



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

# **BUDGET AND STRATEGIC PLAN**

OF THE

**AUDITOR-GENERAL FOR 2005-06**

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*Budget and Strategic Plan of the Auditor-General for 2005-06*

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AUDITOR - GENERAL

## TABLE OF CONTENTS

|  | Page |
|--|------|
| <b>STRATEGIC PLAN FOR THE YEAR 2005-06</b>                     |      |
| <b>1. AUDITOR-GENERAL'S STATEMENT OF POLICY AND COMMITMENT</b> | 1    |
| <b>2. OVERVIEW BY THE DEPUTY AUDITOR-GENERAL</b>               | 3    |
| 2.1 People   | 3    |
| 2.2 Process  | 3    |
| 2.3 Product  | 3    |
| 2.4 Stakeholder relationships                                  | 4    |
| 2.5 Conclusion   | 4    |
| <b>3. STRATEGIC OVERVIEW OF THE AUDITOR-GENERAL</b>            | 5    |
| 3.1 Legislative mandate  | 5    |
| 3.2 Responsibilities of the Executive Committee                | 6    |
| <b>4. SERVICE DELIVERY</b>                                     | 7    |
| 4.1 Auditing   | 7    |
| 4.1.1 Regularity auditing                                      | 7    |
| 4.1.2 Performance auditing                                     | 8    |
| 4.1.3 Information systems auditing                             | 8    |
| 4.1.4 Special investigations                                   | 8    |
| 4.1.5 Sustainable development auditing                         | 9    |
| 4.1.6 Auditing of performance information                      | 9    |
| 4.1.7 Legislature support                                      | 9    |
| 4.1.8 Financial management                                     | 9    |
| 4.1.9 Key cost drivers for audit operations                    | 10   |
| (a) People   | 10   |
| (b) Contract work  | 10   |
| (c) Subsistence and travelling                                 | 10   |
| 4.2 Core business support                                      | 10   |
| 4.2.1 Strategy and Governance                                  | 11   |
| 4.2.2 Special and Strategic Projects                           | 11   |
| 4.2.3 Operational and Transactional Management                 | 11   |
| 4.2.4 Stakeholder Management                                   | 11   |
| 4.2.5 Key cost drivers – other operating costs                 | 11   |
| (a) Accommodation and technological services                   | 11   |
| (b) Stakeholder relationships                                  | 12   |
| (c) People development   | 12   |
| (d) Support staff costs  | 12   |

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

|                        |   |           |
|------------------------|---|-----------|
| 4.3                    | Performance bonus   | 12        |
| 4.4                    | Discretionary personnel expenditure allowance                         | 12        |
| <b>5.</b>              | <b>OVERVIEW OF THE MEDIUM-TERM BUDGET</b>                             | <b>13</b> |
| <b>6.</b>              | <b>MEASURABLE OUTPUTS 2005-06</b>                                     | <b>16</b> |
| <b>DETAILED BUDGET</b> |   |           |
|                        | Document 1: Detailed budget for the year 2005-06                      | 21        |
|                        | Document 2: Notes to the budget                                       | 25        |
|                        | Document 3: Summarised projected balance sheet                        | 52        |
|                        | Document 4: Summarised budget – notes to the balance sheet            | 54        |
|                        | Document 5: Proposed internal rates (at a 4% increase)                | 56        |
|                        | Document 6: Suggested tariffs for audits done for the Auditor-General | 59        |
|                        | <b>REPORT OF THE AD HOC COMMITTEE</b>                                 | <b>62</b> |



AUDITOR - GENERAL

## STRATEGIC PLAN FOR THE YEAR 2005-06

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

I am pleased to present the 2005-06 strategic plan for my office. In this period the Public Audit Act is coming into effect and the implications for myself as well as my office are both exciting and challenging. As a result I have also looked closely at the stakeholders' expectations of the audit product and have tried in this plan to provide an overview of the developments proposed.

There is a government-wide drive towards focusing on implementation and service delivery. These requirements are being set by, amongst others, the President himself. This is reflected in the Programme of Action driven by the Presidency. At this stage my office is working to identify mechanisms by which we can contribute to the success of such projects.

The key factor in the success of any programme is reflected in the transparency and accuracy of the information provided to stakeholders. My role in this regard is to add credibility to the information provided, through independent validation of data. The main challenge here lies in providing credibility to information pertaining to "non-financial" or service delivery aspects of organisations.

Traditionally, the role of the Auditor-General has been viewed in terms of financial information. However, the growing expectations of stakeholders require a broader assessment of public sector entities. In this regard, the challenge is to provide "value-adding" through increased specialised audits, while maintaining the quality of the regularity audits, without increasing our fees.

Regularity audit currently employs over 95% of the resources against 5% employed for specialised audits. The target is to increase specialised audits to 7% for the 2005-06 financial year.

#### Themes and audit focus areas

In line with the above the office will gradually increase the range of specialised audit work during the next few years. The focus areas and audit themes currently under consideration for the 2005-06 period are set out in the table below:



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

| Theme   | Sectors to be audited                              |
|---|--|
| 1. Human resource management                                  | All national and provincial departments            |
| 2. Assessment of ICT implementation in government departments | All national and provincial departments            |
| 3. Housing: Subsidy process                                   | A selection of provincial and national departments |
| 4. Supply chain management                                    | All national and provincial departments            |
| 5. Investment in public infrastructure                        | A selection from all three spheres of government   |

### Performance and value-adding audit approach

During the medium to long term, the office will focus on the implementation of the performance and value-adding audits on a structured and incremental basis. At this stage a number of methods of value-adding audits are available.

These include the following:

#### Assessment of economy and efficiency:

This relates to value-adding work conducted by financial auditors during their fieldwork whose findings form part of the audit report that is published in the entity's annual report.

#### An integrated audit report:

In this case specialised auditors are involved in assisting the financial auditors with special focus areas or investigations during the course of the audit. The findings of this audit are either included in the annual report or published separately.

#### A specialised performance audit:

Fully-fledged specialised audits undertaken independently of the financial auditors. A separate report will be provided to management and legislators, where applicable.

The nature and type of a value-adding audit depend on various factors, such as:

- Previous audit work conducted
- Nature and extent of audit resources available
- Extent of progress with development of processes and systems at the audited entity

During the course of next year I will be continuing my interaction with all key stakeholders to better define and refine our expectation with regard to the role my office can usefully play in strengthening the government service delivery priorities.

**S A Fakie**  
**Auditor-General**



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

## 2. OVERVIEW BY THE DEPUTY AUDITOR-GENERAL

The 2005-06 financial year will be my fifth year as accounting officer of the constitutional institution of the Auditor-General (AG) and will focus on building on our strategic focus as well as achieving efficiencies from initiatives that have been implemented.

The strategic focus of the Auditor-General (AG) is set out in our Siyanqoba document, a Zulu word meaning "we are conquering".

The strategy, which was launched in July 2001, links the vision and mission to the overall purpose, values and independence of the AG. Important to these links is the strategic focus on People, Product and Process, as well as the six key success factors (communication, change management, training, quality control, project management and corporate governance) that are the measurable cornerstones of this strategy in ensuring a healthy financial position for the AG.

The AG is conquering the challenges it faces as it evolves towards being the world-class provider of public sector audit services and related value-added services.

The strategic focus in the 2005-06 budget is primarily in the following areas:

### 2.1 People

- The correction of our audit teams' structure or span of control to ensure optimal utilisation of resources. Focus is also placed on the affirmative action profile of these teams.
- Organic growth in our trainee accountant schemes which will also contribute to capacity building of designated groups within the profession.
- The continuing updating of our staff's competencies through the investment in training.
- In addition to the above, emphasis is also placed on the greater understanding and enthusiastic achievement of the strategic goals of the office, by all staff.

### 2.2 Process

- The restructuring of the corporate services support unit towards a service delivery unit which will allow the core audit business to focus on delivering the audit product.
- The development of an integrated maturity model for the AG, which will enable our internal processes to be benchmarked for efficiency and effectiveness.

### 2.3 Product

- The continuous review of our standards and procedures through product innovation to ensure that the mandate in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) is fulfilled.
- A gradual change in the traditional product mix from a predominant focus on regularity audits towards performance audits.

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

- Ensuring that the deadlines in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999) and Municipal Finance Management Act, 2003 (Act No. 56 of 2003) are met within the requisite quality standards.

## **2.4 Stakeholder relationships**

The success of the AG will only be realised if all the stakeholders and role players declare it to be successful.

The image of the AG in the eyes of the stakeholders and role players will also indicate the success of this strategy. The desired image is that of an AG known and recognised as an independent and professional entity which behaves consistently with its values and delivers top quality products to its key external stakeholders.

## **2.5 Conclusion**

It is my belief that the budget for the 2005-06 financial year supports the AG's development towards providing quality audit and related value-added services in the management of resources, thereby enhancing good governance in the public sector.

The strategic plan provides details of our priorities for the year ahead. Read together with the detailed budget document, the plan provides insight into the performance areas of the AG as well as the costing of the related activities.

I would like to thank the Auditor-General for his guidance and my executive team for their support during the strategic planning and budgeting process.

**Terence M Nombembe**  
**Deputy Auditor-General**





AUDITOR - GENERAL

### 3. STRATEGIC OVERVIEW OF THE AUDITOR-GENERAL



#### 3.1 Legislative mandate

##### 3.1.1 The Constitution of South Africa, 1996 (Act No. 108 of 1996)

The Auditor-General is mandated by section 188 of the South African Constitution to audit and report on the accounts, financial statements and financial management of:

- All national and provincial state departments and administrations;
- All municipalities; and
- Any other institution or accounting entity required by national or provincial legislation to be audited by the Auditor-General.

In addition to these duties, and subject to any legislation, the Auditor-General may audit and report on the accounts, financial statements and financial management of:



## AUDITOR - GENERAL

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

The Auditor-General must submit audit reports to any legislature that has a direct interest in the audit, and to any other authority prescribed by national legislation. All reports must be made public.

The Auditor-General has the additional powers and functions prescribed by national legislation.

In addition, section 216 of the Constitution requires that the Auditor-General must report to Parliament in cases where the National Treasury has stopped the transfer of funds to an organ of state owing to serious breaches of financial controls or transparency, and wishes Parliament to renew such a decision.

### 3.1.2 The Public Audit Act, 2004 (Act No. 25 of 2004)

The Public Audit Act replaces two acts, namely the Auditor-General Act, 1995 (Act No. 12 of 1995) and the Audit Arrangements Act, 1992 (Act No. 122 of 1992), as the governing legislation for the activities of the Auditor-General and his office.

