public sector administration. Through these interactions, the respective ministries took practical steps to respond to the audit messages shared by the AGSA.

We used our internal strategic alignment process to engage our employees and communicated the organisational strategy to every single employee. These formal sessions took place in the form of workshops at a portfolio or business unit level to ensure a clear understanding of and continuous alignment to the strategic direction of the AGSA.

Private sector audit firms continue to be the AGSA's strategic partners in the delivery of our mandate. Audit firms are allocated work through a streamlined process to supplement the AGSA's internal resources and ensure that all audits are completed on time as per legislative and internal requirements and in line with the required International Standards of Auditing and internal quality standards.

## FUNDING

The AGSA strives at all times to execute its mandate economically, efficiently and effectively, focusing on providing value-for-money audits to the public sector. Over the years, good financial administration and financial discipline embedded in the funding model enabled the AGSA to be financially stable.

The summary of our financial performance is as follows:

- Our audit income was up by 14,58% at R2 536 million (2012-13: R2 214 million)
- Gross profit was at 32% or R803 million (2012-13: R641 million or 29%)
- Cash balance increased from R464 million to R496 million
- Provision for bad debts increased from R115 million to R146 million
- Trade debtors increased from R517 million to R607 million
- Current debt collections improved from

R2,5 billion to R2,8 billion in 2013-14

- Local government debt remains a challenge, with debt increasing from R262 million to R322 million
- Average creditor payment days were 32 days compared to a target of 45 days
- Overheads were up by 9,55% R753 million (2012-13: R688 million).

The AGSA continues to experience low collections, especially from local government debtors. We continue to assess means of improving collection and to embark on specific initiatives to mitigate this risk.

## STRENGTHENING OUR HUMAN RESOURCES

The sustainability of our organisation is strongly underpinned by the availability of staff with the required work ethics, knowledge, competencies, skills and professionalism. Without the right people we will not be able to execute and deliver on the organisation's strategy and objectives.

During the year under review, 447 new trainee auditors were appointed in the organisation, which was the largest annual trainee auditor intake in the history of the AGSA. Furthermore, we added 90 newly qualified specialists to the auditing profession.

Key training offices in our organisation also reached the level 1 rating during the SAICA training office accreditation review for the first time this year and we were awarded the Association of Chartered Certified Accountants (ACCA) platinum accreditation.

This year, many more leadership appointments were made from within the AGSA than from external candidates, which is a demonstration of the effectiveness of our talent development and pipeline management efforts. The efforts include our external bursary programme, which funded 118 students during the 2013-14 financial year.

A major success of the past performance year was the ground-breaking resolution to discontinue fixed-term contracts for senior managers, deputy business executives and business executives, augmented by

the development of specific performance management tools for those employees.

We continuously strive to create and enhance an environment where employees embrace diversity, strive for high performance and are given opportunities to realise their full potential. We foster a workplace where each employee is valued and encouraged to continuously contribute to the work of the AGSA for the ultimate benefit of the people of South Africa.

## LEADING BY EXAMPLE

Various initiatives are driven through this important goal, which covers mainly risk management, internal controls implemented towards achieving clean AGSA administration, timelines of AGSA reports and striving towards a culture of ethics and integrity.

We believe that our journey towards becoming a risk-intelligent organisation is improving in that, during the reporting period, developed its first formal risk appetite framework and statement, which informs the organisation's identification and management of risk as we pursue our strategic goals.

Adherence to sound ethics principles is one of the cornerstones of an independent and value-adding supreme audit institution; hence we prioritise building and maintaining a workplace that is characterised by ethical behaviour at all times.

The organisation maintained its rating as a level 3 B-BBEE contributor, which reflects our ongoing commitment to leading by example. A key component of our contribution to the transformation of the accountancy profession is that audit work to the value of R665 million was allocated to private sector audit firms on the basis of driving two primary objectives, namely improving capacity to deliver quality audits and deepening transformation.

## APPRECIATION

I take this opportunity to thank our staff for their dedication, hard work and professionalism. We achieved good results because of their tireless efforts and passion for high performance. Together we can take the organisation to new heights and build a country of which we can continue to be proud.

I wish to thank our partners in the auditing profession for their support and pay tribute to the members of our oversight structures for their support and cooperation during the year.

During this year, we bid farewell to our previous Auditor-General, Terence Nombembe, who led the AGSA and served South Africa with immense dedication and excellence. We also welcomed our new Auditor-General, Kimi Makwetu, who took office on 1 December 2013. We look forward to working under his leadership to deliver great value to the citizens of South Africa.

**I TAKE THIS OPPORTUNITY TO THANK OUR STAFF FOR THEIR DEDICATION, HARD WORK AND PROFESSIONALISM. WE ACHIEVED GOOD RESULTS BECAUSE OF THEIR TIRELESS EFFORTS AND PASSION FOR HIGH PERFORMANCE. TOGETHER WE CAN TAKE THE ORGANISATION TO NEW HEIGHTS AND BUILD A COUNTRY OF WHICH WE CAN CONTINUE TO BE PROUD.**

– Tsakani Ratsela

## EXECUTIVE COMMITTEE OF THE AGSA



**TSAKANI RATSELA**  
**DEPUTY AUDITOR-GENERAL**



**EUGENE ZUNGU**  
**CORPORATE EXECUTIVE: AUDIT**



**IMRAN VANKER**  
**NATIONAL LEADER: INTERNAL  
OPERATIONS & AUDIT SUPPORT**



**SIBONGISENI NGOMA**  
**CORPORATE EXECUTIVE: INTERNAL  
OPERATIONS**



**SAKHIWO NGOBESE**  
**CORPORATE EXECUTIVE:  
COMMUNICATIONS AND TECHNOLOGY**



**JAN VAN SCHALKWYK**  
**CORPORATE EXECUTIVE: AUDIT**

## EXECUTIVE COMMITTEE OF THE AGSA



**BARRY WHEELER**  
CORPORATE EXECUTIVE: AUDIT



**ALICE MULLER**  
CORPORATE EXECUTIVE: AUDIT



**MEISIE NKAU**  
ACTING CORPORATE EXECUTIVE:  
STRATEGIC AUDIT PROJECTS AND  
OUTREACH PROGRAMMES



**NAEEM SEEDAT**  
CORPORATE EXECUTIVE:  
NON-REGULARITY AUDIT



**SULEMAN BADAT**  
CORPORATE EXECUTIVE: TECHNICAL  
SUPPORT AND LEARNING



**VUSI MSIBI**  
CORPORATE EXECUTIVE: AUDIT

# MESSAGE FROM THE OUTGOING AUDITOR-GENERAL, TERENCE NOMBEMBE



**TERENCE NOMBEMBE**  
**FORMER AUDITOR-GENERAL**

**I AM ASSURED THAT AG KIMI MAKWETU INHERITS A GREAT TEAM WHICH HE WILL LEAD TO EVEN GREATER SUCCESS.**

- Terence Nombembe

At the end of November 2013, I took my leave from an organisation I had been privileged to serve for 14 years in the capacity of Deputy Auditor-General to Mr Shauket Fakie and as Auditor-General since 2006. During that time the AGSA cemented its position as an important player in driving accountability, oversight and governance in the public sector.

Throughout my tenure at the AGSA, I was privileged to enjoy the support of a professional staff, dedicated leadership team and members of the governance and oversight structures. My sincere appreciation and gratitude go to all who have contributed unselfishly to making our organisation capable, relevant and exemplary.

We are well on track to realising the strategic aims of the Siyanqoba strategy which we

developed in 2001 and re-launched in 2008. The time is ripe for a thorough review of the way forward to ensure that we stay relevant to the country in this fast-changing environment.

I extend my very best wishes for continued success to the current Auditor-General, Kimi Makwetu. I pass on the baton to Kimi, assured not only that he inherits a great team but also that he will lead the AGSA to even greater success.



## SECTION 2

**This report balances the requirements of our governing legislation and the recommendations of the King III code on corporate governance and reporting and is prepared in accordance with the IFRS. We have maintained a C+ application level in terms of the Global Reporting Initiative Guidelines.**

# REPORT PROFILE

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## REPORT PROFILE

This integrated annual report tells the story of our organisation and provides a concise and balanced description of our challenges and successes for the period 1 April 2013 to 31 March 2014. It presents the approach we have followed to address those social, economic, environmental and governance issues and risks that have a material impact on the long-term success of the organisation and are important to our key stakeholders. It also incorporates the annual financial statements. During the compilation process we applied the lessons learnt from our previous integrated reports.

The report covers the performance of all organisational components of the AGSA, including its head office and all its offices in the nine provinces.

It balances the requirements of our governing legislation, the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), and the recommendations of the King III code on corporate governance and reporting. The Guidelines for sustainable reporting (version 3.1) of the Global Reporting Initiative (GRI) informed the content and format of the report. We have maintained a C+ application level for this report as per the GRI guidelines. The report is prepared in accordance with the International Financial Reporting Standards (IFRS).

### Material focus of this report

The material focus of this report is informed by the organisation's strategic commitments made to Parliament, which are outlined in detail in the AGSA's *Strategic plan and budget 2013-16*. As in the previous few years, the commitments are structured around the following strategic focus areas:

- Simplicity, clarity and relevance of our messages
- Visibility of the AGSA's leadership to our stakeholders
- Funding our operations
- Strengthening of the organisation's human resources
- Leading by example.

These goals have been the pillars of the organisation's long-term strategy and are

reviewed and fine-tuned each year by the organisation's senior leadership. This is done through a structured strategic alignment process to ensure that we adequately respond to the environment in which we operate. During the 2013-14 financial year, we added sustainability performance as a sixth strategic commitment.

### Assurance on this report

An independent external auditor audited the financial statements and the AGSA's performance information and assured the information for the selected sustainability performance indicators. The assurance was conducted in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000: revised), issued by the International Auditing and Assurance Standards Board. The assurance statement is reflected on page 92 of this report.

# ORGANISATIONAL OVERVIEW AND BUSINESS MODEL

The International Integrated Reporting Framework describes a business model as an organisation's **system of transforming inputs, through its business activities, into outputs and outcomes that aim to fulfil the organisation's strategic purposes and create value over the short, medium and long term.** Such system is influenced by various internal and external environmental factors, which together make up the organisation's operating context. This section of the report provides information on all aspects that describe us and the environment in which we operate.

## Constitutional and legislative mandate

Chapter 9 of the Constitution of the Republic of South Africa, 1996, establishes the institution of the Auditor-General as one of the state institutions supporting constitutional democracy. The Constitution entrenches the institution's independence by directing that the AG is subject only to the Constitution and the law. The Constitution requires the AG to be impartial and to exercise his/her powers and

perform his/her functions without fear, favour or prejudice. The functions of the organisation of the Auditor-General of South Africa are described in section 188 of the Constitution. These functions are further regulated by chapters 2 and 3 of the Public Audit Act.

## What we do

Each year, the AGSA conducts mandatory audits on government departments, certain public entities, municipalities and municipal entities (our clients or auditees). The AGSA furthermore conducts discretionary audits, such as performance audits, special audits and investigations.

For each audit a report is prepared. These reports are made public and are tabled in the legislatures or bodies with a direct interest in the particular audit, such as Parliament, provincial legislatures and municipal councils. In addition, audit reports may be provided to any other legislature or organ of state if the AGSA considers it in the public interest to do so. In addition to these audit-specific reports, the AGSA publishes two general reports in

which the outcomes of the audits at national and provincial levels and at municipal level, respectively, are analysed.

## The way we are organised

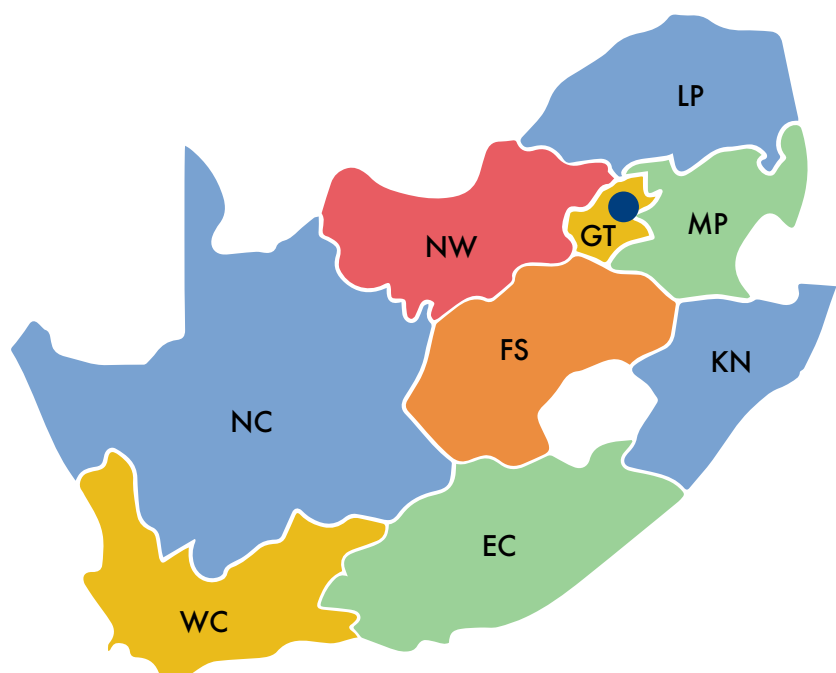
The AGSA consists of a head office located in Pretoria and provincial offices in each of the nine provinces in South Africa. The main purpose of the deployment of local offices is to enhance accessibility to our clients.

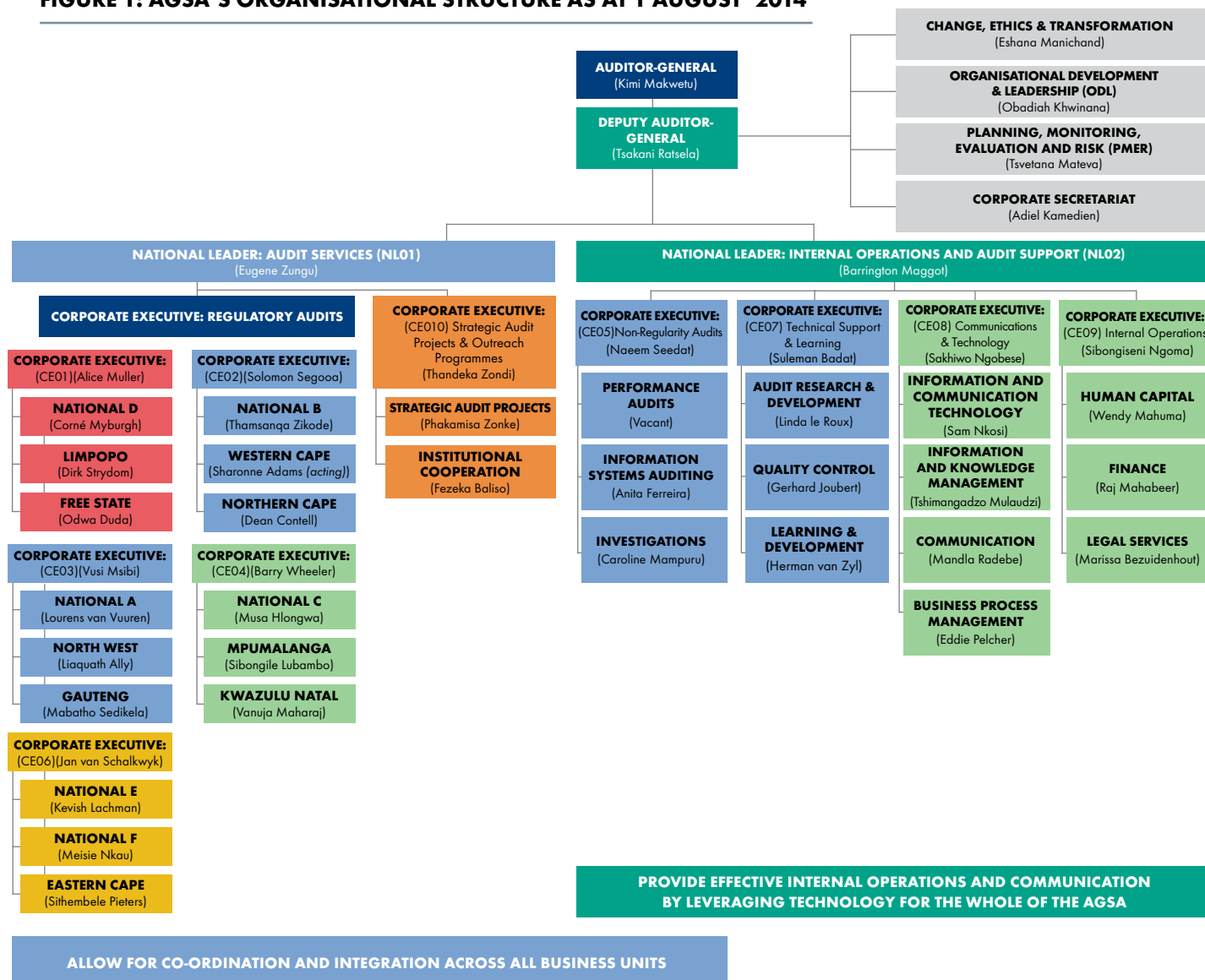
Figure 1 depicts the AGSA's latest organisational structure. The Auditor-General, Mr Kimi Makwetu, is in overall control of the organisation, while the Deputy Auditor-General, Ms Tsakani Ratsela, is the head of the administration. The audit and support streams of the organisation are headed by national leaders, while corporate executives manage portfolios of business units within those streams. The activities of the organisation reside with business units which are structured in a way that enables the best possible execution of our strategy.

## GEOGRAPHICAL OPERATIONS AND ORGANISATIONAL STRUCTURE

GT Gauteng  
● Pretoria Head Office

WC Western Cape  
EC Eastern Cape  
NC Northern Cape  
FS Free State  
KN KwaZulu-Natal  
NW North West  
MP Mpumalanga  
LP Limpopo



**FIGURE 1: AGSA'S ORGANISATIONAL STRUCTURE AS AT 1 AUGUST '2014**

## OPERATING CONTEXT

Factors and trends outside the organisation may impact the achievement of our strategic goals and objectives for the medium to long term. We have grouped these factors logically in different but interlinked categories.

### Political context

The organisation executes its mandate in an environment where changes in executive leadership depend on the prevailing political circumstances at national, provincial and local level. Frequent changes in key personnel as a result of instability or following national, provincial and municipal elections may impact

adversely the progress made with the AGSA's stakeholder engagement programmes.

Lately the AGSA has seen much more rigorous engagement by various stakeholders on the audit outcomes expressed in our reports. We attribute this to the improvements and the increasing maturity of our stakeholder engagement programmes, which is evident in the level of preparation and debriefing disciplines, and the skilling of our teams in purposeful and persuasive engagements. Such interactions provide an invaluable opportunity for solicitation of commitments and actions on audit recommendations.

### Economic context

Government spending, specifically through the state-owned enterprises, is intended to stimulate the economy of the country. With this comes the responsibility to account for the use of public funds. The AGSA's role in providing assurance on the appropriate investment and delivery against this investment is growing.

On the other hand, the stagnating economic environment and inadequate availability of skills for financial management, particularly away from the metropolises, result in increasing debt levels which pose a threat to the liquidity

of the AGSA and hence to its continued functioning and sustainability.

Competition for skilled labour is rife globally and at a national level the AGSA faces competition from the public sector and private audit firms.

## Social context

The upward trend in urbanisation poses a challenge to the availability of resources for the AGSA in the rural provinces. Further, it could exacerbate the lack of skills in those provinces at an auditee level and, as such, impact negatively on audit outcomes.

The low quality of basic education outcomes could have a bearing on the AGSA's resource pipeline at all levels and areas of specialisation.

The increasing level of violent service delivery protests poses a risk of inability to physically reach audit sites and a threat to the security of AGSA staff while conducting audits and to its top management during visibility visits.

Inadequate understanding by the general public of the association between service delivery and audit opinions in the long term is expected to increase the AGSA's reputational risk. This risk is magnified in situations where the audit pronouncements contradict the public's perception about the state of affairs of a particular auditee. Reversely, this presents an opportunity and calls on us to drive education efforts so that the people of South Africa understand the role we play in the democratic society and are appreciative of our audit messages.

## Technological context

Technological changes are happening at a rapid pace. The increase in the rate of technology use globally and in South Africa specifically has made the security and storage of information/data an imperative. In addition, the auditors will be faced with increasing volumes of electronic data in the next few years, which might necessitate revisiting their

skills profile as they will be required to conduct complex data analytics.

Observable trends are the automation and integration of systems at the auditees. Such trends need to be considered in our audit approach and processes.

Globally and in South Africa there has been an increase in the use of social media. This trend poses both an opportunity and a risk.

## Environmental context

Internationally, through environmental audits, supreme audit institutions (SAI) are playing an increasingly important role regarding the global concern around the use and preservation of the environment. Locally, the global concern has resulted in the promulgation of environmental laws and regulations. The requirement for the AGSA to audit compliance with environmental laws will influence the variety of skills/competencies required by the organisation.

The good practices around environmental management and the need to be and be seen as a good citizen also require the organisation to manage its own environmental footprint, which may affect the way we conduct our business.

## Legal context

The variety of information-related legislation promulgated recently has both a strategic and an operational impact on all areas of our business.

Recent amendments to labour legislation impact the basic conditions of employment and the structure and regulation of employment contracts, including our use of short-term employment contracts. Amendments to employment equity legislation will not only have an impact on the internal operations, but will also have to be taken into account in the compliance work performed on the human resource component of auditees.

Internally, the recently promulgated Public

Administration Management Act will require the development of a new set of audit criteria for all affected auditees. This is linked to the way government intends to run its entities.

The revised broad-based black economic empowerment (B-BBEE) codes have an impact on the way we procure goods and services and support skills development.

## Strategic risk profile

The main strategic risks that the organisation faces are identified and prioritised annually by the executive leadership and approved by the audit committee. The executive leadership has identified seven major risks to delivery on the organisational mandate in the short to medium term by considering the organisation's performance over the past years and its success in managing previously identified risks and risk factors identified during the strategic environmental analysis. Those risks are categorised and listed in figure 2.

**THROUGH STRUCTURED ENVIRONMENTAL SCANNING, WE KEEP TRACK OF FACTORS AND TRENDS IN OUR ENVIRONMENT THAT HAVE THE POTENTIAL TO IMPACT THE ACHIEVEMENT OF OUR STRATEGIC GOALS AND OBJECTIVES.**

**FIGURE 2: THE TOP SEVEN RISKS FACED BY THE AGSA IN THE SHORT TO MEDIUM TERM PER CATEGORY**



## OPERATIONAL

- Security risk of our personnel, assets and operations
- Audit process failure



## STRATEGIC

- Inability to be relevant to our stakeholders



## TECHNOLOGICAL

- Lack of functioning IT governance structures and processes



## REPUTATIONAL

- Failure to lead and be seen to lead by example



## HUMAN CAPITAL

- Inability to have access to right calibre staff to successfully deliver on our strategies



## FINANCIAL

- Poor debt collection impacting the cash flow and threatening the financial viability of the organisation

# SECTION 3

**We shall continue to proactively share insights to improve accountability, financial and performance management, oversight, etc. to enable government to be better geared for service delivery, thereby giving substance to our reputation promise.**

# PERFORMANCE REVIEW 2013-14

## SECTION CONTENTS



# PERFORMANCE REVIEW FOR 2013-14

Through our audits we assist auditees to improve their performance in financial management, compliance with legal prescripts and service delivery in general. In order to achieve this, we needed to:

- ensure that our audits remain relevant
- convey our audit messages in a clear and understandable manner
- interact regularly with our auditees and other stakeholders
- ensure that we remain financially sustainable
- have access to the right human resources
- perform our work in an exemplary manner and conduct our work in a socially and environmentally sustainable way.

Our performance review reflects our achievements and challenges in achieving these strategic commitments.

## SIMPLICITY, CLARITY AND RELEVANCE OF MESSAGES

### Highlights

- **961** regularity audits were completed
- Tabling of 2012-13 PFMA general reports took place **four months earlier** than in the previous cycle and the content was more concise yet “digestible”, therefore increasing the relevance for stakeholders
- **Twenty** consolidated general reports were prepared and tabled for each **MFMA and PFMA** cycle for each province as well as at national level
- **Eight performance audit reports** on the use of consultants were tabled.
- **Transversal audits** at the Department of Basic Education and Higher Education and Training were completed and will be reported on in the education sector report
- A stand-alone performance audit on sanitation at the **Department of Human Settlements** was completed
- We took on the audit of state-owned enterprises – **SAFCOL, SA Express and SABC**, which required intense engagements with the leadership of the controlling departments, previous auditors and related oversight structures to ensure a smooth hand-over process.

We believe that the key to achieving and sustaining unmodified audit opinions in any organisation is to implement and adhere to sound internal controls. During the review period we continued to provide consistent, simple audit messages of high quality, outlining relevant root causes of the audit findings. To enhance the relevance of our messages, we placed a high priority on optimal integration of our different types of audits to address the shortcomings in financial management, compliance with legislation and service delivery in a holistic manner.

We responded to our external stakeholders’ needs for better insight into the root causes of poor audit outcomes and the actions required to improve transparency, accountability and governance, by incorporating specialist audits into our work.

### Clear expression of relevant root causes and recommendations

As part of the reporting process, we assess the root cause of any error or non-compliance, based on the internal control that had failed to prevent or detect it. Auditors are enabled to do this through experience, guidance, tools and training.

Findings, root causes and recommendations are captured in **management reports** to senior management and accounting officers of our auditees, the executive authorities and audit committees. Our opinion on the financial statements, material findings on the performance report and compliance with legislation as well as the root causes (expressed as significant deficiencies in internal controls) are included in an **audit report**, which is published in the auditee’s annual report and dealt with by the oversight bodies responsible for the auditee.

After each audit cycle (PFMA and MFMA) we report on the audit outcomes in nine provincial **general reports and a consolidated report**, in which we also analyse the root causes and provide key recommendations to improve audit outcomes. In 2013-14, 961 regularity audits were finalised and summarised in the general reports based on the MFMA 2011-12 and PFMA 2012-13 audit outcomes. These reports emphasised the need for auditees and all relevant role players to address the reported issues. We shared the outcomes and root causes with national and provincial leadership, Parliament, provincial legislatures and key role players in national and provincial government prior to publication of these reports.

Root cause analysis is also an inherent feature in our **performance audits** where we make targeted recommendations to influence

corrective action. During 2013-14 we finalised eight performance audit reports on the use of consultants. Significant strides were made to enhance the relevance of audit messages by integrating findings emanating from the performance audit into eight provincial reports. Performance audit insights were also incorporated into the annual regularity audit process.

Auditing of complex procurement processes or material contracts requires the use of specialised investigative and legal skills. Our investigation specialists and legal advisers were part of the audit teams that audited such multifaceted matters for various national departments and provincial offices. The relevance of the recommendations based on detailed root cause analysis made them readily acceptable to the auditees and allowed for smoother implementation.

The diagnosis of root causes within the **information technology (IT)** environment remained another key audit focus during the past financial year. Our in-depth knowledge of the auditees' IT environments assisted us in identifying the source of poor IT audit outcomes and communicating them in the reports we produced. We elevated insights resulting from the audits in both the PFMA and MFMA general reports, focusing on aspects such as IT governance, security management, user account management and service continuity.

### **Assisting the auditees to improve their internal control systems**

We continued to intensify our efforts to assist our auditees to improve their audit outcomes by identifying the key controls that should be in place, assessing these on a regular basis and sharing the assessment with executive authorities, accounting officers and authorities, as well as audit committees, in a dashboard report to simplify our communication.

The process of assessing and reporting on key controls is well entrenched and the assessments

and interactions are monitored at business unit level. The consistency of the assessment and providing value-adding recommendations to improve the internal control systems of the auditees remains a critical focus area in the organisation.

### **Integration of specialised skills into regularity audits**

In a defined effort to enhance the integration of various types of audits into one holistic audit per entity, insights from various specialist audits were considered during regularity audits. Examples are the incorporation of aspects of the government-readiness audit into the procedure on audit of performance objectives and water and sanitation procedures used in the MFMA 2013-13 audit cycle. During the reporting period, the focus was on the Education, Health and Public Works sectors and some of the work was executed by multi-disciplinary teams consisting of team members from regularity audit, performance auditing, legal services and investigations.

Significant inroads were made with respect to further integrating the work of **Information Systems Auditing (ISA)** with high-risk regularity audits in both the PFMA and MFMA audit cycles. The compilation of the IT assurance questionnaire and the training of regularity auditors in the use thereof extended the utilisation of information systems audits to a much wider range of issues than previously. The sustained decentralised presence of information systems auditors in Gauteng, Western Cape, Eastern Cape and KwaZulu-Natal is bearing fruit as it has fast-tracked the integration and demonstrated the value added by information system audits in improving the overall efficiency of the audits, enhancing the depth of audit insights and improving the quality of recommendations.

The integration of **investigative** capability allowed for improved quality and effectiveness of our regularity audits through better identification of risks of fraud and irregularities.

This proved to be most useful in the audit of areas such as complex procurement processes and material contracts.

Furthermore, our Investigations, Performance Auditing and Information Systems Audit business units combined efforts to perform multi-disciplinary audits on key focus areas in the public sector, for example at the Department of Human Settlements.

One of the important results of the assessment of the operating model of the Performance Auditing unit, conducted in the previous reporting period, was the establishment of a Centre of Excellence to deepen knowledge in respect of the focus areas of Health, Education and Infrastructure. Such knowledge will increase the value of future audits in these areas and will serve as a good example for creating similar centres in various other fields relevant to our audit strategy.

### **Improvement in the audit methodology**

In conformity with international auditing standards, our **audit methodology** provides the framework, practices and processes for auditing and reporting on our auditees' financial statements and annual performance reports and on their compliance with legislation. A project commenced in 2013-14 to improve the efficiency and effectiveness of our audit methodology and its further alignment with the requirements of the PAA, the audit standards and local and international best practices in auditing. We expect to implement the updated audit methodology as from 2015-16.

### **Packaging and presentation of our audit reports**

Our primary objective is to deliver reports that are of a high standard and relevant to the user. Care was taken to ensure consistency in the application of our corporate house style and to adhere to the requirements of simplicity and

clarity. Guidance documents were developed for the writers of reports to assist them with the compilation of audit reports. The production process for the 2013-14 PFMA general reports was simplified to reduce the turnaround time, while still adhering to the quality requirements for such reports. The tabling of reports four months earlier than in the previous cycle, as well as the reduced content, provided for more concise and “digestible” reports. Graphs, charts and visuals were very useful in conveying the message.

Various channels were identified and developed in the quest to deliver our messages to as many stakeholders as possible. These included the mainstream media, social media, speaker and public relations opportunities, advertorials, presentations and websites where messages were tailored to reach the target audience more easily.

### Section 4(3) auditees

As per section 4(3) of the PAA, the AGSA has a discretionary mandate to audit all public entities and entities funded from any revenue fund or by a municipality. These entities include those which, in terms of their enabling legislation, have the right to appoint their own auditors. Although not performing the audits, the AGSA remains involved in ensuring the standard and quality of those audits. We are consulted on the appointment and discharge of external auditors and we further guide the appointed auditors on the extent of their mandate, the depth of audit and reporting formats.

State-owned enterprises utilise a substantial part of the national budget to provide utility services or infrastructure to the people of South Africa, hence we have seen the growing need to provide assurance to the public about appropriate investment and delivery. Internally, audits of complex corporate environments provide invaluable opportunities for staff development and growth of experience and our skills base.

Last year, we made the decision to take on the audit of three of these commercial entities

– SAFCOL, SA Express and the SABC. There has been a very positive reaction to the above take-on, both internally and externally. The knowledge we gained there helped us to provide more practical guidance to other auditors performing section 4(3) audits. Our audit teams gained invaluable experience and confidence in auditing various corporate environments. The inclusion of these state-owned enterprises in the business unit stakeholder programmes continued to strengthen oversight, especially by the executive and senior management at the controlling department.

### The technical quality of our audit work is of high standard

The credibility of our reports is directly related to the technical quality of our audit work and as such is one of our key performance measures for simplicity, clarity and relevance of our messages. It is directly impacted by the systems of quality control relating to leadership, ethical requirements, acceptance and continuation of client relationships, human resources, engagement performance and monitoring in terms of the International Standard on Quality Control (ISQC1).

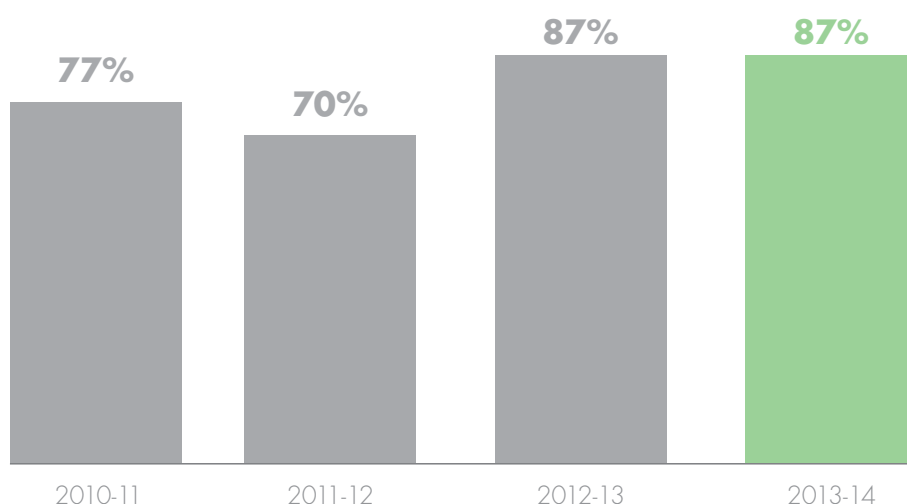
We ensured adherence to the International Standards of Auditing through a strict monitoring and review process on selected engagements

performed by our internal Quality Control unit (including engagements performed by contracted firms).

During the performance year we subjected ourselves to a voluntary firm-level review by the Independent Board of Auditors (IRBA) on the implementation of quality control policies and procedures as required by ISQC1. This review yielded a satisfactory level of compliance with ISQC1 and effective functioning of our internal control monitoring processes. In order to continue to lead by example, the AGSA has committed to subject itself to an international quality peer review by a team of reviewers from other supreme audit institutions (SAIs) in the next three years.

To ensure unbiased results, the technical quality of our reports is assessed by the quality control assessment committee (QCAC) chaired by the Auditor-General and including a member of the audit committee (the Governance section of this report provides details of the work performed by the committee). The current year’s quality results are on par with targeted performance and remained consistent with the previous year’s results. Although our target was achieved, we will continue to enhance the quality of our audit files to maintain and improve these high audit quality results. Figure 3 demonstrates a 17% increase against the 2011-12 reporting period and a 10% increase against 2010-11 results.

**FIGURE 3: QUALITY RESULTS FOR THE PERIOD 2010-2014**



## Ensure simplicity of our non-audit corporate products

We compile all our deliverables with the same high level of quality and strive to apply the principles of simplicity, clarity and relevance to all the content we produce. Our non-audit corporate reports are the *Integrated annual report* and the *Strategic plan and budget*.

The strategic plan produced during the review period outlined the strategic focus of the AGSA and articulated the performance targets and measures for the entire organisation for the

2014-17 performance period. The annual report cohesively integrated all aspects of our organisational performance into a single report. Our financial reporting was in line with the AGSA's commitment to transparency, while our overall performance review provided a balanced and comprehensive reflection of our performance.

Both the plan and the report adhered to the corporate house style to ensure simplicity in our messages. The reports were also in line with the AGSA's principles of clarity. They were relevant, easy to navigate and reflected equality and respect for all.

## Conclusion on performance

The Auditor-General rated our performance on simplicity, clarity and relevance of our content. Together with the rating on our adherence to all quality standards in both audit and non-audit reports, this provides us with the confidence that we have achieved our targets in this aspect of our work. Table 1 summarises our performance on "simplicity, clarity and relevance of messages" against predetermined objectives.

**TABLE 1: SUMMARY OF ACTUAL PERFORMANCE AGAINST PREDETERMINED OBJECTIVES**

| PERFORMANCE MEASURE                                             | TARGET 2013-14 | ACTUAL PERFORMANCE | COMMENTS |
|-----------------------------------------------------------------|----------------|--------------------|----------|
| Clear communication of relevant root causes and recommendations | 3              | 3                  | Achieved |
| % adherence to all quality standards:<br>Audit deliverables     | 87%            | 87%                | Achieved |
| Adherence to all quality standards:<br>Non-audit deliverables   | 3              | 3                  | Achieved |

# VISIBILITY OF LEADERSHIP

## Highlights

- Engagements with the **executive authorities and auditee management** have matured to a point where we are confident to have achieved our original intention with this goal – sharing **knowledge and insights** in a proactive way to empower leadership to take action on these and ensure **solid** financial and performance management
- Interactions with institutions of higher education resulted in us taking on the audits of **15 further education and training (FET) colleges**

- Our organisation, in the person of **Auditor-General Kimi Makwetu**, was selected as the **chair** organisation for the INTOSAI Capacity Building Committee
- We chaired the **international working group** on the value and benefits of SAIs, which successfully formulated and approved the new INTOSAI Standard, **ISSAI 12: The Value and Benefits of SAIs**
- Our staff provided portfolio committees with **critical insights** for use in their **annual assessment of departments** in preparation for their budgetary review and recommendation reports.

Interactions and continuous engagements with both our internal and external stakeholders are paramount to the impactful delivery of our organisational mandate. Through engagements with our stakeholders we ensure stakeholder buy-in and commitment to the organisation's overarching goal of positively impacting the lives of South African citizens. In doing so, we also learn to understand our stakeholders' reasonable expectations and make sure that our operations are aligned to those expectations. This ensures the sustainability of our organisation since it cannot exist outside the society we serve.

## Internal stakeholders

### Strategic interaction with staff

We used our strategic alignment process to engage our employees and communicated the organisational strategy to every single employee. These formal sessions took place in the form of workshops at a portfolio or business unit level to ensure a clear understanding of and continuous alignment to the strategic direction of the AGSA. They also allowed employees to provide the AGSA leadership with face-to-face feedback on the strategy. Each business unit conducted two such formal engagements during the year.

Another institutionalised practice of sharing strategic audit insights is the conducting of audit cycle roadshows. During the visits, all employees, including our support staff, discussed the audit outcomes directly with the top leadership and provided individual views on how the audits can be improved to ensure enhanced positive impact in the public service.

### Senior management workshop

A senior management workshop (SMW) was organised at the start of the review period. The SMW provides a platform for the AGSA leadership, from senior managers to the Auditor-General, to have dedicated conversations about the strategic path of the organisation and the interventions required to intensify the achievement of strategic goals.

The theme for the workshop was *Co-creating*



**STAFF PARTICIPATING IN A VA/OA SESSION WHICH USUALLY INCLUDES A TEAM-BUILDING ACTIVITY**

a sustainable organisation which signified the fact that the organisation can only exist with the support and cooperation of its stakeholders and the internal drive for integration. The forum resolved that the current strategy with its five strategic goals remains relevant for the short term, but requires increased focus on achieving a higher level of integration to provide one consistent, simple, clear and relevant audit message of impeccable quality. The announcement at this forum that fixed-term contracts of employment for business executives, deputy business executives and senior managers would be abolished, demonstrated that people are the agenda of the AGSA.

## External stakeholders

Our external stakeholders are categorised into five main groups:

- Constitutional stakeholders, including

auditee leadership

- Section 4(3) auditees
- The public and media
- Regulators, standard-setters and professional bodies
- Contracted audit firms

### Constitutional stakeholders

Over the course of the last seven years, our leadership visibility journey has continued to evolve as a key performance area for the AGSA. When the organisation broadened its strategic attention in 2007-08 from a pure focus on the quality of its audit deliverables to a greater focus on relevance of audits, it committed to becoming more responsive towards and engaging with key stakeholders that play a role in strengthening financial and performance management in the South African public sector. We recognise that our constitutional stakeholders are critical in our quest to enable oversight, enhance good governance and promote public accountability, as clearly indicated in the AGSA's reputation promise. To this end, we continued our extensive programme of interacting and engaging with identified key stakeholders in all three spheres of government. This included municipal councils, the mayors within those councils, the municipal public accounts committees (MPACs), the provincial legislatures, national legislatures, oversight authority leadership, individual ministers and members of executive councils (MECs), coordinating ministries and cabinet.

This initiative of leadership visibility to empower key decision-makers in government has



**OUR ANNUAL SENIOR MANAGEMENT WORKSHOP TOOK PLACE IN DURBAN IN MAY 2013**

impacted positively on our stakeholders' level of understanding of our audit processes and how these relate to good governance, public accountability and related oversight processes. The impact has also been evident in our general reports being utilised by the elected representatives of the people when they engage with their constituencies. In addition, the impact of the organisation's visibility efforts was felt during the budget review process, where ministers demonstrated a good understanding of the audit outcomes of their departments and the challenges these face in terms of key areas of business operations. The AGSA's efforts to proactively become involved in reviewing annual performance plans at national level before these are submitted to Parliament proved particularly useful in strengthening the accountability processes at the inception of the budget processes.

Our engagements with the auditee leadership has empowered the DGs, heads of department and senior management with adequate information to be able to strengthen basic financial and performance management disciplines, hold staff accountable for their actions and build a better basis for service delivery.

## Municipalities

At municipal level we engaged in a similar manner with leadership on matters of internal control, as well as basic financial and performance management disciplines. At the minimum, these engagements covered mayors, speakers of council and municipal managers. Throughout the past year there was a significant increase in the level of participation in these engagements by municipalities, with the focus of the inclusion growing from just the mayors to a bigger group. Engagement with the chairs of the MPACs is an area that is also becoming a growing priority for the AGSA now that the majority of these structures are in place. The general report on the 2012-13 MFMA results provides further details on the progress made with this important stakeholder group.

We further engaged with certain coordinating

departments, e.g. the offices of premiers, provincial treasuries and departments of local government, which can have a positive impact on the outcomes of the municipal audits. These were complemented by interaction with Premier's coordinating forums or MUNMEC structures (meetings where municipalities and the MEC for Local Government engage). Given the real possibility of achieving an enhanced combined effect through these coordinated efforts, we will continue to pursue engagements with this group of stakeholders as a strategic priority.

## Provinces

We engaged with the premiers of all nine provinces in line with our recognition that engagements at the highest leadership level will result in the highest impact, highlighting areas of concern within the governance of provinces while soliciting commitments from the premiers to undertake corrective actions. Where possible, these engagements also included the MECs for Finance and Local Government, since the leadership and guidance flowing from these engagements, as well as the work done by the departments under their control, could have a big influence on the quality and strength of financial and performance management in other departments and municipalities.

A major portion of engagement with oversight structures at provincial level included the 116 engagements we had with provincial public accounts committees, while attention to engagements with portfolio committees is also becoming a growing priority for the AGSA.

## Standing Committee on Public Accounts

The Standing Committee on Public Accounts (SCOPA) continued to structure its oversight hearings based on the AGSA's findings and focus areas, as shared during the AGSA briefings. The committee isolated the prevalence of irregular, unauthorised, fruitless and wasteful expenditure at the apex of its hearings during the year under review. Most of the SCOPA hearings focused on the departments and

entities that repeatedly received undesirable audit opinions.

As in the previous year, the AGSA accompanied SCOPA on various oversight visits to provide insights on the key issues identified during the audit.

## National Council of Provinces

In an effort to intensify its oversight, the National Council of Provinces (NCOP) hosted the AGSA for engagements on the 2011-12 MFMA and 2012-13 PFMA audit outcomes on 28 May 2013 and 11 February 2014, respectively. During these interactions, the NCOP undertook to prioritise departments with persistent undesirable outcomes for oversight interventions through its selected committees that are mandated to perform provincial oversight. This commitment resulted in basic engagements with structures at this level and involvement in certain provincial oversight visits, but is acknowledged as an area of growth for years to come.

## Association of Public Accounts Committees

The long-standing memorandum of agreement between the AGSA and the Association of Public Accounts Committees (APAC) has resulted in an effective strategic partnership aimed at enhancing public accountability. The organised oversight provided by APAC in terms of sharing best practices and providing capacity building to oversight enabled the AGSA to track actions taken to address audit issues raised and reported. This relationship has over the years enabled APAC to adopt conference resolutions that are implementable by all the SCOPAs and to build significant capacity for effective oversight.

We supported APAC in their capacity-building programmes for the MPACs in the Free State, Northern Cape, North West and Limpopo. These programmes are still in their initial stages and we shall continue our participation in them to provide the necessary knowledge and insights.

## Public Sector Audit Committee Forum

The Public Sector Audit Committee Forum (PSACF), which comprises members from the National Treasury, Institute of Internal Auditors (IIA), the Institute of Directors (IOD), the Development Bank of South Africa (DBSA), the Institute of Risk Managers (IRMSA), the South African Institute of Chartered Accountants (SAICA) and the South African Local Government Association, improved its functioning and we have observed that developments from the forum are reaching the intended beneficiaries. The PSACF technical subcommittee developed and published a number of guidelines during the review period and developed training programmes for the use of audit committee members in the public sector. A pilot training programme was presented in Cape Town and Johannesburg.

## Portfolio committees

During 2013-14, the AGSA provided portfolio committees with critical insight for use in their annual assessment of departments in preparation of their budgetary review and recommendation BRR reports. The notable maturity of the AGSA's 33 interactions and engagements with the portfolio committees is illustrated by the intensity with which the National Assembly committees perform their assessment of departments in October each year, utilising insights of pre-assessment briefings by the AGSA leadership. In the majority of instances the portfolio committees endorsed the recommendations made by the AGSA during the briefings and, as relevant, included these in their BRR reports.

The AGSA has also been recognised as one of the key stakeholders for portfolio committees when undertaking oversight visits to departments and entities. This proved mutually beneficial as the engagements during these oversight visits provided very valuable practical context to audit findings and messages.

The AGSA continues briefing portfolio committees on observations made during

the proactive review of departmental annual performance plans prior to tabling of these in Parliament. This initiative is intended to give the committees an opportunity to influence appropriate corrections to the strategic plans, where applicable, before formal adoption.

## Coordinating ministries

Numerous and ongoing interactions with coordinating ministries (Ministry for Performance Monitoring and Evaluation, Ministry of Public Service and Administration, CoGTA and National Treasury) served as platforms for proactive engagement on transversal and systemic challenges to effective public sector administration. Through these interactions, the respective ministries took practical steps to respond to the audit messages shared by the AGSA. This type of engagement proved very constructive in influencing key developments in public service. We acknowledge the valuable opportunity provided by the coordinating ministries for us to comment, among others, on the Public Administration Management Bill and certain local government regulations.

## Cabinet

The AGSA shared the insight gained during the 2011-12 MFMA and 2012-13 PFMA annual audit cycles with cabinet on 15 May 2013 and 6 November 2013, respectively. During these engagements, the Auditor-General highlighted specific recommendations for corrective actions while obtaining commitments from the leadership on targeted actions they will undertake to ensure good governance in all three spheres of government.

As an extension of the Auditor-General's interaction with cabinet, the AGSA leadership continued to have structured engagements with individual members of cabinet on a quarterly basis to provide early warning indications on issues that require urgent attention within their portfolios, with emphasis on strengthening internal control, establishing and monitoring basic financial and performance management disciplines, addressing capacity challenges and highlighting the need for appropriate and strong performance management. Cabinet coordinated

its response to these engagements primarily through key coordinating ministries which each undertook to take corrective action to address the areas of concern raised by the AGSA.

## Speakers' Forum

During both audit cycles, the AGSA continued to engage the Speakers' Forum as an important forum to reach the leadership who takes primary ownership for guiding and monitoring oversight at the level of Parliament and legislatures. The Speakers' Forum undertook to provide direction to the legislatures by encouraging adherence to the principles advocated in the new legislative sector oversight model. The Forum further undertook to support APAC in its capacity-building programmes for public accounts and portfolio committees.

## Section 4(3) auditees

*State-owned enterprises (SOEs)* - In the previous section we reported on the audit work done at this group of auditees. In addition, the AGSA includes these entities as part of its stakeholder engagement programmes, with an emphasis on meeting with board and audit committee chairs, attending board and audit committee meetings and monitoring the outcomes of audit processes. This involvement also extends to support to the auditors of these entities should any of them be called to appear before a public accounts or portfolio committee.

One of the most prominent developments in this regard is the establishment of a forum for regular engagements between the departments, led by the executive and the chairs of boards and audit committees. The sharing of knowledge and insights between the management of the respective state enterprises resulted in vastly improved governance of the SOEs.

## Higher education institutions and FET colleges

- Various interactions with these institutions continued to take place during the year under review to ensure that they are aware of all legislative requirements relevant to them and to assist and guide them in complying with applicable laws and regulations. The AGSA leadership continued to engage with Higher

Education South Africa (HESA), the Finance Executives Forum and the FET Chief Financial Officers Forum to share the audit outcomes of the sector and related challenges. These interactions, together with various engagements with the national Department of Higher Education and Training, have resulted in much progress being made towards addressing the legislation gap identified in the sector to ensure clean administration and improved accountability. In line with the AGSA strategy on section 4(3) entities, our interactions have also resulted in the AGSA taking on the audits of 15 FET colleges in the past year, with the rest planned to be taken on in the next three years.

### Contracted audit firms

Contracted audit firms continue to be the AGSA's strategic partners in the delivery of our mandate. Audit firms are allocated work through a streamlined process to supplement the AGSA's internal resources and ensure that all audits are completed on time as per legislative and internal requirements and in line with the required International Standards of Auditing and internal quality standards. Training and information-sharing initiatives with contracted audit firms continued throughout the review period and resulted in these firms gaining greater knowledge and understanding of the public sector business.

### Regulators, standard-setters and professional bodies

The AGSA regularly interacts with regulators, standard-setters and professional bodies on technical matters in both the accounting and auditing spheres. Our major stakeholders in this field are IRBA and the Accounting Standards Board (ASB).

The Public Sector Standing Committee (PSSC) established by IRBA where representatives of audit firms contracted to perform audit work on our behalf and members of our technical department discuss matters related to this work continued to function constructively. Last year this interaction saw the finalisation of two important documents: *Guidance on performing audits where the AGSA has opted not to*



*perform the audit and Guidance on performing audits on behalf of the AGSA*, which are to be published shortly. We further participate as members of a number of other technical committees of IRBA and as members of the Committee for Auditing Standards.

We held quarterly "tri-lateral" meetings with the ASB and National Treasury to discuss issues related to accounting in the public sector. Informal tri-lateral meetings were held weekly between the technical staff of the AGSA, ASB and National Treasury to discuss and resolve accounting matters raised by auditees and auditors. Part of our collaboration with this group of stakeholders was our participation in the monthly Accounting Forum which is chaired by the ASB and attended by technical staff of the audit firms, consultants as well as National Treasury and provincial treasury representatives.

The collaboration allowed for a proactive approach to dealing with technical challenges in the audit environment and presented a unique and constructive basis for strengthening basic technical requirements, processes and fiscal disciplines in the public sector.

As in previous years, the AGSA continued to participate in various forums and structures

focused on public sector accounting and auditing, overseen by professional institutions such as SAICA, SAIGA, the IIA, the Information System Audit and Control Association (ISACA), the Association of Certified Fraud Examiners (ACFE) and the ACCA.

### Clean audit campaign

In an endeavour to further drive messages contained in the audit reports, we engaged with the communication units of the Johannesburg, eThekweni, Ekurhuleni and Tshwane metropolitan municipalities, as well as with the Government Communication and Information System (GCIS). The purpose of these engagements was to disseminate messages contained in our audit reports to the wider public service, beyond the leadership, in support of the AGSA engagements with auditees to ensure that more layers within the government institutions were apprised of the audit messages and their respective roles in the achievement of a well-governed and smoothly run public service (as defined in section 195 of the Constitution) which is ready to meet the challenges posed by the priorities of government, ultimately benefiting the people of South Africa.

### International collaboration

The AGSA successfully maintained its reputation as an active contributor to the work of the International Organisation of Supreme Audit Institutions (INTOSAI). We participate in the regional Working Group of the African Organisation of SAs (AFROSAI) and, specifically, the English-speaking sub-group, the AFROSAI-E, whose secretariat we host.

### AGSA as chair of the INTOSAI Governing Board

Our role as chair of the INTOSAI Governing Board came to an end in October 2013 during the XXI International Congress of Supreme Audit Institutions (INCOSAI) held in Beijing where we handed over this role to the Chinese National Audit Office. The highlights of our term as chair include leadership visibility to all but one of the seven regions of INTOSAI and quarterly columns in the *International Journal of Government Auditing* to assert the good practices of SAs and promote the firm commitment of SAs to strengthening accountability, integrity and good governance.

### Chairmanship of the INTOSAI Working Group on the Value and Benefits of SAs

A major achievement for us was the successful formulation and approval at the XXI INCOSAI of the new INTOSAI Standard, ISSAI 12: *The Value and Benefits of SAs*. This new audit standard was the main product of the Working Group on the Value and Benefits of SAs (WGVBS), which we chaired, and was the result of extensive consultation within the INTOSAI community. Among other principles, it deals with the importance of stakeholder engagements (visibility of leadership) in the relevance and value-add that a SA brings to a democratic environment.

### INTOSAI Capacity Building Committee

In furtherance of our leadership role in INTOSAI, the AGSA took over the chairmanship of the INTOSAI Capacity Building Committee (CBC) at in October 2013, supported by SA

Sweden as vice chair. Subsequently, the new CBC leadership has mapped out a revised role for the committee that challenges it to fulfil a clearer strategic role in response to the needs of the broad INTOSAI community, especially the regions requiring more support.

Since taking office in December 2013, Auditor-General Kimi Makwetu has represented the organisation and the CBC at the annual congress of the Organization of Latin American and Caribbean Supreme Audit Institutions, at the annual board meeting of the INTOSAI Development Initiative and at the 22nd Commonwealth Auditors-General Conference to clarify the current and future work of the CBC.

Committee (and its subcommittees) has had a positive impact on the professionalisation of the AGSA and its standing as a highly regarded supreme audit institution.

AGSA subject matter experts used the opportunities presented by other international platforms to support the strengthening of good governance globally. These platforms included the Organisation for Economic Cooperation and Development seminars on public governance and accountability, an institutional development workshop in Egypt, and the Open Government Partnership summit in London.



**OUR AG WAS RECENTLY APPOINTED AS CHAIR OF THE INTOSAI CAPACITY BUILDING COMMITTEE**

### Participation in other INTOSAI and international forums

The development of professional audit standards is one of the four core strategic goals of INTOSAI, along with capacity building, knowledge sharing and being a model institution. The AGSA strongly supported these goals and benefited through active participation in INTOSAI committees, working groups and task forces. These included the Professional Standards Committee (and several of its subcommittees), the Working Group on Information Technology Auditing, the Working Group on Key National Indicators, and the Task Force on SAs' Information Database. The work with the Professional Standards

### Study tours and knowledge sharing

In building public sector auditing capacity, the AGSA hosted a number of international delegations visiting South Africa to learn from our experience, skills and knowledge. These included the SA of Cameroon, the Budget Controller of Kenya, the Collaborative Africa Budget Reform Initiative group from Liberia, the Public Expenditure Management Peer Assisted Learning (PEMPAL) community of practice, the Japan International Cooperation Agency, the Bangladesh Ministry of Finance, the AWEPA (European Parliamentarians with Africa) and the Financial Development and Supervisory Board of the Republic of Indonesia. In addition,



### WE HOSTED STUDY TOURS TO SHARE OUR KNOWLEDGE AND BUILD PUBLIC SECTOR AUDITING CAPACITY

the AGSA supported the SAI of Nigeria by first hosting a high-level delegation in South Africa before sending an AGSA delegation to Nigeria to continue sharing knowledge and imparting skills to aid SAI Nigeria in their transformational journey.

### Bilateral relations

Through formal bilateral agreements with selected SAIs, the AGSA was able to gain specific expertise in areas of public sector auditing.

During XXI INCOSAI, the AGSA held bilateral meetings with the SAIs of Mexico, Ghana, Brazil and India to discuss existing memorandums of understanding between our SAIs. In addition, a new memorandum of understanding was signed with the SAI of China.

### Interaction with the media

We recognise the critical role played by the media as key disseminators of accountability information to the public in any democracy. Over time, we have established sound and mutually beneficial relations with the media. This has enabled us to convey the messages contained in our audit reports to the wider public.

To this end, all strategic media interactions for the year under review have been focused on proactively providing journalists with informed insights to convey the AGSA's message.

Key media activities to profile and increase the visibility of the AGSA and its leadership included the following:

- Media briefings on the PFMA and MFMA audit outcomes, during which journalists had an opportunity to get explanations on key audit issues that could have had a negative impact if misreported.
- A new feature introduced during the year under review was a pre-briefing "lock up" where AGSA officials and journalists explore, under a strict embargo, the audit results, root causes, recommendations and simplification of audit terminology. This educative initiative enabled journalists to report in an accurate, balanced and

informed manner.

- A series of media interviews for the former Auditor-General, Terence Nombembe, to provide an overview of his term in office and for the new Auditor-General, Kimi Makwetu, to map the way forward for the organisation under his stewardship.

### AGSA's participation at the ABASA 2013 convention

The AGSA participated in the 28th annual national convention hosted by the Association for the Advancement of Black Accountants of South Africa (ABASA) in Bloemfontein from 5 to 7 September 2013. The theme for the convention was *Accounting for the national development plan*. The then former DAG and current Auditor-General, Kimi Makwetu, formed part of the panel discussion on the National Development Plan. He was supported by 20 of the AGSA's senior managers from provincial and national audit units. Participation in the event enhanced the visibility of the organisation through the plenary discussions and engagement with stakeholders that visited the AGSA exhibition stand.

### Performance outcomes

Our numerous and effective stakeholder engagements and their positive outcomes culminated in the organisation receiving a rating of 3 (achieved) on the "Visibility of leadership" performance measure.



### THE AGSA USED THE MEDIA AS A KEY CHANNEL TO INFORM THE PEOPLE OF SOUTH AFRICA OF THE AUDIT OUTCOMES

**TABLE 2: SUMMARY OF ACTUAL PERFORMANCE AGAINST PREDETERMINED OBJECTIVES**

| PERFORMANCE MEASURE                                                                              | TARGET 2013-14 | ACTUAL PERFORMANCE | COMMENT  |
|--------------------------------------------------------------------------------------------------|----------------|--------------------|----------|
| High-quality, value-adding stakeholder interactions are conducted, and escalated where necessary | 3              | 3                  | Achieved |

### Conclusion and promise for the future

Our leadership visibility journey has led to significant gains in the last seven years. We shall therefore continue to intensify our communication with those charged with governance through streamlined leadership

visibility programmes in order to support sound financial management practices and transparent public accountability. Through the continuous refinement of our leadership visibility methodology we aim to improve our processes and the competencies of our leadership and staff to engage effectively with our stakeholders.

We shall continue to proactively share insights to improve accountability, financial and performance management, oversight, etc. to enable government to be better geared for service delivery, thereby giving substance to our reputation promise.

### TESTIMONIALS

**FOR US TO MAKE A MEANINGFUL YET SUSTAINABLE DIFFERENCE IN THE LIVES OF OUR CITIZENS, THIS HAS TO BECOME THE GOLDEN THREAD OF ALL COMMUNICATION: AUDITING TO BUILD PUBLIC CONFIDENCE.**

- Terence Nombembe

**SCOPA OF KWAZULU-NATAL UNDERSTANDS CLEARLY THE ROLE OF THE AUDITOR-GENERAL AND HIS OFFICE AND WE REALLY APPRECIATE HIS VISIBILITY AND THE OPPORTUNITY TO ENGAGE WITH THE AGSA REGULARLY.**

- The Hon. Nkosi (Chairman of KwaZulu-Natal SCOPA)

# FUNDING

## Key financial indicators

Audit income is up by 14,58% at  
**R2 536 MILLION**  
(2012-13: R2 214 million)

Gross profit at 32%,  
**R803 MILLION**  
(2012-13: R641 million, 29%)

Cash balance increased  
**FROM R464 MILLION  
TO R496 MILLION**

Provision for bad debts increased  
**FROM R115 MILLION  
TO R146 MILLION**

Trade debtors increased  
**FROM R517 MILLION  
TO R607 MILLION**

Local government debt remains a  
challenge, with debt increasing  
**FROM R262 MILLION  
TO R322 MILLION**

Average creditor payment days are  
**32 DAYS**  
compared to a target of  
**45 DAYS**

Overheads are up by 9,55%  
**R753 MILLION**  
(2012-13: R688 million)

Audit work allocated to private audit firms  
increased  
**FROM R618 MILLION  
TO R665 MILLION**

The AGSA strives at all times to execute its mandate economically, efficiently and effectively and focus on providing value-for-money audits to the public sector. Over the years, good financial administration and financial discipline embedded in the funding model has enabled the AGSA to be financially stable.

The AGSA's financial stability has been sustained through steady cash flows; however, the significant increase in total outstanding

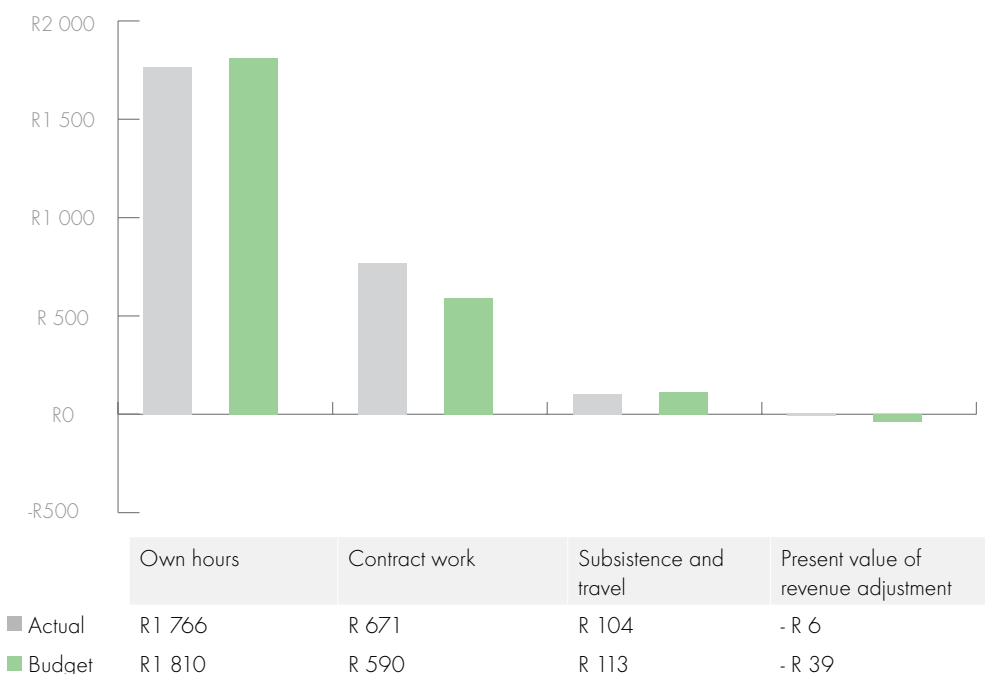
debt poses a major financial risk. The AGSA continues to experience low collections, especially from local government debtors, and hence continues to assess means of improving its collection and to embark on specific initiatives to mitigate this risk.

The key drivers of the financial position and results are discussed in the sections that follow.

## Audit income

The AGSA generates revenue by conducting audits. Audit income is made up of own revenue, income generated through the audit work performed on our behalf by contracted audit firms and recovery of subsistence and travel costs from our auditees. The actual audit income was R2 536 million (2012-13: R2 214 million) against a budget of R2 474 million (2012-13: R2 226 million).

**FIGURE 4: ACTUAL AUDIT INCOME COMPARED TO BUDGETED AUDIT INCOME**



### Tariffs (charge-out rate per hour)

The revenue is generated by billing auditees for hours spent on audits based on published tariff rates per level of employee. The actual average tariff rate per hour was R560 (2012-13: R517) against a budgeted average tariff rate per hour of R546 (2012-13: R516). The main reason for the increase of R14 per hour is the difference in the staff mix between

actual and budget. The actual charge-out rate increased by 8,3% year on year, mainly due to the average increase in staff remuneration of 7,2% and changes in actual composition of audit teams against planned composition of audit teams.

### Gross profit

Gross profit for the current year was 32% (2012-13: 29%) against the target of 31%

(2012-13: 31%). The higher-than-budgeted gross profit is mainly due to actual recoverable cost being lower than budgeted recoverable cost. The AGSA generates gross profit on own income and not on outsourced audits (contract work) or subsistence and travel (S&T) expenses recovered from auditees. The work done by private firms on behalf of the AGSA and S&T costs are billed without any mark-up to clients.

**TABLE 3: SUMMARY OF BUDGETED AND ACTUAL GROSS PROFIT**

|              | BUDGET 2013-14 | ACTUAL 2013-14 | ACTUAL 2012-13 | ACTUAL 2011-12 |
|--------------|----------------|----------------|----------------|----------------|
| Gross profit | 31%            | 32%            | 29%            | 30%            |

### Direct and indirect overhead expenditure

In controlling the increase in audit fees, the AGSA managed to contain the increase in direct and indirect overhead expenditure. The actual direct overheads as a percentage of audit income amounted to R1 733 million / 68% (2012-13: R1 573 million or 71%) against a budget of R1 701 million / 69% (2012-13:

R1 540 million or 69%). The actual indirect overhead expenditure was 30% (2012-13: 31%) against a budgeted expenditure of 33% (2012-13: 32%).

### Net surplus

The surplus for 2013-14 was R99 million / 3,89% (2012-13: R19 million / 0,85%) against a budget of R25 million / 1,02% (2012-13:

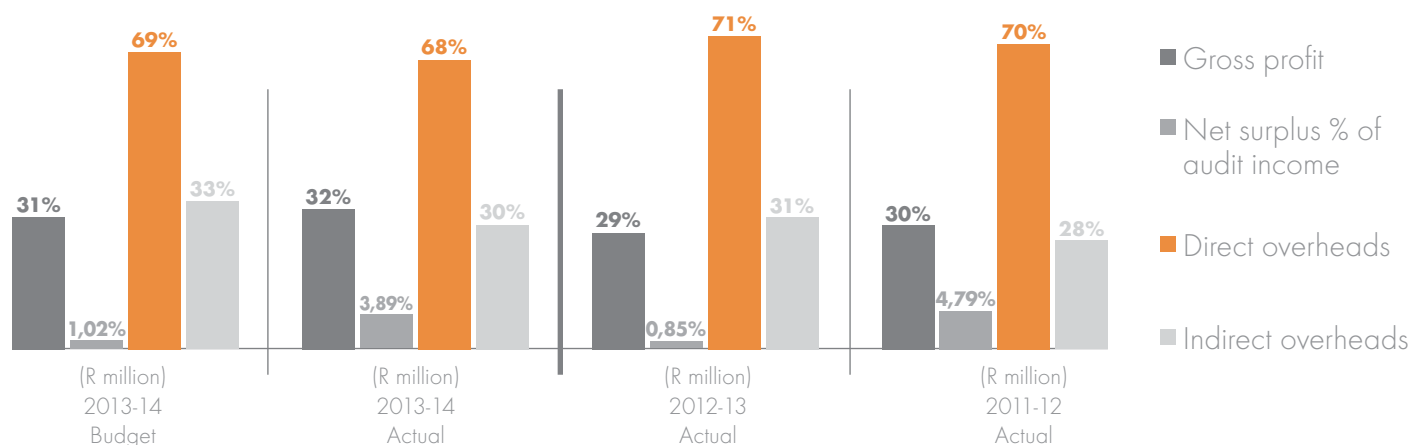
R46 million / 2,07%). The increase in actual surplus compared to budgeted surplus is mainly due to underspending on indirect overheads in the following accounts: support staff remuneration (R30 million), technological services (R20 million), learning and development (R31 million) and stakeholder relationship (R10 million).

**TABLE 4: NET SURPLUS TRENDS**

| PERFORMANCE MEASURE | BUDGET 2013-14 | ACTUAL 2013-14 | ACTUAL 2012-13 | ACTUAL 2011-12 |
|---------------------|----------------|----------------|----------------|----------------|
| Net surplus         | 1,02%          | 3,89%          | 0,85%          | 4,79%          |

A summary of the key financial indicators and their movement since 31 March 2010 is provided in figure 5.

**FIGURE 5: KEY FINANCIAL INDICATORS TRENDS**



**TABLE 5: BRIEF STATEMENT OF COMPREHENSIVE INCOME**

|                                      | <b>BUDGET<br/>2013-14<br/>(R MILLION)</b> | <b>ACTUAL<br/>2013-14<br/>(R MILLION)</b> | <b>2012-13<br/>(R MILLION)</b> | <b>2011-12<br/>(R MILLION)</b> |
|--------------------------------------|-------------------------------------------|-------------------------------------------|--------------------------------|--------------------------------|
| Revenue                              | 2 474                                     | 2 536                                     | 2 214                          | 2 074                          |
| Direct audit cost                    | (1 701)                                   | (1 733)                                   | (1 573)                        | (1 449)                        |
| <b>Gross profit</b>                  | <b>773</b>                                | <b>803</b>                                | <b>641</b>                     | <b>625</b>                     |
| <b>Gross profit %</b>                | <b>31%</b>                                | <b>32%</b>                                | <b>29%</b>                     | <b>30%</b>                     |
| Other income                         | 3                                         | 6                                         | 5                              | 5                              |
| <b>Contribution to overheads</b>     | <b>776</b>                                | <b>809</b>                                | <b>646</b>                     | <b>630</b>                     |
| Overheads                            | (828)                                     | (753)                                     | (688)                          | (583)                          |
| <b>Surplus from operations</b>       | <b>(52)</b>                               | <b>56</b>                                 | <b>(42)</b>                    | <b>47</b>                      |
| Net interest income                  | 77                                        | 35                                        | 65                             | 60                             |
| Other comprehensive income (expense) | -                                         | 8                                         | (4)                            | (8)                            |
| <b>Total comprehensive income</b>    | <b>25</b>                                 | <b>99</b>                                 | <b>19</b>                      | <b>99</b>                      |

**TABLE 6: BRIEF STATEMENT OF FINANCIAL POSITION**

|                                     | <b>BUDGET<br/>2013-14<br/>(R MILLION)</b> | <b>ACTUAL<br/>2013-14<br/>(R MILLION)</b> | <b>2012-13<br/>(R MILLION)</b> | <b>2011-12<br/>(R MILLION)</b> |
|-------------------------------------|-------------------------------------------|-------------------------------------------|--------------------------------|--------------------------------|
| Assets                              |                                           |                                           |                                |                                |
| Non-current assets                  | 130                                       | 92                                        | 101                            | 76                             |
| Current assets                      | 890                                       | 981                                       | 880                            | 835                            |
| <b>Total assets</b>                 | <b>1 020</b>                              | <b>1 073</b>                              | <b>981</b>                     | <b>911</b>                     |
| Equity and liabilities              |                                           |                                           |                                |                                |
| Equity                              | 487                                       | 558                                       | 459                            | 440                            |
| Non-current liabilities             | 84                                        | 69                                        | 72                             | 75                             |
| Current liabilities                 | 449                                       | 446                                       | 450                            | 396                            |
| <b>Total equity and liabilities</b> | <b>1 020</b>                              | <b>1 073</b>                              | <b>981</b>                     | <b>911</b>                     |

## Analysis of major accounts

### Debtors and debt collection

The total outstanding debt as at 31 March 2014 is R607 million. Local government debt amounted to R322 million or 53% of the total debtors book (2012-13: 51%), while national government and other debt amounted to R285 million or 47% of the total debtors book. Table 7 states the total debt per different categories and average collection days.

**DURING THE PERFORMANCE REVIEW PERIOD R2,8 BILLION WAS COLLECTED FROM AUDITEES (2012-13: R2,5 BILLION).**

**TABLE 7: AGEING FOR CATEGORIES OF DEBTORS**

|                        | TARGET<br>OUTSTANDING<br>DAYS | 31-MAR-14 |                     | 31-MAR-13 |                     | 31-MAR-12 |                     |
|------------------------|-------------------------------|-----------|---------------------|-----------|---------------------|-----------|---------------------|
|                        |                               | R MILLION | DAYS<br>OUTSTANDING | R MILLION | DAYS<br>OUTSTANDING | R MILLION | DAYS<br>OUTSTANDING |
| National departments   | 30                            | 77        | 44                  | 65        | 35                  | 63        | 15                  |
| Provincial departments | 30                            | 115       | 25                  | 93        | 41                  | 124       | 37                  |
| Local departments      | 90                            | 322       | 265                 | 262       | 253                 | 206       | 233                 |
| Statutory bodies       | 90                            | 61        | 99                  | 55        | 114                 | 57        | 79                  |
| Other                  |                               | 32        |                     | 42        |                     | 30        |                     |
| Total amount           |                               | 607       |                     | 517       |                     | 480       |                     |

### Local government debtors

Local government debt continued to grow year on year and outstanding debtors days increased from 253 days in 2012-13 to 265 days in 2013-14, against a target of 90 days. The increase in local government debt has a negative impact on the AGSA's cash position

and if this trend continues, the debt may affect the sustainability of the AGSA's operations.

The following key factors contribute to non-payment of local government debt:

- Lack of funds at low-capacity municipalities
- Many local government debtors lack

capacity to generate revenue and are situated in economically distressed regions

- Local government debtors tend to prioritise payments for salaries and service delivery-related costs and place the AGSA at the bottom of their creditor list.

**FIGURE 6: LOCAL GOVERNMENT DEBT BY PROVINCE\* (R MILLION)**

\*These figures exclude accruals

## Debt-collection effort

During the performance review period R2,8 billion was collected from auditees (2012-13: R2,5 billion). The AGSA continued to undertake a number of initiatives in addressing the challenges of low collection. The following key initiatives were undertaken:

- Ensured that debt collection became a priority for each manager in the field
- Relied on our visibility programme to develop and maintain excellent relationships with our auditees to influence more timely payments
- Encouraged debtors with long-outstanding debt to enter into payment arrangements with the AGSA
- Continued engaging key government stakeholders, the National Treasury and the Department of Cooperative Governance and Traditional Affairs to influence debt payment by auditees and, where necessary, by including the debt-collection challenge as a standing agenda item in all appropriate forums.

Of these initiatives, the payment catch-up agreements and the inclusion of 'debt collection' as a measure in the respective business units' scorecards played a major role in the noticeable improvement in the collection of current debt from local government debtors, i.e. debt less than 90 days old. However, the collection of older debt remains a challenge.

**TABLE 8: DEBT-COLLECTION TRENDS**

|                                                           | <b>BUDGET<br/>2013-14</b> | <b>ACTUAL<br/>2013-14</b> | <b>ACTUAL<br/>2012-13</b> | <b>ACTUAL<br/>2011-12</b> |
|-----------------------------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Percentage debt collected - all national business units   | 99%-101%                  | 99%                       | 84%                       | 72%                       |
| Percentage debt collected from National Treasury          | 100%                      | 100%                      | 100%                      | 100%                      |
| Percentage debt collected - all provincial business units | 96%-98%                   | 96%                       | 51%                       | 34%                       |

## Bad debt provision

Due to the significant deterioration in the collection of debt, the provision for impairment of trade receivable increased from R115 million in 2012-13 to R146 million in 2013-14. The increase in bad debt provision of R31 million constitutes 1,19% of the audit income (2012-13: R41 million or 1,85%). In determining the bad debt provision, all debtors with balances outstanding for 91 days and longer were flagged by the AGSA and individually considered for inclusion in the provision. The report by National Treasury titled *The State*

*of Local Government Finances and Financial Management* dated 30 June 2013 was taken into account in calculating the impairment. A significant number of debtors with long-outstanding debt appeared on the list of "financially distressed" debtors in the National Treasury report.

## Creditors

We have achieved sustained improvement in the way we treat our creditors. The trade creditors' balance increased slightly from R109 million in 2012-13 to R111 million in 2013-14.