In terms of the Public Audit Act, a new parliamentary governing body is to be established to provide oversight over the office. The Act also empowers the Auditor-General to establish an advisory board to assist him with guiding the business of the office.

## 3.2 Responsibilities of the Executive Committee

The Executive Committee (Exco) is chaired by the Deputy Auditor-General (DAG). Exco is comprised of five corporate executives and is constituted to assist the DAG in managing the business of the AG. Four of the corporate executives are responsible for the auditing functions in the office and one is responsible for core business support.

Exco has outlined its primary focus of work in four areas. Those areas are:

- To consistently scan the external and internal environment so that the AG's strategic positioning and outcomes are regularly refined, strengthened and protected;
- To provide effective leadership in the day-to-day performance management of the office;
- To inspire the people of the AG to deliver enthusiastically on the organisational goals; and
- To account to its primary stakeholders on the performance and achievements of the office.

This it does through the following committees:

- The Strategy and Balanced Scorecard Committee, which monitors the overall



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

performance of the AG against its strategic goals, including the management of the relationship with all key stakeholders;

- The Finance Committee, which monitors and oversees the financial performance of the office;
- The Risk Management Committee, which oversees the office's risk management priorities and monitors the effectiveness of related internal controls;
- The People Management Committee, which places emphasis on the effective and equitable formulation and implementation of people management practices;
- The Information and Communications Technology (ICT) Steering Committee, which oversees the formulation and effective implementation of the ICT strategic goals; and
- The Audit Product Committee, which monitors and oversees the adherence to innovative and quality auditing standards as well as the timely completion of audits and the progress of specialised audits.

#### 4. SERVICE DELIVERY

The office's service delivery environments consist of the auditing function as well as the core business support functions, whose focus areas are described in detail below:

##### 4.1 Auditing

###### 4.1.1 Regularity auditing

Regularity auditing comprises financial auditing and compliance auditing. During the 2005-06 financial year the Auditor-General plans to conduct the following audits in compliance with the Public Finance Management Act of 1999 (PFMA) and the Municipal Finance Management Act of 2003 (MFMA):

| Sector                             | Number of audits | Budgeted fees<br>Rm |
|------------------------------------|------------------|---------------------|
| National votes                     | 37               | 186,6               |
| Provincial votes                   | 128              | 205,2               |
| Local authorities                  | 309              | 195,0               |
| Public entities and other entities | 500              | 125,5               |
| General and activity reports       | 11               | 0                   |
| <b>Total</b>                       | <b>985</b>       | <b>712,3</b>        |

###### a) Financial auditing

Financial auditing focuses on the auditing of financial statements to enable the auditor to express an opinion as to whether or not the financial statements fairly present, in all material respects, the financial position of the entity at a specific



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

date. The financial statements are the responsibility of the accounting officer while it is the responsibility of the auditors to audit these statements and express an audit opinion.

*b) Compliance auditing*

This relates to an independent external evaluation of the extent of the entity's compliance with applicable legislation, regulations, policy control measures, procedures, motivation and authorisations. Non-compliance by the entity with laws and regulations may materially affect the financial statements.

Regularity audits are conducted in accordance with Statements of South African Auditing Standards (SAAS). Those standards require that an audit be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. An audit should include the following basic principles:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

4.1.2 Performance auditing

Performance auditing focuses on evaluating the measures implemented by management to ensure that allocated resources are procured economically and used efficiently and effectively.

The primary objective of performance auditing is therefore to confirm independently that adequate management measures for the planning, coordination, control and evaluation of the procurement and use of resources exist and are efficient and effective.

It therefore provides management, Parliament and other legislative bodies with information, by means of a structured process, on shortcomings in management measures and examples of the effects thereof.

4.1.3 Information systems auditing

Information systems auditing as a support function for regularity audits, focuses on evaluating the adequacy of general and application controls in the information technology environment.

- Support is also provided to functional auditors in the form of computer assisted audit techniques (CAATs).

4.1.4 Special investigations

A special investigation is an independent, cost-effective reviewing and reporting process carried out to assist in the prevention, detection and investigation of economic crime in



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

the public sector. It is mainly comprised of an objective assessment of the measures instituted by accounting officers and all relevant role players to prevent and detect economic crime, but it can also include an economic crime investigation where deemed appropriate and necessary. The term economic crime in this context collectively describes the various crime categories, including fraud, forgery and uttering, theft and other contraventions of applicable statutes such as corruption.

#### 4.1.5 Sustainable development auditing

Sustainable development auditing is an integral part of an independent external audit with the purpose of expressing an opinion on the annual financial statements and reporting on other matters required by Generally Accepted Government Auditing Standards (GAGAS) and the mandate of the Auditor-General.

These matters include:

- Cases where the use or custody of assets is, or may be, to the detriment of the state;
- Cases where management measures are inefficient or ineffective;
- Matters which should, in the public interest, be brought to the attention of the legislature concerned; and
- Non-compliance with legislation and other requirements where it could influence reasonable presentation in the financial statements.

#### 4.1.6 Auditing of performance information

The PFMA and MFMA require that the financial statements and annual report of certain entities should disclose its performance against predetermined objectives. The AG is currently conducting research on the standards by which this area will be audited and reported on.

It is envisaged that this will result in a separate audit opinion being expressed on the entity's report on performance against predetermined objectives.

#### 4.1.7 Legislature support

The office also provides support to the various standing committees on public accounts at national and provincial level as part of its audit reporting responsibilities.

#### 4.1.8 Financial management

- Apart from the mandate given to the AG by section 188(1) of the Constitution (see p. 5), section 51 of the PFMA states that the accounting authority for a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

This provides the mandate for the AG to focus specifically on financial management.

Following extensive research conducted by the AG an approach for auditing financial management has been adopted. This approach essentially involves evaluating institutions against predetermined levels of financial management in terms of the financial



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

management capability model. This will allow for assessing over time whether financial management is improving within an entity and allowing for the entity to be benchmarked against other entities.

In the initial stages this may lead to an increase in the audit resources to assess financial management. However, being able to assign reasons for shortcomings in the financial management process (and therefore in terms of internal controls) will be of considerable value to the entity. It will identify the cause of underlying problems in the entity that have given rise to audit reporting issues. Furthermore, it will assist the auditee in focusing resources that will eventually enable the auditors to rely on systems and thus reduce the audit resources required in the medium term.

### 4.1.9 Key cost drivers for audit operations

The key cost drivers for the execution of the various audit functions are the following:

#### (a) *People*

The AG strives to provide its audit service through a professionally qualified and experienced workforce and is structured along similar lines as the audit firms in South Africa. The AG envisages an overall audit staff complement of 1537 persons at a total cost of R267 million in its various offices around the country. The efficiency of audit staff is measured by way of productivity ratios consisting of the gross profit margins and recovery rates that are determined annually in advance by the Executive Committee of the office.

#### (b) *Contract work*

In order to strategically and efficiently manage its resources throughout the year, the AG utilises the services of private audit firms to supplement its resources during peak periods. These peak periods are largely influenced by the legislative deadlines such as the PFMA and the MFMA. In addition, the AG also utilises these firms in areas where it is logistically impractical or costly to use its own staff. The AG will also utilise the services of private audit firms in specialised areas where the office may not have the appropriate experience or skills to conduct specific types of audits. The total cost of contract work is expected to be R162 million. For this relationship to remain meaningful a minimum of 20% of audit work conducted by the AG is set aside for the firms.

#### (c) *Subsistence and travelling*

An inherent part of the audit function is to perform a substantial part of the audit at the premises of the auditee. Many of these auditees, particularly the local authorities, are located some distance away from the nearest regional office of the Auditor-General. As such, subsistence and travelling expenditure for travelling to and from these various auditees is paid to staff members on a reimbursement basis. The total cost of subsistence and travelling is expected to be R39 million.

## 4.2 Core business support

The AG continuously strives to implement and maintain processes that are efficient, cost-effective and supportive of effective decision-making. Equally important to the AG is the extent to which we utilise information and communications technology as a catalyst to drive the efficiency and effectiveness of our processes. We have also embarked on a



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

long-term knowledge management programme to infuse knowledge sharing as a culture within the office.

To support the above the AG has begun a restructuring exercise to create a service delivery model based on the following service units:

#### 4.2.1 Strategy and Governance

These units would focus on scanning the environment in which the AG operates and identifying areas for the strategic consideration of the Executive Committee. Both areas provide transversal, advisory services, underpinning the processes of stakeholder management and core service delivery. Each facilitates effective and integrative planning with the consistent application of norms and standards in service delivery. In addition the Governance unit focuses on policy design, development and maintenance. The secretariat and the risk management function would also reside in this unit.

#### 4.2.2 Special and Strategic Projects

This unit would be tasked with delivering value-added and project-based solutions to the product and service delivery requirements of the AG.

#### 4.2.3 Operational and Transactional Management

Traditionally known as the "engine-room" of corporate support, this unit would deliver established processes, procedures and well-defined norms for the execution of all transactional activities. The transactional areas include human resources, information technology, finance and communication.

#### 4.2.4 Stakeholder Management

The unit facilitates and integrates the management of the AG's relations with internal and external stakeholders to ensure the consolidation of value in respect of brand, image and reporting in a measurable and consistent way.

#### 4.2.5 Key cost drivers - other operating costs

The key drivers to support the above units are the following:

##### *(a) Accommodation and technological services*

The AG strives to provide an office environment that is consistent with our image as a professional service provider to the public sector. To this end our staff are housed in offices around the country that reflect this. The total cost of office accommodation for the 2005-06 year is anticipated to be R26,8 million for its entire staff complement of 1 773.

To ensure that our processes to audit and run the office are effective and efficient, investment is made in technological services. This includes enabling our staff to access the office network remotely and securely. The AG has also made provision to ensure business continuity. To this end a total amount of R17,0 million is expected to be spent on technological services.



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

*(b) Stakeholder relationships*

In order for the AG to maintain independent but sound working relationships with all stakeholders in the audit process (staff, auditees, public accounts committees and audit firms), it embarks on various relationship-building events throughout the year. This will also enhance the image and branding of the AG. The total cost of these activities is R7,3 million.

*(c) People development*

In line with our strategic focus to ensure that all our staff are professionally qualified and trained to perform their various functions, the AG has set aside an amount of R33 million towards professional assistance. This amount includes the amounts for study assistance, internal and external training for all eligible staff members. The AG's investment in professional assistance includes time sacrificed to the value of R100 million for 2005-06 (2004-5: R67m). The main drivers for the increase are the increased number of staff and the alignment of training days and study leave days with the industry norms.