The AGSA pays creditors within an average of 32 days against a target of 45 days from the date the supplier invoice is authorised for payment on the AGSA system (voucher date). This is due to efficient ways of processing transactions. Over the past three years the AGSA has been able to pay its creditors within an average of 30-35 days. This has resulted in a decision by the executive committee to amend the target for this performance measure to 30 days for the next performance period.

**TABLE 9: CREDITORS PAYMENT TERMS**

| <b>PERFORMANCE<br/>MEASURE</b>           | <b>BUDGET<br/>2013-14</b> | <b>ACTUAL<br/>2013-14</b> | <b>ACTUAL<br/>2012-13</b> | <b>ACTUAL<br/>2011-12</b> |
|------------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Compliance with creditors' payment terms | 45 days from voucher date | 32 days                   | 34 days                   | 31 days                   |

Working capital

The AGSA strives to operate with healthy working capital. To support the achievement of financial sustainability, the organisational funds have been placed with selected financial institutions. We also charge interest on overdue debtors. As a result, interest of R39 million (2012-13: R34 million) was generated.

The actual quick test ratio is 2.20 (2012-13: 1.96) against budget of 1.98 (2011-12: 1.87).

Section 38(4) of the PAA states that the organisation may, after consultation with the National Treasury and by agreement with the oversight mechanism, retain the surplus reflected in the financial statements or a portion thereof. The AGSA will be engaging National Treasury following the Standing Committee on the Auditor-General’s (SCoAG) recommendation

for retention of the surpluses in order to partially fund our projects.

Conclusion on performance

Given the results extracted from the audited financial statements, the organisation has achieved above the approved targets on most of its financial measures. The outcomes of our performance review on funding are listed in table 10 below.

TABLE 10: SUMMARY OF ACTUAL PERFORMANCE AGAINST PREDETERMINED OBJECTIVE

| PERFORMANCE MEASURE                                       | TARGET 2013-14            | ACTUAL PERFORMANCE | COMMENTS        |
|-----------------------------------------------------------|---------------------------|--------------------|-----------------|
| % net surplus                                             | 1,02%                     | 3,89%              | Over achieved   |
| Creditor days                                             | 45 days from voucher date | 32 days            | Over achieved   |
| Percentage debt collected - all national business units   | 99%-101%                  | 99%                | Target achieved |
| Percentage debt collected from National Treasury          | 100%                      | 100%               | Target achieved |
| Percentage debt collected - all provincial business units | 96%-98%                   | 96%                | Target achieved |

STRENGTHENING HUMAN RESOURCES

Highlights

- Four **hundred and forty-seven (447)** new trainee auditors were appointed in the organisation, which was the **largest** annual trainee auditor intake in the history of the AGSA
- We added **90 newly qualified specialists** to the auditing profession
- We reached our first-ever **level 1 rating** during the SAICA training office accreditation review
- We were awarded the **ACCA platinum accreditation**
- Our professionals recorded **63 476 CDP hours**
- Many more leadership appointments have been made from within the AGSA than from **external candidates**, which is a demonstration of the effectiveness of our **talent development** efforts.

The sustainability of our organisation is strongly underpinned by the availability of staff with the required work ethics, knowledge, competencies, skills and professionalism. Without the right people we will not be able to execute and deliver on the organisation’s strategy and objectives.

We continue to enhance, monitor and evaluate the effectiveness of our talent management framework and the implementation thereof. One of the platforms that proved to be effective in driving talent initiatives was the Talent Exco whose key focus was to steer the identification, acceleration and development of people both in their current roles and in preparing them for transition into different roles. With this approach, we proactively put in place measures to address current and potential future capability gaps.

A major success of the past performance year was the ground-breaking resolution to discontinue the fixed-term contracts for senior managers, deputy business executives and business executives, augmented by the development of specific performance management tools for those employees.

Our efforts in managing talent are structured under three main streams: acquiring, retaining and developing the required talent, building a highly skilled professional workforce, and creating an environment for high-performance culture and leadership.

## Workforce profile

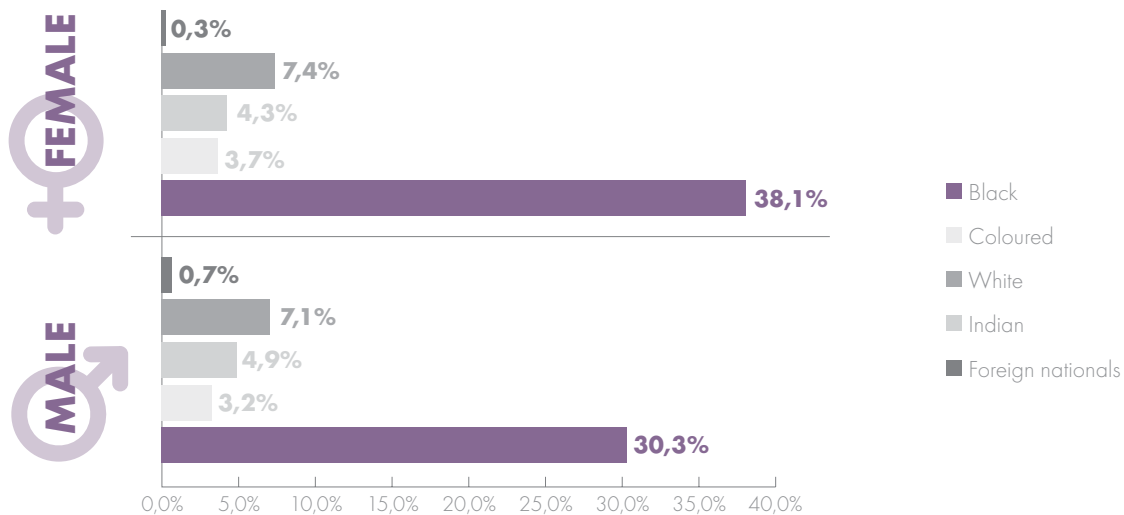
At the end of the reporting period, there were 3 249 employees in the organisation, representing 7,1% growth in headcount compared to the previous year (3 035 employees). The gender ratio remained virtually the same with 1 501 (46,2%) males and 1 748 (53,8%) females.

**TABLE 11: SUMMARY OF WORKFORCE STATISTICS IN 2014**

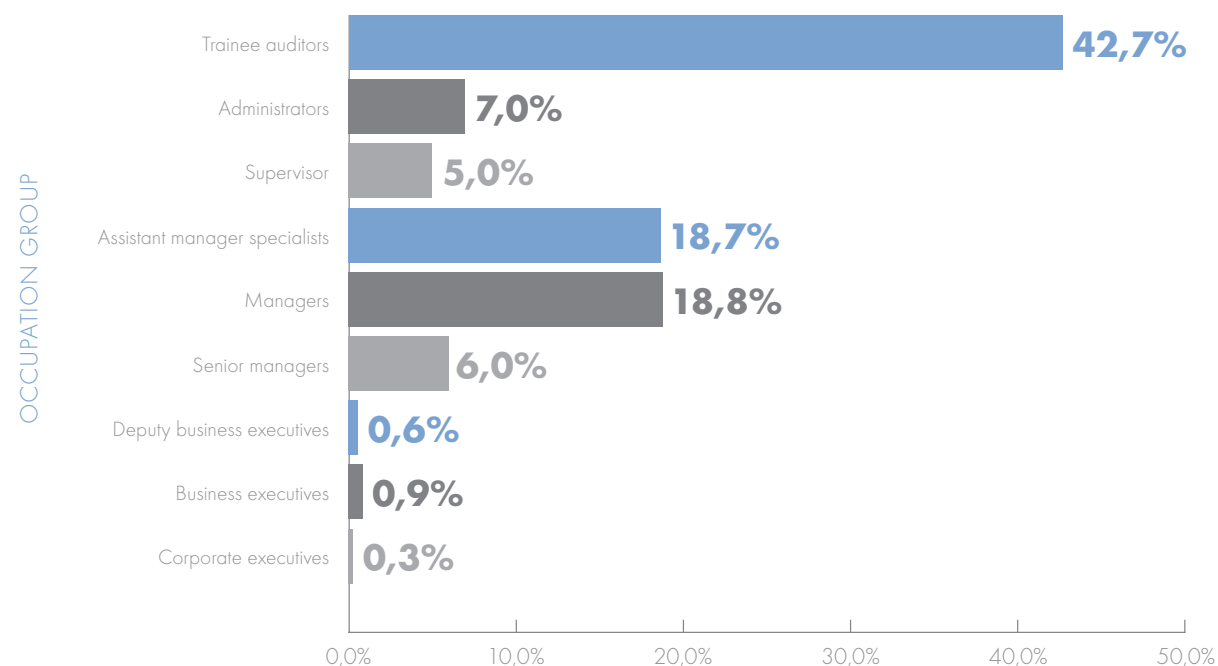
| TOTAL ESTABLISHMENT | TOTAL STAFF | MALE  | FEMALE |
|---------------------|-------------|-------|--------|
| 3 615               | 3 249       | 1 501 | 1 748  |

The following graphs represent relevant statistics regarding our workforce profile:

**FIGURE 7: WORKFORCE DISTRIBUTION BY GENDER AND ETHNIC GROUP**



**FIGURE 8: WORKFORCE PROFILE BY OCCUPATION GROUPS**



**TABLE 12: WORKFORCE PROFILE BY RACE AND AGE**

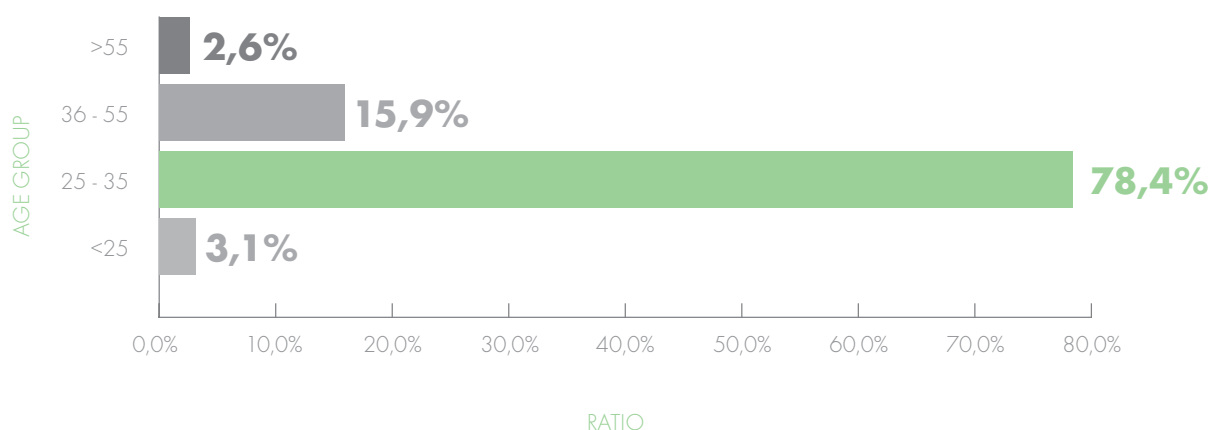
| AGE GROUP | MALE  |          |        |       |                   | FEMALE |          |        |       |                   | Total |
|-----------|-------|----------|--------|-------|-------------------|--------|----------|--------|-------|-------------------|-------|
|           | Black | Coloured | Indian | White | Foreign nationals | Black  | Coloured | Indian | White | Foreign nationals |       |
| <25 years | 103   | 8        | 11     | 9     | 0                 | 143    | 19       | 19     | 6     | 0                 | 318   |
| 25-35     | 23    | 4        | 1      | 43    | 1                 | 16     | 2        | 0      | 21    | 0                 | 111   |
| 36-55     | 718   | 71       | 106    | 52    | 10                | 896    | 64       | 91     | 74    | 4                 | 2 086 |
| >55       | 142   | 21       | 40     | 127   | 11                | 184    | 35       | 31     | 138   | 5                 | 734   |
| Total     | 986   | 104      | 158    | 231   | 22                | 1 239  | 120      | 141    | 239   | 9                 | 3 249 |

**TABLE 13: EXECUTIVE COMMITTEE PROFILE**

| MALE  |          |        |       | FEMALE |          |        |       | Total |
|-------|----------|--------|-------|--------|----------|--------|-------|-------|
| Black | Coloured | Indian | White | Black  | Coloured | Indian | White |       |
| 3     | 0        | 3      | 2     | 2      | 0        | 0      | 1     | 11    |

### Staff turnover

There were 422 exits from the organisation, resulting in an overall employee turnover of 13% for the reporting period, down from 17% in the previous reporting period. By far the highest number of exits was among employees in the age category 25-35 years. The exit rate of employees from the designated groups was 87%.

**FIGURE 9: STAFF EXITS BY AGE GROUP**

The occupational group with the highest number of exits is that of trainee auditors at 41,5%, which is driven by the nature of the training contracts that are concluded at the end of the training period. When described in terms

of turnover (the number of exits in an employee category vs. the total number of employee in that category), although driven by training contracts, the rate among trainee auditors (12,6%) is lower when compared to the overall turnover of the

workforce (13,3%). This trend will be analysed in the next performance period to identify the drivers of the turnover in the various employee groups.

**TABLE 14: SUMMARY OF EMPLOYEE TURNOVER FOR TRAINEE AUDITORS ONLY IN 2014**

| OCCUPATION AT LEVEL | TOTAL STAFF | MALE |   |    |   |    | FEMALE |   |   |   |    | TOTAL EXITS | TURNOVER |
|---------------------|-------------|------|---|----|---|----|--------|---|---|---|----|-------------|----------|
|                     |             | B    | C | I  | W | FN | B      | C | I | W | FN |             |          |
| Trainee auditors    | 1 386       | 67   | 4 | 15 | 2 | 0  | 78     | 4 | 4 | 1 | 0  | 175         | 12,6%    |

**TABLE 15: SUMMARY OF EMPLOYEE TURNOVER, EXCLUDING TRAINEE AUDITORS, IN 2014**

| OCCUPATION AT LEVEL | TOTAL STAFF | MALE |    |    |    |    | FEMALE |    |    |    |    | TOTAL EXITS | TURNOVER |
|---------------------|-------------|------|----|----|----|----|--------|----|----|----|----|-------------|----------|
|                     |             | B    | C  | I  | W  | FN | B      | C  | I  | W  | FN |             |          |
| Trainee auditors    | 1 863       | 85   | 10 | 19 | 12 | 1  | 78     | 11 | 12 | 18 | 1  | 247         | 13,3%    |

### Improving occupancy levels

The occupancy rate has remained a priority for the organisation for the last few years. It is complementary to the turnover measure for the AGSA to ensure that the organisation has the right resources to deliver on our mandate. Employee recruitment and retention

pose a challenge for the AGSA and other similar audit institutions due to the shortage of skilled audit professionals. In 2013-14 we achieved an occupancy level of 88,0% across the organisation, which was above the 2012-13 occupancy level of 86,9% but below our targeted occupancy level of 90%.

To address this challenge, the AGSA has improved its recruitment, retention and development strategies to make the AGSA the employer of choice. These strategies are discussed in the following section. Our workforce profile is a result of the work in the various structures presented in figure

**FIGURE 10: FACTORS THAT SHAPE OUR HUMAN CAPITAL**

## WORKFORCE PROFILE

### ATTRACT TALENT

- School initiatives
- University bursaries
- Centenary project

### RECRUIT TALENT

- Graduate recruitment
- General employee recruitment

### DEVELOP TALENT

- All employee training and skills development
- TA scheme
- Boot camp
- Booster roster

### DEVELOP LEADERSHIP

- Leadership development
- Succession planning

### SUPPORT TALENT

- Performance management
- Rewards and recognition
- Employee benefits
- Employee wellness programmes

## ORGANISATIONAL CULTURE

### Attracting talent

Attracting the desired profile of candidates is of great importance to the organisation. We realise that there is no readily available pool from which we can draw the necessary specialist skills and competencies and we have embarked on a dedicated pipeline creation exercise.

Our efforts fulfil a dual purpose: they serve as a means by which the AGSA gives back to society, i.e. we fulfil our responsibilities to the people in South Africa, and they serve as the beginning of the pipeline through the pool of talent from a young age.

**THE AGSA'S STAND AT AN UNIVERSITY EXHIBITION**

Promoting the profession in far-flung places; selecting and supporting those who show interest and are prepared to walk the long road to becoming a chartered accountant; and providing various levels of backing to university and college programmes related to accounting and auditing are efforts that are structured under our schools and university programmes. These initiatives are discussed in detail in the next section as part of our corporate social responsibility.

## Recruitment, retention and development of talent

### Graduate recruitment

As a professional institution, the AGSA competes for scarce, suitably qualified resources. The trainee auditor scheme is a major element of our own pipeline. The graduate recruitment

strategy that was approved and implemented last year introduced a new recruitment process aimed at early identification of talent to be developed for sign-up and placement. We were thus successful in identifying, attracting and appointing 447 new trainee auditors in the organisation, which was the largest annual trainee auditor intake in the history of the AGSA.

### Employee recruitment

The recruitment turnaround time improved from 10 to six weeks following streamlining of the recruitment process. However, the AGSA continues to experience challenges with scarce skills in senior level positions.

The new hires, outside the trainee auditor scheme, numbered 530, of which 38% (200) were external hires (including rehires)

and 62% internal movements. The latter is a result of our effort to develop own talent and the attractiveness of the organisation as an employer.

### Continuous learning and professional development

The AGSA remains steadfast in its promise to develop its employees by offering various learning experiences both internally and externally. We have experienced phenomenal growth in the development of all our AGSA employees. The spirit and motivation to grow and develop have become a key hallmark of our organisation. We are elated that our staff are taking responsibility for their own continuous development by accessing these opportunities to prepare them for future achievements.

**TABLE 16: CATEGORIES OF STUDY SUPPORT, LEARNING AND GROWTH**

| ASSISTANCE CATEGORIES                                                        | 2013-14<br>ACTUAL<br>(R MILLION) | 2012-13<br>ACTUAL<br>(R MILLION)    |
|------------------------------------------------------------------------------|----------------------------------|-------------------------------------|
| <b>Study and skills development support to employees</b>                     |                                  |                                     |
| Bursaries to employees                                                       | 16,540                           | 11,906                              |
| Internal training                                                            | 9,365                            | 13,333                              |
| External training                                                            | 2,682                            | 3,141                               |
| Subsistence and travel for training                                          | 12,031                           | 8,259                               |
| Foundations                                                                  | 7,342                            | *Part of internal training account  |
| Study support by tuition providers                                           | 3,753                            | *Part of internal training account  |
| Innovation and learning development projects                                 | 1,600                            | 1,734                               |
|                                                                              | <b>53,313</b>                    |                                     |
| <b>Study support to external recipients</b>                                  |                                  |                                     |
| Bursaries (full time studies) for tuition, study materials and accommodation | 11,359                           | 13,207                              |
| Tertiary assistance                                                          | 1,267                            | *Part of external bursaries account |
|                                                                              | <b>12,626</b>                    |                                     |
| <b>Professional membership</b>                                               |                                  |                                     |
| Professional membership fees                                                 | 11,205                           | 9,774                               |
| Corporate membership fees                                                    | 0,194                            | 0,237                               |
| <b>Total</b>                                                                 | <b>77,338</b>                    | <b>61,591</b>                       |

## Employee training and skills development

The total number of learning sessions attended by employees (per level) during the year is depicted in figure 12.

**FIGURE 11: LEARNING SESSIONS BY CATEGORIES OF EMPLOYEES**



Each year, the continuing professional development (CPD) journeys are mapped out for the relevant professionals as a means to ensure that the organisation's learning processes impact positively on our business deliverables. Learning sessions playing a pivotal role in these processes are coaching, mentoring and on-the-job training. In order to improve their knowledge and maintain their professional registrations, our professionals recorded 63 476 CPD hours.

five-day programme designed to induct new appointees and AGSA-promoted employees. For our external appointees, the focus is on transferring an understanding of public sector auditing, while for internal employees the sessions focus on transferring a better understanding of their respective new roles and responsibilities, technical knowledge and allowing insights into the management skills necessary to take them forward as effective

leaders at the AGSA. A total of 577 employees were inducted through our Tsinde programme.

### Soft skills development

To build our leadership capacity in line with the organisation's competency framework, our soft skills training gained momentum in 2013-14 through the five courses listed below.

## Capacity building

In February 2012 the AGSA introduced a new value-adding enhanced induction programme for its trainee auditor intake. Foundations Midzi, meaning 'the roots', specifically focuses on the desired growth needed by trainee auditors in becoming successful professionals within the AGSA auditing environment. We successfully hosted 424 trainee auditors on the programme in 2013-14.

Following the success of the Midzi programme, we introduced the Tsinde programme, meaning 'the stem', in October 2012, as a



**INDUCTION PROGRAMMES ARE DESIGNED TO INTRODUCE NEW EMPLOYEES TO THE AGSA**

**TABLE 17: SUMMARY OF TRAINING IN LEADERSHIP AND MANAGEMENT DEVELOPMENT PROGRAMME**

| PROGRAMME              | TARGET GROUP              | 2013-14 |        | TOTAL |
|------------------------|---------------------------|---------|--------|-------|
|                        |                           | Male    | Female |       |
| Leadership journey     | Senior managers           | 40      | 21     | 61    |
| Art of communication 2 | Senior managers and above | 68      | 62     | 130   |
| Creating the future    | Senior managers           | 10      | 8      | 18    |
| Summit seekers         | Senior managers           | 62      | 63     | 125   |
| Art of communication 1 | Managers and below        | 247     | 319    | 566   |

Resulting from a need identified during the PFMA and MFMA roadshows that all employees in the organisation should be skilled in persuasive communication, the Art of Communication 1 and 2 were introduced and prioritised. The course evaluations indicated that staff assessed the training to be relevant to their working environment and effective in transferring skills that will help them effectively execute the AGSA mandate.

### Furthering the coaching approach

Efforts to create a coaching attitude across the organisation continued, with various interventions

such as executive coaching, team coaching, enhancement of coaching skills and mentoring initiatives being identified and accelerated. Further consideration was given to various coaching and mentoring delivery methods, such as e-mentoring and e-coaching, with the intention of implementation at a later stage. Once coaching has been fully institutionalised within all teams, the implementation of various coaching delivery methods would increase the accessibility of such initiatives to all employees.

### Developing the leadership pipeline for succession planning

Leadership pipeline development and succession planning processes within the AGSA continued to receive focused attention during the past year, with particular emphasis on the integration of all relevant people management processes. Of the 530 placements, the leadership (deputy business executive and above) placements comprised 2,6% (14). Only four of those were external, which is further testimony of the effectiveness of our talent management initiatives and the growth and depth (quality) of the talent pool.

**TABLE 18: LEADERSHIP APPOINTMENTS PER LEVEL**

| LEVEL | EXTERNAL APPOINTMENT | INTERNAL APPOINTMENT |
|-------|----------------------|----------------------|
| AG    | 0                    | 1                    |
| CE    | 0                    | 2                    |
| BE    | 2                    | 2                    |
| DBE   | 2                    | 5                    |
| Total | 4                    | 10                   |

More opportunities were provided for the development and exposure of talent to various levels across the organisation, such as job rotation, job enrichment and job enlargement in order to grow talent and enhance business continuity within the organisation.

### Enhancing the level of team performance

More opportunities and support were provided to various teams to engage openly and assess their own level of team effectiveness. There

has been an uptake of team effectiveness interventions at middle management levels and more facilitated processes with members across all levels within specific teams.

| TEAM EFFECTIVENESS INTERVENTIONS AT SENIOR MANAGEMENT LEVEL (2013-14) | TEAM EFFECTIVENESS INTERVENTIONS AT MIDDLE MANAGEMENT LEVEL (2013-14) |
|-----------------------------------------------------------------------|-----------------------------------------------------------------------|
| 40% uptake                                                            | 60% uptake                                                            |

This heightened awareness of team dynamics and its impact on performance had been one of the highlights of the year, resulting

in the subsequent enhancement of team management processes and awareness of leadership enhancement opportunities. The

AGSA continues to instil its value of working effectively in teams.

## Growing qualified audit professionals

Our focus as a training organisation is to assist in creating accountable leaders for the future and therefore we embrace the opportunity for training young prospective professionals to enter

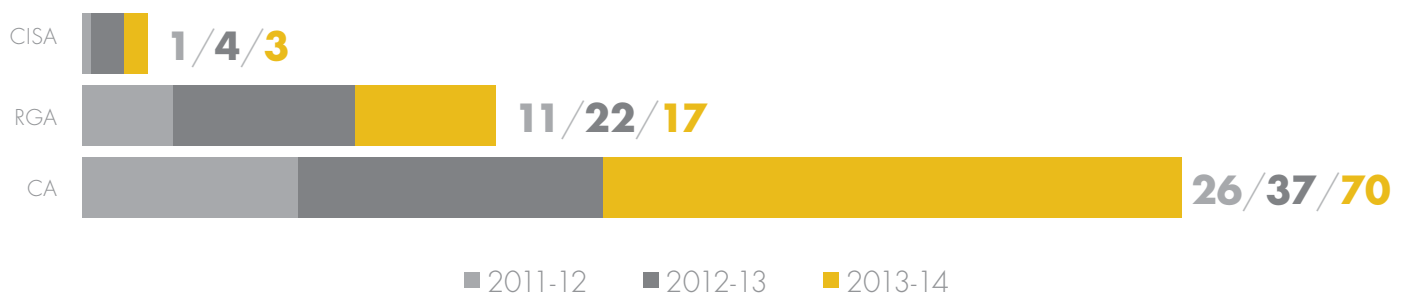
the public sector. In order to be able to offer any learnership, an organisation must be registered as an accredited training office according to the specific professional body's requirements.

We have been registered as an accredited training office by SAICA and SAIGA for a long time and very recently we were also accredited by ACCA. As a result, our trainee auditor

scheme recognises SAICA and the Registered Government Auditor (RGA) learnerships and currently has 1202 trainee auditors.

We added a total of 90 newly qualified professionals to the profession in the past year. Most of the professionals that we produce apply their skills in the public sector and some get employed within the AGSA.

**FIGURE 12: NEWLY QUALIFIED PROFESSIONALS**



## Our specific learnerships

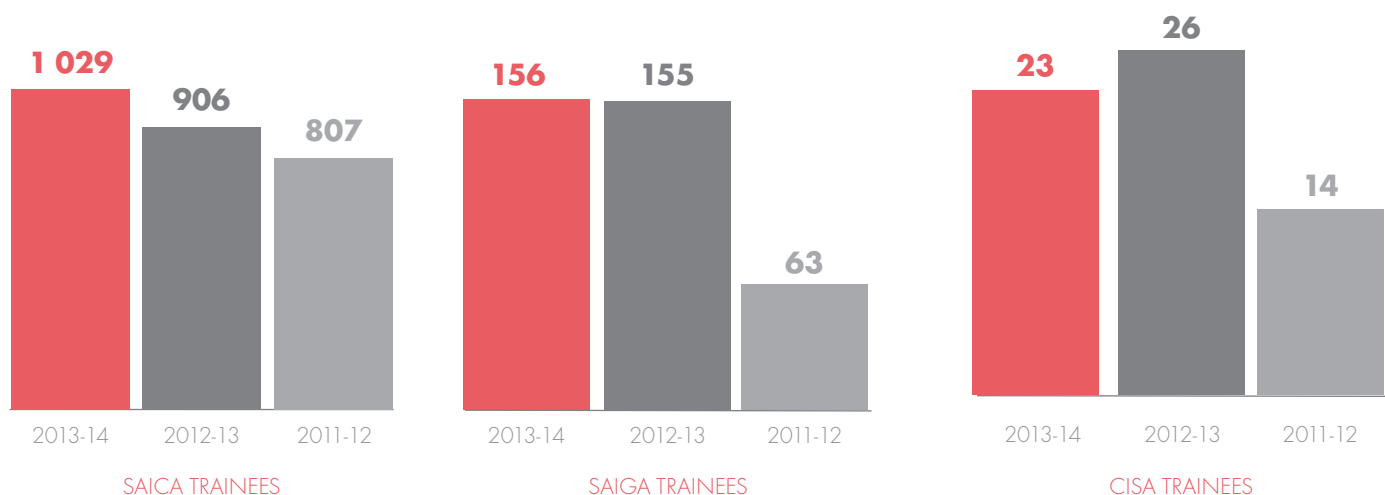
We have 986 trainee auditors under our SAICA learnership. For this reporting period, we reached our first ever level 1 accreditation rating for two of our audit business units (Gauteng and National E). Eleven of the audit business units have attained a level 2 rating and two have received a level 3 accreditation rating for a period of 12 months and must therefore ensure that they improve on the professional body requirements in order to remain accredited.

We have 155 trainee auditors under our SAIGA learnership and remain the only training office accredited to provide the required training for becoming an RGA in the public sector.

We are currently negotiating with ACCA to be introduced as a new learnership on the trainee auditor scheme. This will be another way of increasing our skilled employment pool, providing our employees with more opportunities for development and contributing to the creation of skills in the auditing and accounting profession in the country.

Our vision of building a highly skilled workforce and quality young professionals for the organisation and the country at large is gathering momentum as is evident from the year-on-year increase of 115 (121) in trainee auditors registering and qualifying through our trainee auditor scheme.

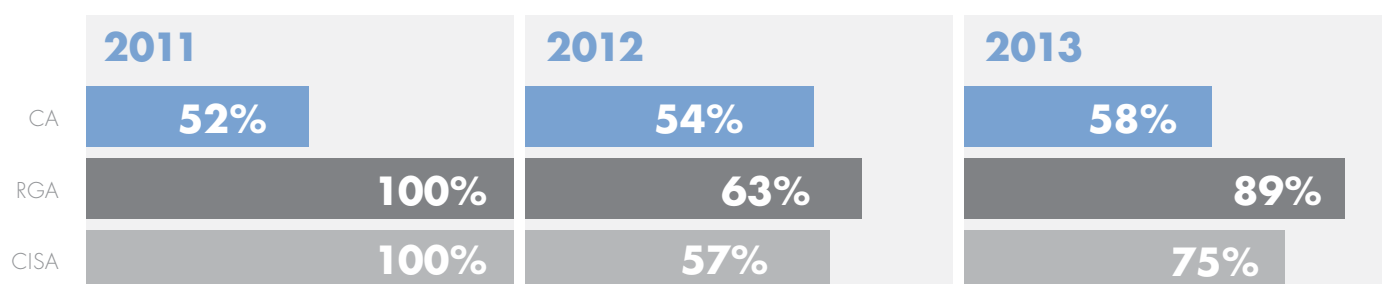
**FIGURE 13: NUMBER OF TRAINEES REGISTERED FOR DIFFERENT LEARNERSHIP PROGRAMMES**



### Trainee auditors' study results

The AGSA offers various support programmes for its accredited learnership programmes. The pass rate of our trainee auditors has increased compared to the previous reporting period.

**FIGURE 14: PASS RATES FOR FINAL QUALIFYING EXAMS**



These pass rates can be attributed to the support provided by the AGSA through its bursaries, loan scheme and study leave.

**TABLE 19: SAICA AND SAIGA TRAINEE AUDITOR PASS RATES**

| Year    | SAICA TRAINEE AUDITORS |      |       |        | SAIGA TRAINEE AUDITORS |      |       |        |
|---------|------------------------|------|-------|--------|------------------------|------|-------|--------|
|         | Pass                   | Fail | Total | % pass | Pass                   | Fail | Total | % pass |
| 2009-10 | 6                      | 7    | 13    | 46     | N/A                    | N/A  | N/A   | N/A    |
| 2010-11 | 10                     | 2    | 12    | 83     | 7                      | 1    | 8     | 88     |
| 2011-12 | 11                     | 14   | 25    | 44     | 23                     | 0    | 23    | 100    |
| 2012-13 | 14                     | 13   | 27    | 52     | 13                     | 2    | 15    | 87     |
| 2013-14 | 23                     | 16   | 39    | 59     | 18                     | 2    | 20    | 90     |

Table 18 shows that 23 SAICA trainee auditors and 18 RGA trainee auditors have passed their final qualifying exam. They only need to complete their practical experience before they can register as qualified professionals.

### Tailored study support offered to our trainees

During 2013-14 we intensified our focus on our in-house study support initiatives as the previous year's results had proved that this was a great motivation for our trainee auditors. With the majority of our trainee auditors studying towards CTA, we continued with the ASU Jumpstart project in collaboration with SAICA and Unisa. This programme, which started off in the previous year as after-hours lectures by Unisa lecturers, has evolved into lectures via

live streaming across the country to all our CTA1 and CTA2 trainee auditors this year.

The AGSA also launched Project Reality Check for all CTA trainee auditors. This initiative was designed to test their embedded knowledge which gave them an indication of what effort would be required by them during their studies to pass their CTA exams. Trainee auditors sat for an exam comprising the required five subjects of the CTA qualification.

Our CTA2 Boot Camp programme, which was developed in-house and introduced in the previous year, also continued in 2013-14 as recognition and motivation on offer to our top-achieving 25 students in the form of a six-week intensive focused study programme with

all their needs taken care of and to allow them to remain focused on achieving their CTA qualification.

We further introduced a study support programme for our top 25 CTA1 students called Booster Rooster, which runs four times a year over a week in the form of face-to-face lectures.

With pass rates of 75% and 52%, respectively, the Boot Camp and the Booster Rooster initiatives have made a huge contribution to the increase in overall pass rates for the trainee auditor scheme. CTA1 pass rates doubled from 7% in 2012 to 15% in 2013, while CTA2 pass rates increased from 17% in 2012 to 26% in 2013. Overall, our trainee auditors' pass rates have more than trebled since 2011.



**FIGURE 15: CTA PASS RATE INCREASE**

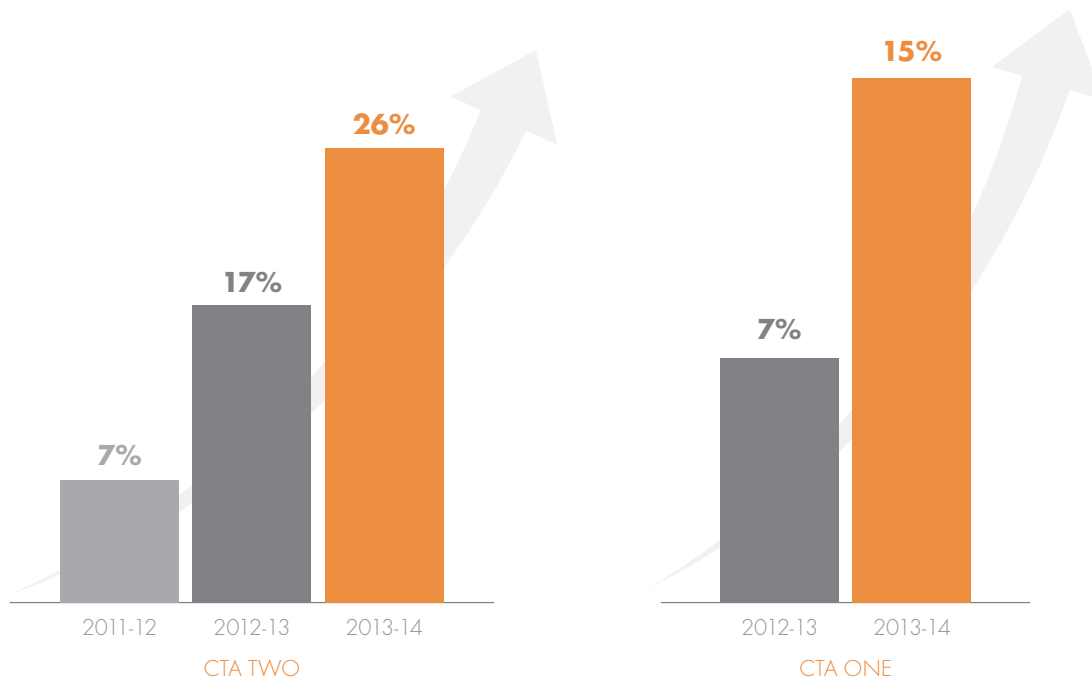


Table 20 shows the impact of our largest study support programmes, Booster Rooster and Boot Camp.

TABLE 20: IMPACT OF THE SPECIALISED STUDY SUPPORT PROGRAMMES ON THE OVERALL PASS RATE

| THE OVERALL CTA PASS RATES |     | CTA PASS RATES FOR THE SPECIALISED PROGRAMMES ONLY |     |
|----------------------------|-----|----------------------------------------------------|-----|
| CTA 1                      | 15% | BOOSTER ROOSTER                                    | 52% |
| CTA 2                      | 26% | BOOTCAMP                                           | 76% |

Continued investment in students through external bursaries

The external bursary programme funded 118 students with bursaries during the 2013-14 financial year. The return on investment in the external bursaries programme can be

interpreted in terms of their results as well as their placement within the organisation. At the end of 2013, seven of the bursary holders who passed CTA were placed as trainees in the AGSA. Of the 73 undergraduates who passed, 23 acquired entry into CTA, and four are

currently doing a Bridging Certificate in Theory of Accounting (BCTA), while the remainder are focusing on completing their final year of undergraduate studies.

TABLE 21: EXTERNAL BURSARY STUDENT PASS RATES



Our relationships with universities have been growing, which is evident in the increase in requests for the AGSA to assist their top academic students. We are proud of establishing successful sponsorships with a number of universities, namely University of Fort Hare, University of the Western Cape, Walter Sisulu University, Nelson Mandela Metropolitan University and University of Cape Town. The sponsorships varied from salary top-ups for the academics at the University of Fort Hare to prizes for the best-performing accounting students as well as to assistance with lecturing material. The impact also varies, from building capacity at the specific universities to increasing the number of successful graduates in the accounting profession and creating potential sources of qualified employees for the AGSA.

Recognising academic achievement

We believe that the recognition of a student’s achievement plays a vital role in the development of an effective learning environment. The main

recognition of a student’s achievements is their inclusion as high achievers in our various initiatives as described above: the CTA1 Booster Rooster, CTA2 Boot Camp, ASU (AGSA, SAICA, Unisa) Jumpstart and Project Reality Check.

We further acknowledge academic achievements beyond the boundary of the organisation by recognising outstanding students through our external bursary programme. This year we commended 19 students countrywide for remaining diligent and tenacious in their studies and for receiving distinctions or being acknowledged as top students in their class at the universities. These students received awards from the AGSA in the form of trophies, funds or technical materials. We are proud of and share in their success in improving our country’s skills.

Deloitte management secondment

The Deloitte Management Secondment is a unique initiative undertaken by the AGSA to bridge the competency gaps prevalent within the AGSA in respect of the trainees and middle management. Throughout this programme we

have leveraged on the experience and skills of the secondees. The programme came to an end in July 2014.

Culture of ethics, accountability and high performance

We continuously strive to create and enhance an environment where employees embrace diversity, strive for high performance and achieve their full potential. We foster a workplace where each employee is valued and encouraged to maximise their potential and commitment to serve the public sector and, ultimately, the people of South Africa.

We believe in and practise ‘engagement with understanding’ between management and staff, specifically with the intention of enhancing ethics awareness and drive in the organisation.

Personal accountability is important for demonstrating the model behaviour that we want to see in our auditees. In this regard our executive committee made decisions for serious enhancements to the current performance management system during its

dedicated committee meeting, known as Talent Exco, in February 2014. A holistic review of performance, which takes into account both technical competence and behavioural trends, provides comprehensive feedback to the employees, assisting them in accepting individual accountability and instilling a culture of high performance with the aim of best fulfilling our mandate.

### Strengthening of the performance management system

Critical minimum performance outputs were developed for each job level which, together with performance rating guidelines, formed an integral part of the employee performance assessment process. Monitoring of this initiative was furthermore enabled through robust engagements with leadership teams as part of their journey towards leadership effectiveness. A leadership assessment tool was developed and implemented to aid leaders in soliciting feedback from their teams in order to enhance their leadership capabilities and competence.

### Benefits of full-time employees

In our effort to continuously care for and assist our employees we ventured on a journey

to improve the benefits available to staff. In addition to the existing benefits (group life cover, disability cover and funeral cover) the process of bringing in a retirement fund in the form of an umbrella fund has commenced. The medical aid benefit has also been approved. The two new benefits will be ready for implementation in August 2014.

### Employee wellness interventions

Our Employee Wellness Programme (EWP) continued to provide emotional, financial and legal services to employees. The utilisation rate of the service was 39,5% (1 285 cases). The latter is above the industry benchmark of 15-20% and is an indication of the effectiveness of the programme as a result of comprehensive

awareness campaigns.

Our executive care programme targeted employees at senior manager level and above for proactive assessments and recommendations. The utilisation of the programme was 53% (134 employees) which is satisfactory taking into consideration the extent and intensity of the sessions. The EWP organised standard wellness days at head office and all regional offices where employees were provided with an opportunity to assess their health risk, receive HIV and Aids counselling and testing, and access several wellness interventions.

Tables 22 and 23 provide a breakdown of use per groups and topics.



**OUR EWP MAKES A DIFFERENCE IN THE LIVES OF OUR EMPLOYEES.**

**TABLE 22: WELLNESS PROGRAMME UTILISATION**

| EWP UTILISATION RATE                                        | NUMBER OF CASES | HEADCOUNT    |
|-------------------------------------------------------------|-----------------|--------------|
| EWP cases                                                   | 1 285           | 3 249        |
| Executive care                                              | 134             | 252          |
| Wellness days                                               | 10 (regions)    | 10 (regions) |
| Lifestyle solution (concierge services)                     | 140             | 3 249        |
| Profiled e-Care users                                       | 427             | 3 249        |
| Ask the professional                                        | 56              | 3 249        |
| Group intervention                                          | 54              | 3 249        |
| Life and funeral claims                                     | 8               | 3 249        |
| Disability claims                                           | 4               | 3 249        |
| High frequency absenteeism and incapacity due to ill-health | 13              | 3 249        |

**TABLE 23: UTILISATION OF EWP BY PROBLEM CLUSTER**

| PROBLEM CLUSTER      | NUMBER OF CASES |
|----------------------|-----------------|
| Legal issue          | 136             |
| Relationship issue   | 187             |
| Stress               | 144             |
| Money management     | 304             |
| Loss issues          | 40              |
| Trauma               | 36              |
| Addictive behaviours | 17              |

### Employee relations

Our policies and procedures were recently reviewed to ensure that they meet relevant statutory and regulatory conditions and reflect best practice. We have continued to improve line manager and employee awareness and understanding of our policies as part of our focus on ensuring fair and sustainable employment relations.

The main initiatives included employment relations training provided to 38% of the executives to improve their knowledge and skills to effectively deal with people issues in a fair and professional manner.

Training on "chairing a disciplinary inquiry" was provided to 60 line managers at senior manager, deputy business executive and business executive levels.

Case management training, focusing on labour legislation, AGSA policy requirements for fair labour practices and common law, was provided to 320 line managers (deputy business executives, senior managers and managers) across all business units.

In 2013, we strengthened our internal employment relations capacity to deliver effective employment relations services and communication across our employee relations

community, improving collaboration and good practice through the appointment of an additional employment law adviser.

### Internal disciplinary inquiries

Disciplinary action in the workplace is the means by which line managers correct behavioural deficiencies and ensure adherence to established institutional rules and standards. The Employment Relations unit dealt with 18 misconduct cases during the reporting period. This represents an 80% (eight cases) increase in the number of misconduct cases compared to the previous reporting period. All cases were concluded with various types of outcomes, as described in table 24.

**TABLE 24: DISCIPLINARY INQUIRY OUTCOMES**

| TYPE OF SANCTION                              | 2013-14      |                     | 2012-13      |                     |
|-----------------------------------------------|--------------|---------------------|--------------|---------------------|
|                                               | NO. OF CASES | % OF CASES OF TOTAL | NO. OF CASES | % OF CASES OF TOTAL |
| Written warning                               | 7            | 38,9%               | 0            | 0,0%                |
| Final written warning                         | 5            | 27,8%               | 2            | 20,0%               |
| Dismissal                                     | 3            | 16,7%               | 6            | 60,0%               |
| Alternative to dismissal                      | 1            | 5,6%                | 0            | 0,0%                |
| Employee resigned before process is completed | 2            | 11,1%               | 1            | 10,0%               |
| Employee found not guilty                     | 0            | 0,0%                | 1            | 10,0%               |
| Total                                         | 18           | 100,0%              | 10           | 100,0%              |

We conducted 18 disciplinary inquiries in 2013-14, a low number in relation to our total staff complement of 3 249 and a demonstration of the effectiveness of our cultural and performance initiatives.

### Disputes referred to the Commission for Conciliation, Mediation and Arbitration

We have seen a decrease in the number

of disputes referred to the Commission for Conciliation, Mediation and Arbitration (CCMA) compared to 2012-13. The majority of referrals related to unfair dismissal disputes.

These included dismissal relating to incapacity and misconduct and constructive dismissals.

**TABLE 25: DISPUTE RESOLUTIONS AT THE CCMA**

| TYPE OF DISPUTE                  | 2013-14         |                | 2012-13         |                |
|----------------------------------|-----------------|----------------|-----------------|----------------|
|                                  | NUMBER OF CASES | % OF ALL CASES | NUMBER OF CASES | % OF ALL CASES |
| Decisions favourable to the AGSA | 1               | 25,0%          | 5               | 50,0%          |
| Unfavourable decisions           | 0               | 0,0%           | 2               | 20,0%          |
| Settled                          | 2               | 50,0%          | 1               | 10,0%          |
| Withdrawn by applicant           | 1               | 25,0%          | 2               | 20,0%          |
| Total                            | 4               |                | 10              |                |

### Handling of grievances

Only three formally referred grievances were handled during the review period. Two of

them arose from performance management processes during the year-end performance evaluation period. The formally referred

grievances were as follows:

| NATURE OF GRIEVANCE                                              | NUMBER OF CASES |
|------------------------------------------------------------------|-----------------|
| Disagreement with final (moderated) performance evaluation score | 2               |
| Conflict with colleagues                                         | 1               |

### Conclusion on performance

All our efforts in acquiring, developing and managing the required human capital and driving the desired organisational culture and leadership are comprehensively and independently assessed via a detailed,

organisation-wide survey. The overall results are structured in three categories (indices) and are presented in table 26. We have achieved above our targets, improved against the 2012-13 results and are above the industry norm.

**TABLE 26: ACTUAL PERFORMANCE AGAINST PREDETERMINED OBJECTIVES**

| PERFORMANCE MEASURE    | TARGET 2013-14 | ACTUAL PERFORMANCE | COMMENTS                           |
|------------------------|----------------|--------------------|------------------------------------|
| Culture index          | 3,4            | 3,73               | Achieved (above the industry norm) |
| Leadership index       | 3,4            | 3,74               | Achieved (above the industry norm) |
| Staff engagement index | 3,4            | 4,03               | Achieved (above the industry norm) |
| Occupancy              | 90%            | 88%                | Partially achieved                 |

# LEADING BY EXAMPLE

## Highlights

- The **audit software project** commenced in November 2013 and is aimed at replacing the existing software with a more **appropriate, responsive and adaptable tool**
- We developed our first **formal risk appetite and tolerance framework**, which articulates the organisation's recognition of risk
- We achieved a rating as a **level 3 B-BBEE contributor**
- We successfully hosted the annual records management seminar attended by **730 records** management practitioners from across the **three spheres of government**.

## Auditing standards and methodology

In accordance with the PAA, the AGSA determines the standards and methodology to be applied in audits, taking into account international and national best auditing

practice. The AGSA is one of only a few SAIs in the world that has fully implemented the clarified International Standards on Auditing in their audits of financial statements. The International Standards of Supreme Audit Institutions (ISSAI) provide public sector-specific standards and guidance on performance audits and the auditing of financial statements, internal control and legislative compliance. The AGSA not only adopted the principles from these standards, but also contributed substantially to developing the standards for harmonisation and the value and benefits of SAIs which were adopted at the XXI INCOSAI in November 2013.

Our methodology, working papers and templates are sound and in adherence to the standards. We are continuously assessing their adequacy for the environment in which we operate. In 2013 we started an important project to further refine our methodology in order to provide a solid foundation for expressing conclusions on the reporting of predetermined objectives and on compliance with legislation, to improve the efficiency of the audit process, to provide for improved

integration of information system audits, performance audits and investigations and to ensure that we focus on the things that matter in our audits through an improved risk assessment process. We are working towards implementing the revised methodology by 2015-16.

Furthermore, after a feasibility study and research, the executive committee approved the start of the audit software project in November 2013 aimed at replacing the existing software with a more appropriate, responsive and adaptable tool. The project is well underway and will be implemented together with the revised audit methodology.

## Timeliness of audit reports

Ninety-five per cent, or 968, of a total of 1 021 auditees submitted their annual financial statements for auditing. Our audit teams were able to complete 900 audits within the legislated deadlines. Table 27 presents the breakdown of those audits per audit cycle.

**TABLE 27: SUMMARY OF PERFORMANCE IN MEETING LEGISLATIVE DEADLINES FOR COMPLETION OF ANNUAL AUDITS**

| AUDIT CYCLE                                                                                                  | TOTAL NUMBER OF AUDITEES | NUMBER OF AUDITEES THAT SUBMITTED ANNUAL FINANCIAL STATEMENTS IN THE FINANCIAL YEAR |     | NUMBER OF AUDITS COMPLETED |      | NUMBER OF AUDITS COMPLETED WITHIN LEGISLATIVE DEADLINES |     |
|--------------------------------------------------------------------------------------------------------------|--------------------------|-------------------------------------------------------------------------------------|-----|----------------------------|------|---------------------------------------------------------|-----|
|                                                                                                              | Number                   | Number                                                                              | %   | Number                     | %    | Number                                                  | %   |
| PFMA organisations and AGSA directive                                                                        | 643                      | 593                                                                                 | 92% | 593                        | 100% | 555                                                     | 93% |
| MFMA                                                                                                         | 378                      | 375                                                                                 | 99% | 368                        | 98%  | 345                                                     | 92% |
| Total (incl. annual financial statements of prior years submitted by the auditees during the 2013-14 period) | 1 021                    | 968                                                                                 | 95% | 961                        | 99%  | 900                                                     | 93% |

Eight performance audit reports on the use of consultants were compiled and tabled in provincial legislatures during the reporting period. However, these reports were delayed

and tabled after the agreed dates. The delay was due to increased stakeholder interactions to ensure that our message was understood before the reports were made public. In

addition, the performance audit insights were shared with stakeholders through a variety of other reports, for example in general reports and sector reports.

## CONCLUSION ON PERFORMANCE

| PERFORMANCE MEASURE                                 |                                       | TARGET 2013-14 | ACTUAL PERFORMANCE 2013-14 |
|-----------------------------------------------------|---------------------------------------|----------------|----------------------------|
| Compliance with statutory and legislative deadlines | Regularity audit                      | 90%            | 93% (over achieved)        |
|                                                     | Performance audits and investigations | 95%            | 75% (partially achieved)   |
|                                                     | General reports                       | 3              | 3 (achieved)               |

### Timeliness of corporate reports

The 2012-13 annual report was completed and presented to SCoAG one month prior to the legislated deadline.

Following consultation with the oversight mechanism, the strategic plan and budget 2014-17 was completed and presented to SCoAG after the legislated deadline to

account for the change in the top leadership of the organisation and to allow the current Auditor-General to introduce elements of an enhanced strategy.

## CONCLUSION ON PERFORMANCE

| PERFORMANCE MEASURE                                 |                           | TARGET 2013-14 | ACTUAL PERFORMANCE 2013-14 |
|-----------------------------------------------------|---------------------------|----------------|----------------------------|
| Compliance with statutory and legislative deadlines | Integrated annual report  | 3              | 3 (achieved)               |
|                                                     | Strategic plan and budget | 3              | 2 (partially achieved)     |

## Taking care of our own administration

We have time and again proved to ourselves that effective risk management is crucial to our continued growth and success, and most importantly, to safeguard our treasured reputation. The AGSA's commitment to a sustained clean administration has been underpinned by the following objectives:

- Building a risk-intelligent organisation
- Continuous improvements in our compliance management processes
- Beneficial combined assurance model
- Strengthened internal control environment.

### Building a risk intelligent organisation

We believe that our journey towards becoming a risk-intelligent organisation has reached exceptional milestones in that during the reporting period, the AGSA developed its first formal

risk appetite framework and statement, which articulate the organisation's recognition of risk-taking in pursuit of strategic goals, while clearly setting boundaries. This is one of the ways in which the leadership is demonstrating the importance of consistent application of mind in decision-making.

Furthermore, we have maintained our position that it is a critical strategic requirement that while we prepare for the future plans of this organisation, we continue to be alert and responsive to the potential risks we face. With that in mind, the organisation developed an environmental risk analysis report with the intention of ensuring that all factors, external and internal, that may pose a threat to the achievement of our objectives are proactively identified in determining strategic risk exposures for the financial year 2014-15.

The organisation identified a number of risks, as depicted in section 2, to achieving our strategic goals for the financial year 2014-15. These

newly identified risks demonstrate that while our business operations and strategic objectives remain fairly constant in the medium term, the AGSA leadership has a deeper understanding of where the potential threats lie, which is demonstrated by the depth of the identified risks.

We also recognise that effective risk management is built on a foundation of recognising that each employee is a risk owner in their area of work. To complement this notion and to enhance the risk awareness culture within the organisation, we conducted a series of risk awareness sessions at all our offices countrywide. In addition, we created a platform in the form of a risk and incident register where everyone within the organisation can report any risk event, incident and near-miss with the intention of empowering those in the position of accountability to investigate and prevent unnecessary loss to the organisation.

Continuous improvement in regulatory compliance

We have continued to enhance our business processes to ensure compliance with regulatory requirements and to respond to changes in legislation and standards applicable to our operations. Continuous scanning of our environment has also enabled us to proactively respond to imminent changes. One such response was the establishment of the Information Management Law project that will allow the organisation to respond to all statutory changes impacting information management.

Beneficial combined assurance

The AGSA is a firm believer in the three tiers of assurance provision and the related benefits of this coordinated approach. We continue to utilise our internal control monitoring process as our first line of defence to test the health of our internal control environment. We reported last year that internal control monitoring became

a performance measure, and the fruits of that labour have again been realised in the positive trends noted throughout the year on reported exceptions. Furthermore, we have noted greater pride and ownership across the organisation in resolving identified control exceptions, and a greater collaboration between process owners and business.

The audit outcomes from our appointed internal auditors have supported the positive strides reported in our internal control monitoring processes. Our leadership and management’s commitment to close control gaps identified by auditors has also borne fruit in that we have had minimal repeat findings in the past two years.

Strengthened internal control environment

The credibility of our internal audit function is important as a third line of defence and one of our independent assurance providers. The

AGSA is proud to have committed to leading by example in maintaining an effective internal audit activity, which also conforms to the **IIA’s International Standards for the Professional Practice of Internal Auditing (Standards) and Code of Ethics**. The AGSA requested the IIA to perform an independent quality assessment on our internal audit activity, providing our leadership and oversight structures with our level of conformance and also to identify opportunities for improvement.

A coordinated approach is best realised when the integration between the assurance providers provides for an efficient and improved control environment for the organisation. The organisational achievement of a clean audit outcome, as audited by our appointed external auditors, again attests to the clean administration to which the AGSA is committed in leading by example.

CONCLUSION ON PERFORMANCE

| PERFORMANCE MEASURE             | TARGET 2013-14          | ACTUAL PERFORMANCE |
|---------------------------------|-------------------------|--------------------|
| Achieve unmodified audit report | Unmodified audit report | Achieved           |

Striving towards a culture of ethics and integrity

Adhering to sound ethics principles is one of the cornerstones of an independent and value-adding supreme audit institution; hence building an ethical workplace and reaching a high ethical status are key priorities for the organisation.

Management of ethical risks remains a daily activity. We automated our ethics monitoring controls during the year under review and this has enabled the organisation to guide, monitor and report on ethical conduct in a simpler and clearer manner.

During the on-boarding process of new hires, employees are introduced to ethics and independence requirements and the values of the organisation.

In the year under review, we moved away from a web-based to face-to-face interactions for

ethics training and awareness sessions which, in addition to creating better understanding of the independence and objectivity requirements, provided practical examples of how to identify actions to be taken in various situations where

independence might be threatened. The sessions also created awareness of our ethics policies and code of conduct.

All employees are required to make an annual declaration to confirm that they have read, understood and complied with our ethical and independence requirements. During this financial year the organisation achieved 100% submission rate.

The handling of complaints and allegations against the AGSA is centrally controlled. Our

ethics policy and procedures are clear on the scope of complaints that are received against the organisation or individuals and considered for investigation. The scope includes complaints relating to the exercise of powers, the performance of duties and the administration of the AGSA pertaining to the execution of audits and any other function performed in accordance with the PAA. Both the policy and the procedures are easily accessible, simple to understand and use, and allow for the swift handling of complaints within established time

limits for action and keeping people informed of the progress. Six complaints were recorded in the complaints register during the year under review compared to eight last year. Five of the complaints have been resolved and the last one is in the process of being closed.

We utilise rotation of senior management to reduce the risk of long association with our stakeholders and the engagement managers confirm their team members' ethical compliance at the beginning and at the end of each audit cycle.

We actively encourage our employees to seek assistance if they have queries on ethical conduct. Requests for advice on how to deal with ethical issues have increased compared to the previous year. This was evident in the report we compile for the requests received. This increase is a welcome sign that staff are now becoming more aware of potential ethical issues.

## Maximising the impact of transformation

We are firmly committed to leading in the area of transformation. While many of the aspects of transformation have been discussed earlier in this report, e.g. transformation in

the professionalisation of the organisation, transformation in leadership style and capability, transformation towards a culture of ethics and high performance, etc., this section focuses on the transformation of our equity profile, our approach towards preferential procurement and enterprise development.

We systematically provide an environment that creates equal opportunities and promotes fair and consistent behaviour as reflected in all our policies and procedures.

We have continued to use the national economically active population statistics to set our employment equity targets. There has been a visible increase in the required designated groups, reflecting that the employment equity plan was effectively implemented. We place emphasis on the advancement of women and have improved female representation at executive and senior management level. The proportion of females overall within the

organisation has reached 48%, thus showing improved attraction and retention of women within the designated groups and steady progress towards the 50% target.

We have demonstrated significant progress in our commitment to making the AGSA an employer of choice for people with disabilities. To attract such employees, we have modified most of our office buildings to accommodate disabled candidates.

There are still challenges with financial skills shortages in the profession and the attraction of skills in some provinces. In addressing these challenges, suitable internal and qualified candidates were motivated to apply for promotional positions in other provinces where positions were available.

The following statistics demonstrate our achievements.

**TABLE 28: WORKFORCE EMPLOYMENT EQUITY SUMMARY 2013-14 (INCLUDING TRAINEE AUDITORS)**

| % DESIGNATED GROUP 2013-14 | % NON-DESIGNATED GROUP: 2013-14 |
|----------------------------|---------------------------------|
| 84,58%                     | 15,42%                          |

**TABLE 29: AGSA EMPLOYMENT EQUITY PROFILE (INCLUDING TRAINEE AUDITORS)**

| RACE     | 2013-14                               |                                         |            |              | 2012-13    |              |
|----------|---------------------------------------|-----------------------------------------|------------|--------------|------------|--------------|
|          | Economically active population – male | Economically active population – female | AGSA males | AGSA females | AGSA males | AGSA females |
| African  | 40,3%                                 | 34,9%                                   | 31%        | 38,4%        | 31,2%      | 33,9%        |
| Coloured | 5,6%                                  | 5,0%                                    | 3,2%       | 4%           | 3,9%       | 3,2%         |
| Indian   | 1,9%                                  | 1,2%                                    | 5%         | 4,3%         | 6,1%       | 4,5%         |
| White    | 6,2%                                  | 4,6%                                    | 7%         | 7,3%         | 8,0%       | 8,4%         |
| Disabled | 0%                                    | 0%                                      | 0,4%       | 0,3%         | 0,5%       | 0,3%         |

**TABLE 30: EMPLOYMENT EQUITY TARGETS PER ORGANISATIONAL LEVEL (INCLUDING TRAINEE AUDITORS)**

| LEVEL       | DESIGNATED GROUP | 2013-14 | 2012-13 | 2011-12 |
|-------------|------------------|---------|---------|---------|
|             | Target           | Actual  | Actual  | Actual  |
| Band B      | N/A              | 73%     | 80%     | 77%     |
| Band C      | 55%              | 62%     | 77%     | 74%     |
| Band D      | 70%              | 66%     | 83%     | 80%     |
| Bands E & F | 80%              | 84%     | 94%     | 92%     |
| Band G      | N/A              | 98%     | 99%     | 98%     |

**TABLE 31: ACHIEVEMENT OF B-BBEE TARGETS IN RESPECT OF EMPLOYMENT EQUITY  
(INCLUDING TRAINEE AUDITORS)**

|             | <b>B-BBEE<br/>DESIGNATED<br/>GROUP</b> | <b>2013-14</b> | <b>2012-13</b> | <b>2011-12</b> |
|-------------|----------------------------------------|----------------|----------------|----------------|
|             | Target                                 | Actual         | Actual         | Actual         |
| Band B      | 40%                                    | 73%            | 70%            | 67%            |
| Band C      | 43%                                    | 60%            | 52%            | 60%            |
| Band D      | 63%                                    | 64%            | 61%            | 61%            |
| Bands E & F | 68%                                    | 84%            | 79%            | 81%            |
| Band G      | 68%                                    | 98%            | 98%            | 98%            |

### Broad-based black economic empowerment

The AGSA is committed to achievement of the objectives outlined in the B-BBEE Act. To measure and understand our contribution, we have adopted the CA charter scorecard in support of the transformation of the profession.

Our efforts are focused on all 120 elements of the generic scorecard, which is closely aligned to the CA sector code, and for most of them our rating is either at the maximum or close to the maximum level as seen in table 33.

The work described in the previous chapter on the professionalisation of the office is one of the ways in which we make a significant contribution, and we believe the largest contribution we make is to the evolution of the membership of the accounting and auditing profession.

The distribution of the audit work, which is governed by strict principles as captured within our contract work creditors (CWC) blueprint and discussed with the other players in the industry, aims at encouraging employment

creation at local and provincial level, increasing representation of women, skills development and employment equity.

In addition to the work done at an organisational level, we continued during 2013-14 to rate the efforts of the individual business units on the application of the codes of good practice. We are proud to say that 87% of the business units were rated as level 2 contributors and 13% as level 3.

**TABLE 32: B-BBEE SUMMARY SCORECARD RESULTS**

| <b>B-BBEE CATEGORY</b>            | <b>B-BBEE COMPONENT</b>     | <b>MAXIMUM SCORE</b> | <b>SCORE</b> |         |
|-----------------------------------|-----------------------------|----------------------|--------------|---------|
|                                   |                             |                      | 2013-14      | 2012-13 |
| <b>Direct empowerment</b>         | Ownership                   | N/A to AGSA          | N/A          | N/A     |
|                                   | Management                  | 15,00                | 15,00        | 15,00   |
| <b>Human resource development</b> | Employment equity           | 15,00                | 14,00        | 14,00   |
|                                   | Skills development          | 20,00                | 13,70        | 12,86   |
| <b>Indirect empowerment</b>       | Preferential procurement    | 20,00                | 19,40        | 19,86   |
|                                   | Enterprise development      | 15,00                | 0,00         | 0,00    |
|                                   | Social economic development | 15,00                | 15,00        | 14,34   |
| <b>Total score</b>                |                             | 100,00               | 77,10        | 76,50   |
| <b>Recognition status</b>         |                             |                      | 3            | 3       |

Our achievements are exciting and we will continue to pursue our commitment to transformation and our contribution to address economic equality among previously disadvantaged groups.

## CONCLUSION ON PERFORMANCE

| PERFORMANCE MEASURE                                | TARGET 2013-14      | ACTUAL PERFORMANCE |
|----------------------------------------------------|---------------------|--------------------|
| Achievement of identified B-BBEE contributor level | Level 3 contributor | Achieved           |

### Improvement in the way we work

The improvement and automation of business processes continue to be of strategic importance to ensure that the AGSA's systems, processes and procedures are updated and streamlined for optimal performance.

#### Enhancement of management information systems

Effective and efficient data/information integration between internal AGSA processes and auditees' data/information and the AGSA's management information systems is crucial for the execution of our mandate. The audit management information system (MIS) was further enhanced to facilitate the creation of the consolidated annual reports.

The AGSA uses a balanced scorecard (BSC) system to manage the performance of all its business units. During the period under review, the home-grown BSC tool was improved by enhancing its workflow, introducing improved system controls and adding more reports for monitoring the progress against targets, reporting per organisation level (e.g. business unit, corporate executive, portfolio and organisation) for business users. The enhancement of the system was completed in time for the year-end performance review process.

#### Building capacity for project management

The AGSA commenced with the establishment of a Project Management Office (PMO) in order to test the application of the project management approach within the organisation. The value of the PMO is being tested through the implementation of the audit software project, with the allocation of a dedicated

project manager and application of the full scale project methodology.

#### IT governance and risk management

Effective and efficient management of our information resources facilitates the achievement of our performance objectives and as such the risks and costs associated with IT are appropriately managed. The IT governance framework underwent a major update to align it with the principles of King III and COBIT. The governance structures envisaged by this framework are currently being implemented to add the required high level of oversight to the ICT environment.

Our electronic information security policy was also brought in line with the technology developments and in response to possible risk exposure related to the growth in mobile communication and devices.

Another important update was that of the software development life cycle policy to ensure that all software developed in-house as well as commercially will exhibit a separation between production, development and test environments to minimise opportunities for integrity breaches.

#### Enhancing the methods of communication

The implementation and upgrading of an office-wide video-conferencing system were completed during the year. The system provides for face-to-face communication between AGSA staff members from various provinces and business units as well as with external stakeholders. It is envisaged that substantial savings on travel and accommodation expenditure will be achieved through the use of this system.

Mobile devices were rolled out to a further 44 staff members at executive level. The roll-out of the devices to the level of senior manager will be completed during 2014-15.

#### Enterprise resources planning improvements

The AGSA uses an enterprise resources planning (ERP) system to manage its financial, human capital and customer service business processes. During the past year various enhancements to the service desk (CRM), supply chain, debtors and leave incentive management functions were implemented successfully. The automated employee performance management (e-Performance) system was rolled out effectively and used for the first time in the year under review.

#### Information and knowledge management

Operational and business knowledge of relevant topics, as a key strategic asset, is continuously being shared among the various functions and business units. External specialists are invited to share their particular expertise. Knowledge sharing happens in many formats and on different forums as well as through a multitude of everyday discussions and conversations within the organisation. Knowledge dissemination also happens on a daily basis between us and our stakeholders.

#### Upgrade of the AGSA website

The new internet website was successfully launched during 2013-14, which saw the PFMA and MFMA audit reports being published in such a way that they are far more readily accessible to the readers. A Really Simple Syndication (RSS) content feed system, which provides headlines and a summary of and link to our media releases, was introduced. Our

subscribers will be the first to know about any news or reports published on our website.

### Migration to SharePoint platform

The migration of the organisational shared web content to the SharePoint platform is complete. Phase 1, which goes live during the 2014-15 financial year, will provide two-way communication, such as a blog, surveys, comments and discussion board, document collaborations and alerts. A number of important applications were piloted on the new platform: the content for our governance structures meetings, the production of the integrated annual report, some of the performance management tools, etc. Expectations are that more people will be using electronic discussion boards instead of spending time in the boardrooms. We will see more people working on the same document at the same time, while the system will perform the consolidation.

### Library support to the organisation

In support of the effort to minimise our footprint, we introduced the use of electronic newspapers and magazines to the leadership with online access to these publications on a daily basis. Our Knowledge Management unit has developed a small research centre dedicated to relevant audit topics such as infrastructure development, health and education.

### Records and document management seminar

For the fourth consecutive year, the AGSA has successfully hosted the annual records management seminar attended by 730 records management practitioners from across the three spheres of government. The seminar provided

records management practitioners with an opportunity to reflect on the impact of good record keeping as it relates to clean administration, which in turn translates into clean audit opinions.

At the seminar, the AGSA introduced the records management checklist to be used by external auditors in assessing records management as a key control. This will be effective in the next audit cycle.

### Overall conclusion on performance for this group of measures

As a result of the coordinated efforts of our entire staff, most of the targets under the “lead by example” strategic goal were achieved. The two targets relating to the timelines of reports were only partially achieved and will continue to require strict management.

**WE WILL CONTINUE TO PROVIDE CONSISTENT, SIMPLE AND QUALITY AUDIT MESSAGES ON THE IMPLEMENTATION OF SOUND INTERNAL CONTROLS, AS WE BELIEVE THESE ARE KEY TO ACHIEVING AND SUSTAINING UNMODIFIED AUDIT OPINIONS.**

**THE FOCUS OF RISK MANAGEMENT IS ON IDENTIFYING, ASSESSING, MANAGING AND MONITORING ALL KNOWN FORMS OF RISK ACROSS THE ORGANISATION. THE AUDITOR-GENERAL MINIMISES OPERATIONAL RISK BY ENSURING THAT APPROPRIATE INFRASTRUCTURE, CONTROLS, SYSTEMS AND ETHICAL BEHAVIOUR ARE APPROPRIATELY APPLIED AND MANAGED.**

# SECTION 4

**We continuously strive for efficiencies in our audit processes to ensure that audit fees are affordable to auditees. By outsourcing audit work, we provide employment to a substantial number of small, medium and large firms, with specific incentives for emerging firms.**

# SUSTAINABLE DEVELOPMENT

## SECTION CONTENTS

Sustainable development  
**70**



# SUSTAINABLE DEVELOPMENT

## Highlights

- Audit work valued at **R665 million** was distributed to private audit firms.
- Our stakeholder **engagement programmes** are increasingly bringing **positive results**
- The organisation remains **financially stable**
- The **indirect impact** of our sustainability initiatives far outweighs the direct investment

As an organisation and as individuals, we believe that sustainability is our purpose and not a temporary objective. This belief permeates all our activities as demonstrated so far in this report as we assign importance to all matters that relate to our sustainability as an organisation. While we guard zealously the viability of the organisation, what differentiates us is the firm understanding that we can only exist in a sustainable society. Hence, our efforts are not aimed at creating wealth for the organisation, but rather at creating wealth for our country.

- By providing relevant audit insights, containing root causes and value-adding

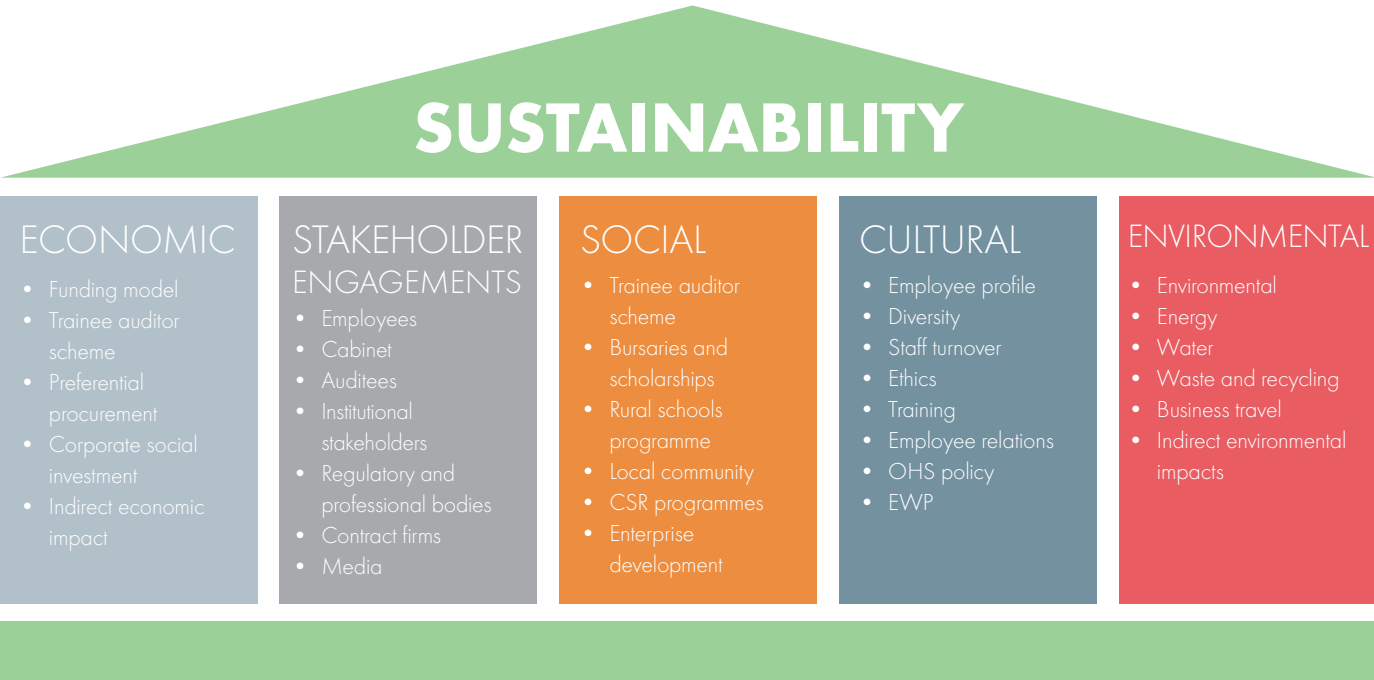
- recommendations, we support our auditees' ability to use and account for public funds in a transparent and responsible manner.
- Our intensive stakeholder engagement programmes with the widest range of interested parties are aimed at encouraging improvements in the public service and, ultimately, improving the lives of our people.
  - The great lengths to which we go in attracting and developing skilled staff are important not only for creating the employees we need to execute our mandate, but also as part of the pipeline for qualified and well-trained experts in the accounting and auditing profession who join the public sector.
  - A financially independent supreme audit institution is an absolute necessity for a democratic society. While ensuring our organisation's financial independence, we also contribute consciously to the creation and better distribution of economic benefits at local community level.
  - Our extensive social programme not only ensures the promotion and awareness of the profession but also serves to uplift the communities in which we operate.
  - We strive to be a model institution that leads by example, thus encouraging others

- to follow us in caring about our country.
- Although we do not rely on the extensive use of natural resources for conducting our business, our existence has an impact on the physical environment - an impact we monitor and strive to minimise.

Our considerations are also consistent with the intention of the UN Resolution A/66/209 (adopted by the General Assembly) which states that SAIs have an important role in promoting the efficiency, accountability, effectiveness and transparency of public administration, which is conducive to the achievement of national development objectives and priorities as well as the internationally agreed development goals, including the millennium development goals. Similarly, we subscribe to INTOSAI's recommendations regarding the importance of sustainability and the principles of good governance, transparency and accountability.

The main factors that define our sustainability are summarised in figure 16.

FIGURE 16: MAIN FACTORS THAT DEFINE THE AGSA'S SUSTAINABILITY



## INDIRECT IMPACT OF OUR AUDITS

As important as or even more important than our direct economic, social and environmental impacts described in this chapter is the indirect impact of our audit work.

Improving the management of financial resources by auditees (either by reducing wasteful expenditure or by enhancing the capability of managing expenditure) will free up funds for increased spending on developmental objectives. Improving levels of infrastructure or services will enhance economic opportunities for affected communities, which in turn will increase economic inclusion and activity.

Intensifying efforts to comply with environmental legislation and to improve environmental management practices will have a positive impact on the natural environment in the auditee's area of jurisdiction. An example of this is the increasing attention municipalities are giving to proper management of their landfills as a result of audit findings by AGSA in respect of the lack of financial provision for the closure of landfills. Municipalities are now realising that they must implement initiatives to reduce the amount of waste going to landfills so that the useful life of the landfill is extended and closure costs are reduced.

Performance audits on aspects such as health management result in the improvement of service delivery in health, benefiting local communities. Freeing up funds for enhanced service delivery on all fronts will have beneficial impacts on affected stakeholders. Improved service delivery will also result in less tension at local level and a more constructive cooperative relationship between authorities and communities.

## Economic sustainability

We continue to create sustainable value for our internal and external stakeholders through sustainable economic growth and development encompassing a number of elements.

Our economic performance is described in detail under funding in section 3 and supported by the detailed financial statement attached to this report. Our revenue and gross profit margin have remained stable. Considering the increased relevance of our audit insights, our ability to provide more audit

products, especially performance audits, and the intention to take over audits of state-owned enterprises, our revenue streams are reasonably expected to remain consistent in the long run, thus creating value (jobs and professional development) for our internal stakeholders.