*(d) Support staff costs*

The provision of effective and efficient support to the core business requires that the support units be appropriately staffed. The restructuring, which focuses on achieving a service delivery model, will require that the existing skills and competencies be mapped to the requirements of the new structure. The budgeted amount for the 2005-06 year on staff remuneration for the support business units exclusive of the discretionary allowance is R58 million.

**4.3 Performance bonus**

In addition to the normal staff salaries the AG makes provision for an annual performance bonus that is variable by nature and payable to staff who have demonstrated extraordinary performance during the year. The performance bonus is determined and regulated through the "variable pay" policy, which is reviewed on an annual basis by the Executive Committee and approved by the Auditor-General.

As the performance bonus is driven by the effort made by business units in achieving specific set targets towards the net surplus and cash reserves of the office, the funding thereof is normally based on the available net surplus and cash at the end of the year. As such this provision is normally not included in the detailed budget but determined after the year-end financial results and the balanced scorecard results have been audited.

The amount of this bonus in the 2005-06 budget period is estimated to be R11,2 million. This is based on the assumption that 20% of staff excluding trainee accountants will be eligible for the bonus and that the average rate of such bonus will be 20% of the total package.

**4.4 Discretionary personnel expenditure allowance**

Historically a discretionary allowance was granted by Parliament at a level of 4% of normal staff costs. This was done in recognition that the budgeted personnel expenditure provision might not be adequate to sustain the payment of appropriate market-related remuneration for a specific budget period. In keeping with this practice and the fact that





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

the compensation policy of the AG provides for annual market positioning, the likelihood of utilising the 4% discretionary allowance for the 2005-06 budget period is quite high. As this would increase the charge-out rates for audit staff, the estimated impact on the net surplus for the 2005-06 period would be a further increase of R6,3 million.

In addition to the above an amount of about R11,5 million (3,5% of staff costs) is expected to be spent as part of enhancing the service delivery within the core business support. However, the certainty of the exact requirement and duration is dependent on the conclusion of the corporate services restructuring process. The net effect of these discretionary personnel expenditure allowances, which are not included in the budget, is estimated to reduce the net surplus by a further R5,2 million.

## 5. OVERVIEW OF THE MEDIUM-TERM BUDGET

The budget is based on the increase of 4% of the office's tariffs for the 2005-06 budget period. The effect thereof is reflected below in the form of the projected income statement and the projected funding requirements schedule.

### a) *Projected income statement*

The projected income statement reflects the net surplus of R43,8 million, R47,3 million and R51,0 million for the three budget years 2005-06 through to 2007-08. As a percentage of total income, this translates to 6%, 7% and 7% for the same budget periods.

### b) *Projected funding requirements*

The projected funding requirements schedule seeks to categorise the funding requirements that originate from the AG's balance sheet in three distinct parts, namely:

- staff liabilities and reserve for special audits;
- working capital; and
- capital expenditure.

The sum of these items is compared to the cash reserves to determine the medium-term surplus/deficit on funding. From the analysis below, it is expected that the AG's funding requirements would be fully covered on a sustainable basis from the 2006-07 budget period.



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

| PROJECTED INCOME STATEMENT            |                   |                   |                   |
|---------------------------------------|-------------------|-------------------|-------------------|
|                                       | 2005-06<br>budget | 2006-07<br>budget | 2007-08<br>budget |
|                                       | Rm                | Rm                | Rm                |
| <b>Audit income</b>                   | <b>712,31</b>     | <b>715,21</b>     | <b>754,34</b>     |
| Own hours                             | 510,92            | 539,03            | 568,68            |
| S&T recoverable                       | 39,45             | 41,42             | 43,49             |
| Contract work                         | 161,94            | 134,76            | 142,17            |
| <b>Direct audit expenditure</b>       | <b>468,64</b>     | <b>458,14</b>     | <b>483,13</b>     |
| Personnel                             | 267,25            | 281,96            | 297,47            |
| S&T recoverable                       | 39,45             | 41,42             | 43,49             |
| Contract work                         | 161,94            | 134,76            | 142,17            |
| <b>Gross income</b>                   | <b>243,67</b>     | <b>257,07</b>     | <b>271,21</b>     |
| <b>Gross margin %</b>                 | <b>34%</b>        | <b>36%</b>        | <b>36%</b>        |
| <b>Other income</b>                   | <b>10,36</b>      | <b>10,99</b>      | <b>11,65</b>      |
| <b>Gross profit plus other income</b> | <b>254,03</b>     | <b>268,06</b>     | <b>282,86</b>     |
| <b>Overhead expenses</b>              | <b>187,61</b>     | <b>196,99</b>     | <b>206,84</b>     |
| <b>Depreciation</b>                   | <b>22,66</b>      | <b>23,80</b>      | <b>24,99</b>      |
| <b>Net surplus</b>                    | <b>43,76</b>      | <b>47,27</b>      | <b>51,03</b>      |
| <b>Net surplus %</b>                  | <b>6%</b>         | <b>7%</b>         | <b>7%</b>         |

**Assumptions**

1. 4% increase in rates
2. Salary expenditure inflationary increase of 5,5%
3. Overhead expenditure inflationary increase of 5%



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

| PROJECTED FUNDING REQUIREMENTS                        |                   |                   |                   |
|---|-------------------|-------------------|-------------------|
|   | 2005-06<br>budget | 2006-07<br>budget | 2007-08<br>budget |
|   | Rm                | Rm                | Rm                |
| <b>Part 1</b>   |                   |                   |                   |
| <b>Staff liabilities and reserves</b>                 |                   |                   |                   |
| – Retirement benefit obligations                      | 53,33             | 58,74             | 64,15             |
| – Leave liability                                     | 22,52             | 25,87             | 29,22             |
| – Special audit services reserve                      | 5,27              | 5,27              | 5,27              |
|   | <b>81,12</b>      | <b>89,88</b>      | <b>98,64</b>      |
| <b>Part 2</b>   |                   |                   |                   |
| <b>Working capital</b>                                |                   |                   |                   |
| Current assets (excluding bank)                       | 98,93             | 99,33             | 104,77            |
| Current liabilities (excluding leave liability)       | (34,15)           | (39,01)           | (41,09)           |
| Net working capital                                   | <b>64,78</b>      | <b>60,32</b>      | <b>63,68</b>      |
| <b>Part 3</b>   |                   |                   |                   |
| <b>Capital expenditure</b>                            |                   |                   |                   |
| Interest-bearing borrowing payments                   | 2,66              | 0,72              | 0,21              |
| Fixed assets acquisitions                             | 36,27             | 21,56             | 22,75             |
| <b>Capital requirement of the office</b>              | <b>38,93</b>      | <b>22,28</b>      | <b>22,96</b>      |
| <b>Office funding requirements<br/>(1+2+3)</b>        | <b>184,83</b>     | <b>172,48</b>     | <b>185,27</b>     |
| <b>Cash and cash equivalents</b>                      | <b>182,10</b>     | <b>238,59</b>     | <b>292,12</b>     |
| <b>Surplus/(deficit) on funding of<br/>the office</b> | <b>(2,73)</b>     | <b>66,11</b>      | <b>106,85</b>     |



AUDITOR - GENERAL

## 6. MEASURABLE OUTPUTS 2005-06

These reflect the minimum expected organisational performance objectives to be incorporated in the AG's performance management system.

| Business theme             | Goal  | Corporate measure  | Target 2005-06   |
|----------------------------|---|--|--|
| Strategic focus areas      | What should be done to accomplish the business themes   | What should be measured to determine the accomplishment of goals | When and at what level goals should be accomplished  |
| <b>PEOPLE</b>              |   |  |  |
| <b>Strategic alignment</b> | Establish and sustain an environment where behaviour of staff demonstrates: <ul style="list-style-type: none"> <li>- Commitment</li> <li>- Effective leadership</li> <li>- Enthusiastic acceptance of responsibilities</li> <li>- High levels of motivation and job satisfaction</li> </ul> | % acceptable level of desired organisational behaviour           | <ul style="list-style-type: none"> <li>o Level of 50% - 69,9% (comply)</li> <li>o Level of 70%+ (more than comply)</li> </ul>  |
| <b>Continuous learning</b> | Narrow the competency gap between the required and the actual knowledge, skills and abilities   | % pass rates   | <ul style="list-style-type: none"> <li>o 45% - 54,9% minimum pass rate of internal bursary students (comply)</li> <li>o 55% minimum pass rate of internal bursary students (more than comply)</li> </ul> |
|                            |   | % pass rates   | Study school pilot <ul style="list-style-type: none"> <li>o 66% - 82,9 % (comply)</li> <li>o 83% (more than comply)</li> </ul>   |
|                            |   | Minimum qualification milestones                                 | Achievement of minimum qualification milestones <ul style="list-style-type: none"> <li>o 100% compliance for new appointments</li> </ul>   |
|                            |   | CPD compliance   | <ul style="list-style-type: none"> <li>o 100% achievement of minimum continuous professional development (CPD) requirements (comply)</li> </ul>  |



AUDITOR - GENERAL

## 6. MEASURABLE OUTPUTS 2005-06 (continued)

These reflect the minimum expected organisational performance objectives to be incorporated in the AG's performance management system.

| Business theme             | Goal   | Corporate measure   | Target 2005-06   |
|----------------------------|--|---|--|
| Strategic focus areas      | What should be done to accomplish the business themes  | What should be measured to determine the accomplishment of goals  | When and at what level goals should be accomplished  |
| <b>PEOPLE</b>              |  |   |  |
| <b>Employment equity</b>   | Achievement of Employment Equity Plan (EE Plan)<br>- Managing and valuing diversity<br>- Elimination of unfair discrimination<br>- Equalisation of opportunities<br>- Affirmative action | <ul style="list-style-type: none"> <li>o Achievement of affirmative action targets per band</li> </ul>  | <ul style="list-style-type: none"> <li>o Maintain phase 1 targets - 55/45% per band C (comply)</li> <li>o 60/40% per band (more than comply)</li> </ul>  |
|                            |  | <ul style="list-style-type: none"> <li>o Desired % organisational behaviour w.r.t. 3 pillars</li> </ul> | <ul style="list-style-type: none"> <li>o 67% - 82,9% (comply)</li> <li>o 83%+ (more than comply)</li> </ul>  |
| <b>PROCESS</b>             |  |   |  |
| <b>Strategic alignment</b> | Alignment of all key business processes (top 18 risks as identified in the risk management framework) in line with the financial management capability model as a defined benchmark      | Level of compliance with the financial management capability model as the benchmark                     | Alignment of all key business processes as per benchmarking targets: <ul style="list-style-type: none"> <li>o Achieve level 3 targets for (comply)</li> <li>o Achieve level 4 targets for CBSs (more than comply)</li> </ul> |
| <b>Risk management</b>     | Adherence to internal control framework  | o % of compliance with control self-assessment (CSA)  | <ul style="list-style-type: none"> <li>o 85% - 94% y.t.d. compliance with CSA (comply)</li> <li>o 95% - 100% y.t.d. compliance with CSA (more than comply)</li> </ul>  |
| <b>Knowledge sharing</b>   | Achievement of knowledge management programme – project milestones   | o % of milestones met   | <ul style="list-style-type: none"> <li>o Successful implementation of knowledge management milestones as per project charter</li> </ul>  |