**TABLE 33: FUNDING MODEL AND ACTUAL BUDGET COMPLIANCE SINCE THE INCEPTION OF THE MODEL**

| FUNDING MODEL PRINCIPLES                        | BUDGET COMPLIANCE     |         |         |         |         |
|-------------------------------------------------|-----------------------|---------|---------|---------|---------|
|                                                 | 2013-14               | 2012-13 | 2011-12 | 2010-11 | 2009-10 |
| 1. Tariff increase in line with salary increase | Yes                   | Yes     | Yes     | Yes     | Yes     |
| 2. No capping on tariffs                        | Yes                   | Yes     | Yes     | Yes     | Yes     |
| 3. Mark-up factor of 2,28                       | Maintained throughout |         |         |         |         |
| 4. Self-funding                                 | Yes                   | Yes     | Yes     | Yes     | Yes     |
| 5. Budgeted surplus of 4%                       | 1,02%                 | 2,07%   | 3,76%   | 3,74%   | 3,7%    |

To add value for the public, we continuously strive for efficiencies in our audit processes to ensure that the audit fees are affordable to auditees. By outsourcing audit work, we provide employment to a substantial number of small, medium and large firms, with specific incentives for emerging firms. The organisational procurement policies are aimed at supporting and promoting the

participation of small and medium companies, specifically at local level, bringing into the economy individuals and communities that have previously been excluded.

Table 34 reflects the flow of capital from auditees (as source of revenue) to other stakeholders, i.e. employees, suppliers and the community.

**TABLE 34: VALUE-ADDED STATEMENT FOR 2013-14**

|                                                   | 2014        |              | 2013        |              | 2012        |              |
|---------------------------------------------------|-------------|--------------|-------------|--------------|-------------|--------------|
|                                                   | %           | R MILLION    | %           | R MILLION    | %           | R MILLION    |
| <b>Revenue</b>                                    |             | 2 536        |             | 2 214        |             | 2 074        |
| <b>Paid to suppliers</b>                          |             | (1 020)      |             | (982)        |             | (911)        |
| <b>- Value added by operation</b>                 |             | 1 516        |             | 1 232        |             | 1 163        |
| <b>Interest income</b>                            |             | 50           |             | 74           |             | 71           |
| <b>Total value added</b>                          |             | <b>1 566</b> |             | <b>1 306</b> |             | <b>1 234</b> |
| Applied as follows:                               |             |              |             |              |             |              |
| <b>Paid on internal and external empowerment</b>  | 1,09%       | 17           | 1,28%       | 17           | 1,14%       | 14           |
| • Corporate social investment                     | 0,13%       | 2            | 0,23%       | 3            | 0,08%       | 1            |
| • Corporate social responsibility                 | 0,13%       | 2            | 0,08%       | 1            | 0,08%       | 1            |
| • Bursaries- external                             | 0,83%       | 13           | 0,98%       | 13           | 0,98%       | 12           |
| <b>Paid on employees and internal empowerment</b> | 89,27%      | 1 398        | 93,13%      | 1 226        | 87,68%      | 1 082        |
| • Salaries, wages and benefits                    | 85,57%      | 1 340        | 90,79%      | 1 187        | 85,33%      | 1 053        |
| • Employee wellness                               | 0,25%       | 4            | 0,15%       | 2            | 0,24%       | 3            |
| • Study assistance                                | 1,85%       | 29           | 0,91%       | 12           | 0,73%       | 9            |
| • Training                                        | 1,60%       | 25           | 1,28%       | 25           | 1,38%       | 17           |
| <b>To pay providers of capital</b>                | 0,96%       | 15           | 0,68%       | 9            | 0,81%       | 10           |
| • Finance cost                                    | 0,96%       | 15           | 0,68%       | 9            | 0,81%       | 10           |
| <b>Reinvested in the business</b>                 | 8,68%       | 136          | 4,91%       | 54           | 10,37%      | 128          |
| • Depreciation                                    | 2,36%       | 37           | 2,64%       | 35           | 2,35%       | 29           |
| • Retained income                                 | 6,32%       | 99           | 2,27%       | 19           | 8,02%       | 99           |
| <b>Total value added</b>                          | <b>100%</b> | <b>1 566</b> | <b>100%</b> | <b>1 306</b> | <b>100%</b> | <b>1 234</b> |

Our largest economic contribution to external stakeholders remains the allocation of audit work to audit firms. We spent R665 million as part of our

CWC work. The encouragement of small firms was a priority in the past year, with 33% invested in such firms and 35% in medium-sized firms.

**TABLE 35: CWC ALLOCATION TO AUDIT FIRMS**

| SIZE OF FIRMS | BUDGET 2014        | ACTUAL ALLOCATION 2014 | ALLOCATION TARGET 2014 | ACTUAL ALLOCATION 2014 |
|---------------|--------------------|------------------------|------------------------|------------------------|
|               | R                  | R                      | %                      | %                      |
| Big and large | 236 015 745        | 210 622 944            | 40%                    | 32%                    |
| Medium        | 236 015 745        | 235 058 206            | 40%                    | 35%                    |
| Small         | 180 007 873        | 219 812 051            | 20%                    | 33%                    |
| <b>Total</b>  | <b>590 039 364</b> | <b>665 493 201</b>     | <b>100%</b>            | <b>100%</b>            |

### Stakeholder engagements

Engagement with stakeholders is the main way of influencing improvements in the public sector and entrenching the audit recommendations.

We conduct structured engagement programmes with all our internal and external stakeholders, which include the direct involvement of the AGSA leadership. The multitude of stakeholders is grouped into

categories as described in table 36. Each group of stakeholders is reached in ways that are most suitable to them and the information is provided in a manner that is simple and clear and relevant to the particular group.

**TABLE 36: AGSA STAKEHOLDER CATEGORIES**

| STAKEHOLDER CATEGORY   | STAKEHOLDER                       |
|------------------------|-----------------------------------|
| Internal environment   | Employees                         |
|                        | Constitutional oversight          |
| Functional environment | Auditees                          |
|                        | Service providers                 |
|                        | Regulatory bodies                 |
|                        | International organisations       |
|                        | Professional bodies               |
|                        | Institutions supporting democracy |
|                        | Specialist institutions           |
| Audit industry         | Media                             |
| External environment   | People of South Africa            |

Our engagements with stakeholders and the derived benefits are explained in section 3 under the visibility of our leadership.

### Social sustainability

The social aspect of sustainability relates to the impact we have on the society within which we operate. Our largest impact is realised through our audit messages which are used to better the lives of people as expanded on in section 3 on simplicity and relevance of our messages. Further, our societal impact is observed through our community upliftment and outreach programmes.

### Thuthuka bursary fund

SAICA established the Thuthuka bursary fund in 2005 to speed up the transformation of the profession by increasing the number of qualified CAs from previously disadvantaged societal groups. The AGSA has been an enthusiastic contributor to the fund and in 2013-14 we contributed R1,8 million to fund the studies of 40 students. Fifty-six Thuthuka students have joined our organisation as trainees since 2010, thus contributing to our pipeline.

### Financial assistance for the University of Fort Hare

The AGSA has been providing funding for the salaries of suitably qualified academics in the accounting department at the University of Fort Hare in an attempt to assist the university in maintaining its SAICA accreditation for the provision of the chartered accountancy stream. Our support has assisted numerous students to graduate.

We are also very proud to have employed 89 University of Fort Hare graduates across the country as indicated in table 37.



**THE THUTHUKA BURSARY FUND WAS ESTABLISHED IN 2005 TO SPEED UP THE TRANSFORMATION OF THE PROFESSION**

**TABLE 37: UNIVERSITY OF FORT HARE GRADUATES EMPLOYED BY THE AGSA**

|               |    |
|---------------|----|
| Eastern Cape  | 64 |
| Free State    | 1  |
| Gauteng       | 15 |
| KwaZulu-Natal | 6  |
| Mpumalanga    | 3  |

### AGSA centenary scholarship programme

The AGSA scholarship fund is a legacy

project which was established during the celebration of the AGSA's 100th year in existence in 2012. This programme provided

33 recipients from across all nine provinces with funds to study on a full-time basis towards a BCom degree.

**TABLE 38: AWARDEES PER PROVINCE**

| PROVINCE OF ORIGIN | NUMBER OF AWARDEES |
|--------------------|--------------------|
| Eastern Cape       | 3                  |
| Free State         | 1                  |
| Gauteng            | 10                 |
| KwaZulu-Natal      | 5                  |
| Limpopo            | 4                  |
| Mpumalanga         | 4                  |
| North West         | 4                  |
| Northern Cape      | 2                  |
| Western Cape       | 0                  |

The programme kicked off in 2013, during which we funded 28 first-year students and four second-year students. The overall results were satisfactory, with an average of 58%, while the four top students obtained an average of between 70% and 81%. These results proved that the recipients were focused and determined to make a success of the opportunity offered to them.

During March 2014 all the students were allocated to individual mentors, who are AGSA employees in their province of study, ranging from trainee auditors to assistant managers in the audit business units. These mentors will walk with these recipients on their professional journey, guiding, supporting and encouraging them towards academic achievements and personal development.

### Corporate social investment

Our passion is education; hence we have invested more than 50% of our CSI budget in educational initiatives focusing on rural schools.

**TABLE 39: CORPORATE SOCIAL INVESTMENT INITIATIVES**

| INITIATIVE                   | ACTUAL SPENT (R) |
|------------------------------|------------------|
| Mandela day                  | 310 184,10       |
| Girl learner awareness day   | 30 248,75        |
| Boy learner awareness day    | 55 971,10        |
| Promotional material         | 290 250,00       |
| Study material               | 268 503,55       |
| Special/Scholarship projects | 811 386,85       |

### Rural schools programme

During 2013-14 the AGSA adopted 157 schools and interacted with more than 15 000 learners, mainly in grades 10-12. Financial contributions of R955 157 were made towards the transformation of our schools, as well as to the communities where the schools are situated. Interactions and presentations made to the schools were intended to inform learners about

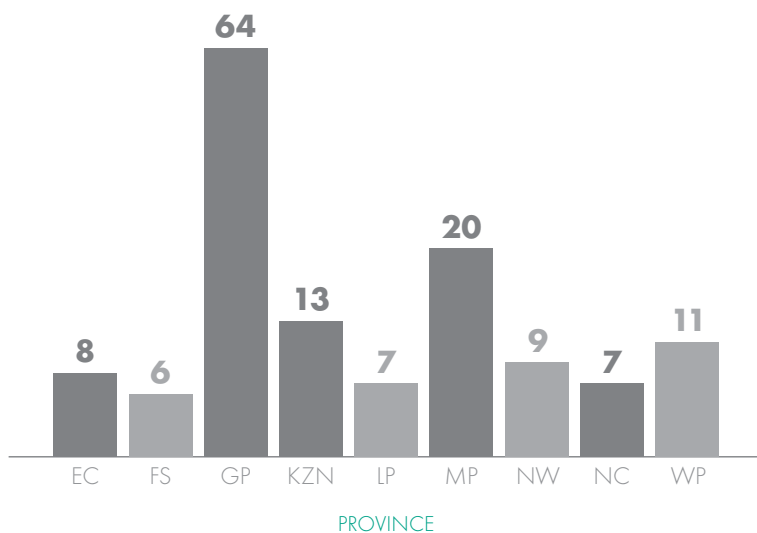
careers in accounting and auditing with the aim of creating interest in the profession.

We partnered with the Department of Education in the provinces to reach out to learners from informal settlements. Through career exhibitions and Sunday school programmes we provided learners with study material. We further provided learners from disadvantaged

backgrounds with badly needed items such as school uniforms, shoes, stationery and school fees to assist them financially and allow them to concentrate on their studies.

Our business units hosted *Bring-a-girl/boy-child-to-work* days aiming to inspire learners to pursue careers in auditing by experiencing a day in the life of an AGSA employee.

**FIGURE 17: CORPORATE SOCIAL INVESTMENT ADOPTED SCHOOLS PER PROVINCE**



**TABLE 40: SCHOOLS CORPORATE SOCIAL INVESTMENT DISTRIBUTION BY PROVINCE**

| PROVINCE      | 2013-14<br>ACTUAL EXPENDITURE | 2012-13<br>ACTUAL EXPENDITURE | 2011-12<br>ACTUAL EXPENDITURE |
|---------------|-------------------------------|-------------------------------|-------------------------------|
| Eastern Cape  | R34 510                       | R47 836                       | R53 423                       |
| Free State    | R35 259                       | R134 179                      | R53 103                       |
| Gauteng       | R538 874                      | R1 268 784                    | R244 450                      |
| KwaZulu-Natal | R34 510                       | R102 761                      | R54 734                       |
| Limpopo       | R40 010                       | R0                            | R63 013                       |
| Mpumalanga    | R37 610                       | R8 772                        | R53 103                       |
| Northern Cape | R39 314                       | R5 348                        | R59 022                       |
| North West    | R34 510                       | R211 765                      | R64 958                       |
| Western Cape  | R63 403                       | R741 157                      | R53 103                       |

Joining the nation in celebrating Nelson Mandela day, our employees voluntarily spent more than the expected 67 minutes on projects for the upliftment of the communities where our offices are situated, on projects such as:

- Infrastructure upgrade at Senior Secondary School Eersterust
- Repairs at orphanages, bringing relief and creating a safer environment for the children and those caring for them
- Distribution of blankets and mattresses to orphanages and old age homes around Gauteng
- Distribution of food parcels to more than 200 families.

In partnership with the Agricultural Research Council (ARC) we initiated the establishment of eight vegetable gardens which attracted 112 unemployed community members, allowing them to acquire skills to start such gardens at their homes. Furthermore, each business unit in the nine provinces as well as the head office

received R40 000 from our central budget to support a community initiative of their choice in any of the following focus areas:

- Local economic development, e.g. job creation, tourism and agricultural sector
- Education and health

- Social protection and community development, e.g. prevention of abuse of women and children
- Environmental initiatives.

In the financial year ended 31 March 2014, we supported the following organisations in various categories.

**TABLE 41: THE AGSA'S CORPORATE SOCIAL INVESTMENT BENEFICIARIES**

| CHARITIES                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                          | <ul style="list-style-type: none"> <li>• Community Chest</li> <li>• Gift of the Givers</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| SCHOOLS                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|                                                          | <ul style="list-style-type: none"> <li>• Ebenezer Majombozi High School</li> <li>• Khanyisa High School</li> <li>• Prosperitus Secondary School</li> <li>• Kwena Molapo High School</li> <li>• Ithuteng Commercial High School</li> <li>• Philena Primary School</li> <li>• Marang Primary School</li> <li>• Flora Primary School</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                     |
| DISABILITY CENTRES                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|                                                          | <ul style="list-style-type: none"> <li>• Ekurhuleni Disabled Centre</li> <li>• Helen Bishop Home for the Disabled</li> <li>• Ekurhuleni Disability Centre</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| CHILDREN'S HOMES AND EARLY CHILDHOOD DEVELOPMENT CENTRES |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|                                                          | <ul style="list-style-type: none"> <li>• NG Kerk Kinderhuis</li> <li>• Kgabo A Moloto Crèche</li> <li>• Street Smart (Home for street children)</li> <li>• Good Samaritan Children's Home</li> <li>• Masizakhe Children's Home</li> <li>• Tapologo Children's Centre</li> <li>• Rethabile Children's Centre</li> <li>• Kelesetsi Crèche</li> <li>• Lerato House</li> <li>• Thusanang Relief Association</li> <li>• Fatima House</li> <li>• Ubuhle Bezwe child-care centre</li> <li>• Badiri Old Age Home</li> <li>• Lake Haven / Zamani child &amp; youth care centre</li> <li>• Motswedi wa Lerato (Tshware North Outreach)</li> <li>• Olievenhoutbosch Community</li> <li>• Leamogetswe Safety Home</li> <li>• EastWood senior citizen organisation</li> </ul> |

## CHILDREN'S HOMES AND EARLY CHILDHOOD DEVELOPMENT CENTRES

- Saulville
- Huis Heneka Children
- Heneka Haven
- No. 2 Struben Street Shelter
- House of Restoration Drug Rehabilitation Centre
- Tshwaragang Community Development
- Child Soul Care
- Tumelo Children's home for the mentally handicapped
- Tshwane Child Welfare
- Amadea Safety House
- All Stars Shelter

## OTHER ORGANISATIONS

- ABASA North West
- ABASA Mpumalanga
- Biker SA
- Community of Letlhabile

Participation in these initiatives demonstrated the positioning of the AGSA as a caring and socially responsible organisation. The initiatives resulted in increased visibility of the AGSA leadership among external stakeholders, particularly disadvantaged communities, a contribution towards the development and sustainability of disadvantaged communities and effective local community engagement.

### Cultural sustainability

Cultural sustainability relates to ways of enhancing our organisational identity and sense of place through shared spaces, educational opportunities and policies with a focus on developing our staff in line with the organisational values in order to ensure that they reach their full potential.

### Diversity

Section 3 discusses our success in transforming the organisation into one where staff diversity reflects the demographic make-up of the country (table 12) and where all employees have equal opportunities for development and contribution. We create an environment in which the management of diversity is practised and understood by all employees. The business units developed diversity plans in which they identified



areas to address during the review period, thus ensuring accountability for progress. Ensuring that the leadership works towards the realisation of the desired culture and values of teamwork, equal opportunity, diversity and inclusion in the work environment is a continuous journey, which we take every day and are prepared to take again and again.

### Developmental opportunities

Our trainee auditor scheme is rolled out across the country and results in scores of young professionals being introduced to the public sector, thus contributing to the

professionalisation of the various layers of government. This is discussed in detail in section 3.

We have experienced phenomenal growth in the development of all AGSA employees, as can be seen from the table below. The spirit and motivation to grow and develop are becoming a hallmark of our organisation.

**TABLE 42: STAFF TRAINING INTERVENTIONS ATTENDED**

| OCCUPATIONAL LEVEL             | MALE  |          |        |           |       | FEMALE |          |        |           |       | Total |
|--------------------------------|-------|----------|--------|-----------|-------|--------|----------|--------|-----------|-------|-------|
|                                | Black | Coloured | Indian | Foreigner | White | Black  | Coloured | Indian | Foreigner | White |       |
| Corporate executives           | 1     | 0        | 1      |           | 0     | 1      | 0        | 0      |           | 1     | 4     |
| Business executives            | 3     | 0        | 2      |           | 3     | 1      | 0        | 1      |           | 3     | 13    |
| Deputy business executives     | 4     | 1        | 0      |           | 3     | 4      | 0        | 0      |           | 3     | 18    |
| Senior managers                | 42    | 11       | 19     | 2         | 49    | 35     | 6        | 14     | 1         | 25    | 204   |
| Managers                       | 115   | 22       | 60     | 10        | 87    | 116    | 22       | 36     | 5         | 82    | 555   |
| Assistant managers Specialists | 167   | 25       | 29     | 6         | 41    | 184    | 19       | 34     | 2         | 49    | 556   |
| Audit supervisors              | 70    | 4        | 6      | 1         | 2     | 96     | 3        | 6      | 2         | 2     | 192   |
| Trainee auditors               | 405   | 24       | 38     | 0         | 16    | 508    | 35       | 35     | 0         | 10    | 1 071 |
| Auditors                       | 9     | 0        | 0      | 0         | 1     | 14     | 1        | 0      | 0         | 1     | 26    |
| Audit clerks                   | 61    | 4        | 5      | 0         | 0     | 80     | 2        | 2      | 0         | 0     | 154   |
| Senior administrators          | 31    | 3        | 2      | 0         | 1     | 80     | 17       | 10     | 0         | 26    | 170   |
| Administrators                 | 5     | 0        | 0      | 0         | 0     | 5      | 0        | 0      | 0         | 0     | 10    |
| Office assistants              | 1     | 0        | 0      | 0         | 0     | 3      | 0        | 0      | 0         | 0     | 4     |

### Environmental sustainability

The environmental aspects of sustainability deal with our impact on the natural systems, including land, air and water. Business travelling remains our most significant activity and we are committed to understanding and quantifying our carbon footprint with the long-term goal of minimising it and possibly offsetting it in future.

We also monitor the use of water, energy and paper and minimise waste thereof.

In our previous report we provided an estimate of our carbon footprint which was based on intensive manual collection of required data. Currently, a project is underway to align our existing reporting and management systems

with the needs of electronic collection of information and regular monitoring and reporting on the amount of greenhouse gases associated with our activities. Detailed estimates will be provided in the next edition of the report.

### SUMMARY OF THE CURRENT INITIATIVES

| PROJECT NAME        | PROJECT BENEFITS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Virtual servers     | The server environments in head office as well as all the regional offices have been consolidated into a virtual server. Through virtualisation, a single server is used for several applications and reduces total energy consumption by 50% as well as the floor space required for the computer equipment. All the old stand-alone server equipment has now been disposed of. Future computing capacity increases can now be accommodated without additional floor space and excessive energy requirements. |
| Electricity/ energy | Power factor tests were conducted at head office to determine KWH rate savings. Awaiting reports and corrective actions to be implemented.                                                                                                                                                                                                                                                                                                                                                                     |
|                     | Motion detector for lighting has been installed at the new Bloemfontein premises.                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Water               | Timers were installed for sprinkler system at head office and Brooklyn Gardens to ensure controlled usage of water.                                                                                                                                                                                                                                                                                                                                                                                            |

| PROJECT NAME                         | PROJECT BENEFITS                                                                                                                                                                                                                                                 |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Paper use minimisation and recycling | Tablets were distributed to all business executives and some senior managers. The initiative will be rolled out to all senior managers.                                                                                                                          |
|                                      | Most governance meetings' content is placed in a shared space, either in Dropbox or SharePoint, thus eliminating the printing of voluminous files, while also saving valuable work time and increasing accessibility and effectiveness of the governance bodies. |
|                                      | Collaborative work, e.g. strategic plans, reports, etc. is also conducted through the use of shared spaces, thus further reducing printing.                                                                                                                      |
|                                      | Regular records management training and inspection are conducted throughout the organisation.                                                                                                                                                                    |
| Air quality management               | Carbon dioxide extractor fan has been installed in the basement parking area of head office.                                                                                                                                                                     |
| Business travel                      | Installation of video-conferencing facilities at all provincial offices was completed.                                                                                                                                                                           |
|                                      | The approval of all international travel has been centralised to ensure, among other benefits, the reduction of travel and hence related carbon emissions.                                                                                                       |

### Improvements in the management of the occupational health and safety

The occupational health and safety (OHS) of our employees is taken very seriously and is subject to continuous improvement and alignment with the legislative requirements. These improvements are driven by the OHS committee which met five times during the performance year.

Fifteen staff members were trained as health and safety representatives and a further 42 in providing first aid. Dedicated presentations were made to six of our business units (Free State, North West, Northern Cape, KwaZulu-Natal, Mpumalanga and National A). Awareness was created on specific issues via articles in *eTalk* (8) and through email communication.

For the first time, fire drills were performed at the head office, Lefika House, Brooklyn Gardens

and Kimberley offices. The provincial offices in Bloemfontein, Pietermaritzburg, Rustenburg, Polokwane, Nelspruit and Cape Town will be included in the next year.

There were no fatalities. The AGSA's accident statistics are as follows:

- Total number of motor vehicle accidents: 4 (no injuries)
- Slip/trip and fall incidents: 4 (minor injuries)

# SECTION 5

**At the time of completion of this report, our senior management is passionately working on the final touches of the next phase of our strategic path, namely a vision and strategy that will carry the organisation forward in the next 10 years.**

# KEY STRATEGIC PRIORITIES FOR 2014-15

## SECTION CONTENTS

Key strategic priorities for 2014-15

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## KEY STRATEGIC PRIORITIES FOR 2014-15

Although, for the short term, we are continuing with the strategic goals that we set for ourselves six years ago, we are well into the process of overhauling our strategy. The result of this strategic exercise will be captured in a new strategic anchor document and will provide direction to the organisation for the next 10 years. The strategic plan and budget 2015-18 will be the first rolling plan to reflect the new strategy.

For the period 2014-15, however, our current strategy remains anchored around the following five strategic goals:

| Strategic<br><b>COMMITMENT</b>                       | Strategic<br><b>OBJECTIVES</b>                                                                                                                                                                                                           | Impact to be<br><b>ACHIEVED</b>                                                                                                                  |
|------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| Simplicity, clarity and<br>relevance of our messages | <ul style="list-style-type: none"><li>• Make value-adding recommendations to auditees</li><li>• Maintain excellent quality of auditing</li><li>• Make certain that our messages reach all stakeholders</li></ul>                         | Improving the<br>lives of SA<br>citizens through<br>executing our<br>constitutional<br>mandate of<br>strengthening<br>our country's<br>democracy |
| Visibility of leadership                             | <ul style="list-style-type: none"><li>• Establish, maintain and own stakeholder relationships to encourage clean administration</li></ul>                                                                                                |                                                                                                                                                  |
| Funding                                              | <ul style="list-style-type: none"><li>• Execute the organisational mandate economically, efficiently and effectively</li><li>• Ensure sufficient funding for the achievement of the mandate while maintaining our independence</li></ul> |                                                                                                                                                  |
| Strengthening human<br>resources                     | <ul style="list-style-type: none"><li>• Build a motivated, high-performing and diverse workforce</li><li>• Create access to the relevant skills and knowledge required for our work</li></ul>                                            |                                                                                                                                                  |
| Leading by example                                   | <ul style="list-style-type: none"><li>• Adhere to standards of excellence for clean administration</li><li>• Continually improve the timeliness of AGSA reports</li><li>• Maximise the AGSA's contribution to transformation</li></ul>   |                                                                                                                                                  |
| <b>SUSTAINABLE ORGANISATIONAL PRACTICES</b>          |                                                                                                                                                                                                                                          |                                                                                                                                                  |

Reiterating our firm belief that the key to achieving and sustaining unmodified audit opinions is to implement and adhere to sound internal controls, we will continue to provide consistent, simple audit messages of impeccable quality, outlining relevant root causes of audit findings. Our audit approach will be enhanced with optimal integration of our different types

of audits to address shortcomings in financial management, compliance and service delivery holistically.

We have confirmed that targeted interactions and continual engagements with both our internal and external stakeholders are beneficial to the impactful delivery of our organisational

mandate. Our senior management will persist in developing excellent stakeholder relationships with those charged with governance in the public sector to encourage clean administration and follow up on progress made with commitments in response to audit findings. These interactions will be tailored to focus on auditees that have shown progress,

thereby maximising the return on time invested in these interactions.

We will run our operations in a cost-effective manner, continuously tracking our initiatives to ensure that our resources are directed appropriately at all times.

Our employees are at the centre of our strategy. We recognise that it is only through committed employees and by creating the right culture that we shall sustain a transformed and diverse workforce to ensure business continuity at all

times. Our focus will be on the enhancement and implementation of our performance management tools and processes and continuous and deliberate succession planning.

Our business administration is the mechanism that supports the execution of our mandate. A sound internal control environment will ensure that our messages are taken seriously by those on whom we report. Our decision to lead by example and be a model institution for clean administration, effective controls and efficient business processes ensures that we consciously

mitigate reputational risk. We commit to adhering to standards of excellence in all we do.

The notion of sustainability is integral to all our activities. We recognise the need to heighten awareness of our impact on the environment as an indication of our good stewardship and commitment to adhering to standards of excellence. We are working towards aligning our sustainability reporting with our existing reporting and management systems. Going forward we will use our electronic system to measure and report on our carbon footprint.

-

## SECTION 6

**Regular reports from the different assurance providers refer to the functioning of the internal controls as assessed by management to give effect to the principles of an effective combined assurance model.**

# GOVERNANCE AND REMUNERATION POLICIES

## SECTION CONTENTS

Governance and remuneration policies  
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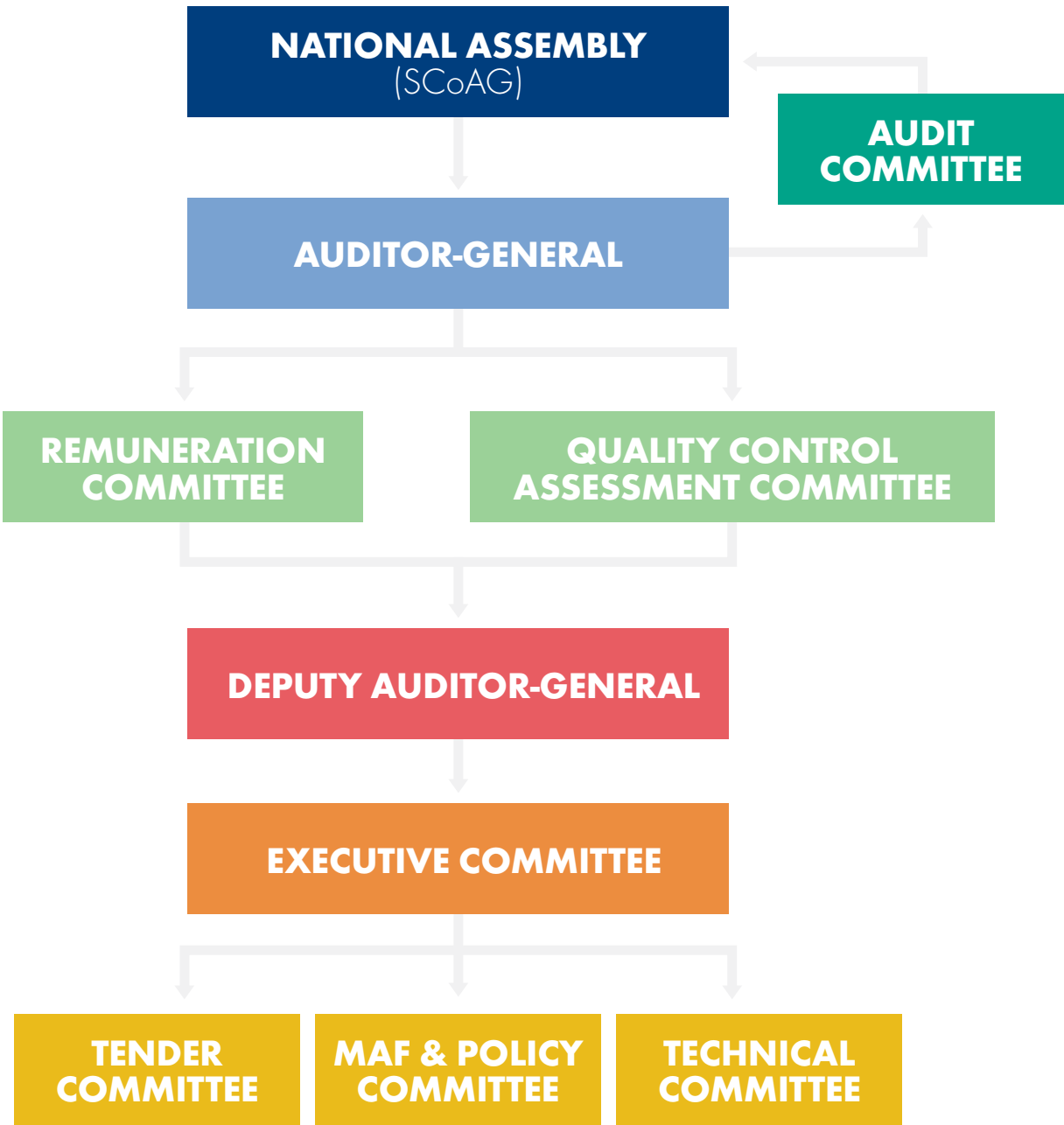
Independent assurance report on selected sustainability information  
**91**

Report of the audit committee  
**93**

idea reflects  
environment requirements  
responsibility role code policies  
normative descriptive people accelerated help  
even concerns conduct employees  
specific understand company companies  
corporate **Business** require  
legal public ethics environment claim  
code financial accounting policy  
decision resources claim  
financial ensure

# GOVERNANCE AND REMUNERATION POLICIES

FIGURE 18: GOVERNANCE FRAMEWORK OF THE AGSA



### Our approach to corporate governance

Our governance framework is established by the Constitution and the PAA. The King III code on governance in South Africa provides

additional guidance. The AGSA has elected to review its alignment to the King III code and we are confident that we are aligned with the code insofar as it applies to our organisation.

We will conduct a routine review to ensure that all governance structures are aligned to one another and share best practices. The review will confirm whether we have an optimum number of committees to ensure economic and efficient use of governance structures.

## Standing Committee on the Auditor-General

The Constitution of 1996 and the PAA determine the oversight function of SCoAG. In terms of its legislative mandate, SCoAG is required to fulfil the following role:

- To assist and protect the AGSA in order to ensure its independence, impartiality, dignity and effectiveness and to advise the National Assembly accordingly
- To provide general oversight requirements in terms of section 55(2)(b)(iii) of the Constitution
- To make recommendations to the President on the conditions of employment of the Auditor-General
- To annually appoint an independent firm of external auditors
- To consider
  - the annual report, financial statements and audit report
  - and authorise the retention of surplus by the AGSA
  - concerns raised by the audit committee
  - the budget and business plan of the AGSA and make recommendations to be forwarded to the Speaker for tabling in the National Assembly and to the National Treasury
  - any report from the DAG on any actual or impending under-collection of revenue, shortfalls in budgeted revenue and overspending of the budget or expenditure not in accordance with the budget
  - any report from the DAG on a decision of the AGSA to incur irregular expenditure
- To give an opinion on
  - the appointment of a DAG
  - any regulations the Auditor-General intends to issue
  - the basis for calculating the audit fees to be recovered from auditees
  - the nature and scope of such audits and procedures for the handling of complaints when performing such audits
  - the code of conduct for authorised auditors, including standards of professional conduct, disciplinary steps for misconduct, and any other relevant matter.

The key issues that SCoAG dealt with were the discussion of the strategic plan and budget, consideration of the annual report, the appointment of external auditors, resolving the conditions of employment of the outgoing Auditor-General Terence Nombembe and the appointment of the Auditor-General Kimi Makwetu.

**TABLE 43: MEMBERS OF THE NATIONAL ASSEMBLY WHO SERVED ON SCoAG IN 2013-14**

| POLITICAL PARTY | REPRESENTATIVE                                                                                                                      |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------|
| ANC             | * Masutha, Adv. MT (chairperson) became Deputy Minister of Science and Technology - National executive (Executive) from 9 July 2013 |
|                 | Tsebe, Ms SR                                                                                                                        |
|                 | Ndabandaba, Prof. LBG                                                                                                               |
|                 | Nxumalo, Ms DM                                                                                                                      |
|                 | Moloto, Mr KA (acting chairperson) following Mr Masutha's appointment as deputy minister                                            |
|                 | Yengeni, Ms LE (replaced by Ms Mfulu)                                                                                               |
|                 | Bikani, Ms F                                                                                                                        |
|                 | Luthuli, Ms AN (replaced by Mr Mokena)                                                                                              |
|                 | Shope-Sithole, Ms S                                                                                                                 |
|                 | Mfulu, Ms AT                                                                                                                        |
|                 | Mokoena, Mr A                                                                                                                       |
| DA              | George, Dr DT                                                                                                                       |
|                 | Steenheissen, Mr J                                                                                                                  |
| COPE            | Mashiane, Ms L (replaced by Mr N Koornhof)                                                                                          |
| IFP             | Singh, Mr N                                                                                                                         |
|                 | Lebenya, Mr P S (alternate) (left but was not replaced)                                                                             |

## Audit committee

Section 40(1) of the PAA mandates the DAG to establish an audit committee and to appoint the members thereof. The audit committee does not have any managerial responsibility, but

assists the DAG in discharging his or her duties with regard to:

- maintaining effective, efficient and transparent systems of financial management, risk management and internal control; and
- maintaining an effective internal audit function.

For the membership of the committee, an overview of the committee's activities and attendance during the year, refer to the audit committee chairperson's report on page 93.

Remuneration committee

The Auditor-General is responsible for determining the terms and conditions of employment of all employees in the organisation in accordance with section 34(3) of the PAA. The Auditor-General established the remuneration committee (RemCo) to provide specialised advice on remuneration and related issues to the Auditor-General, who has the final decision-making power.

- In fulfilling its advisory role, RemCo reviews and makes recommendations on the following matters:
- General trends and practices regarding employment benefits, including the structuring of conditions of employment and remuneration packages
  - The framework or broad policy for the remuneration of executive and senior management

- Targets and rules for any performance-related pay schemes, whether current or proposed
- General salary increases
- Any other human resource management issue which the Auditor-General may wish to table for discussion.

During the year, RemCo also monitored SCoAG’s process on the determination of the Auditor-General’s conditions of employment.

TABLE 44: ATTENDANCE RECORD OF REMCO IN 2013-14

| MEMBER          | 25 JUNE 2013 |
|-----------------|--------------|
| Dr Mark Bussin  | P            |
| Bernard Nkomo   | P            |
| Mpuseng Moloji  | P            |
| Nazlie Samodien | P            |

Remuneration policies

The AGSA’s approach to the remuneration of all employees, including senior managers and executives, is informed by comprehensive salary market benchmarks conducted on a regular basis and utilised to develop competitive pay scales. The following key principles are considered when implementing remuneration for employees:

- Broad-banded pay scales to enable progression within a job grade
- Paying for performance to ensure remuneration differentiation between performers and non-performers
- Affordability
- Total cost-to-company offers that are competitive
- Observing governance requirements of applicable reward and recognition.

The AGSA’s reward structure integrates a combination of reward and recognition options, such as the guaranteed package, benefits, performance bonuses, recognition programmes, career development opportunities and the entire work experience. With reward and recognition being viewed as one of the contributors to

attraction and retention, the AGSA continuously reviews and enhances its reward offerings. Future factors that will most likely influence remuneration include but are not limited to:

- inflation fluctuation
- demand for and supply of skills
- governance requirements in respect of remuneration.

Quality control assessment committee

The QCAC is an oversight body that assists the Auditor-General and DAG to fulfil their responsibilities for implementing a system of quality control within the AGSA, as mandated in the policy on monitoring of quality control compliance to ensure adherence to standards as per section 13(1)(a) of the PAA.

The QCAC consists of the Auditor-General, the DAG, an external audit committee member and an external member co-opted by the Auditor-General annually.

The committee is required to monitor the elements of a system of quality control through the performance of quality control reviews

at both institutional and engagement level. This is also a requirement of the International Standards on Auditing.

The QCAC, at its meeting on 24 April 2013, decided on the final assessment results of the audit engagements that were subjected to quality control reviews in the performance year. Further details of the results and the outcome of the monitoring on engagement level for 2013-14 are found in the performance information relating to Commitment 1 - *Simplicity of our audit reports: Implementing and monitoring policies and procedures in respect of all elements of the system of quality control on page 24.*

**TABLE 45: ATTENDANCE RECORD OF THE QCAC IN 2013-14**

| MEMBER                    | 24 APRIL 2014 | 25 APRIL 2013                              |
|---------------------------|---------------|--------------------------------------------|
| Terence Nombembe          | End of term   | P                                          |
| Thembekile Makwetu        | P             | P                                          |
| Tsakani Ratsela           | P             | Not yet appointed (attended as an invitee) |
| John Biesman-Simons       | P             | P                                          |
| Sathie Gouden (alternate) | P             | Not yet appointed                          |
| Karin Barac               | A             | P                                          |

P-present A-apology NRA-not required to attend

## Executive committee

The PAA gives both the Auditor-General and the DAG the authority to delegate any power and duty assigned to them to any member of staff. The executive committee (Exco) was established to assist the DAG to manage the business and affairs of the organisation.

Exco is chaired by the DAG and consists of the national leaders and all the corporate executives. The committee meets on average eight times during the year and holds special meetings at regular intervals. It focuses on reviewing and directing the implementation of the AGSA's business and strategic plans

throughout the year. Exco has the power to establish subcommittees to assist it.

Exco met 12 times during the 2013-214 period, deciding on matters of strategic importance, dealing with progress made with the implementation of strategic initiatives, approving frameworks and policies and attending to matters of financial and risk management.

Specialised work is done on behalf of Exco by the three existing subcommittees, namely the tender committee, technical committee and the policy committee:

- The technical committee gives effect to the requirements of section 13 of the PAA,

which deals with confirmation of auditing standards and the development of related audit methodology. The AGSA is in the process of reviewing the role of the technical committee as other structures can potentially deal with its current functions, thus optimising the use of governance structures.

- The management approval framework and policy committee reviews all delegations and policies, and recommends them to Exco for approval to ensure an integrated approach and strategic alignment of policies.
- The tender committee promotes a fair tender culture. Further details on the tender committee are given below.

**TABLE 46: ATTENDANCE RECORD OF EXCO IN 2013-14**

| MEMBER             | 10 JUNE 2013       | 11 JULY 2013 | 15 JULY 2013 | 6 AUG. 2013 | 19 AUG. 2013 | 5 SEPT. 2013 | 29 OCT. 2013 | 8 NOV. 2013     | 14 NOV. 2013 | 21 NOV. 2013 | 17 FEB. 2014 | 11 MAR. 2014 |
|--------------------|--------------------|--------------|--------------|-------------|--------------|--------------|--------------|-----------------|--------------|--------------|--------------|--------------|
| Thembekile Makwetu | P                  | P            | P            | P           | P            | A            | P            | A               | P            | A            | P            | P            |
| Tsakani Ratsela    | P                  | P            | P            | P           | P            | P            | P            | P               | P            | P            | P            | P            |
| Imran Vanker       | P                  | P            | P            | P           | P            | P            | P            | P               | P            | P            | P            | P            |
| Alice Muller       | P                  | P            | P            | P           | P            | P            | P            | P               | P            | P            | A            | P            |
| Jan van Schalkwyk  | P                  | P            | P            | P           | P            | P            | P            | P               | P            | A            | P            | P            |
| Sakhiwo Ngobese    | P                  | P            | P            | P           | P            | P            | P            | P               | P            | P            | P            | P            |
| Mohsien Hassim     | P                  | P            | P            | A           | P            | P            | P            | End of contract |              |              |              |              |
| Eugene Zungu       | P                  | P            | P            | P           | P            | P            | P            | P               | P            | P            | A            | P            |
| Vusi Msibi         | P                  | P            | P            | P           | P            | P            | P            | P               | P            | P            | P            | P            |
| Barry Wheeler      | P                  | P            | P            | P           | P            | P            | P            | P               | P            | P            | A            | P            |
| Naeem Seedat       | P                  | P            | P            | P           | P            | P            | P            | P               | P            | P            | P            | P            |
| Bongi Ngoma        | On maternity leave |              |              |             |              |              | P            | P               | P            | P            | P            | P            |

## Tender committee

The tender committee exists to promote a fair tender culture by ensuring that relevant procurement laws, policies and procedures are correctly and consistently applied. The committee oversees the work of a bid evaluation committee whose key function is to

promote a transparent, fair and effective tender evaluation process.

The tender committee met 13 times during the year under review. In addition to awarding tenders, this committee also monitored the organisation's contracts, deviations and condonements. The committee approved the

establishment of regional supplier databases to enhance operational efficiency. The effectiveness of the tender committee was measured through an organisation-wide survey and the terms of reference have been reviewed to ensure continuous improvement.

**TABLE 47: ATTENDANCE RECORD OF TENDER COMMITTEE IN 2013-14**

| MEMBER         | 30/5/13            | 25/6/13      | 19/7/13  | 29/8/13 | 3/10/13 | 31/10/13 | 27/11/13 |
|----------------|--------------------|--------------|----------|---------|---------|----------|----------|
| E Zungu        | P                  | P            | P        | P       | P       | A        | A        |
| S Ngobese      | P                  | P            | P        | A       | P       | P        | P        |
| M Nkai         | P                  | A            | P        | P       | A       | P        | P        |
| B Ngoma        | On maternity leave |              |          |         | P       | P        | P        |
| L van Vuuren   |                    | P            | P        | P       | P       | P        | A        |
| M Bezuidenhout | P                  | P            | A        | P       | P       | A        | A        |
| T Telite       | P                  | A            | P        | P       | A       | A        | P        |
| T Ramoganyaka  | P                  | A            | P        | P       | P       | A        | P        |
| E Manichand    | A                  | A            | Replaced |         |         |          |          |
| J Nkosi        | A                  | P            | A        | P       | A       | P        | P        |
| M September    | Not a member       | Not a member | P        | P       | P       | P        | P        |
| M Hlongwa      | P                  | P            | NRA      | NRA     | NRA     | P        | NRA      |
| T Mateva       | NRA                | P            | P        | P       | NRA     | NRA      | NRA      |
| L le Roux      | NRA                | NRA          | NRA      | NRA     | NRA     | P        | NRA      |

| MEMBER         | 3/12/13           | 18/12/13 | 30/1/14  | 28/2/14 | 25/3/14 | 31/3/14 |
|----------------|-------------------|----------|----------|---------|---------|---------|
| E Zungu        | P                 | P        | P        | A       | P       | P       |
| S Ngobese      | P                 | P        | P        | P       | P       | P       |
| M Nkai         | P                 | P        | A        | P       | P       | P       |
| B Ngoma        | P                 | P        | A        | P       | P       | P       |
| L van Vuuren   | P                 | A        | P        | P       | P       | P       |
| M Bezuidenhout | A                 | P        | P        | P       | A       | P       |
| T Telite       | P                 | A        | P        | A       | A       | P       |
| T Ramoganyaka  | P                 | P        | P        | P       | P       | P       |
| J Nkosi        | A                 | A        | Resigned |         |         |         |
| M September    | P                 | A        | NRA      | P       | P       | P       |
| M Hlongwa      | NRA               | NRA      | A        | NRA     | P       | P       |
| T Mateva       | P                 | NRA      | P        | P       | P       | P       |
| L le Roux      | NRA               | NRA      | NRA      | NRA     | P       | P       |
| M Sedikela     | Not yet appointed |          |          |         | P       | P       |
| T Zondi        | Not yet appointed |          |          | P       | P       | P       |

NRA – Alternative member, not required to attend due to existing forum

P – present

A – absent

# INDEPENDENT ASSURANCE REPORT ON SELECTED SUSTAINABILITY INFORMATION

We have undertaken a limited assurance engagement on selected key performance indicators, as described below and presented in the 2014 Sustainability Report of the Auditor-General of South Africa for the year ended 31 March 2014 (the report).

## Subject matter

We are required to provide limited assurance on the following key performance indicators, prepared in accordance with the Global Reporting Initiative (GRI) G3.1 Guidelines.

| CATEGORY                | KEY PERFORMANCE INDICATORS                                                                                                                                                                                 | BOUNDARY                                                         |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| Environmental           | Initiatives undertaken in respect of:<br>Water usage<br>Waste and recycling<br>Business travel                                                                                                             | AGSA premises in all nine provinces.<br>Republic of South Africa |
| Economic                | Application of the funding model<br>Amounts and initiatives in respect of:<br>Trainee auditor scheme<br>Preferential procurement<br>Corporate social investment                                            | Republic of South Africa                                         |
| Social                  | Amounts and initiatives in respect of:<br>Bursaries and scholarships<br>Rural schools programme<br>Local community corporate social responsibility programmes<br>Enterprise development                    | Republic of South Africa                                         |
| Cultural                | Disclosures in respect of:<br>Employee profile<br>Diversity<br>Staff turnover<br>Ethics<br>Training initiatives<br>Application of the occupational health and safety policy<br>Employee wellness programme | AGSA                                                             |
| Stakeholder engagements | Disclosures in respect of:<br>Employees<br>Cabinet<br>Auditees<br>Constitutional stakeholders<br>Regulatory and professional bodies<br>Contract firms<br>Media                                             | Republic of South Africa                                         |

## Deputy Auditor-General's responsibilities

The DAG is responsible for the selection, preparation and presentation of the key performance indicators in accordance with the GRI G3.1 Guidelines. This responsibility includes the identification of stakeholders and stakeholder requirements and material issues and for commitments with respect of

sustainability performance and the design, implementation and maintenance of internal control relevant to the preparation of a report that is free from material misstatement, whether due to fraud or error.

## Our independence and quality control

We have complied with the Code of Ethics

for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on the principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with International Standard on Quality Control 1, KwinanaEquifin Incorporated maintains a comprehensive system of quality

control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## Our responsibility

Our responsibility is to express a limited assurance conclusion on the selected key performance indicators based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board. This Standard requires that we plan and perform our engagement to obtain limited assurance on whether the selected key performance indicators are free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3000 involves assessing the suitability in the circumstances of Auditor-General's use of GRI G3.1 Guidelines as the basis of preparation for the selected key performance indicators; assessing the risks of material misstatement of the selected key performance indicators whether due to fraud or error; responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the selected key performance indicators. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. The procedures we performed were based on our professional judgement and included enquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:

- interviewed management and senior executives to obtain an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process;
- inspected documentation to corroborate the statements of management and senior executives in our interviews;
- reviewed the process that Auditor-General has in place for determining material selected key performance indicators to be included in the report;
- inspected supporting documentation on a sample basis and performed analytical procedures to evaluate the data-generation and reporting processes against the reporting criteria;
- evaluated whether the selected key performance indicators presented in the report are consistent with our overall knowledge and experience of sustainability management and performance at the Auditor-General; and
- conducted an application level check on the report to determine whether all disclosure requirements of the GRI C+ application level have been adhered to.

The procedures performed in a limited assurance engagement vary in nature from and are less in extent than for a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion on whether the Auditor-General's selected key performance indicators have been prepared, in all material respects, in accordance with GRI G3.1 Guidelines.

## Limited assurance conclusion

Based on the procedures we performed and the evidence we obtained, nothing has come to our attention that causes us to believe that the selected key performance indicators as set

out in the subject matter paragraph for the year ended 31 March 2014 are not prepared, in all material respects, in accordance with GRI G3.1 Guidelines.

## On the self-declaration in respect of GRI G3 C+ application level on which we are required to express limited assurance.

On the self-declaration in respect to GRI G3 C+ Application Level on which we are required to express limited assurance

Based on our work performed, nothing has come to our attention that causes us to believe that the self-declaration of a C+ Application Level is not fairly stated, in all material respects, in accordance with the GRI G3 Guidelines.

## Restriction of liability

Our work has been undertaken to enable us to express a limited assurance conclusion on the selected sustainability information to the Auditor-General in accordance with the terms of our engagement, and for no other purpose. We do not accept or assume liability to any party other than Auditor-General, for our work, for this report, or for the conclusion we have reached.

*KwinanaEquifin Inc*

**KwinanaEquifin Incorporated**  
**Registered auditors**  
**Tendai Mapenda**  
**31 July 2014**  
**Alenti Office Park, Block A**  
**457 Witherite Street**  
**The Willows Ext. 82**  
**Pretoria**

# REPORT OF THE AUDIT COMMITTEE



**MTHANDAZO PETER MOYO**  
**CHAIRPERSON OF THE AUDIT COMMITTEE**

## Introduction

As a function responsible for oversight of the financial and non-financial reporting process, the integrity of the system of internal control and risk management, we take pleasure in tabling this report in respect of the financial year ended 31 March 2014.

The committee performed its duties and functions in compliance with section 40(6) of the Public Audit Act (Act No. 25 of 2004)

(PAA), the adopted principles of the King Code of Governance Principles (King III) as well as its terms of reference which are reviewed and approved annually.

The committee is satisfied that it has discharged its duties in all respects.

## Committee membership

The committee consists of four independent,

non-executive members. The skills and competencies of the committee members are complementary to the execution of their duties, such that they adequately cover business, financial and risk management matters.

The committee met three times during the period under review and comprised the following members during the year and to the date of this report:

|                   | JULY 2013 | NOVEMBER 2013 | FEBRUARY 2014 |
|-------------------|-----------|---------------|---------------|
| MP Moyo (chair)   | ✓         | ✓             | ✓             |
| RJ Biesman-Simons | ✓         | ✓             | ✓             |
| N Mthombeni       | ✓         | ✓             | ✓             |
| S Gounden         | ✓         | ✓             | ✓             |

e DAG, national leader: Audit Services, national leader: Internal Operations and Audit Support, chief financial officer, business executive: Planning, Monitoring Evaluation and Risk, senior manager: Risk and Compliance and representatives of the external and internal auditors were invited to attend all committee meetings.

## Key responsibilities

At each of the meetings held during the period under review, the committee received specific reports from the different assurance providers and functional units within the organisation to enable them to discharge their oversight responsibilities in the respective areas outlined in the introduction. These assurance providers

included but were not limited to the external auditors, internal auditors, Finance Business Unit, the Risk and Compliance centre and the Quality Control Business Unit.

## Overview of activities

The committee has overseen the financial reporting process, the system of internal control, risk management and related governance processes, but more specifically the following:

- In respect of the external auditor, the committee, among other matters:
  - o evaluated the performance of the external auditors and recommended their reappointment to SCoAG for the next three years ending March 2016; and
  - o reviewed and approved the audit planning memorandum, including the engagement letter and budgeted audit fees for the year ended 31 March 2014.
- In respect of the internal auditor, the committee:
  - o evaluated the performance of the appointed internal auditors and reappointed them for the next three years ending March 2017;
  - o reviewed and approved the internal audit coverage plan and budgeted fees for the 2014-15 financial year;
  - o reviewed and approved the internal audit charter;
  - o considered the reports of the internal auditors on the adequacy and effectiveness of the system of internal controls;
  - o considered the independent quality assessment report issued by the Institute of Internal Auditors on the level of the internal audit activity's conformance to the institute's International Standards for the Professional Practice of Internal Auditing and Code of Ethics professional standards;
  - o reviewed and confirmed the appropriateness of the adopted internal audit model; and
  - o reviewed the effectiveness of the internal audit activity, considering functions performed by the outsourced partner and those performed internally.
- In respect of risk management and the system of internal controls, the committee among other matters:
  - o reviewed and approved the organisation's strategic risk profile for the financial year 2014-15;
  - o reviewed and approved the organisation's risk appetite framework and statement;
  - o reviewed and considered the results of the combined assurance provided on the organisation's strategic risks, including the strength and efficiency of assurance thereof;
  - o reviewed and approved the revised risk management framework; and
  - o considered the written assessment issued by the internal auditors on the adequacy and effectiveness of the AGSA's system of internal controls and risk management.
- In respect of the integrated annual report (including the annual financial statements), the committee:
  - o considered whether the annual financial statements fairly present the financial position of the organisation, the results of operations and cash flows for the financial year and considered the basis on which the organisation was determined to be a going concern;
  - o reviewed the external auditor's audit report;
  - o reviewed the management representation letter relating to the financial statements signed by the AGSA's management;
  - o reviewed the summary of uncorrected misstatements;
  - o reviewed the sustainability performance disclosures in order to satisfy themselves that the information is reliable and does not conflict with the financial information as disclosed in the financial statements; and
  - o considered the expertise and resources employed within the finance function.

## Effectiveness of internal controls

The committee received regular reports from the different assurance providers, including internal auditors, on the strength and weaknesses within the system of internal controls. The reports received also referred to the functioning of the

internal controls as assessed by management, giving effect to the principles of an effective combined assurance model.

The committee has noted IT and other control weaknesses as identified in the reporting year by the internal auditors. An independent assurance was received that these control weaknesses were not exploited. Management has also presented the committee with a commitment not only to address these control deficiencies, but also to ensure that these improvements are sustainable and implemented across all business processes and IT platforms. As per the terms of reference of the audit committee and together with the risk oversight committee, the audit committee will continue to monitor management initiatives to strengthen the overall internal control environment.

The reports received from multiple assurance providers as outlined in the adopted combined assurance model reflected the solutions and sustainability of actions to mitigate the identified risk exposures faced by the organisation. To this end, the committee is reasonably confident and can conclude that the systems of internal controls of the organisation can be relied upon for the integrity and reliability of the financial statements and the safeguarding, verification and maintenance of the organisation's assets, including the detection of fraud and compliance to laws and regulations.

## Evaluation of the annual financial statements

Following the review of the AGSA's annual financial statements for the year ended 31 March 2014, the committee is of a view that the financial statements, in all material respects, comply with the relevant provisions of the PAA and fairly present the financial position, state of affairs, financial results and operations of the organisation as at that date.

The committee recommended that the DAG sign the annual financial statements.

## Evaluation of the annual financial statements

### Internal auditors

Internal audit is an independent, objective assurance and consulting activity, outsourced to SizweNtsalubaGobodo. Internal audit's risk-based audit plan was approved by the committee prior to its execution. Similarly, any revision to the approved audit plan was agreed to and approved by the committee.

SizweNtsalubaGobodo were reappointed as outsourced internal auditors to the AGSA for a period of three years, ending March 2017. The committee has assessed the performance of internal audit for the reporting period and is satisfied that the internal audit function is independent and appropriately resourced and that it has fulfilled its obligations in line with the approved internal audit charter.

### External auditor appointment and independence

The committee is satisfied with the independence and objectivity of KwinanaEquifin Inc. as the external auditors of the AGSA after taking the following factors into account:

- Representations made by KwinanaEquifin Inc. to the committee;
- The auditor does not perform any contract work for the AGSA nor does it receive any remuneration or other benefit from the organisation except as auditor or in rendering permitted non-audit services;
- The external auditor's independence was not impaired by any consultancy, advisory or other work undertaken by them;
- The auditor's independence was not prejudiced as a result of any previous appointment as auditor; and
- The criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies.

## Appreciation

On behalf of the committee, I wish to thank the AGSA management team for their dedication and continued endeavour to maintain and sustain a sound system of internal controls with the aim of ensuring a robust control environment, risk management and governance practices.

I also wish to extend our gratitude to SCoAG for their continued support and guidance in discharging our duties.

Lastly, I thank Mr Kimi Makwetu, who in his role as the former DAG, offered leadership and guidance as the accounting officer of the AGSA and provided invaluable input at audit committee meetings. My committee and I congratulate him on his appointment as Auditor-General and we look forward to working with his successor, Ms Tsakani Ratsela.



**Mthandazo Peter Moyo**  
Chairperson of the audit committee

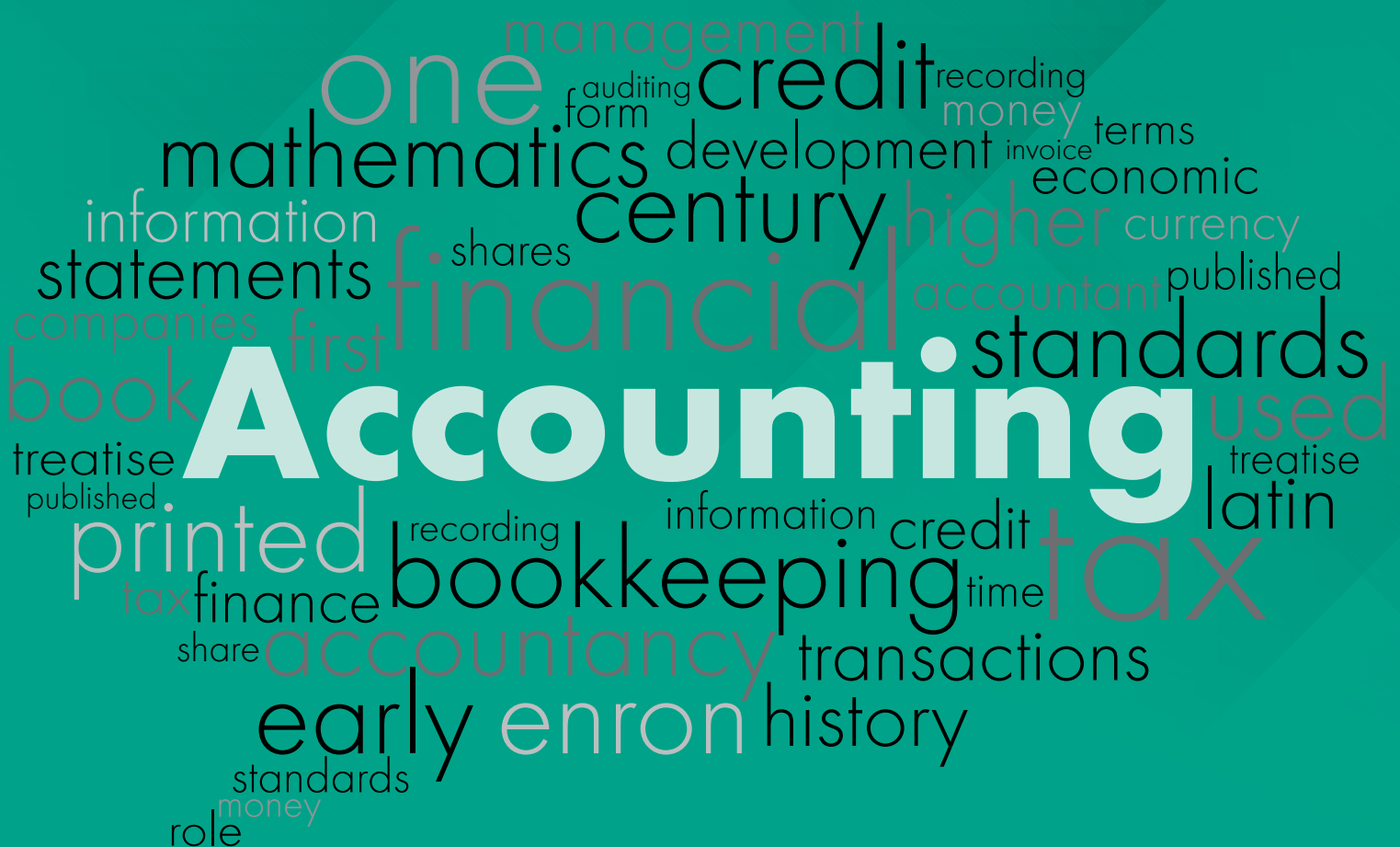
# SECTION 7

**In our opinion, the financial statements present fairly, in all material respects, the financial position of the Auditor-General and its financial performance and cash flows for the year ended 31 March 2014.**

# ANNUAL FINANCIAL STATEMENTS

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# DEPUTY AUDITOR-GENERAL'S RESPONSIBILITIES AND APPROVAL

As the Deputy Auditor-General I am required by the Public Audit Act, 2004 (Act No. 25 of 2004) to maintain adequate accounting records and am responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is my responsibility to ensure that the annual financial statements fairly present the financial position of the Auditor-General as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards and the Public Audit Act of 2004. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting

Standards and the Public Audit Act of 2004 and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

I acknowledge that I am ultimately responsible for the system of internal financial control established by the Auditor-General and place considerable importance on maintaining a strong control environment. To enable me to meet these responsibilities, the Auditor-General, after consultation with the parliamentary oversight committee, sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an

acceptable level of risk. These controls are monitored throughout the Auditor-General and all employees are required to maintain the highest ethical standards in ensuring the Auditor-General's business is conducted in a manner that in all reasonable circumstances is above reproach.

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

I am of the opinion, based on the information and

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

I have reviewed the Auditor-General's cash flow forecast for the year to 31 March 2015 and, in the light of this review and the current financial position, I am satisfied that the Auditor-General has or has access to adequate resources to continue in operational existence for the foreseeable future.

I am not aware of any matter or circumstance arising since the end of the financial year that will materially affect these annual financial statements.

The annual financial statements set out on pages 102 to 132, which have been prepared on the going concern basis, were approved and signed by me on 31 July 2014 on behalf of the Auditor-General.



**Tsakani Ratsela**

Deputy Auditor-General

# INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT

## Report on financial statements

### INTRODUCTION

We have audited the financial statements of the Auditor-General set out on pages 102 to 132, which comprise the statement of financial position as at 31 March 2014, the statement of comprehensive income, statement of changes in reserves and the statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### DEPUTY AUDITOR-GENERAL'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Deputy Auditor-General is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of section 41(1)(a) of the Public Audit Act, 2004 (Act No. 25 of 2004) of South Africa, and for such internal control as the Deputy Auditor-General determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The

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

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

### OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Auditor-General as at 31 March 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Audit Act, 2004 (Act No. 25 of 2004).

## Report on other legal and regulatory requirements

## Report on predetermined objectives

### INTRODUCTION

We have audited the report on performance against predetermined objectives of the Auditor-General for the year ended 31 March 2014, as set out on pages 33 to 66.

### THE DEPUTY AUDITOR-GENERAL'S RESPONSIBILITIES

The Deputy Auditor-General is responsible for the preparation and fair presentation of the report on performance against predetermined objectives as required by section 41(1)(a) of the Public Audit Act, 2004 (Act No. 25 of 2004), and for such internal control as determined necessary to enable the preparation of the report on performance against predetermined objectives that is useful and reliable.

### AUDITOR'S RESPONSIBILITY

As required by section 41(4)(b) of the Public Audit Act, 2004 (Act No. 25 of 2004), our responsibility is to express an audit conclusion on the report on performance against predetermined objectives.

### ASSURANCE WORK PERFORMED

We conducted our audit in accordance with the International Standards on Assurance Engagements (ISAE) 3000: Assurance engagements other than audits or reviews of historical information.

We report on whether we have received all the information and explanations required to conduct the engagement, or if we became aware of additional information, the omission of which may result in the report on performance against predetermined objectives being materially misstated or misleading.

We provide reasonable assurance with respect to the usefulness of the information contained in the annual performance report.

We further provide reasonable assurance with respect to the reliability of the following selected material objectives as set out in the annual performance report:-

- Simplicity of reports;
- Visibility of leadership;
- Strengthen human resources;
- Funding; and
- Lead by example

The criteria used as a basis for the audit conclusion are as follows:

#### USEFULNESS OF INFORMATION:

Presentation: Performance against predetermined objectives is reported using the relevant principles from the National Treasury guidelines.

Consistency: Objectives, indicators and targets are consistent between planning and reporting documents as required by the National Treasury Regulations.

Measurability: Indicators are well defined and verifiable, and targets are specific, measurable and time bound, as required by the National Treasury Framework for managing programme performance information.

Relevance: The indicators/measures relate logically and directly to an aspect of the institution's mandate and the realisation of strategic goals and objectives, as required by the National Treasury Framework for managing programme performance information.

#### RELIABILITY OF INFORMATION:

Validity: Reported performance has occurred and relates to Auditor-General.

Accuracy: Amounts, numbers and other data relating to reported performance have been recorded and reported correctly.

Completeness: All actual performance that should have been recorded has been included in the report on performance against predetermined objectives.

The audit involves performing procedures to obtain audit evidence about the usefulness of the annual performance report and reliability of the objectives as set out in the annual performance report. The procedures selected depend on the auditor's judgement, including our assessment of the risks of material misstatement of the annual performance report. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk

that some, even material, misstatements may not be detected, even though the audit is properly planned and performed in accordance with the ISAE 3000. The procedures performed include the following:

- Understanding and testing the internal policies, procedures and controls relating to the management of and reporting on performance information.
- Evaluating and testing processes, systems, controls and review of documentation in place at a detailed level to support the generation, collation, aggregation, monitoring and reporting of the performance indicators and targets.
- Evaluating, testing and confirmation of the existence and consistency of planned and reported performance information as well as the presentation and disclosure thereof in accordance with applicable requirements and guidance.
- Conducting detailed audit testing and obtaining sufficient appropriate audit evidence to verify the validity, accuracy and completeness of reported indicators and targets.

We believe that the evidence obtained from the work performed provides an appropriate basis for the reasonable assurance conclusions expressed below.

#### CONCLUSION

On the basis of our procedures described in this report, we conclude that in our opinion the report on performance against predetermined objectives is fairly stated, in all material respects, in accordance with the predetermined criteria.

*Kwinana Equifin Inc*

**Kwinana Equifin Incorporated**

**TENDAI MAPENDA**  
**REGISTERED AUDITOR**

**31 July 2014**  
**Alenti Office Park, Block A**  
**457 Witherite Street**  
**The Willows Ext 82**  
**Pretoria**

## STATEMENT OF FINANCIAL POSITION

|                                             | Notes | 2014<br>R'000    | 2013<br>R'000  |
|---------------------------------------------|-------|------------------|----------------|
| <b>ASSETS</b>                               |       |                  |                |
| <b>Non-current assets</b>                   |       | 92 046           | 100 893        |
| Property, plant and equipment               | 2     | 86 600           | 91 090         |
| Intangible assets                           | 3     | 5 446            | 9 803          |
| <b>Current assets</b>                       |       | 980 947          | 880 311        |
| Trade and other receivables                 | 4     | 484 747          | 416 243        |
| Cash and cash equivalents                   | 5     | 496 200          | 464 068        |
| <b>TOTAL ASSETS</b>                         |       | <b>1 072 993</b> | <b>981 204</b> |
| <b>RESERVES AND LIABILITIES</b>             |       |                  |                |
| <b>Reserves</b>                             |       | 557 894          | 459 152        |
| General reserve                             | 6     | 103 897          | 103 897        |
| Special audit services reserve              | 7     | 4 964            | 4 964          |
| Accumulated surplus                         | 8     | 449 033          | 350 291        |
| <b>Liabilities</b>                          |       |                  |                |
| <b>Non-current liabilities</b>              |       | 69 273           | 72 047         |
| Retirement benefit obligations              | 10    | 69 273           | 72 047         |
| <b>Current liabilities</b>                  |       | 445 826          | 450 005        |
| Trade and other payables                    | 11    | 445 826          | 438 607        |
| Provisions                                  | 12    | -                | 5 947          |
| Current portion of finance lease obligation | 9     | -                | 5 451          |
| <b>TOTAL RESERVES AND LIABILITIES</b>       |       | <b>1 072 993</b> | <b>981 204</b> |

## STATEMENT OF COMPREHENSIVE INCOME

|                                                             | Notes       | 2014<br>R'000  | 2013<br>R'000   |
|-------------------------------------------------------------|-------------|----------------|-----------------|
| <b>Revenue</b>                                              | <b>13</b>   | 2 536 154      | 2 213 512       |
| Local services rendered                                     |             | 2 533 210      | 2 199 302       |
| International services rendered                             |             | 2 944          | 14 210          |
| <b>Direct audit cost</b>                                    |             | (1 732 900)    | (1 573 131)     |
| Recoverable staff cost                                      | <b>15</b>   | ( 963 052)     | ( 860 739)      |
| Contract work                                               | <b>16</b>   | ( 665 493)     | ( 618 372)      |
| Subsistence and travel                                      |             | ( 104 355)     | ( 94 020)       |
| <b>Gross surplus</b>                                        |             | <b>803 254</b> | <b>640 381</b>  |
| Other income                                                | <b>14</b>   | 4 117          | 2 490           |
| Foreign exchange gain                                       | <b>25.4</b> | 1 769          | 2 903           |
| <b>Contribution to overheads</b>                            |             | <b>809 140</b> | <b>645 774</b>  |
| Non-recoverable staff cost                                  | <b>15</b>   | (466 478)      | (398 980)       |
| Depreciation expense                                        | <b>2</b>    | (32 104)       | (27 687)        |
| Amortisation expense                                        | <b>3</b>    | (4 608)        | ( 7 613)        |
| Other operational expenditure                               | <b>17</b>   | (248 752)      | (253 133)       |
| Hosting of International conferences                        | <b>17.1</b> | -              | (89)            |
| Retirement benefit obligations - current service costs      | <b>10</b>   | (1 240)        | -               |
| <b>Operating surplus / (deficit) before finance charges</b> |             | <b>55 958</b>  | <b>(41 728)</b> |
| Interest income                                             | <b>19</b>   | 49 781         | 73 780          |
| Interest expense                                            | <b>19</b>   | (14 883)       | (8 637)         |
| <b>Surplus for the year</b>                                 |             | <b>90 856</b>  | <b>23 415</b>   |
| Other comprehensive income / (expense)                      | <b>20</b>   | 7 886          | ( 4 703)        |
| <b>TOTAL COMPREHENSIVE SURPLUS FOR THE YEAR</b>             |             | <b>98 742</b>  | <b>18 712</b>   |

## STATEMENT OF CHANGES IN RESERVES

|                                        | General reserve<br>R'000 | Special audit<br>services reserve<br>R'000 | Accumulated<br>surplus<br>R'000 | Total<br>R'000 |
|----------------------------------------|--------------------------|--------------------------------------------|---------------------------------|----------------|
| <b>Opening balance at 1 April 2012</b> | <b>103 897</b>           | <b>4 964</b>                               | <b>331 579</b>                  | <b>440 440</b> |
| Total comprehensive surplus            |                          |                                            | 18 712                          | 18 712         |
| Surplus for the year                   | -                        | -                                          | 23 415                          | 23 415         |
| Other comprehensive income             |                          |                                            |                                 |                |
| - Defined benefit expense              | -                        | -                                          | (4 703)                         | (4 703)        |
| <b>Balance at 31 March 2013</b>        | <b>103 897</b>           | <b>4 964</b>                               | <b>350 291</b>                  | <b>459 152</b> |
| Total comprehensive surplus            |                          |                                            | 98 742                          | 98 742         |
| Surplus for the year                   | -                        | -                                          | 90 856                          | 90 856         |
| Other comprehensive income             |                          |                                            |                                 |                |
| - Actuarial gains and losses           | -                        | -                                          | 7 886                           | 7 886          |
| <b>Balance at 31 March 2014</b>        | <b>103 897</b>           | <b>4 964</b>                               | <b>449 033</b>                  | <b>557 894</b> |
| <b>Notes</b>                           | <b>6</b>                 | <b>7</b>                                   | <b>8</b>                        |                |

## STATEMENT OF CASH FLOWS

|                                                     | Notes    | 2014<br>R'000   | 2013<br>R'000   |
|-----------------------------------------------------|----------|-----------------|-----------------|
| <b>Cash flow from operating activities</b>          |          |                 |                 |
| Total revenue from auditees                         | 25.1     | 2 445 929       | 2 177 223       |
| Total direct audit cost payments                    | 25.2     | (1 780 728)     | (1 547 469)     |
| Operating expenditure payments                      | 25.3     | (636 733)       | (570 805)       |
| Interest received                                   | 19       | 49 781          | 73 780          |
| Interest paid                                       | 19       | (14 883)        | (8 637)         |
| Realised foreign exchange gains / (losses)          | 25.4     | 1 355           | (204)           |
| <b>Net cash inflow from operating activities</b>    |          | <b>64 721</b>   | <b>123 888</b>  |
| <b>Cash flow from investing activities</b>          |          |                 |                 |
| Additions to property, plant and equipment          | 25.5     | (28 904)        | (58 166)        |
| Additions to intangible assets                      | 25.6     | (251)           | (8 957)         |
| Proceeds from sale of property, plant and equipment | 2        | 1 603           | 2 216           |
| <b>Net cash outflow from investing activities</b>   |          | <b>(27 552)</b> | <b>(64 907)</b> |
| <b>Cash flow from financing activities</b>          |          |                 |                 |
| Payment on obligations under finance lease          |          | (5 451)         | (12 958)        |
| <b>Net cash outflow from financing activities</b>   |          | <b>(5 451)</b>  | <b>(12 958)</b> |
| <b>Net increase in cash and cash equivalents</b>    |          | <b>31 718</b>   | <b>46 023</b>   |
| Cash and cash equivalents at beginning of the year  |          | 464 068         | 414 961         |
| Exchange differences in cash and cash equivalents   | 25.4     | 414             | 3 084           |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b> | <b>5</b> | <b>496 200</b>  | <b>464 068</b>  |

## ACCOUNTING POLICIES

### 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

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

Standards, amendments and interpretations relevant to the operations of the Auditor-General not yet effective but adopted early:

| Standard / Interpretation              | Effective | Details                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Impact                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IAS 16 - Property, Plant and Equipment | 01-Jul-14 | Annual Improvements 2010-2012 Cycle: Amendments to the Revaluation method - proportionate restatement of accumulated depreciation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | No impact on Auditor-General annual financial statements.                                                                                                                                                                                                                                                                                                                                                                        |
| IAS 19 - Employee Benefits             | 01-Jul-14 | Amendments to Defined Benefit Plans: Employee Contributions whereby the requirements in IAS 19 for contributions from employees or third parties that are linked to service have been amended.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | No impact on Auditor-General annual financial statements.                                                                                                                                                                                                                                                                                                                                                                        |
| IAS 24 - Related Party Disclosures     | 01-Jul-14 | Annual Improvements 2010-2012 Cycle: Amendments to the definitions and disclosure requirements for key management personnel.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | No impact on Auditor-General annual financial statements.                                                                                                                                                                                                                                                                                                                                                                        |
| IAS 38 - Intangible Assets             | 01-Jul-14 | Annual Improvements 2010-2012 Cycle: Amendments to the Revaluation method - proportionate restatement of accumulated amortisation expense.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | No impact on Auditor-General annual financial statements.                                                                                                                                                                                                                                                                                                                                                                        |
| IFRS 9 - Financial Instruments         | 01-Jan-18 | New standard arising from a three-part project to replace IAS 39, Financial Instruments: Recognition and Measurement.<br>- Phase 1: Classification and measurement (completed)<br>- Phase 2: Impairment methodology (outstanding)<br>- Phase 3: Hedge accounting (completed)<br><br>Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. Entities may voluntarily continue to measure their financial instruments in accordance with IAS 39 but benefit from the improved accounting for own credit risk in IFRS 9 by early adopting only that aspect of IFRS 9 separately. | Receivables are recognised at amortised cost as the following criteria are not met:<br><ul style="list-style-type: none"> <li>• Business model test - to collect the contractual cash flows.</li> <li>• Cash flow characteristics test - payments of principle amount and interest.</li> </ul><br>This treatment is similar to the application in IAS 39. The accounting policies were however updated in compliance with IFRS9. |
|                                        | 01-Jul-14 | Annual Improvements 2010-2012 Cycle: Amendments to the measurement requirements for all contingent consideration assets and liabilities included under IFRS 9.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| IFRS 13 - Fair Value Measurements      | 01-Jul-14 | Annual Improvements 2010-2012 Cycle: Amendments to clarify the measurement requirements of those short-term receivables and payables.<br><br>Annual Improvements 2011-2013 Cycle: Amendments to clarify that the portfolio exception applies to all contracts within the scope of, and accounted for in accordance with, IAS 39 and IFRS 9.                                                                                                                                                                                                                                                                                                                                                                                                       | No impact on Auditor-General annual financial statements.                                                                                                                                                                                                                                                                                                                                                                        |

## 1.1 SIGNIFICANT JUDGEMENTS AND ACCOUNTING ESTIMATES

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

### Revenue recognition

In order to recognise revenue relating to long-term contracts, management estimates the percentage of completion of these contracts based on estimated total audit hours and completed audit hours excluding budget overruns.