AUDITOR - GENERAL

## 6. MEASURABLE OUTPUTS 2005-06 (continued)

These reflect the minimum expected organisational performance objectives to be incorporated in the AG's performance management system.

| Business theme            | Goal  | Corporate measure  | Target 2005-06   |
|---------------------------|---|--|--|
| Strategic focus areas     | What should be done to accomplish the business themes   | What should be measured to determine the accomplishment of goals   | When and at what level goals should be accomplished  |
| <b>PRODUCT</b>            |   |  |  |
| <b>Product innovation</b> | Ongoing introduction of product innovation to facilitate enhancement of public accountability | <ul style="list-style-type: none"> <li>Product innovation (as determined by Exco) developed and effectively implemented</li> </ul> | <ul style="list-style-type: none"> <li>Product innovation completed within timeframes set in the R&amp;D approval framework (comply = within time frames) TSS</li> <li>Level of acceptance by stakeholders including staff: 65% - 74,9% (comply) 75% - 100% (more than comply) BU</li> </ul>                 |
|                           | Product focus on specialised audits   | % resources utilised   | <ul style="list-style-type: none"> <li>Specialised audits against regularity audit utilisation of resources: 7% (comply)</li> </ul>  |
| <b>Positive impact</b>    | Improve relevance and user-friendliness of the product  | % stakeholder satisfaction   | <ul style="list-style-type: none"> <li>50% - 74,9% stakeholder satisfaction per category (comply)</li> <li>75% + stakeholder satisfaction per category (more than comply)</li> </ul>   |
| <b>Quality</b>            | Deliver products and service that meet professional quality requirements                      | <ul style="list-style-type: none"> <li>Internal and external quality assurance (QA) reviews</li> </ul>                             | <ul style="list-style-type: none"> <li>Achieve 70% - 89% compliance with evaluation criteria i.r.o. material findings and no fundamental findings (comply)</li> <li>Achieve 90% - 100% compliance with evaluation criteria i.r.o material findings and no fundamental findings (more than comply)</li> </ul> |



AUDITOR - GENERAL

## 6. MEASURABLE OUTPUTS 2005-06 (continued)

These reflect the minimum expected organisational performance objectives to be incorporated in the AG's performance management system.

| Business theme             | Goal   | Corporate measure   | Target 2005-06   |
|----------------------------|--|---|--|
| Strategic focus areas      | What should be done to accomplish the business themes          | What should be measured to determine the accomplishment of goals  | When and at what level goals should be accomplished  |
| <b>PRODUCT (continued)</b> |  |   |  |
| <b>Timeliness</b>          |  | % frequency of all final deadlines achieved   | <ul style="list-style-type: none"> <li>85% - 89,9% compliance with prescribed internal and external guidelines (comply)</li> <li>90%+ compliance with prescribed guidelines (more than comply)</li> </ul>  |
| <b>POUCH</b>               |  |   |  |
| <b>Budget</b>              | Establish a budget that is based on sound budgeting principles | <ul style="list-style-type: none"> <li>Level of compliance with budget guidelines</li> <li>Level of satisfaction of the Ad Hoc Parliamentary Oversight Committee</li> </ul> | <ul style="list-style-type: none"> <li>80% - 89,9% compliance with budget guidelines (comply)</li> <li>90% - 100% compliance with budget guidelines (more than comply)</li> <li>80% - 89,9% satisfaction level (comply)</li> <li>90% - 100% Oversight Committee satisfaction level (more than comply)</li> </ul> |
| <b>Budget</b>              | Achieve 2005-06 budget targets                                 | Financial results <ul style="list-style-type: none"> <li>Approved % variance levels between budget and actual</li> </ul>  | <ul style="list-style-type: none"> <li>5% unfavourable variance, excluding abnormal items (comply)</li> <li>2% unfavourable variance, excluding abnormal items (more than comply)</li> </ul>   |
|                            |  | <ul style="list-style-type: none"> <li>Achievement of predetermined key budget ratios</li> </ul>  | <ul style="list-style-type: none"> <li>80% - 100% compliance with budget ratios (comply)</li> </ul>  |



AUDITOR - GENERAL

## 6. MEASURABLE OUTPUTS 2005-06 (continued)

These reflect the minimum expected organisational performance objectives to be incorporated in the AG's performance management system.

| Business theme           | Goal  | Corporate measure  | Target 2005-06  |
|--------------------------|---|--|---|
| Strategic focus areas    | What should be done to accomplish the business themes | What should be measured to determine the accomplishment of goals   | When and at what level goals should be accomplished   |
| <b>POUCH (continued)</b> |   |  |   |
| <b>Cash flow</b>         | Maintain optimal cash flow at operational levels      | <ul style="list-style-type: none"> <li>% compliance with working capital management</li> <li>Age of debtors</li> </ul> | <ul style="list-style-type: none"> <li>0% - 5% rand value of debtors (excluding ring-fenced debtors) 90 days or more (comply)</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>10% - 20% rand value of debtors 60 days or more (more than comply)</li> <li>80% - 100% compliance with ring-fenced debtor agreements (excluding cases where legal action has been taken) (comply)</li> </ul> |
| <b>Cash flow</b>         | Maintain optimal cash flow at operational levels      | <ul style="list-style-type: none"> <li>Age of creditors</li> </ul>   | <p>Payment of creditors</p> <ul style="list-style-type: none"> <li>80% rand value of creditors = 45 days from date of approval (comply)</li> <li>81% + rand value of creditors = 45 days from date of approval (more than comply)</li> </ul>  |
|                          |   | <ul style="list-style-type: none"> <li>Bank balances</li> </ul>  | <ul style="list-style-type: none"> <li>10% unfavourable variance, excluding abnormal items (comply)</li> <li>5% unfavourable variance, excluding abnormal items (more than comply)</li> </ul>   |





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

## **DOCUMENT 1**

# **DETAILED BUDGET FOR THE YEAR 2005-06**



AUDITOR - GENERAL

## The Auditor-General Detailed budget for 2005-06

Document 1

| Description  | Notes | Budget<br>2004-05<br>(B) | Forecast<br>2004-05<br>(C) | Variance<br>(C-B)<br>(D) | Variance %<br>(C-B)/B<br>(E) | Budget<br>2005-06<br>(F) | Variance<br>(F-C)<br>(G) | Variance %<br>(F-C)/C<br>(H) | Variance<br>(F-B)<br>(I) | Variance %<br>(F-B)/B<br>(J) |
|--|-------|--------------------------|----------------------------|--------------------------|------------------------------|--------------------------|--------------------------|------------------------------|--------------------------|------------------------------|
| <b>AUDIT INCOME</b>                                | 2     | <b>624 275 085</b>       | <b>629 452 216</b>         | <b>5 177 131</b>         | <b>1%</b>                    | <b>712 307 738</b>       | <b>82 855 522</b>        | <b>13%</b>                   | <b>88 032 652</b>        | <b>14%</b>                   |
| Own hours  | 2.1   | 456 646 736              | 430 171 957                | (26 474 779)             | -6%                          | 510 924 634              | 80 752 677               | 19%                          | 54 277 898               | 12%                          |
| Contract work                                      | 2.2   | 128 103 322              | 162 381 644                | 34 278 322               | 27%                          | 161 936 117              | (445 527)                | 0%                           | 33 832 795               | 26%                          |
| S & T  | 2.3   | 30 100 851               | 36 898 615                 | 6 797 764                | 23%                          | 30 814 508               | (6 084 107)              | -16%                         | 713 658                  | 2%                           |
| Billed S&T - international audit                   | 2.3   | 9 424 177                | -                          | (9 424 177)              | -100%                        | 8 632 478                | 8 632 478                | 100%                         | (791 699)                | -8%                          |
| <b>DIRECT AUDIT COST</b>                           | 3.4.1 | <b>407 875 364</b>       | <b>432 429 812</b>         | <b>24 554 448</b>        | <b>6%</b>                    | <b>468 636 096</b>       | <b>36 206 284</b>        | <b>8%</b>                    | <b>60 760 732</b>        | <b>15%</b>                   |
| Staff remuneration                                 | 2.2   | 240 247 018              | 233 149 553                | (7 097 464)              | -3%                          | 267 252 993              | 34 103 440               | 15%                          | 27 005 976               | 11%                          |
| Contract work - recoverable                        | 2.2   | 128 103 319              | 162 381 644                | 34 278 325               | 27%                          | 161 936 116              | (445 528)                | 0%                           | 33 832 797               | 26%                          |
| S&T recoverable                                    | 2.3   | 30 100 851               | 36 898 615                 | 6 797 765                | 23%                          | 30 814 508               | (6 084 107)              | -16%                         | 713 658                  | 2%                           |
| Billed S&T - international audit                   | 2.3   | 9 424 177                | -                          | (9 424 177)              | -100%                        | 8 632 478                | 8 632 478                | 100%                         | (791 699)                | -8%                          |
| <b>GROSS PROFIT</b>                                |       | <b>216 399 721</b>       | <b>197 022 404</b>         | <b>(19 377 317)</b>      | <b>-9%</b>                   | <b>243 671 642</b>       | <b>46 649 238</b>        | <b>24%</b>                   | <b>27 271 921</b>        | <b>13%</b>                   |
| <b>GROSS PROFIT PERCENTAGE</b>                     |       | <b>35%</b>               | <b>31%</b>                 |                          |                              | <b>34%</b>               |                          |                              |                          |                              |
| <b>OTHER INCOME</b>                                |       | <b>12 595 792</b>        | <b>10 623 691</b>          | <b>(1 972 101)</b>       | <b>-16%</b>                  | <b>10 364 995</b>        | <b>(258 696)</b>         | <b>-2%</b>                   | <b>(2 230 797)</b>       | <b>-18%</b>                  |
| Surplus on foreign contract                        | 2.4   | 1 285 312                | 1 285 312                  | -                        | 0%                           | -                        | (1 285 312)              | -100%                        | (1 285 312)              | -100%                        |
| Interest   | 2.5   | 9 005 800                | 6 872 948                  | (2 132 852)              | -24%                         | 8 175 014                | 1 302 066                | 19%                          | (830 786)                | -9%                          |
| Other income                                       | 2.6   | 2 304 680                | 2 465 431                  | 160 751                  | 7%                           | 2 189 981                | (275 450)                | -11%                         | (114 699)                | -5%                          |
| <b>SURPLUS BEFORE OPERATING COST</b>               |       | <b>228 995 513</b>       | <b>207 646 095</b>         | <b>(21 349 418)</b>      | <b>-9%</b>                   | <b>254 036 637</b>       | <b>46 390 542</b>        | <b>22%</b>                   | <b>25 041 124</b>        | <b>11%</b>                   |
| <b>OPERATING COST</b>                              |       | <b>181 824 864</b>       | <b>170 646 949</b>         | <b>(11 177 916)</b>      | <b>-6%</b>                   | <b>187 609 355</b>       | <b>16 962 406</b>        | <b>10%</b>                   | <b>5 784 491</b>         | <b>3%</b>                    |
| <b>Staff remuneration - support business units</b> | 3.4.2 | <b>53 288 645</b>        | <b>51 533 100</b>          | <b>(1 755 545)</b>       | <b>-3%</b>                   | <b>57 850 702</b>        | <b>6 317 602</b>         | <b>12%</b>                   | <b>4 562 057</b>         | <b>9%</b>                    |
| <b>Other personnel expenditure</b>                 |       | <b>14 472 437</b>        | <b>12 637 386</b>          | <b>(1 835 051)</b>       | <b>-13%</b>                  | <b>14 337 469</b>        | <b>1 700 083</b>         | <b>13%</b>                   | <b>(134 968)</b>         | <b>-1%</b>                   |
| Leave pay provision                                | 3.1   | 3 173 000                | 3 173 000                  | -                        | 0%                           | 3 347 515                | 174 515                  | 6%                           | 174 515                  | 6%                           |
| Medical aid provision                              | 3.2   | 5 858 000                | 4 961 972                  | (896 028)                | -15%                         | 5 408 549                | 446 577                  | 9%                           | (449 451)                | -8%                          |
| Statutory levies                                   | 3.3   | 1 064 555                | 781 142                    | (283 413)                | -27%                         | 1 190 167                | 409 025                  | 52%                          | 125 612                  | 12%                          |
| Group life scheme                                  | 3.6   | 480 000                  | 482 053                    | 2 053                    | 0%                           | 508 800                  | 26 747                   | 6%                           | 28 800                   | 6%                           |
| Long service awards & other                        | 3.6   | 232 500                  | 231 300                    | (1 200)                  | -1%                          | 230 000                  | (1 300)                  | -1%                          | (2 500)                  | -1%                          |
| Foreign allowances & taxes                         | 3.5   | 1 252 777                | 1 252 777                  | -                        | 0%                           | 1 252 777                | -                        | 0%                           | -                        | 0%                           |
| UIF: Employer contribution                         | 3.7   | 1 635 719                | 1 044 036                  | (591 683)                | -36%                         | 1 629 540                | 585 504                  | 56%                          | (6 179)                  | 0%                           |
| Workmen's compensation premiums                    | 3.7   | 275 886                  | 261 106                    | (14 780)                 | -5%                          | 270 121                  | 9 015                    | 3%                           | (5 765)                  | -2%                          |
| BU recognition scheme                              | 3.6   | 500 000                  | 450 000                    | (50 000)                 | -10%                         | 500 000                  | 50 000                   | 11%                          | 0                        | 0%                           |
| <b>Contract work - irrecoverable</b>               | 4     | <b>6 348 475</b>         | <b>6 728 129</b>           | <b>379 654</b>           | <b>6%</b>                    | <b>6 497 934</b>         | <b>(230 195)</b>         | <b>-3%</b>                   | <b>149 459</b>           | <b>2%</b>                    |
| <b>Subsistence &amp; travelling irrecoverable</b>  | 5     | <b>2 434 966</b>         | <b>4 379 395</b>           | <b>1 944 429</b>         | <b>80%</b>                   | <b>13 908 461</b>        | <b>(470 934)</b>         | <b>-11%</b>                  | <b>1 473 495</b>         | <b>61%</b>                   |
| <b>Accommodation</b>                               | 6     | <b>25 562 621</b>        | <b>24 398 041</b>          | <b>(1 164 580)</b>       | <b>-5%</b>                   | <b>26 870 948</b>        | <b>2 472 907</b>         | <b>10%</b>                   | <b>1 308 327</b>         | <b>5%</b>                    |
| Rental   | 6.1   | 16 910 846               | 16 904 458                 | (6 388)                  | 0%                           | 17 383 427               | 478 969                  | 3%                           | 472 582                  | 3%                           |
| Operating costs                                    | 6.2   | 8 651 775                | 7 493 583                  | (1 158 192)              | -13%                         | 9 487 521                | 1 993 938                | 27%                          | 835 746                  | 10%                          |



AUDITOR - GENERAL

## The Auditor-General Detailed budget for 2005-06 (continued)

| Description  | Notes      | Budget<br>2004-05<br>(B) | Forecast<br>2004-05<br>(C) | Variance<br>(C-B)<br>(D) | Variance %<br>(C-B)/B<br>(E) | Budget<br>2005-06<br>(F) | Variance<br>(F-C)<br>(G) | Variance %<br>(F-C)/C<br>(H) | Variance<br>(F-B)<br>(I) | Variance %<br>(F-B)/B<br>(J) |
|--|------------|--------------------------|----------------------------|--------------------------|------------------------------|--------------------------|--------------------------|------------------------------|--------------------------|------------------------------|
| <b>Liaison</b>   | 7          | <b>7 571 526</b>         | <b>5 963 401</b>           | <b>(1 608 125)</b>       | <b>-21%</b>                  | <b>7 251 748</b>         | <b>1 288 347</b>         | <b>22%</b>                   | <b>(319 778)</b>         | <b>-4%</b>                   |
| Stakeholder relationships  | 7.1        | 4 592 572                | 3 455 785                  | (1 136 787)              | -25%                         | 4 367 868                | 912 083                  | 26%                          | (224 704)                | -5%                          |
| Regional congresses  | 7.2        | 1 890 710                | 1 483 343                  | (407 367)                | -22%                         | 1 715 880                | 232 537                  | 16%                          | (174 830)                | -9%                          |
| Foreign visitors   | 7.3        | 121 400                  | 99 400                     | (22 000)                 | -18%                         | 143 000                  | 43 600                   | 44%                          | 21 600                   | 18%                          |
| Overseas travel  | 7.4        | 966 844                  | 924 873                    | (41 971)                 | -4%                          | 1 025 000                | 100 127                  | 11%                          | 58 156                   | 6%                           |
| <b>Control bodies</b>  | 8          | <b>1 368 948</b>         | <b>222 003</b>             | <b>(1 146 945)</b>       | <b>-84%</b>                  | <b>1 115 341</b>         | <b>893 338</b>           | <b>402%</b>                  | <b>(253 607)</b>         | <b>-19%</b>                  |
| Oversight bodies   | 8.1        | 1 237 850                | 92 773                     | (1 145 077)              | -93%                         | 898 180                  | 805 407                  | 868%                         | (339 670)                | -27%                         |
| SCOPA liaison  | 8.2        | 131 098                  | 129 230                    | (1 868)                  | -1%                          | 217 161                  | 87 931                   | 68%                          | 86 063                   | 66%                          |
| <b>Audit expenses</b>  | 9          | <b>1 990 000</b>         | <b>2 290 000</b>           | <b>300 000</b>           | <b>15%</b>                   | <b>2 015 000</b>         | <b>(275 000)</b>         | <b>-12%</b>                  | <b>25 000</b>            | <b>1%</b>                    |
| Audit fees   | 9.1        | 825 000                  | 850 000                    | 25 000                   | 3%                           | 850 000                  | -                        | 0%                           | 25 000                   | 3%                           |
| Internal audit costs   | 9.2        | 1 165 000                | 1 440 000                  | 275 000                  | 24%                          | 1 165 000                | (275 000)                | -19%                         | -                        | 0%                           |
| <b>Bank charges</b>  | Immaterial | <b>243 050</b>           | <b>204 730</b>             | <b>(38 320)</b>          | <b>-16%</b>                  | <b>224 127</b>           | <b>19 397</b>            | <b>9%</b>                    | <b>(18 923)</b>          | <b>-8%</b>                   |
| <b>Finance charges</b>   | 10         | <b>2 216 300</b>         | <b>2 203 179</b>           | <b>(13 121)</b>          | <b>-1%</b>                   | <b>1 360 491</b>         | <b>(842 688)</b>         | <b>-38%</b>                  | <b>(855 809)</b>         | <b>-39%</b>                  |
| <b>Recruitment expenses</b>  | 11         | <b>982 487</b>           | <b>1 254 525</b>           | <b>272 038</b>           | <b>28%</b>                   | <b>999 106</b>           | <b>(255 419)</b>         | <b>-20%</b>                  | <b>16 619</b>            | <b>2%</b>                    |
| <b>Professional assistance</b>   | 12         | <b>27 450 761</b>        | <b>25 719 162</b>          | <b>(1 731 599)</b>       | <b>-6%</b>                   | <b>33 079 251</b>        | <b>7 360 089</b>         | <b>29%</b>                   | <b>5 628 490</b>         | <b>21%</b>                   |
| <b>Employee Wellbeing Programme</b> (EWP fees to independent service provider) |            | <b>610 000</b>           | <b>610 000</b>             | <b>-</b>                 | <b>0%</b>                    | <b>606 000</b>           | <b>(4 000)</b>           | <b>-1%</b>                   | <b>(4 000)</b>           | <b>-1%</b>                   |
| <b>Technological services</b>  | 13         | <b>21 782 467</b>        | <b>18 162 581</b>          | <b>(3 619 886)</b>       | <b>-17%</b>                  | <b>17 026 368</b>        | <b>(1 136 213)</b>       | <b>-6%</b>                   | <b>(4 756 099)</b>       | <b>-22%</b>                  |
| Computer services  | 14         | 18 333 990               | 13 803 157                 | (4 530 833)              | -25%                         | 14 427 625               | 624 468                  | 5%                           | (3 906 366)              | -21%                         |
| Hiring of computers - staff  | 13.1       | 1 242 000                | 1 890 726                  | 648 726                  | 52%                          | -                        | (1 890 726)              | -100%                        | (1 242 000)              | -100%                        |
| Hiring of equipment - rental   | 13.2       | 1 701 512                | 1 965 746                  | 264 234                  | 16%                          | 2 079 124                | 113 378                  | 6%                           | 377 612                  | 22%                          |
| Hiring of equipment - copy charges   |            | 504 965                  | 502 953                    | (2 012)                  | 0%                           | 519 620                  | 16 668                   | 3%                           | 14 655                   | 3%                           |
| <b>Insurance &amp; legal fees</b>  | 15         | <b>2 707 508</b>         | <b>1 881 324</b>           | <b>(826 184)</b>         | <b>-31%</b>                  | <b>2 396 564</b>         | <b>515 240</b>           | <b>27%</b>                   | <b>(310 944)</b>         | <b>-11%</b>                  |
| Insurance  | 15.1       | 2 214 624                | 1 388 440                  | (826 184)                | -37%                         | 1 853 050                | 464 610                  | 33%                          | (361 574)                | -16%                         |
| Legal costs  |            | 492 884                  | 492 884                    | -                        | 0%                           | 543 514                  | 50 630                   | 10%                          | 50 630                   | 10%                          |
| <b>Auxiliary services</b>  | 16         | <b>8 484 787</b>         | <b>7 871 203</b>           | <b>(613 584)</b>         | <b>-7%</b>                   | <b>7 855 398</b>         | <b>(15 805)</b>          | <b>0%</b>                    | <b>(629 389)</b>         | <b>-7%</b>                   |
| Cleaning: Contracts/services   |            | 426 861                  | 695 003                    | 268 142                  | 63%                          | 346 966                  | (348 037)                | -50%                         | (79 895)                 | -19%                         |
| Cleaning: Materials  |            | 218 639                  | 248 722                    | 30 083                   | 14%                          | 263 035                  | 14 313                   | 6%                           | 44 396                   | 20%                          |
| Office improvements  |            | 208 326                  | 171 159                    | (37 167)                 | -18%                         | 259 903                  | 88 744                   | 52%                          | 51 577                   | 25%                          |
| Refreshments   |            | 408 230                  | 640 514                    | 232 284                  | 57%                          | 376 206                  | (264 309)                | -41%                         | (32 025)                 | -8%                          |
| Publications   |            | 570 195                  | 531 842                    | (38 353)                 | -7%                          | 739 030                  | 207 189                  | 39%                          | 168 835                  | 30%                          |
| R&M: Computer equipment & software   |            | 150 000                  | 148 977                    | (1 023)                  | -1%                          | 268 396                  | 119 419                  | 80%                          | 118 396                  | 79%                          |
| R&M: Furniture and equipment   |            | 138 546                  | 144 694                    | 6 148                    | 4%                           | 138 912                  | (5 782)                  | -4%                          | 366                      | 0%                           |