### Post-employment medical care benefits

The costs and liabilities of the post-employment medical care benefits are determined using methods relying on actuarial estimates and assumptions. Advice is taken from the independent actuaries relating to the appropriateness of the assumptions. Changes in the assumptions used may have a significant effect on the statement of comprehensive income and statement of financial position.

### Allowance for impairment of receivables

An allowance for impairment of trade receivables is established when there is objective evidence that the Auditor-General will not be able to collect all amounts due according to the original terms of receivables. The calculation of the amount to be allowed for impairment of receivables requires the use of estimates and judgements.

### Annual evaluation of property, plant and equipment and intangibles

In order to review property, plant and equipment and intangibles for possible impairment, changes in useful life and changes

in residual values at the end of each financial year, reference is made to historical information and the intended use of assets.

## 1.2 PROPERTY, PLANT AND EQUIPMENT

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

| Item                   | Useful life                  |                              |
|------------------------|------------------------------|------------------------------|
|                        | 2014                         | 2013                         |
| Computer equipment     | 3 to 6 years                 | 3 to 6 years                 |
| Notebooks              | 3 years                      | 3 years                      |
| Motor vehicles         | 5 years                      | 5 years                      |
| Furniture and fittings | 6 to 15 years                | 6 to 15 years                |
| Office equipment       | 3 years                      | 3 years                      |
| Leasehold improvements | Over the period of the lease | Over the period of the lease |

The depreciation charge for each period is recognised in the statement of comprehensive income.

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

depreciation methods are accounted for on a prospective basis.

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

## 1.3 INTANGIBLE ASSETS

### Computer software

Acquired computer software licences are carried at cost less any accumulated amortisation and any impairment losses. Estimates are mainly based on historical information relating to use of the asset and all residual values are nil. Amortisation on these costs is provided to write down the intangible assets, on a straight-line basis, over their useful lives as follows:

| Item                                               | Useful life |          |
|----------------------------------------------------|-------------|----------|
|                                                    | 2014        | 2013     |
| Enterprise resource management system - PeopleSoft | 14 years    | 14 years |
| Other software                                     | 3 years     | 3 years  |

Expenditure on research is recognised as an expense when it is incurred. Development cost is capitalised when all the conditions for capitalisation have been met.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each reporting date. The effects of any changes to residual values, useful lives and amortisation methods are accounted for on a prospective basis.

The gain or loss arising from the derecognition of an intangible asset is included in the statement of comprehensive income when the item is derecognised. The gain or loss arising

from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

## 1.4 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets are assessed at the end of each reporting period for any indication that they may be impaired. If indications exist, the recoverable amount of the asset is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The Auditor-General assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the statement of comprehensive income.

## 1.5 FINANCIAL INSTRUMENTS

Financial instruments are recognised when the Auditor-General becomes party to the contractual provisions of the instrument. Financial instruments carried in the statement of financial position include cash and bank balances, trade and other receivables, trade and other payables and borrowings. These instruments (excluding cash and bank) are carried at their amortised cost.

### Financial assets

The Auditor-General classifies its financial assets into one of the categories discussed below, depending on the business model assessment which centres on whether financial assets are held to collect contractual cash

flows. The Auditor-General has not classified any of its financial assets as fair value through profit and loss. The accounting policy for each category is as follows:

### Receivables measured at amortised cost

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less allowance for impairment.

Impairment allowances are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Auditor-General will be unable to collect all of the amounts due under the terms receivable, the amount of such an allowance being the difference between the net carrying amount and the present value of the future expected cash flows discounted at the original effective interest rate associated with the impaired receivable. For trade receivables, which are reported net, such amounts are recorded in a separate allowance account with the loss being recognised within operational expenditure in the statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated allowance. The loans and receivables comprise trade and other receivables at reporting date.

### Financial liabilities

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability

carried in the statement of financial position. Trade payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

### Derecognition

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

## 1.6 CASH AND CASH EQUIVALENTS

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

## 1.7 LEASES

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

### Finance leases – lessee

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

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

## Operating leases – lessee

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

## 1.8 EMPLOYEE BENEFITS

### Pension plan - Defined contribution plan

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

### Post-employment medical care benefits - Defined benefit plan

The Auditor-General provides post-retirement medical care benefits to certain employees and their legally recognised spouse (and/or dependants) at time of death. The entitlement to post-retirement medical benefits is based on the employee being on the Staff rules terms and conditions, remaining in service up to retirement age of 65 (or when reaching 50 in the case of early retirement) and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using the projected unit credit method. Actuarial gains and losses arising from experience adjustments are charged or credited to other comprehensive income in the statement of comprehensive income in the period in which they occur. Interest cost and

service cost are charged or credited to surplus or deficit in the statement of comprehensive income in the period in which they occur. The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation. Valuations of these obligations are carried out annually by independent qualified actuaries.

### Leave liability

The Auditor-General calculates the value of leave not taken at year end based on the total package or basic salary. The value of leave is recognised in the statement of financial position.

## 1.9 PROVISIONS

Provisions are recognised when the Auditor-General has a present obligation (legal or constructive) as a result of past events, if it is probable (more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditure taking risks and uncertainties into account. Provisions are discounted where the time value of money is material using a rate that reflects current market assessments of the time value of money.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligations, the provision will be reversed.

## 1.10 REVENUE

Revenue is measured at the fair value of the consideration received or receivable. Revenue arising from rendering of audit services consists of the invoiced value charged net of value-added tax. Revenue arising from long term contract audits where the outcome can be estimated reliably is recognised by reference to the stage of completion of the contract activity at reporting date. The stage of completion is determined with reference to the budgeted

and actual hours excluding budget overruns. Revenue arising from long term contract audits where the outcome cannot be estimated reliably, is recognised to the extent of costs incurred.

## 1.11 INTEREST INCOME

Interest is recognised based on the effective interest rate which takes into account the effective yield on the asset over the period it is expected to be held.

## 1.12 FOREIGN CURRENCIES

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

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the reporting date.

## 1.13 LOSSES THROUGH CRIMINAL CONDUCT

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

## 1.14 RELATED PARTIES

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the Auditor-General. All individuals from the Executive Management are regarded as key management per the definition of IFRS.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or be influenced by, key management individuals in their dealings with the Auditor-General.

Other related party transactions are also disclosed in terms of the requirements of IFRS. Materiality is considered in the disclosure of these transactions.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**2 PROPERTY, PLANT AND EQUIPMENT****2014**

|                        | <b>Cost<br/>R'000</b> | <b>Accumulated<br/>depreciation<br/>R'000</b> | <b>Carrying<br/>amount<br/>R'000</b> |
|------------------------|-----------------------|-----------------------------------------------|--------------------------------------|
| Computer equipment     | 111 846               | (74 968)                                      | 36 878                               |
| Motor vehicles         | 5 204                 | (2 995)                                       | 2 209                                |
| Office equipment       | 2 913                 | (2 601)                                       | 312                                  |
| Furniture and fittings | 51 055                | (24 930)                                      | 26 125                               |
| Leasehold improvements | 33 833                | (12 757)                                      | 21 076                               |
|                        | <b>204 851</b>        | <b>(118 251)</b>                              | <b>86 600</b>                        |

**The carrying amounts are reconciled as follows:**

|                        | <b>Opening<br/>carrying<br/>amount<br/>R'000</b> | <b>Additions<br/>R'000</b> | <b>Disposals<br/>R'000</b> | <b>Depreciation<br/>charge<br/>R'000</b> | <b>Closing<br/>carrying<br/>amount<br/>R'000</b> |
|------------------------|--------------------------------------------------|----------------------------|----------------------------|------------------------------------------|--------------------------------------------------|
| Computer equipment     | 42 208                                           | 13 922                     | (390)                      | (18 862)                                 | 36 878                                           |
| Motor vehicles         | 2 617                                            | 370                        | (8)                        | (770)                                    | 2 209                                            |
| Office equipment       | 604                                              | 159                        | (151)                      | (300)                                    | 312                                              |
| Furniture and fittings | 24 009                                           | 9 130                      | (436)                      | (6 578)                                  | 26 125                                           |
| Leasehold improvements | 21 652                                           | 5 323                      | (305)                      | (5 594)                                  | 21 076                                           |
|                        | <b>91 090</b>                                    | <b>28 904</b>              | <b>(1 290)</b>             | <b>(32 104)</b>                          | <b>86 600</b>                                    |

Proceeds on disposal of property, plant and equipment

| <b>2014<br/>R'000</b> |
|-----------------------|
| <b>1 603</b>          |

**2013**

|                                                                       | <b>Cost<br/>R'000</b> | <b>Accumulated<br/>depreciation<br/>R'000</b> | <b>Carrying<br/>amount<br/>R'000</b> |
|-----------------------------------------------------------------------|-----------------------|-----------------------------------------------|--------------------------------------|
| Computer equipment                                                    | 108 366               | (66 158)                                      | 42 208                               |
| Motor vehicles                                                        | 6 023                 | (3 406)                                       | 2 617                                |
| Office equipment                                                      | 3 303                 | (2 699)                                       | 604                                  |
| Furniture and fittings                                                | 43 477                | (19 468)                                      | 24 009                               |
| Leasehold improvements                                                | 34 312                | (12 660)                                      | 21 652                               |
|                                                                       | <b>195 481</b>        | <b>(104 391)</b>                              | <b>91 090</b>                        |
| <i>Assets under finance lease agreements included above comprise:</i> |                       |                                               |                                      |
| Computer equipment (refer to note 9)                                  | <b>39 138</b>         | <b>(36 152)</b>                               | <b>2 986</b>                         |

**2 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

| <b>The carrying amounts are reconciled as follows:</b>                | <b>Opening carrying amount<br/>R'000</b> | <b>Additions<br/>R'000</b> | <b>Disposals<br/>R'000</b> | <b>Depreciation charge<br/>R'000</b> | <b>Closing carrying amount<br/>R'000</b> |
|-----------------------------------------------------------------------|------------------------------------------|----------------------------|----------------------------|--------------------------------------|------------------------------------------|
| Computer equipment                                                    | 29 499                                   | 37 996                     | (7 150)                    | (18 137)                             | 42 208                                   |
| Motor vehicles                                                        | 1 534                                    | 1 699                      | -                          | (616)                                | 2 617                                    |
| Office equipment                                                      | 804                                      | 223                        | (28)                       | (395)                                | 604                                      |
| Furniture and fittings                                                | 20 698                                   | 8 276                      | 6                          | (4 971)                              | 24 009                                   |
| Leasehold improvements                                                | 15 241                                   | 9 972                      | 7                          | (3 568)                              | 21 652                                   |
|                                                                       | <b>67 776</b>                            | <b>58 166</b>              | <b>(7 165)</b>             | <b>(27 687)</b>                      | <b>91 090</b>                            |
| <i>Assets under finance lease agreements included above comprise:</i> |                                          |                            |                            |                                      |                                          |
| Computer equipment (refer to note 9)                                  | <b>12 142</b>                            | <b>-</b>                   | <b>(377)</b>               | <b>(8 779)</b>                       | <b>2 986</b>                             |

Proceeds on disposal of property, plant and equipment

| <b>2013<br/>R'000</b> |
|-----------------------|
| <b>2 216</b>          |

The Auditor-General has operating leases for all of the premises occupied by its head office and regionally based staff in the major centres of the country (refer to note 21).

**3 INTANGIBLE ASSETS**

| <b>2014</b>                                        | <b>Cost<br/>R'000</b> | <b>Accumulated amortisation<br/>R'000</b> | <b>Carrying amount<br/>R'000</b> |
|----------------------------------------------------|-----------------------|-------------------------------------------|----------------------------------|
| <b>Computer software - purchased</b>               |                       |                                           |                                  |
| Enterprise resource management system - PeopleSoft | 18 950                | (18 035)                                  | 915                              |
| Other software                                     | 26 434                | (21 903)                                  | 4 531                            |
|                                                    | <b>45 384</b>         | <b>(39 938)</b>                           | <b>5 446</b>                     |

**The carrying amounts are reconciled as follows:**

**Computer software - purchased**

|                                                    | <b>Opening carrying amount<br/>R'000</b> | <b>Additions<br/>R'000</b> | <b>Disposals<br/>R'000</b> | <b>Amortisation charge<br/>R'000</b> | <b>Closing carrying amount<br/>R'000</b> |
|----------------------------------------------------|------------------------------------------|----------------------------|----------------------------|--------------------------------------|------------------------------------------|
| Enterprise resource management system - PeopleSoft | 1 164                                    | -                          | -                          | (249)                                | 915                                      |
| Other software                                     | 8 639                                    | 251                        | -                          | (4 359)                              | 4 531                                    |
|                                                    | <b>9 803</b>                             | <b>251</b>                 | <b>-</b>                   | <b>(4 608)</b>                       | <b>5 446</b>                             |

**3 INTANGIBLE ASSETS (CONTINUED)****2013****Computer software - purchased**

Enterprise resource management system - PeopleSoft

Other software

| <b>Cost</b>   | <b>Accumulated amortisation</b> | <b>Carrying amount</b> |
|---------------|---------------------------------|------------------------|
| <b>R'000</b>  | <b>R'000</b>                    | <b>R'000</b>           |
| 18 950        | (17 786)                        | 1 164                  |
| 26 183        | (17 544)                        | 8 639                  |
| <b>45 133</b> | <b>(35 330)</b>                 | <b>9 803</b>           |

**The carrying amounts are reconciled as follows:****Computer software - purchased**

Enterprise resource management system - PeopleSoft

Other software

| <b>Opening carrying amount</b> | <b>Additions</b> | <b>Disposals</b> | <b>Amortisation charge</b> | <b>Closing carrying amount</b> |
|--------------------------------|------------------|------------------|----------------------------|--------------------------------|
| <b>R'000</b>                   | <b>R'000</b>     | <b>R'000</b>     | <b>R'000</b>               | <b>R'000</b>                   |
| 1 978                          | -                | -                | (814)                      | 1 164                          |
| 6 481                          | 8 957            | -                | (6 799)                    | 8 639                          |
| <b>8 459</b>                   | <b>8 957</b>     | <b>-</b>         | <b>(7 613)</b>             | <b>9 803</b>                   |

**4 TRADE AND OTHER RECEIVABLES**

Trade receivables (refer to note 24.2) [1]

Allowance for impairment of receivables [2]

Present value of trade receivables adjustment (refer to note 19)

**Net trade receivables**

Staff debtors

Prepayments

Other debtors

| <b>2014</b>    | <b>2013</b>    |
|----------------|----------------|
| <b>R'000</b>   | <b>R'000</b>   |
| 606 784        | 516 559        |
| (145 600)      | (115 368)      |
| -              | (5 354)        |
| <b>461 184</b> | <b>395 837</b> |
| 15 733         | 13 131         |
| 7 679          | 7 127          |
| 151            | 148            |
| <b>484 747</b> | <b>416 243</b> |

[1] Included in trade receivables is an amount of R2 762 000 (2013: R3 614 000) relating to ex-staff debt.

[2] Allowance for impairment of receivables

Opening balance

Additional allowance for impairment of receivables (refer to note 17)

Closing balance (refer to note 24.2)

|                  |                  |
|------------------|------------------|
| (115 368)        | (74 483)         |
| (30 232)         | (40 885)         |
| <b>(145 600)</b> | <b>(115 368)</b> |

**5 CASH AND CASH EQUIVALENTS**

|                                                   | <b>2014<br/>R'000</b> | <b>2013<br/>R'000</b> |
|---------------------------------------------------|-----------------------|-----------------------|
| Call account at Public Investment Corporation     | 118 708               | 112 726               |
| Investment reserved for specific liabilities [3]  | 99 312                | 94 166                |
| Investment to fund working capital requirements   | 19 396                | 18 560                |
| Overnight call account                            | 61 695                | 157 208               |
| Notice deposit                                    | 155 913               | -                     |
| Current bank account                              | 156 585               | 175 799               |
| Foreign bank account (USD) (refer to note 24.1.1) | 3 299                 | 18 335                |
|                                                   | <b>496 200</b>        | <b>464 068</b>        |

[3] Investment reserved for specific liabilities

The liabilities covered by this investment include the following:

|                                                                                     |                |                |
|-------------------------------------------------------------------------------------|----------------|----------------|
| Post-retirement benefits: medical care contributions (refer to note 10) [4]         | 69 273         | 72 047         |
| 13th cheque accrual (refer to note 11)                                              | 7 054          | 6 498          |
| Leave pay accrual (refer to note 11) [5]                                            | 76 551         | 59 996         |
| The National Treasury for salary over-payments in the former TBVC states            | 836            | 3 531          |
| Advances from the National Treasury for assistance with the local authority debtors | 6 363          | 6 363          |
| Payments made by staff in terms of the Auditor-General's notebook ownership policy  | 196            | 531            |
|                                                                                     | <b>160 273</b> | <b>148 966</b> |

[4] The future service liability for post-retirement benefit: medical care contributions totalling R10 306 000 (2013: R12 003 000) is not included in the investment reserved for specific liabilities. Future service costs are recognised when the services are delivered by the employees during the employment terms.

[5] Only R52 933 000 (2013: R34 007 000) of the leave pay accrual is provided for as cash for leave days that can be accrued according to the leave pay policy of the Auditor-General. The rest of the leave days must be taken as leave within a specified period or else it will be forfeited.

**6 GENERAL RESERVE**

|                             |                |                |
|-----------------------------|----------------|----------------|
| Opening and closing balance | <b>103 897</b> | <b>103 897</b> |
|-----------------------------|----------------|----------------|

Accumulated surplus that was approved by the Minister of Finance (in terms of section 38(4) of the Public Audit Act, 2004 (Act No. 25 of 2004)) to be retained for purposes of recapitalising the Auditor-General.

**7 SPECIAL AUDIT SERVICES RESERVE**

|                             |              |              |
|-----------------------------|--------------|--------------|
| Opening and closing balance | <b>4 964</b> | <b>4 964</b> |
|-----------------------------|--------------|--------------|

A fund set aside to finance special investigations or audits for which the Auditor-General may not be able to recover the cost from a specific auditee. The former Audit Commission instructed that the reserve should not be increased before further guidance is provided by the Standing Committee on the Auditor-General established in terms of section 55(2)(b)(ii) of the Constitution.

**8 ACCUMULATED SURPLUS**

|                                          | <b>2014<br/>R'000</b> | <b>2013<br/>R'000</b> |
|------------------------------------------|-----------------------|-----------------------|
| Opening balance                          | 350 291               | 331 579               |
| Total comprehensive surplus for the year | 98 742                | 18 712                |
| Closing balance                          | <b>449 033</b>        | <b>350 291</b>        |

Accumulated surplus is available to fund the Auditor-General's on-going activities after consultation with the National Treasury and by agreement with the Standing Committee on the Auditor-General (in terms of section 38(4) of the Public Audit Act, 2004 (Act No. 25 of 2004)). The Auditor-General will engage the Standing Committee on the Auditor-General to give effect to the requirements of the Public Audit Act of 2004 with regard to the retention of surplus. As part of its oversight responsibilities in terms of the Public Audit Act of 2004, during the review of the annual financial statements for 2012, the Standing Committee on the Auditor-General recommended for approval that the Auditor-General retains the surpluses achieved in order to partially fund current projects.

**9 FINANCE LEASE OBLIGATION**

|                                                           |          |          |
|-----------------------------------------------------------|----------|----------|
| Finance lease obligation in respect of computer equipment | -        | 5 451    |
| Less: Current portion                                     | -        | (5 451)  |
|                                                           | <b>-</b> | <b>-</b> |

Liabilities under finance lease obligations are payable over periods from 1-3 years in monthly instalments of Rnil (2013: R633 528) at an effective interest rate of between 6,75% and 9,0%. Secured by computer equipment with a carrying value of Rnil (2013: R2 986 000) (refer to note 2).

| <b>2013</b>            | <b>Up to 1 year<br/>R'000</b> | <b>1 to 5 years<br/>R'000</b> | <b>More than<br/>5 years<br/>R'000</b> | <b>Total<br/>R'000</b> |
|------------------------|-------------------------------|-------------------------------|----------------------------------------|------------------------|
| Minimum lease payments | 5 594                         | -                             | -                                      | 5 594                  |
| Finance cost           | (143)                         | -                             | -                                      | (143)                  |
| Present value          | <b>5 451</b>                  | <b>-</b>                      | <b>-</b>                               | <b>5 451</b>           |

**10 RETIREMENT BENEFIT OBLIGATIONS**

|                                                     | <b>2014<br/>R'000</b> | <b>2013<br/>R'000</b> |
|-----------------------------------------------------|-----------------------|-----------------------|
| Post-retirement benefits: medical care contribution | <b>69 273</b>         | <b>72 047</b>         |

**10 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)****The liability is reconciled as follows:**

|                                        | <b>2014</b><br><b>R'000</b> | <b>2013</b><br><b>R'000</b> |
|----------------------------------------|-----------------------------|-----------------------------|
| Opening balance                        | 72 047                      | 69 578                      |
| Current year provision                 | (383)                       | 4 703                       |
| Current service cost                   | 1 240                       | 1 201                       |
| Actuarial gain (refer to note 20)      | (7 886)                     | (2 140)                     |
| Interest adjustment (refer to note 19) | 6 263                       | 5 642                       |
| Less: Payments made                    | (2 391)                     | (2 234)                     |
| Closing balance (refer to note 5)      | <b>69 273</b>               | <b>72 047</b>               |

The obligation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was performed as at 31 March 2014 by Alexander Forbes using the Projected Unit Credit Method.

The actuarial gain was determined as follows:

- A gain of R2,104 million as a result of an increase in the real discount rate (an increase in the difference between the discount rate and the CPI inflation assumption) from 2,30% to 2,50% per year. This change was necessitated by an increase in real bond yields.
- In the previous valuation it was assumed that the maximum Rand amounts will increase by CPI inflation in the following year. No increases in the maximum Rand amounts were granted and this resulted in a gain of R4,355 million.
- A gain of R1,427 million as a result of differences between actual and expected changes in membership. In-service members decreased from 211 to 200.

The valuation is based on the following principal actuarial assumptions:

The discount rate reflects the timing of benefit payments and is based on market bond yields.

Subsidy increase rate (based on the inflation rate)

Expected retirement age

Number of continuation members

Average age of continuation members

Percentage continuation members married

Number of in-service members

Average age of in-service members

Average past service of in-service members

|  | <b>2014</b> | <b>2013</b> |
|--|-------------|-------------|
|  | 9,4%        | 8,9%        |
|  | 6,9%        | 6,6%        |
|  | 63          | 63          |
|  | 192         | 192         |
|  | 66,7        | 65,8        |
|  | 76%         | 75%         |
|  | 200         | 211         |
|  | 51,3        | 50,4        |
|  | 25,9        | 24,7        |

No explicit assumption was made about the mortality and health care cost due to HIV/AIDS in the actuaries secondary assumptions

**Sensitivity analysis**

The value of the liability could be overstated or understated, depending on the extent to which actual experience differs from the assumptions adopted.

Below is the recalculated liability showing the effect of:

- A one percentage point decrease or increase in the discount rate
- No increase in the subsidy increase rate
- A one-year decrease or increase in the expected retirement age

**10 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)****2014**

Accrued liability 31 March 2014 (R'000)

% change

| Discount rate       |        |        |
|---------------------|--------|--------|
| Assumption<br>9,40% | -1%    | +1%    |
| 69 273              | 81 039 | 59 963 |
| -                   | 17,0%  | -13,4% |

**Subsidy increase rate**

Accrued liability 31 March 2014 (R'000)

% change

| Assumption<br>6,90% | 0%     |
|---------------------|--------|
| 69 273              | 29 855 |
| -                   | -56,9% |

**Expected retirement age**

Accrued liability 31 March 2014 (R'000)

% change

| Assumption<br>63 years | 1 year<br>younger | 1 year older |
|------------------------|-------------------|--------------|
| 69 273                 | 71 206            | 67 475       |
| -                      | 2,8%              | -2,6%        |

**Discount rate****2013**

Accrued liability 31 March 2013 (R'000)

% change

| Assumption<br>8,90% | -1%    | +1%    |
|---------------------|--------|--------|
| 72 047              | 84 862 | 61 986 |
| -                   | 17,8%  | -14,0% |

**Subsidy increase rate**

Accrued liability 31 March 2013 (R'000)

% change

| Assumption<br>6,60% | 0%     |
|---------------------|--------|
| 72 047              | 31 159 |
| -                   | -56,8% |

**Expected retirement age**

Accrued liability 31 March 2013 (R'000)

% change

| Assumption<br>63 years | 1 year<br>younger | 1 year older |
|------------------------|-------------------|--------------|
| 72 047                 | 74 127            | 70 371       |
| -                      | 2,9%              | -2,3%        |

**11 TRADE AND OTHER PAYABLES**

|                                                               | <b>2014</b><br><b>R'000</b> | <b>2013</b><br><b>R'000</b> |
|---------------------------------------------------------------|-----------------------------|-----------------------------|
| Trade payables                                                | 111 453                     | 108 542                     |
| Straightlining of leases                                      | 56 256                      | 53 319                      |
| Present value of trade payables adjustment (refer to note 19) | -                           | (206)                       |
| <b>Net trade payables</b>                                     | <b>167 709</b>              | <b>161 655</b>              |
| Accruals                                                      | 55 320                      | 93 090                      |
| 13th cheque accrual (refer to note 5)                         | 7 054                       | 6 498                       |
| Accrued leave pay (refer to note 5)                           | 76 551                      | 59 996                      |
| Performance bonus accrual                                     | 105 834                     | 87 878                      |
| Staff creditors                                               | 7 597                       | 9 788                       |
| Value-added tax                                               | 19 398                      | 13 339                      |
| Advance on local authority debtors                            | 6 363                       | 6 363                       |
|                                                               | <b>445 826</b>              | <b>438 607</b>              |

Ageing of trade payables:

| <b>2014</b>    | <b>Total</b><br><b>R'000</b> | <b>Current</b><br><b>R'000</b> | <b>30 - 120</b><br><b>R'000</b> | <b>120+</b><br><b>R'000</b> |
|----------------|------------------------------|--------------------------------|---------------------------------|-----------------------------|
| Trade payables | 111 453                      | 82 881                         | 26 388                          | 2 184                       |
|                | <b>111 453</b>               | <b>82 881</b>                  | <b>26 388</b>                   | <b>2 184</b>                |

| <b>2013</b>    | <b>Total</b><br><b>R'000</b> | <b>Current</b><br><b>R'000</b> | <b>30 - 120</b><br><b>R'000</b> | <b>120+</b><br><b>R'000</b> |
|----------------|------------------------------|--------------------------------|---------------------------------|-----------------------------|
| Trade payables | 108 542                      | 83 830                         | 24 356                          | 356                         |
|                | <b>108 542</b>               | <b>83 830</b>                  | <b>24 356</b>                   | <b>356</b>                  |

**12 PROVISIONS**

|                                          | <b>2014</b><br><b>R'000</b> | <b>2013</b><br><b>R'000</b> |
|------------------------------------------|-----------------------------|-----------------------------|
| <b>Government Employees Pension Fund</b> |                             |                             |
| Opening balance                          | 5 947                       | 5 947                       |
| Payment made                             | (4 040)                     | -                           |
| Provision reversal                       | (1 907)                     | -                           |
| Closing balance                          | <b>-</b>                    | <b>5 947</b>                |

## 12 PROVISIONS (CONTINUED)

The amount of R5 947 000 was made up of a penalty portion of R4 040 000, which is due to early retirement of employees allowed by the Auditor-General, and an interest portion of R1 907 000. During 2006 the Government Employees Pension Fund Board made a decision to impose penalties for early retirees for the first time. The Auditor-General was only notified of this decision during April 2007. This resulted in a dispute between the Auditor-General and the Government Employees Pension Fund. The Auditor-General reached a settlement with the Government Employees Pension Fund, whereby the penalty amount was paid and the interest written off.

## 13 REVENUE

|                                                        | 2014<br>R'000    | 2013<br>R'000    |
|--------------------------------------------------------|------------------|------------------|
| Local services rendered                                | 2 533 210        | 2 199 302        |
| Own hours                                              | 1 763 226        | 1 523 698        |
| Contract work (refer to note 16)                       | 671 889          | 624 885          |
| Subsistence and travel                                 | 103 853          | 90 901           |
| Present value of revenue adjustment (refer to note 19) | (5 758)          | (40 182)         |
| International services rendered [6]                    | 2 944            | 14 210           |
| Own hours                                              | 2 442            | 11 091           |
| Subsistence and travel                                 | 502              | 3 119            |
|                                                        | <b>2 536 154</b> | <b>2 213 512</b> |

(6) The reduction in international services rendered is due to the contract to audit the United Nations Board of Auditors (UNBOA) that came to an end.

## 14 OTHER INCOME

|                                                                                  |              |              |
|----------------------------------------------------------------------------------|--------------|--------------|
| Sundry income [7]                                                                | 3 587        | 1 817        |
| Telephone charges recovered                                                      | 217          | 304          |
| Profit on sale of property, plant and equipment (refer to notes 17, 18 and 25.3) | 313          | 369          |
|                                                                                  | <b>4 117</b> | <b>2 490</b> |

(7) Sundry income consist mainly of income from AFROSAI-E, APAC and the Auditor-General gift shop.

**15 STAFF COST**

|                                                                                                                                                       | <b>2014<br/>R'000</b> | <b>2013<br/>R'000</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| Management salaries                                                                                                                                   | 42 435                | 33 425                |
| Other non-recoverable staff cost                                                                                                                      | 186 968               | 169 365               |
| Other staff expenditure                                                                                                                               | 118 543               | 99 429                |
| Performance bonus                                                                                                                                     | 100 897               | 83 866                |
| Group life scheme                                                                                                                                     | 10 885                | 8 670                 |
| Other employer contributions (UIF, workmen's compensation, long service awards, early retirement penalties - Government Employees Pension Fund, etc.) | 6 761                 | 6 893                 |
| Course fees and study assistance                                                                                                                      | 89 430                | 72 252                |
| Accrued leave pay provision                                                                                                                           | 29 102                | 24 509                |
| <b>Total non-recoverable staff cost</b>                                                                                                               | <b>466 478</b>        | <b>398 980</b>        |
| Recoverable staff cost (part of direct audit cost)                                                                                                    | 963 052               | 860 739               |
| <b>Total staff cost</b>                                                                                                                               | <b>1 429 530</b>      | <b>1 259 719</b>      |
| Average number of staff                                                                                                                               | <b>3 145</b>          | <b>3 000</b>          |

**16 CONTRACT WORK**

|                                                            |                |                |
|------------------------------------------------------------|----------------|----------------|
| Contract work recoverable (refer to note 13)               | 671 889        | 624 885        |
| Present value of expenditure adjustment (refer to note 19) | (6 396)        | (6 513)        |
|                                                            | <b>665 493</b> | <b>618 372</b> |

This represents work done by external audit firms on behalf of the Auditor-General. Work is allocated to audit firms based on a tender process. No mark-up is applied to contract work.

**17 OTHER OPERATIONAL EXPENDITURE**

|                                                            | <b>2014<br/>R'000</b> | <b>2013<br/>R'000</b> |
|------------------------------------------------------------|-----------------------|-----------------------|
| Auditors' remuneration                                     |                       |                       |
| Statutory audit services                                   | 2 970                 | 2 697                 |
| Outsourced services                                        | 12 230                | 18 830                |
| Governance costs                                           | 506                   | 446                   |
| ICT services                                               | 27 923                | 24 337                |
| Internal audit fees                                        | 2 947                 | 3 028                 |
| Legal costs                                                | 1 887                 | 1 462                 |
| Material losses (refer to notes 14, 18 and 25.3)           | -                     | 5 318                 |
| Other operational expenses (excluding staff cost)          | 11 549                | 10 454                |
| Operating leases - land and buildings                      | 83 318                | 75 458                |
| Operating leases - equipment                               | 3 003                 | 3 821                 |
| Provision for impairment of receivables (refer to note 4)  | 30 232                | 40 885                |
| Recruitment costs                                          | 16 236                | 14 524                |
| Stakeholder relations                                      | 20 997                | 18 971                |
| Stationery and printing                                    | 9 246                 | 7 799                 |
| Subsistence and travelling                                 | 18 986                | 18 952                |
| Telephone and postage                                      | 7 960                 | 7 344                 |
| Present value of expenditure adjustment (refer to note 19) | (1 238)               | (1 193)               |
|                                                            | <b>248 752</b>        | <b>253 133</b>        |

**17.1 HOSTING OF INTERNATIONAL CONFERENCES**

|                                            |   |           |
|--------------------------------------------|---|-----------|
| INCOSAI conference (net of reimbursements) | - | <b>89</b> |
|--------------------------------------------|---|-----------|

XX<sup>th</sup> INCOSAI, hosted from 15 to 28 November 2010. Invoices issued to delegates to the amount of R89 000 was written off as non-recoverable.

**18 NOTEBOOK LOSSES**

|                                                                                 |            |              |
|---------------------------------------------------------------------------------|------------|--------------|
| 60 (2013: 619) notebook computers stolen and written off at the carrying amount | <b>119</b> | <b>5 936</b> |
|---------------------------------------------------------------------------------|------------|--------------|

In February 2013, the Auditor-General received a large number of notebooks that were ordered to replace existing notebooks and issue notebooks to new employees. In March 2013, 483 new notebooks were found missing from a secure walk-in safe storage area. Management took immediate steps to further secure the property and internal controls around the movement and storage of notebooks have been further strengthened. No amounts have been recovered as the Auditor-General self-insures notebook computers.

**19 NET INTEREST COST**

|                                                                                          | <b>2014<br/>R'000</b> | <b>2013<br/>R'000</b> |
|------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| <b>Interest income</b>                                                                   |                       |                       |
| Interest income on bank and investments                                                  | 22 523                | 18 406                |
| Interest on overdue debtors accounts                                                     | 16 146                | 15 521                |
| Present value of revenue and trade receivables adjustment                                | 11 112                | 39 853                |
| Present value of revenue adjustment (refer to note 13)                                   | 5 758                 | 40 182                |
| Decrease / (increase) in present value of trade receivables adjustment (refer to note 4) | 5 354                 | (329)                 |
|                                                                                          | <b>49 781</b>         | <b>73 780</b>         |
| <b>Interest expense</b>                                                                  |                       |                       |
| Interest on obligation under finance lease agreements                                    | (143)                 | (803)                 |
| Interest on repayment of salary over-payments in the former TBVC states                  | (637)                 | -                     |
| Present value of expenditure and trade payables adjustment                               | (7 840)               | (7 834)               |
| Present value of expenditure adjustment (refer to notes 16 and 17)                       | (7 634)               | (7 706)               |
| Decrease in present value of trade payables adjustment (refer to note 11)                | (206)                 | (128)                 |
| Interest adjustment on retirement benefit obligations (refer to note 10)                 | (6 263)               | -                     |
|                                                                                          | <b>(14 883)</b>       | <b>(8 637)</b>        |

**20 OTHER COMPREHENSIVE INCOME**

|                                                                                |              |                |
|--------------------------------------------------------------------------------|--------------|----------------|
| Actuarial gains and losses - retirement benefit obligations (refer to note 10) | <b>7 886</b> | <b>(4 703)</b> |
|--------------------------------------------------------------------------------|--------------|----------------|

Actuarial gains and losses will not be recycled to profit and loss in future.

**21 COMMITMENTS**

|                                                |                |                |
|------------------------------------------------|----------------|----------------|
| <b>Operating lease commitments</b>             |                |                |
| The future minimum commitments are as follows: |                |                |
| Due within one year                            | 60 208         | 52 669         |
| Accommodation                                  | 59 710         | 51 458         |
| Office equipment                               | 498            | 1 211          |
| Between one and five years                     | 223 599        | 207 600        |
| Accommodation                                  | 223 584        | 207 421        |
| Office equipment                               | 15             | 179            |
| More than five years                           | 27 981         | 67 700         |
| Accommodation                                  | 27 981         | 67 700         |
|                                                | <b>311 788</b> | <b>327 969</b> |

## 21 COMMITMENTS (CONTINUED)

The office premises are leased for periods between two and thirteen years. The average lease payments are R4 979 442 (2013: R4 288 135) per month. The leases escalate between 6,5% and 10% annually. The lease agreements are renewable for periods between one month and ten years at the end of the lease term and the Auditor-General does not have the option to acquire the buildings.