AUDITOR - GENERAL

## The Auditor-General Detailed budget for 2005-06 (continued)

| Description                                    | Notes | Budget<br>2004-05<br>(B) | Forecast<br>2004-05<br>(C) | Variance<br>(C-B)<br>(D) | Variance%<br>(C-B)/B<br>(E) | Budget<br>2005-06<br>(F) | Variance<br>(F-C)<br>(G) | Variance %<br>(F-C)/C<br>(H) | Variance<br>(F-B)<br>(I) | Variance %<br>(F-B)/B<br>(J) |
|--|-------|--------------------------|----------------------------|--------------------------|-----------------------------|--------------------------|--------------------------|------------------------------|--------------------------|------------------------------|
| <b>Auxiliary services (cont.)</b>              |       |                          |                            |                          |                             |                          |                          |                              |                          |                              |
| R&M: Site and buildings                        |       | 62 000                   | 63 441                     | 1 441                    | 2%                          | 112 240                  | 48 799                   | 77%                          | 50 240                   | 81%                          |
| R&M: Leased computers                          |       | 35 000                   | —                          | (35 000)                 | -100%                       | 26 500                   | 26 500                   | 100%                         | (8 500)                  | -24%                         |
| R&M: Office vehicles                           |       | 344 186                  | 360 470                    | 16 284                   | 5%                          | 322 947                  | (37 523)                 | -10%                         | (21 239)                 | -6%                          |
| Printing of audit reports                      |       | 978 075                  | 969 532                    | (8 543)                  | -1%                         | 810 746                  | (158 786)                | -16%                         | (167 329)                | -17%                         |
| Stationery and printing                        |       | 4 008 539                | 3 330 827                  | (677 712)                | -17%                        | 3 783 517                | 452 690                  | 14%                          | (225 022)                | -6%                          |
| Artwork & design                               |       | 701 590                  | 399 722                    | (301 868)                | -43%                        | 227 000                  | (172 722)                | -43%                         | (474 590)                | -68%                         |
| Medical examinations                           |       | 49 600                   | 49 600                     | —                        | 0%                          | 60 000                   | 10 400                   | 21%                          | 10 400                   | 21%                          |
| Freight and removal                            |       | 185 000                  | 116 700                    | (68 300)                 | -37%                        | 120 000                  | 3 300                    | 3%                           | (65 000)                 | -35%                         |
| <b>Communications</b>                          |       | <b>4 309 887</b>         | <b>4 588 791</b>           | <b>278 904</b>           | <b>6%</b>                   | <b>4 214 448</b>         | <b>(374 343)</b>         | <b>-8%</b>                   | <b>(95 439)</b>          | <b>-2%</b>                   |
| Cellphone charges                              | 17    | 700 111                  | 717 904                    | 17 793                   | 3%                          | 719 410                  | 1 506                    | 0%                           | 19 299                   | 3%                           |
| Postage & courier services                     | 17.2  | 656 956                  | 570 346                    | (86 610)                 | -13%                        | 695 640                  | 125 294                  | 22%                          | 38 684                   | 6%                           |
| Telephone charges                              | 17.1  | 2 952 820                | 3 300 541                  | 347 721                  | 12%                         | 2 799 398                | (501 143)                | -15%                         | (153 422)                | -5%                          |
| <b>SURPLUS / (DEFICIT) BEFORE DEPRECIATION</b> |       | <b>47 170 648</b>        | <b>36 999 146</b>          | <b>(10 171 502)</b>      | <b>-22%</b>                 | <b>66 427 282</b>        | <b>29 428 136</b>        | <b>80%</b>                   | <b>19 256 633</b>        | <b>41%</b>                   |
| <b>Depreciation</b>                            |       |                          |                            |                          |                             |                          |                          |                              |                          |                              |
| Depr. motor vehicles                           | 18    | 272 850                  | 569 247                    | 296 397                  | 109%                        | 451 372                  | (117 875)                | -21%                         | 178 522                  | 65%                          |
| Depr. furniture & equipment                    |       | 591 863                  | 1 810 603                  | 1 218 740                | 206%                        | 1 847 413                | 36 810                   | 2%                           | 1 255 550                | 212%                         |
| Depr. computer equipment                       |       | 4 782 424                | 12 703 102                 | 7 920 678                | 166%                        | 13 190 954               | 487 852                  | 4%                           | 8 408 530                | 176%                         |
| Depr. computer software                        |       | 4 273 089                | 3 153 794                  | (1 119 295)              | -26%                        | 6 528 676                | 3 374 882                | 107%                         | 2 255 587                | 53%                          |
| Depr. leasehold improvements                   |       | 353 932                  | 946 278                    | 592 346                  | 167%                        | 644 557                  | (301 722)                | -32%                         | 290 625                  | 82%                          |
| <b>NET SURPLUS / (DEFICIT)</b>                 |       | <b>36 896 491</b>        | <b>17 816 121</b>          | <b>(19 080 369)</b>      | <b>-52%</b>                 | <b>43 764 310</b>        | <b>25 948 189</b>        | <b>146%</b>                  | <b>6 867 819</b>         | <b>19%</b>                   |
| <b>Net surplus ratio before transfers</b>      |       | <b>6%</b>                | <b>3%</b>                  |                          |                             | <b>6%</b>                |                          |                              |                          |                              |
| <b>Repayment of National Treasury loan</b>     |       | <b>1 500 000</b>         | <b>1 500 000</b>           | <b>—</b>                 | <b>0%</b>                   | <b>—</b>                 | <b>(1 500 000)</b>       | <b>-100%</b>                 | <b>(1 500 000)</b>       | <b>-100%</b>                 |
| <b>NET SURPLUS / (DEFICIT) AFTER TRANSFERS</b> |       | <b>35 396 491</b>        | <b>16 316 121</b>          | <b>(19 080 369)</b>      | <b>-54%</b>                 | <b>43 764 310</b>        | <b>27 448 189</b>        | <b>168%</b>                  | <b>8 367 819</b>         | <b>24%</b>                   |
| <b>Net surplus ratio after transfers</b>       |       | <b>6%</b>                | <b>3%</b>                  |                          |                             | <b>6%</b>                |                          |                              |                          |                              |
| <b>CAPITAL</b>                                 |       |                          |                            |                          |                             |                          |                          |                              |                          |                              |
| Motor vehicles                                 | 19    | 19 706 613               | 16 880 435                 | (2 826 178)              | -14%                        | 36 266 242               | 19 385 806               | 115%                         | 16 559 629               | 84%                          |
| Furniture & equipment                          | 19.1  | 645 120                  | 771 785                    | 126 665                  | 20%                         | 200 000                  | (571 785)                | -74%                         | (445 120)                | -69%                         |
| Computer equipment                             | 19.2  | 1 223 623                | 1 923 367                  | 699 744                  | 57%                         | 2 986 419                | 1 063 052                | 55%                          | 1 762 796                | 144%                         |
| Computer software                              | 19.4  | 6 134 200                | 5 941 417                  | (192 783)                | -3%                         | 21 871 456               | 15 930 039               | 268%                         | 15 737 256               | 257%                         |
| Leasehold improvements                         | 19.5  | 10 843 470               | 7 483 633                  | (3 359 837)              | -31%                        | 9 366 617                | 1 882 983                | 25%                          | (1 476 853)              | -14%                         |
|  | 19.3  | 860 200                  | 760 232                    | (99 968)                 | -12%                        | 1 841 750                | 1 081 518                | 142%                         | 981 550                  | 114%                         |
| <b>TOTAL BUDGET</b>                            |       | <b>15 689 878</b>        | <b>(564 314)</b>           | <b>(16 254 192)</b>      | <b>-104%</b>                | <b>7 498 068</b>         | <b>8 062 382</b>         | <b>-1429%</b>                | <b>(8 191 809)</b>       | <b>-52%</b>                  |



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

## **DOCUMENT 2**

# **NOTES TO THE BUDGET: 1 APRIL 2005 - 31 MARCH 2006**



AUDITOR - GENERAL

## 2. INCOME

| Budget item                              | Ref. | '04-05<br>budget | '04-05<br>forecast | Variance      |           | '05-06<br>budget | Change        |            |
|--|------|------------------|--------------------|---------------|-----------|------------------|---------------|------------|
|  |      | '000             | '000               | '000          | %         | '000             | '000          | %          |
|  |      | (1)              | (2)                | (2)-(1)       | (2)-(1)   | (3)              | (3)-(1)       | (3)-(1)    |
| Own hours                                | 2.1  | 456 647          | 430 172            | (26 475)      | -6%       | 510 925          | 54 278        | 12%        |
| Contract work                            | 2.2  | 128 103          | 162 382            | 34 278        | 27%       | 161 936          | 33 833        | 26%        |
| Subsistence and travelling               | 2.4  | 30 101           | 36 899             | 6 798         | 23%       | 30 815           | 714           | 2%         |
| International subsistence and travelling |      | 9 424            | –                  | (9 424)       | -100%     | 8 632            | (792)         | -8%        |
| <b>Total audit income</b>                |      | <b>624 275</b>   | <b>629 452</b>     | <b>14 601</b> | <b>2%</b> | <b>712 308</b>   | <b>88 033</b> | <b>14%</b> |

### EFFECT OF THE ESTIMATES OF THE OFFICE FOR 2005-06 ON TOTAL STATE EXPENDITURE

The total estimated audit costs of R712,31 million for 2005-06 (2004-05: R624,3 million) when compared with the estimate of state expenditure for 2005-06 of approximately R416,09 billion amounts to only 0,17 per cent (2004-05: 0,17 per cent). As such the estimate of the AG has no material effect on the total state expenditure.

#### 2.1 Calculation of own hours income

The tables below reflect the step-by-step detailed analysis of own hours income:

##### 2.1.1 Number of staff

The staff numbers and span of control constitute critical variables and thus a logical starting point in the computation of audit revenue for the AG. Having achieved the ideal span of control at management levels, the analysis below further indicates an encouraging trend of a gradual correction of the span of control at the trainee accountant level towards the long-term target of 12 trainee accountants to one senior manager.



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

| Audit staff              | Medium-term target | '04-05 budget   | '05-06 budget   | '04-05 budget | '05-06 budget | Change        |               | Comments  |
|--------------------------|--------------------|-----------------|-----------------|---------------|---------------|---------------|---------------|---|
|                          | Span of control    | Span of control | Span of control | Staff (1)     | Staff (2)     | Staff (2)-(1) | % (2)-(1)     |   |
| - Business executives    |                    |                 |                 | 16            | 16            | -             | 0,00%         |   |
| - Senior managers        | 1                  | 1               | 1               | 88            | 89            | 1             | 1,14%         | Four provinces created additional centres due to additional MFMA work. This was offset by the loss of three senior manager posts through natural attrition in other BUs which were not filled due to rightsizing of the span of control |
| - Audit managers         | 3                  | 3               | 3               | 257           | 265           | 8             | 3,11%         | The additional audit managers will be appointed to maintain a span-of-control ratio of three audit managers per centre  |
| - Auditors               | 1                  | 6               | 5               | 534           | 467           | (67)          | -12,55%       | Reduction of auditors during the 2004-05 year due to natural attrition and resignations replaced with trainee accountants   |
| - Trainee accountants    | 12                 | 5               | 7               | 397           | 630           | 233           | 58,69%        | In line with the office's strategy to develop the trainee accountant scheme as well as to ensure the rightsizing of the span of control of senior managers in the business units to 12 trainees to a senior manager                     |
| - Administrative staff   | 1                  | 1               | 1               | 88            | 70            | (18)          | -20,45%       | Rightsizing of the span of control  |
| <b>Total audit staff</b> | <b>18</b>          | <b>16</b>       | <b>17</b>       | <b>1 380</b>  | <b>1 537</b>  | <b>157</b>    | <b>11,38%</b> |   |



## AUDITOR - GENERAL

### 2.1.2 Recoverable own hours

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

The calculation of recoverable hours is based on (the total available hours of 2 033,6 hours multiplied by (X) the recovery rate per band multiplied by (X) number of staff per band per 2.1.1 above).

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

| Budget item            | Expected recovery rate per band '04-05 | Expected recovery rate per band '05-06 | '04-05 budget | '05-06 budget | Change   |          | Comments  |
|------------------------|--|--|---------------|---------------|----------|----------|---|
|                        |  |  | Hours         | Hours         | Hours    | %        |   |
|                        |  |  | (1)           | (2)           | (2)-(1)  | (2)-(1)  |   |
| Audit staff            |  |  |               |               |          |          | Due to the time spent on relationship and strategic matters, the corporate executives' involvement in operational auditing matters is expected to reduce significantly<br><br>} Trend in line with personnel movements reflected in 2.1.1 above |
| - Corporate executives | 20,00%                                 | 0,00%                                  | 1 600         | –             | (1 600)  | -100,00% |   |
| - Business executives  | 50,00%                                 | 50,00%                                 | 16 000        | 16 269        | 269      | 1,68%    |   |
| - Senior managers      | 67,50%                                 | 67,50%                                 | 118 800       | 122 169       | 3 369    | 2,84%    |   |
| - Audit managers       | 70,00%                                 | 70,00%                                 | 359 800       | 377 233       | 17 433   | 4,85%    |   |
| - Auditors             | 72,50%                                 | 72,50%                                 | 774 300       | 688 526       | (85 774) | -11,08%  |   |
| - Trainee accountants  | 71,00%                                 | 71,00%                                 | 563 740       | 909 629       | 345 889  | 61,36%   |   |
|                        |  |  |               |               |          |          | Due to an increased focus on internal administration coordination at business unit level, the recovery rate of administrative personnel is expected to reduce significantly   |
| - Administrative staff | 20,00%                                 | 0,00%                                  | 35 200        | –             | (35 200) | -100,00% |   |
| Total                  | 71,50%                                 | 71,50%                                 | 1 869 440     | 2 113 826     | 244 386  | 13,07%   |   |

Refer 2.1.4 for calculation of total own hours income





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

### 2.1.3 Recommended tariffs

This is the final and important variable to compute the own hours audit income. The detailed determination thereof is reflected in document 5. This variable is largely influenced by the movement in pay levels of audit staff and the efficiencies with which the span of control of each business unit is managed. In this regard, the larger the number of trainee accountants, the lower the average tariff for the audit. The analysis of the recommended average tariffs per band is as follows:

| Budget item           | '04-05<br>budget | '05-06<br>budget | Change     |            | Comments  |
|-----------------------|------------------|------------------|------------|------------|---|
|                       | Rand/hour        | Rand/hour        | Rand/hour  | %          |   |
|                       | (1)              | (3)              | (3)-(1)    | (3)-(1)    |   |
| Audit staff           |                  |                  |            |            |   |
| - Business executives | 800              | 850              | 50         | 6%         | Trend in line with increase in salaries   |
| - Senior managers     | 636              | 702              | 66         | 10%        | This is due to the average annual increase of 4% and the market salary positioning of 6%                            |
| - Audit managers      | 415              | 456              | 41         | 10%        | This is due to the average annual salary increase of 4% and the market positioning of 6%                            |
| - Auditors            | 196              | 211              | 15         | 8%         | This is due to the movement of auditors to assistant managers at higher brackets when compared to the previous year |
| - Trainee accountants | 112              | 104              | (8)        | -7%        | This is due to the annual intake of first-year trainees at the lower rates as reflected in 2.1.1 above              |
| <b>Office average</b> | <b>244</b>       | <b>242</b>       | <b>(3)</b> | <b>-1%</b> | <b>See note 1</b>   |

Refer 2.1.4 for calculation of total own hours income. Refer also to document 5 for the detailed internal tariff schedule for 2005-06

#### Note 1

*It is pleasing to note that the effort put into getting the span of control correct at trainee accountant level will have a positive effect of decreasing the average tariff charged to auditees from R244 to R242.*

### 2.1.4 Calculation of own hours income

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

| Budget item                     | '04-05<br>budget | '05-06<br>budget | Change        |            |
|---------------------------------|------------------|------------------|---------------|------------|
|                                 | Rand             | Rand             | Rand          | %          |
|                                 |                  |                  | (3)-(1)       | (3)-(1)    |
| Recoverable hours               | 1 869 440        | 2 113 826        | 244 386       | 13%        |
| Average tariff                  | 244              | 242              | (3)           | -1%        |
| <b>Own hours income (R'000)</b> | <b>456 647</b>   | <b>510 925</b>   | <b>54 278</b> | <b>12%</b> |

Refer 2.1.5 below

Note 2



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

**Note 2**

The 12% increase in own hours income is mainly due to additional work (13%) originating from the new regularity audits, increase in the regularity audit scope and specialised audits, details of which are analysed per segment in 2.1.5 below. This is offset by 1% reduction in the average tariff (refer 2.1.3).

## 2.1.5 Own hours increase analysis by segment

This is another useful analysis that reflects the main drivers of the unit cost of the audits and is split between regularity audits per segment and specialised audits per segment. The table below focuses on the change from the 2004-05 budget to the 2005-06 budget.