Certain items of office equipment are leased for a period of three years. The average lease payments are R41 511 (2013: R100 918) per month. The lease agreements are renewable at the end of the lease term and the Auditor-General does not have the option to acquire the office equipment.

### Other commitments

#### Thuthuka

The Auditor-General has committed to fund 40 undergraduate students for a period of 3 years while completing their studies, at a rate per student that is determined every year by the Thuthuka Bursary Fund Trustees and on condition that the Auditor-General can stop its financial contribution by written notice. Due to the fact that the rate per student is determined yearly, the commitment cannot be quantified, however, the yearly commitment at current rates amounts to R1 866 240 (40 students x R46 656 per student).

#### Scholarship fund

The Auditor-General launched the Centenary Scholarship Fund during the centenary celebrations in November 2011. This once-off initiative enables 34 young students to pursue careers in the financial management or accounting streams at SAICA accredited universities. The Auditor-General funds students for undergraduate and postgraduate studies if they progress academically. The maximum years of studies will be for a duration of four years. The funds provided to the sponsored student include tuition, accommodation, books and living allowance. Due to the uncertainties around the varying costs of studies across the universities and the pass rate, the amount cannot be quantified, however, the yearly commitment at current rates is estimated at R3 320 409.

#### External bursaries

External bursaries are awarded annually to full-time students to undertake under- and post graduate studies until completion of the qualification and on condition that all subjects must be passed. Failed subjects are repeated at the student's own expense. If a student fails repeatedly, the bursary is cancelled and the amounts advanced must be repaid to the Auditor-General, or in certain instances redeemed through employment in the Auditor-General. Due to the uncertainties around the varying costs of studies across the universities and the pass rate, the amount cannot be quantified, but will be managed within the budgeted amount of R10 481 000 for the 2014-15 financial year.

#### Capital commitments

Approved and contracted for [8]

Approved but not yet contracted for

Total approved [9]

Source of funding – Internal financing

| 2014<br>R'000 | 2013<br>R'000 |
|---------------|---------------|
| 24 000        | 17 768        |
| 55 615        | 47 973        |
| <b>79 615</b> | <b>65 741</b> |
| 79 615        | 65 741        |
| <b>79 615</b> | <b>65 741</b> |

[8] Approved and contracted for in 2013-14 but for financial year 2014-15.

[9] This relates to property, plant and equipment approved during 2013-14 for the 2014-15 budget.

## 22 CONTINGENT LIABILITIES

### Guarantees

| 2014<br>R'000 | 2013<br>R'000 |
|---------------|---------------|
| <b>48</b>     | <b>137</b>    |

Guarantees provided by the Auditor-General to various financial institutions for portions of home loans granted to three staff (2013: five staff). This policy was discontinued in 1993.

## 23 RELATED PARTIES

### 23.1 KEY MANAGEMENT PERSONNEL COMPENSATION

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

#### 2014

| Position                                                                 | Name                    | Appointment date | Termination date | Gross remuneration<br>R'000 | Performance bonus<br>R'000 | Total remuneration<br>R'000 |
|--------------------------------------------------------------------------|-------------------------|------------------|------------------|-----------------------------|----------------------------|-----------------------------|
| Auditor-General [10]                                                     | TM Nombembe             | 1 Dec 2006       | 30 Nov 2013      | 13 111                      | -                          | 13 111                      |
| Auditor-General                                                          | T Makwetu               | 1 Dec 2013       |                  | 1 213                       | -                          | 1 213                       |
| Deputy Auditor-General<br>(appointed Auditor-General<br>1 December 2013) | T Makwetu               | 1 Jul 2007       |                  | 2 346                       | 606                        | 2 952                       |
|                                                                          | T Ratsela<br>(Maluleke) | 1 Jun 2012       |                  | 2 306                       | 589                        | 2 895                       |
| National Leader                                                          | I Vanker                | 1 Oct 2012       |                  | 2 264                       | -                          | 2 264                       |
| Corporate Executive                                                      | AH Muller               | 1 Mar 2008       |                  | 1 976                       | 404                        | 2 380                       |
| Corporate Executive                                                      | BR Wheeler              | 1 Mar 2008       |                  | 1 976                       | 505                        | 2 481                       |
| Corporate Executive                                                      | EM Zungu                | 1 Feb 2009       |                  | 2 095                       | 535                        | 2 630                       |
| Corporate Executive                                                      | JH v Schalkwyk          | 1 Nov 2010       |                  | 1 973                       | 506                        | 2 479                       |
| Corporate Executive                                                      | NE Seedat               | 1 Jul 2012       |                  | 1 845                       | 377                        | 2 222                       |
| Corporate Executive                                                      | M Hassim                | 1 Oct 2012       | 3 Nov 2013       | 1 209                       | -                          | 1 209                       |
| Corporate Executive                                                      | SS Ngoma                | 1 Nov 2012       |                  | 1 688                       | 239                        | 1 927                       |
| Corporate Executive                                                      | SN Ngobese              | 1 Jan 2013       |                  | 1 673                       | 341                        | 2 014                       |
| Corporate Executive                                                      | M Nkai (Acting)         | 1 Feb 2014       |                  | 309                         | 47                         | 356                         |
| Corporate Executive                                                      | S Badat                 | 1 Mar 2014       |                  | 179                         | -                          | 179                         |
| Corporate Executive                                                      | V Msibi                 | 1 May 2013       |                  | 1 646                       | 477                        | 2 123                       |
|                                                                          |                         |                  |                  | <b>37 809</b>               | <b>4 626</b>               | <b>42 435</b>               |

[11]

## 23.1 KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

2013

| Position                                                       | Name               | Appointment date | Termination date | Gross remuneration R'000 | Performance bonus R'000 | Total remuneration R'000 |
|----------------------------------------------------------------|--------------------|------------------|------------------|--------------------------|-------------------------|--------------------------|
| Auditor-General [10]                                           | TM Nombembe        | 1 Dec 2006       |                  | 8 820                    | -                       | 8 820                    |
| Deputy Auditor-General                                         | T Makwetu          | 1 Jul 2007       |                  | 3 209                    | 680                     | 3 889                    |
| National Leader                                                | T Maluleke         | 1 Jun 2012       |                  | 1 817                    | 367                     | 2 184                    |
| National Leader                                                | I Vanker           | 1 Oct 2012       |                  | 1 081                    | 433                     | 1 514                    |
| Corporate Executive                                            | L Jabavu           | 1 Aug 2007       | 31 Jul 2012      | 441                      | -                       | 441                      |
| Corporate Executive                                            | AH Muller          | 1 Mar 2008       |                  | 1 841                    | 378                     | 2 219                    |
| Corporate Executive                                            | BR Wheeler         | 1 Mar 2008       |                  | 1 841                    | 378                     | 2 219                    |
| Corporate Executive                                            | PKK Serote         | 1 Apr 2008       | 31 Dec 2012      | 1 440                    | -                       | 1 440                    |
| Corporate Executive                                            | EM Zungu           | 1 Feb 2009       |                  | 1 953                    | 400                     | 2 353                    |
| Corporate Executive                                            | JH v Schalkwyk     | 1 Nov 2010       |                  | 1 827                    | 468                     | 2 295                    |
| Corporate Executive (appointed National Leader 1 October 2012) | I Vanker           | 1 Jan 2011       |                  | 861                      | -                       | 861                      |
| Corporate Executive                                            | G Lourens (Acting) | 1 Oct 2011       | 31 Jul 2012      | 459                      | -                       | 459                      |
| Corporate Executive                                            | H van Zyl (Acting) | 1 Oct 2012       | 31 Mar 2013      | 751                      | 142                     | 893                      |
| Corporate Executive                                            | NE Seedat          | 1 Jul 2012       |                  | 1 314                    | 264                     | 1 578                    |
| Corporate Executive                                            | M Hassim           | 1 Oct 2012       |                  | 876                      | 175                     | 1 051                    |
| Corporate Executive                                            | SS Ngoma           | 1 Nov 2012       |                  | 672                      | 134                     | 806                      |
| Corporate Executive                                            | SN Ngobese         | 1 Jan 2013       |                  | 403                      | -                       | 403                      |
|                                                                |                    |                  |                  | <b>29 606</b>            | <b>3 819</b>            | <b>33 425</b>            |

[11]

[10] Included in the Auditor-General's salary is deferred compensation of R10 156 000 (2013: R269 000) and back pay of R820 000 (2013: R5 857 000).

[11] This includes all remuneration paid to management.

Compensation to management is summarised as follows:

Short-term employee benefits

Long-term employee benefits - termination

| 2014<br>R'000 | 2013<br>R'000 |
|---------------|---------------|
| 32 279        | 33 156        |
| 10 156        | 269           |
| <b>42 435</b> | <b>33 425</b> |

## 23.2 OTHER RELATED PARTIES

The Executive Secretariat of AFROSAIE is hosted by the Auditor-General. It is headed by a Chief Executive Officer appointed by the AFROSAIE Governing Board while the Auditor-General performs an oversight role.

As documented in a memorandum of understanding (MOU) between the Auditor-General and AFROSAIE, the Auditor-General provide or finance a budget for the Chief Executive Officer, premises and other necessary resources for the functioning of the Executive Secretariat. The budget compilation and financial reporting is done in accordance with the Auditor-General's budget and financial reporting prescripts. The costs are recovered at a mutually agreed monthly rate as specified in the MOU.

**23.2 OTHER RELATED PARTIES (CONTINUED)****Related party transactions**

Revenue

Expenses

| 2014<br>R'000 | 2013<br>R'000 |
|---------------|---------------|
| <b>1 463</b>  | <b>1 371</b>  |
| <b>4 436</b>  | <b>4 272</b>  |

Transactions from related parties are on an arm's length basis at market-related prices.

**24 FINANCIAL INSTRUMENTS****24.1 MARKET RISK****24.1.1 Foreign currency risk management**

The Auditor-General delivers a small portion of its audit services based on fixed sum contracts in foreign currencies.

Included in the bank balances at 31 March 2014 is an amount of 311 619 USD (2013: 1 980 649 USD).

These balances have been translated at the year-end exchange rate of 1 USD = R10,5848 (2013: 1 USD = R9,2570).

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

**Foreign currency sensitivity**

Below is the recalculated financial assets and liabilities showing the effect of:

A one percentage point decrease or increase in the USD and Euro exchange rate.

**2014**

Net surplus (R'000)

% change

Foreign bank account balance (R'000)

% change

International debtor balance (R'000)

% change

| USD and Euro exchange rate |        |        |
|----------------------------|--------|--------|
| Current balance            | +1%    | -1%    |
| 98 742                     | 98 789 | 98 695 |
|                            | 0,0%   | 0,0%   |
| 3 299                      | 3 332  | 3 266  |
|                            | 1,0%   | -1,0%  |
| -                          | -      | -      |
|                            | 0,0%   | 0,0%   |

**2013**

Net surplus (R'000)

% change

Foreign bank account balance (R'000)

% change

International debtor balance (R'000)

% change

| USD and Euro exchange rate |        |        |
|----------------------------|--------|--------|
| Current balance            | +1%    | -1%    |
| 18 712                     | 18 967 | 18 457 |
|                            | 1,4%   | -1,4%  |
| 18 335                     | 18 518 | 18 152 |
|                            | 1,0%   | -1,0%  |
| -                          | -      | -      |
|                            | 0,0%   | 0,0%   |

## 24.1.2 Interest rate risk management

The exposure to changes in interest rates relates primarily to the Auditor-General's current and call accounts and finance lease arrangements.

### Interest rate sensitivity

Below are the recalculated financial assets and liabilities showing the effect of:

A one percentage point decrease or increase in the current account interest rate.

A one percentage point decrease or increase in the call account interest rate.

A one percentage point decrease or increase in the finance lease agreement interest rate.

#### 2014

Net surplus (R'000)

% change

Current bank and call account balances (R'000)

% change

| Current & call account interest rate |         |         |
|--------------------------------------|---------|---------|
| Current balance                      | +1%     | -1%     |
| 98 742                               | 104 052 | 93 481  |
| -                                    | 5,4%    | -5,3%   |
| 492 901                              | 498 213 | 487 642 |
| -                                    | 1,1%    | -1,1%   |

Net surplus (R'000)

% change

Finance lease agreements balance (R'000)

% change

| Finance lease agreement interest rate |        |        |
|---------------------------------------|--------|--------|
| Current balance                       | +1%    | -1%    |
| 98 742                                | 98 715 | 98 771 |
| -                                     | 0,0%   | 0,0%   |
| -                                     | -      | -      |
| -                                     | 0,0%   | 0,0%   |

#### 2013

Net surplus (R'000)

% change

Current bank and call account balances (R'000)

% change

| Current & call account interest rate |         |         |
|--------------------------------------|---------|---------|
| Current balance                      | +1%     | -1%     |
| 18 712                               | 23 225  | 14 233  |
| -                                    | 24,1%   | -23,9%  |
| 445 733                              | 450 248 | 441 256 |
| -                                    | 1,0%    | -1,0%   |

Net surplus (R'000)

% change

Finance lease agreements balance R'000)

% change

| Finance lease agreement interest rate |        |        |
|---------------------------------------|--------|--------|
| Current balance                       | -1%    | +1%    |
| 18 712                                | 18 601 | 18 823 |
| -                                     | -0,6%  | 0,6%   |
| 5 451                                 | 5 490  | 5 412  |
| -                                     | 0,7%   | -0,7%  |

## 24.2 CREDIT RISK

Financial assets which potentially subject the Auditor-General to concentrations of credit risk consist principally of cash and short-term deposits which are placed with a financial institution with a short-term bank deposit credit rating by Fitch of F-1 (2013: F-1) as well as with the Public Investment Corporation. The Public Investment Corporation is wholly owned by the South African Government and invests funds on behalf of public sector entities based on investment mandates set by each client and approved by the Financial Services Board. Trade receivables are presented net of the allowance for doubtful receivables. Credit risk with respect to trade receivables is limited to some degree due to the constitutionally enshrined audit mandate of the Auditor-General. However, the Auditor-General has a significant concentration of credit risk with local government debtors.

All financial assets are unsecured. The carrying amount of financial assets included in the statement of financial position represents the Auditor-General's exposure to credit risk in relation to these assets. Investment in the Public Investment Corporation is governed by the Auditor-General's investment strategy which requires 95% of funds to be invested in conservative money market instruments where the initial capital investment is guaranteed and the 5% in cash.

An analysis of the ageing of debtors that are 30 days and over is as follows:

R290 658 000 (2013: R231 363 000) of debtors, comprising 47,9% (2013: 44,8%) of total debtors, are in arrears. Local government debtors arrears comprise R248 119 000 (2013: R175 705 000) or 85,4% (2013: 75,9%) of total arrears which represents 40,9% (2013: 34,0%) of the 47,9% (2013: 44,8%) debtors that are in arrears.

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

| <b>2014</b>                                 |  | <b>Total</b>   | <b>Current</b> | <b>30 - 120</b> | <b>120+</b>    |
|---------------------------------------------|--|----------------|----------------|-----------------|----------------|
| <b>Debtor type</b>                          |  | <b>R'000</b>   | <b>R'000</b>   | <b>R'000</b>    | <b>R'000</b>   |
| National                                    |  | 76 855         | 72 657         | 985             | 3 213          |
| Provincial                                  |  | 115 367        | 105 150        | 7 905           | 2 312          |
| Local                                       |  | 322 149        | 74 030         | 102 330         | 145 789        |
| Statutory                                   |  | 60 588         | 45 378         | 3 410           | 11 800         |
| Other (including unallocated deposits) [12] |  | 31 825         | 18 911         | 3 591           | 9 323          |
|                                             |  | <b>606 784</b> | <b>316 126</b> | <b>118 221</b>  | <b>172 437</b> |

| <b>2013</b>                                 |  | <b>Total</b>   | <b>Current</b> | <b>30 - 120</b> | <b>120+</b>    |
|---------------------------------------------|--|----------------|----------------|-----------------|----------------|
| <b>Debtor type</b>                          |  | <b>R'000</b>   | <b>R'000</b>   | <b>R'000</b>    | <b>R'000</b>   |
| National                                    |  | 65 288         | 58 551         | (55)            | 6 792          |
| Provincial                                  |  | 92 739         | 69 163         | 4 112           | 19 464         |
| Local                                       |  | 262 478        | 86 773         | 71 488          | 104 217        |
| Statutory                                   |  | 54 884         | 39 227         | 3 331           | 12 326         |
| Other (including unallocated deposits) [12] |  | 41 170         | 31 482         | 3 162           | 6 526          |
|                                             |  | <b>516 559</b> | <b>285 196</b> | <b>82 038</b>   | <b>149 325</b> |

## 24.2 CREDIT RISK (CONTINUED)

### Financial assets subject to credit risk

#### 2014

##### Debtor type

|                                             | Total<br>R'000 | Fully<br>Performing<br>R'000 | Past due but<br>not impaired<br>R'000 | Impaired<br>R'000 |
|---------------------------------------------|----------------|------------------------------|---------------------------------------|-------------------|
| National                                    | 76 855         | 72 538                       | -                                     | 4 317             |
| Provincial                                  | 115 367        | 105 150                      | 9 035                                 | 1 182             |
| Local                                       | 322 149        | 74 030                       | 122 031                               | 126 088           |
| Statutory                                   | 60 588         | 45 378                       | 3 725                                 | 11 485            |
| Other (including unallocated deposits) [12] | 31 825         | 18 911                       | 10 386                                | 2 528             |
|                                             | <b>606 784</b> | <b>316 007</b>               | <b>145 177</b>                        | <b>145 600</b>    |

#### 2013

##### Debtor type

|                                             | Total<br>R'000 | Fully<br>Performing<br>R'000 | Past due but<br>not impaired<br>R'000 | Impaired<br>R'000 |
|---------------------------------------------|----------------|------------------------------|---------------------------------------|-------------------|
| National                                    | 65 288         | 58 551                       | 3 606                                 | 3 131             |
| Provincial                                  | 92 739         | 69 163                       | 19 991                                | 3 585             |
| Local                                       | 262 478        | 86 773                       | 82 033                                | 93 672            |
| Statutory                                   | 54 884         | 39 227                       | 5 266                                 | 10 391            |
| Other (including unallocated deposits) [12] | 41 170         | 31 482                       | 5 099                                 | 4 589             |
|                                             | <b>516 559</b> | <b>285 196</b>               | <b>115 995</b>                        | <b>115 368</b>    |

[12] Other debtor types include unlisted public entities, ex-staff debtors, municipal entities, utility agency corporations and certain auditees that are defined as '1% auditees' and funded as such by the National Treasury.

## 24.3 LIQUIDITY RISK

Liquidity risk is the risk that the Auditor-General will not be able to meet its financial obligations as they fall due.

The Auditor-General has adequate cash balances at its disposal and minimum long-term debt which limits liquidity risk. Nevertheless, budgets are prepared on an annual basis to ensure liquidity risks are monitored and controlled.

### Maturity profile of financial instruments

#### 2014

##### Assets

|                             | 1 year or less<br>R'000 | 1 to 5 years<br>R'000 | Total<br>R'000 |
|-----------------------------|-------------------------|-----------------------|----------------|
| Trade and other receivables | 484 747                 | -                     | 484 747        |
| Cash                        |                         |                       |                |
| -Local                      |                         |                       |                |
| -Current account            | 156 585                 | -                     | 156 585        |
| -Overnight call account     | 61 695                  | -                     | 61 695         |
| -Notice deposit             | 155 913                 | -                     | 155 913        |
| -Call account - PIC         | 118 708                 | -                     | 118 708        |
| -Foreign                    | 3 299                   | -                     | 3 299          |
| Total financial assets      | <b>980 947</b>          | <b>-</b>              | <b>980 947</b> |

**24.3 LIQUIDITY RISK (CONTINUED)**

|                                             | <b>1 year or less<br/>R'000</b> | <b>1 to 5 years<br/>R'000</b> | <b>Total<br/>R'000</b> |
|---------------------------------------------|---------------------------------|-------------------------------|------------------------|
| <b>Liabilities</b>                          |                                 |                               |                        |
| Trade and other payables                    | 445 826                         | -                             | 445 826                |
| <b>Total financial liabilities</b>          | <b>445 826</b>                  | <b>-</b>                      | <b>445 826</b>         |
| <b>Net financial assets / (liabilities)</b> | <b>535 121</b>                  | <b>-</b>                      | <b>535 121</b>         |

|                                             |                                 |                               |                        |
|---------------------------------------------|---------------------------------|-------------------------------|------------------------|
| <b>2013</b>                                 | <b>1 year or less<br/>R'000</b> | <b>1 to 5 years<br/>R'000</b> | <b>Total<br/>R'000</b> |
| <b>Assets</b>                               |                                 |                               |                        |
| Trade and other receivables                 | 416 243                         | -                             | 416 243                |
| Cash                                        |                                 |                               |                        |
| -Local                                      |                                 |                               |                        |
| -Current account                            | 175 799                         | -                             | 175 799                |
| -Overnight call account                     | 157 208                         | -                             | 157 208                |
| -Call account - PIC                         | 112 726                         | -                             | 112 726                |
| -Foreign                                    | 18 335                          | -                             | 18 335                 |
| <b>Total financial assets</b>               | <b>880 311</b>                  | <b>-</b>                      | <b>880 311</b>         |
| <b>Liabilities</b>                          |                                 |                               |                        |
| Interest-bearing borrowings                 | 5 451                           | -                             | 5 451                  |
| Trade and other payables                    | 438 607                         | -                             | 438 607                |
| <b>Total financial liabilities</b>          | <b>444 058</b>                  | <b>-</b>                      | <b>444 058</b>         |
| <b>Net financial assets / (liabilities)</b> | <b>436 253</b>                  | <b>-</b>                      | <b>436 253</b>         |

**24.4 ADDITIONAL INFORMATION IN RELATION TO FINANCIAL INSTRUMENTS**

Line items presented in the statement of financial position summarised per category of financial instrument

|                                                         |                                      |                             |                                     |
|---------------------------------------------------------|--------------------------------------|-----------------------------|-------------------------------------|
| <b>2014</b>                                             | <b>Carrying<br/>amount<br/>R'000</b> | <b>Adjustment<br/>R'000</b> | <b>Amortised<br/>cost<br/>R'000</b> |
| <b>Financial assets</b>                                 |                                      |                             |                                     |
| <i>Receivables measured at amortised cost</i>           |                                      |                             |                                     |
| Trade and other receivables (refer to note 4)           | 484 747                              | -                           | 484 747                             |
| Cash and cash equivalents (refer to note 5)             | 496 200                              | -                           | 496 200                             |
|                                                         | <b>980 947</b>                       | <b>-</b>                    | <b>980 947</b>                      |
| <b>Financial liabilities</b>                            |                                      |                             |                                     |
| <i>Financial liabilities measured at amortised cost</i> |                                      |                             |                                     |
| Trade and other payables (refer to note 11)             | 445 826                              | -                           | 445 826                             |
|                                                         | <b>445 826</b>                       | <b>-</b>                    | <b>445 826</b>                      |

## 24.4 ADDITIONAL INFORMATION IN RELATION TO FINANCIAL INSTRUMENTS (CONTINUED)

## 2013

## Financial assets

Receivables measured at amortised cost

Trade and other receivables (refer to note 4)

Cash and cash equivalents (refer to note 5)

| Carrying amount<br>R'000 | Adjustment<br>R'000 | Amortised cost<br>R'000 |
|--------------------------|---------------------|-------------------------|
| 421 597                  | (5 354)             | 416 243                 |
| 464 068                  | -                   | 464 068                 |
| <b>885 665</b>           | <b>(5 354)</b>      | <b>880 311</b>          |
|                          |                     |                         |
| 5 451                    | -                   | 5 451                   |
| 438 813                  | (206)               | 438 607                 |
| <b>444 264</b>           | <b>(206)</b>        | <b>444 058</b>          |

## Financial liabilities

Financial liabilities measured at amortised cost

Finance lease agreements (refer to note 9)

Trade and other payables (refer to note 11)

The table on the previous page provides information that permits the comparison of the amortised cost of financial instruments with their carrying amounts. The amortised cost in the 'amortised cost' column has been determined for disclosure purposes only. The following assumptions were applied:

Average days outstanding - receivables

Average days outstanding - payables

| 2014 | 2013 |
|------|------|
| 179  | 173  |
| 32   | 34   |

## 25 NOTES TO THE CASH FLOW STATEMENT

## 25.1 REVENUE COLLECTABLE FROM AUDITEES

Revenue

Net increase in trade receivables

| 2014<br>R'000    | 2013<br>R'000    |
|------------------|------------------|
| 2 536 154        | 2 213 512        |
| (90 225)         | (36 289)         |
| <b>2 445 929</b> | <b>2 177 223</b> |

## 25.2 DIRECT AUDIT COST PAYABLES

Direct audit cost

Net (decrease) / increase in trade payables

|                    |                    |
|--------------------|--------------------|
| (1 732 900)        | (1 573 131)        |
| ( 47 828)          | 25 662             |
| <b>(1 780 728)</b> | <b>(1 547 469)</b> |

### 25.3 OPERATIONAL EXPENDITURE PAYMENTS

|                                                                                                                               | 2014<br>R'000    | 2013<br>R'000    |
|-------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Operational expenditure                                                                                                       | (704 512)        | (621 669)        |
| Adjusted for:                                                                                                                 |                  |                  |
| Straightlining of leases                                                                                                      | 2 937            | 5 573            |
| Interest income                                                                                                               | (49 781)         | (73 780)         |
| Interest expense                                                                                                              | 14 883           | 8 637            |
| Foreign exchange gains (refer to note 25.4)                                                                                   | (1 769)          | (2 903)          |
| Depreciation                                                                                                                  | 32 104           | 27 687           |
| Amortisation                                                                                                                  | 4 608            | 7 613            |
| Increase in provision for impairment of receivables                                                                           | 30 232           | 40 885           |
| (Decrease) / increase in provision for post-retirement medical aid benefits                                                   | (2 774)          | 2 469            |
| (Profit) / loss on the loss and disposal of property, plant and equipment and intangible assets (refer to notes 14,17 and 18) | (313)            | 4 949            |
| Decrease in provisions                                                                                                        | (5 947)          | -                |
|                                                                                                                               | <b>(680 332)</b> | <b>(600 539)</b> |
| Other working capital changes                                                                                                 | 43 599           | 29 734           |
| Increase in other receivables                                                                                                 | (8 511)          | (927)            |
| Increase in other payables                                                                                                    | 52 110           | 30 661           |
|                                                                                                                               | <b>(636 733)</b> | <b>(570 805)</b> |

### 25.4 FOREIGN EXCHANGE GAINS

|                                                                          |              |              |
|--------------------------------------------------------------------------|--------------|--------------|
| Realised foreign exchange gains / (losses)                               | 1 355        | (204)        |
| Unrealised foreign exchange differences in the international debtor [13] | -            | 23           |
| Unrealised foreign exchange differences in the foreign bank balance [13] | 414          | 3 084        |
|                                                                          | <b>1 769</b> | <b>2 903</b> |

[13] The difference between the closing and opening exchange rate applied to the foreign bank balance and international debtor balance at year-end.

### 25.5 ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

|                        |                 |                 |
|------------------------|-----------------|-----------------|
| Computer equipment     | (13 922)        | (37 996)        |
| Motor vehicles         | (370)           | (1 699)         |
| Office equipment       | (159)           | (223)           |
| Furniture and fittings | (9 130)         | (8 276)         |
| Leasehold improvements | (5 323)         | (9 972)         |
|                        | <b>(28 904)</b> | <b>(58 166)</b> |

**25.6 ADDITIONS TO INTANGIBLE ASSETS**

|                | <b>2014</b>  | <b>2013</b>    |
|----------------|--------------|----------------|
|                | <b>R'000</b> | <b>R'000</b>   |
| Other software | (251)        | (8 957)        |
|                | <b>(251)</b> | <b>(8 957)</b> |

**26 TAXATION**

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

**27 PROFESSIONAL INDEMNITY INSURANCE**

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

**28 EVENTS AFTER THE REPORTING PERIOD**

No matters or circumstances arose after the end of the financial year that will materially affect these annual financial statements.

# GLOBAL REPORTING INITIATIVE INDEX

This report has been compiled in accordance with the Global Reporting Initiative (GRI) Guidelines for Sustainability Reporting version 3.1. We self-declare this report as a GRI level C+ report (this has been confirmed by the external assurer). This index guides the reader to the page(s) where information relating to

GRI parameters and performance indicators can be found. In addition to page references, the index indicates whether the level of detail on a parameter or performance indicator is partial (yellow) or more or less complete (green) with reference to the requirements of the GRI guidelines and performance indicator

protocols. The bolded parameters are a minimum requirement for a GRI level C report. Only parameters and performance indicators on which information is disclosed are included in this index.

(NA = Not applicable)

| PARAMETER OR PERFORMANCE INDICATOR |                                                                            | LEVEL OF DETAIL | PAGE NUMBER(S) |
|------------------------------------|----------------------------------------------------------------------------|-----------------|----------------|
| NO.                                | BRIEF DESCRIPTION                                                          |                 |                |
| Parameters: Strategy and analysis  |                                                                            |                 |                |
| 1.1                                | CEO (and chair) statement                                                  |                 | 12-13          |
| 1.2                                | Description of key impacts, risks and opportunities                        |                 | 25-27          |
| Parameters: Organisational profile |                                                                            |                 |                |
| 2.1                                | Name of the organisation                                                   |                 | 23             |
| 2.2                                | Primary brands, products and/or services                                   |                 | 23             |
| 2.3                                | Operational structure of the organisation                                  |                 | 24             |
| 2.4                                | Location of organisation’s headquarters                                    |                 | 23             |
| 2.5                                | Countries where the organisation operates                                  | NA              |                |
| 2.6                                | Nature of ownership and legal form                                         |                 | 23             |
| 2.7                                | Markets served                                                             |                 | 23             |
| 2.8                                | Scale of the reporting organisation                                        |                 | 22, 91-92      |
| 2.9                                | Significant changes regarding the organisation during the reporting period |                 | 22             |
| 2.10                               | Awards received                                                            | NA              |                |
| Parameters: Report                 |                                                                            |                 |                |
| 3.1                                | Reporting period                                                           |                 | 22             |
| 3.2                                | Date of most recent previous report                                        |                 | 22             |
| 3.3                                | Reporting cycle                                                            |                 | 22             |
| 3.4                                | Contact point for questions                                                |                 | 138            |
| 3.5                                | Process for defining report content                                        |                 | 22-23          |
| 3.6                                | Boundary of the report                                                     |                 | 22             |
| 3.7                                | Specific limitations on scope or boundary of report                        | NA              |                |

| PARAMETER OR PERFORMANCE INDICATOR                       |                                                                                                | LEVEL OF DETAIL | PAGE NUMBER(S) |
|----------------------------------------------------------|------------------------------------------------------------------------------------------------|-----------------|----------------|
| NO.                                                      | BRIEF DESCRIPTION                                                                              |                 |                |
| 3.8                                                      | Basis for reporting on joint ventures                                                          | NA              |                |
| 3.10                                                     | Explanation of the effect of any re-statements of information                                  | NA              |                |
| 3.11                                                     | Significant changes from previous reporting period regarding the report                        | NA              |                |
| 3.12                                                     | GRI content index                                                                              |                 | 133-134        |
| 3.13                                                     | Assurance                                                                                      |                 | 22, 92         |
| Parameters: Governance, commitments and engagement       |                                                                                                |                 |                |
| 4.1                                                      | Governance structure of the organisation                                                       |                 | 86             |
| 4.2                                                      | Status of CEO vs. chair                                                                        | NA              |                |
| 4.3                                                      | Number and gender of independent and/or non-executive directors                                | NA              |                |
| 4.4                                                      | Mechanisms for shareholder and employee inputs to board                                        |                 | 34             |
| 4.14                                                     | List of stakeholder groups engaged                                                             |                 | 34-39          |
| 4.15                                                     | Basis for identification of stakeholders                                                       |                 | 34             |
| 4.16                                                     | Approaches to stakeholder engagement                                                           |                 | 34-39          |
| Performance indicators: Economic                         |                                                                                                |                 |                |
| EC1                                                      | Direct economic value generated and distributed                                                |                 | 71-72          |
| EC6                                                      | Policy, practices and proportion of spending on local suppliers                                |                 | 71             |
| EC8                                                      | Development and impact of infrastructure investments and services primarily for public benefit |                 | 73-77          |
| Performance indicators: Environment                      |                                                                                                |                 |                |
| EN18                                                     | Initiatives to reduce greenhouse gas emissions                                                 |                 | 78-79          |
| Performance indicators: Labour practices and decent work |                                                                                                |                 |                |
| LA1                                                      | Total workforce                                                                                |                 | 47-48          |
| LA2                                                      | Employee turnover                                                                              |                 | 48-49          |
| LA3                                                      | Benefits available to full time employees                                                      |                 | 57             |
| LA7                                                      | Rates of injury, occupational diseases and fatalities                                          |                 | 79             |
| LA10                                                     | Employee training                                                                              |                 | 50-52          |
| LA13                                                     | Composition of governance bodies and employees according to diversity indicators               |                 | 48             |
| Performance indicators: Human rights                     |                                                                                                |                 |                |
| HR11                                                     | Grievances                                                                                     |                 | 58-59          |

# GLOSSARY OF TERMS

## A

|         |                                                       |
|---------|-------------------------------------------------------|
| ABASA   | Association of Black Accountants in South Africa      |
| AFROPAC | African Organisation of Public Accounts Committees    |
| AFROSAI | African Organisation of Supreme Audit Institutions    |
| AG      | Auditor-General (not consistently used in the report) |
| AGSA    | Auditor-General of South Africa                       |
| ANC     | African National Congress                             |
| APAC    | Association of Public Accounts Committees             |
| ASB     | Accounting Standards Board                            |
| ASU     | AGSA, SAICA, Unisa                                    |

## B

|        |                                                  |
|--------|--------------------------------------------------|
| B-BBEE | Broad-based Black Economic Empowerment           |
| BCTA   | Bridging Certificate in the Theory of Accounting |
| BU     | Business Unit                                    |

## C

|       |                                                              |
|-------|--------------------------------------------------------------|
| CA    | Chartered Accountant                                         |
| CCMA  | Commission for Conciliation, Mediation and Arbitration       |
| CE    | Corporate Executive                                          |
| CFO   | Chief Financial Officer                                      |
| CoGTA | Department of Cooperative Governance and Traditional Affairs |
| COPE  | Congress of the People                                       |
| CPD   | Continuing Professional Development                          |
| CSI   | Corporate Social Investment                                  |
| CTA   | Certificate in the Theory of Accounting                      |
| CWC   | Contract Work Creditors                                      |

## D

|     |                        |
|-----|------------------------|
| DA  | Democratic Alliance    |
| DAG | Deputy Auditor-General |

## E

|      |                               |
|------|-------------------------------|
| EAP  | Employee Assistance Programme |
| EE   | Employment Equity             |
| EWP  | Employee Wellness Programme   |
| Exco | Executive Committee           |

## F

|     |                                |
|-----|--------------------------------|
| FET | Further Education and Training |
|-----|--------------------------------|

# GLOSSARY OF TERMS (CONT.)

## G

|     |                             |
|-----|-----------------------------|
| GRI | Global Reporting Initiative |
|-----|-----------------------------|

## H

-

## I

|         |                                                          |
|---------|----------------------------------------------------------|
| IBU     | Investigations Business Unit                             |
| ICT     | Information and communication technology                 |
| IFP     | Inkatha Freedom Party                                    |
| IFRS    | International Financial Reporting Standards              |
| INCOSAI | International Congress of Supreme Audit Institutions     |
| INTOSAI | International Organisation of Supreme Audit Institutions |
| IRBA    | Independent Regulatory Board for Auditors                |
| ISA     | Information Systems Auditing                             |
| ISAE    | International Standard on Assurance Engagements          |
| ISO     | International Organisation for Standardisation           |
| ISQC1   | International Standard on Quality Control                |
| ISSAIs  | International Standards of Supreme Audit Institutions    |
| IT      | Information technology                                   |

## J

## K

|     |               |
|-----|---------------|
| KZN | KwaZulu-Natal |
|-----|---------------|

## L

## M

|      |                                     |
|------|-------------------------------------|
| MECs | Member(s) of Executive Council(s)   |
| MFMA | Municipal Finance Management Act    |
| MIS  | Management information system       |
| MPAC | Municipal Public Accounts Committee |

## N

|      |                               |
|------|-------------------------------|
| NA   | National Assembly             |
| NCOP | National Council of Provinces |
| NT   | National Treasury             |

# GLOSSARY OF TERMS (CONT.)

## O

|     |                                |
|-----|--------------------------------|
| OHS | Occupational health and safety |
|-----|--------------------------------|

## P

|      |                               |
|------|-------------------------------|
| PAA  | Public Audit Act              |
| PAC  | Public Accounts Committee     |
| PFMA | Public Finance Management Act |

## Q

|      |                                      |
|------|--------------------------------------|
| QC   | Quality control                      |
| QCAC | Quality Control Assessment Committee |

## R

|       |                        |
|-------|------------------------|
| REMCO | Remuneration Committee |
|-------|------------------------|

## S

|       |                                                   |
|-------|---------------------------------------------------|
| SAI   | Supreme Audit Institution                         |
| SAICA | South African Institute of Chartered Accountants  |
| SAIGA | Southern African Institute of Government Auditors |
| SOE   | State-owned enterprise                            |
| SCoAG | Standing Committee on the Auditor-General         |
| SCOPA | Standing Committee on Public Accounts             |
| SMW   | Senior management workshop                        |

## T

|    |                 |
|----|-----------------|
| TA | Trainee Auditor |
|----|-----------------|

## U

## V

## W

## X

|     |      |
|-----|------|
| XXI | 21st |
|-----|------|

## Y

## Z

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