**CHANGE IN OWN HOURS BETWEEN 2004-05 BUDGET AND 2005-06 BUDGET**

| Regularity audits |                  | Regularity - normal | Catch-up work   | New audits     | Increase in scope | Total          |
|-------------------|------------------|---------------------|-----------------|----------------|-------------------|----------------|
| National          | Hours            | 35 310              | –               | –              | 18 689            | <b>53 999</b>  |
|                   | Rand '000        | 3 573               | –               | –              | 5 155             | <b>8 728</b>   |
| Provincial        | Hours            | 39 826              | (11 101)        | –              | 34 162            | <b>62 887</b>  |
|                   | Rand '000        | (1 082)             | (3 726)         | –              | 7 306             | <b>2 497</b>   |
| Local             | Hours            | 19 128              | (9 190)         | 55 388         | 6 445             | <b>71 771</b>  |
|                   | Rand '000        | (2 033)             | (2 120)         | 15 255         | 2 383             | <b>13 485</b>  |
| Statutory         | Hours            | (18 847)            | (600)           | 54 342         | 5 663             | <b>40 558</b>  |
|                   | Rand '000        | (7 269)             | (164)           | 14 196         | 1 686             | <b>8 450</b>   |
| Other             | Hours            | 5 784               | –               | –              | –                 | <b>5 784</b>   |
|                   | Rand '000        | 6 868               | –               | –              | –                 | <b>6 868</b>   |
| <b>Total</b>      | <b>Hours</b>     | <b>81 201</b>       | <b>(20 891)</b> | <b>109 730</b> | <b>64 959</b>     | <b>234 999</b> |
|                   | <b>Rand '000</b> | <b>58</b>           | <b>(6 011)</b>  | <b>29 451</b>  | <b>16 530</b>     | <b>40 028</b>  |

Note 3

Note 4

Note 5

Note 6

| Specialised audits      |                  | Performance and value for money | Special investigations | Information systems |  | Total specialised audit |
|-------------------------|------------------|---------------------------------|------------------------|---------------------|--|-------------------------|
| National and provincial | Hours            | 29 232                          | 2 102                  | (15 720)            |  | <b>15 614</b>           |
|                         | Rand '000        | 15 206                          | 1 757                  | (3 439)             |  | <b>13 524</b>           |
| Local                   | Hours            | 3 609                           | (293)                  | (1 358)             |  | <b>1 958</b>            |
|                         | Rand '000        | 1 702                           | 161                    | 375                 |  | <b>2 238</b>            |
| Statutory               | Hours            | (56)                            | (859)                  | (7 270)             |  | <b>(8 185)</b>          |
|                         | Rand '000        | 185                             | (197)                  | (1 499)             |  | <b>(1 512)</b>          |
| <b>Total</b>            | <b>Hours</b>     | <b>32 785</b>                   | <b>950</b>             | <b>(24 348)</b>     |  | <b>9 387</b>            |
|                         | <b>Rand '000</b> | <b>17 093</b>                   | <b>1 721</b>           | <b>(4 564)</b>      |  | <b>14 250</b>           |

Note 7

Note 8

|                                  |                  |  |  |  |  |                |                    |
|----------------------------------|------------------|--|--|--|--|----------------|--------------------|
| <b>Total change in own hours</b> | <b>Hours</b>     |  |  |  |  | <b>244 386</b> | <b>Refer 2.1.4</b> |
|                                  | <b>Rand '000</b> |  |  |  |  | <b>54 278</b>  | <b>Refer 2.1.4</b> |



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

## Regularity audits

### Note 3

Regularity - normal (R58 000)

The additional 81 201 hours represent an increase in normal regularity audit hours to carry out interim audits in much more detail in order to add more value to our reporting process and maximise efficiencies for the final audit. Due to efficient span of control, this value-adding process will be delivered at minimal extra cost to the auditee (R58 000). This is the first sign of the plough-back to the government that will be delivered as a result of continuous efficiencies in the management of the audit process.

### Note 4

Catch-up work (-R6,011 million)

Even though the catch-up work hours are expected to reduce (by 20 891 hours amounting to R6,011 million) as a result of the provinces and statutory bodies being up-to-date, there is still catch-up to be done at some of the local authorities in the Eastern Cape, KwaZulu-Natal, Northern Cape and Limpopo (amounting to 29 388 hours and R7,496 million). This is due to the delay in the completion of financial statements by the local authorities which are expected to be submitted by the June 2004 year-end.

### Note 5

New audits (R29,451 million)

#### Local authorities

With the enactment of the MFMA, municipal audits at all the metropolitan municipalities in the Western Cape, KwaZulu-Natal and Gauteng will be performed by the office, with effect from the 2005 financial year. This is expected to amount to 55 388 hours and R15,255 million. These audits will also be utilised for providing audit exposure to the trainee accountants.

#### Statutory bodies

With the growth of the trainee accountant scheme, some audits previously contracted out will be carried out by the office in order to provide more exposure to the trainee accountants. The Public Audit Act will further facilitate the initiative in the future. This is expected to amount to 54 342 hours and R12,183 million.

### Note 6

Increase in scope (R16,530 million)

The increase in the scope of the audits is driven largely by the structured and consistent implementation of compliance procedures and the fraud and error auditing standard necessitated by the South African Auditing Standards. The impact of this standard on own audit hours is 3%. **With regard to national and provincial departments, the largest impact will be at the big departments. At local government level the largest impact will be at the metropolitan and big municipalities only.** High-risk statutory bodies will also be affected by this scope increase. Overall this is expected to amount to 64 959 hours and R16,530 million.



## AUDITOR - GENERAL

### Specialised audits

#### Note 7

Performance auditing & value-for-money auditing (R17,093 million)

The transversal performance auditing portion of the increase (amounting to 7 409 hours and R3,386 million) relates mainly to the continuation of Housing and Welfare performance audits that commenced in the 2004-05 year, as well as a provision for new focus areas to be carried out at national and provincial level.

In addition to the regularity auditing work, business units will carry out specific value-for-money audits (amounting to 19 051 hours and R8,087 million). The main audit themes will be the following:

| Theme   | Audit coverage                                     |
|---|--|
| 1. Human resource management                                  | All national and provincial departments            |
| 2. Assessment of ICT implementation in government departments | All national and provincial departments            |
| 3. Housing: subsidy process                                   | A selection of provincial and national departments |
| 4. Supply chain management                                    | All national and provincial departments            |
| 5. Investment in public infrastructure                        | A selection from all three spheres of government   |

#### Note 8

Information systems auditing (R-4,564 million)

Without reducing the scope of the work, the improved coordination of national and provincial information systems auditing resources, coupled with the improved span of control (at audit manager and trainee accountant level) is expected to yield efficiencies in this area.

### 2.2 Contract work income movement

Given the importance of audit firms in contributing strategic resources towards the audit process, it is the office's practice to allocate at least 20% of audit work to the firms. This particularly assists the office to optimise its own staff efficiencies whilst simultaneously offering a meaningful proportion of work to the private audit firms.

| Budget item              | '04-05 budget to '05-06 budget '000 |            | Comments  |
|--------------------------|-------------------------------------|------------|---|
| CW hours income: 2004-05 | 128 103                             |            |   |
| Total variance           | 33 833                              |            |   |
| - Rate variance          | 10 734                              | 8%         | In addition to the average increase of 6% in the SAICA AG tariffs, the further 2% is necessitated by the involvement of audit partners to perform the second partner review at all the big departments as required by the new SAAS quality control standard |
| - Volume variance        | 16 983                              | 13%        | This is largely in line with the volume increase in the own hours income (refer 2.1.4 above)  |
| - S&T on contract work   | 6 116                               | 5%         | This represents a new allowance to the audit firms for compensation for long distances driven to local authorities  |
| CW hours income: 2005-06 | <b>161 936</b>                      | <b>26%</b> |   |

Contract work ratio

24%

This is in line with the office practice to award at least 20% of work to firms



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

## 2.3 Subsistence and travelling recoverable

| Budget item                            | '04-05<br>budget | '04-05<br>forecast | Variance       |               | '05-06<br>budget | Change      |               | Ref. 2.3.2<br>Ref. 2.3.3 |
|--|------------------|--------------------|----------------|---------------|------------------|-------------|---------------|--------------------------|
|  | '000             | '000               | '000           | %             | '000             | '000        | %             |                          |
|  | (1)              | (2)                | (2)-(1)        | (2)-(1)       | (3)              | (3)-(1)     | (3)-(1)       |                          |
| Subsistence and travelling recoverable | 30 101           | 36 899             | 6 797          | 22,58%        | 30 815           | 714         | 2,37%         |                          |
| International S&T                      | 9 424            | –                  | (9 424)        | -100,00%      | 8 632            | (792)       | -8,40%        |                          |
| <b>Total</b>                           | <b>39 525</b>    | <b>36 899</b>      | <b>(2 626)</b> | <b>-6,64%</b> | <b>39 447</b>    | <b>(79)</b> | <b>-0,20%</b> | Ref. 2.3.1               |

### 2.3.1 Budget '04-05 to forecast '04-05 variance

The budgeted staff complements in the audit business units were not filled with the resultant saving in the recoverable S&T.

### 2.3.2 Budget '04-05 to budget '05-06 change

The office took a conscious decision to limit the S&T budget to last year's forecast levels plus 10% for increases in rates of accommodation.

### 2.3.3 The combination of the loss of the WHO audit and the reduced exchange rate assumption from R8,50 to R7,00 per US\$1 are the main drivers of the reduction in international S&T. This is slightly offset by the increased cost of international travel for the remaining UN agency audits.

## 2.4 Surplus on foreign contract

With the exchange rate strengthening, this surplus is not expected to materialise in the 2005-06 budget period.

## 2.5 Interest received

The 2004-05 budget to 2004-05 forecast reduction (of R2,132 million) is mainly due to the reduction in the interest rates in line with the economic trends from 9% to 6,5%. Assuming a 6,5% interest rate for the 2005-06 budget, the increase of R1,302 million from the 2004-05 forecast is expected to be generated mainly from the PIC compound interest.

## 2.6 Other income

The main driver is the secretarial work performed on behalf of the AFROSAI and SADCOSAI. The increase in the 2004-05 forecast (of R160 751) is due to a special request for AFROSAI training. The slight decrease (of R279 648) from the 2004-05 forecast to 2005-06 budget is mainly because of the unfavourable foreign exchange movements.



## AUDITOR - GENERAL

## 3. PERSONNEL EXPENDITURE

| Budget item                    | Note | '04-05<br>budget | '04-05<br>forecast | Variance        |               | '05-06<br>budget | Change        |               |
|--------------------------------|------|------------------|--------------------|-----------------|---------------|------------------|---------------|---------------|
|                                |      | '000             | '000               | '000            | %             | '000             | '000          | %             |
|                                |      | (1)              | (2)                | (2)-(1)         | (2)-(1)       | (3)              | (3)-(1)       | (3)-(1)       |
| Leave pay provision            | 3.1  | 3 173            | 3 173              | –               | 0,00%         | 3 348            | 175           | 5,50%         |
| Medical aid provision          | 3.2  | 5 858            | 4 962              | (896)           | -15,30%       | 5 409            | (449)         | -7,67%        |
| Statutory levies (RCSC)        | 3.3  | 1 065            | 781                | (283)           | -26,62%       | 1 190            | 126           | 11,80%        |
| Normal salary and benefits *** | 3.4  | 293 536          | 284 683            | (8 853)         | -3,02%        | 325 104          | 31 568        | 10,75%        |
| Foreign allowances             | 3.5  | 1 253            | 1 253              | –               | 0,00%         | 1 253            | –             | 0,00%         |
| Other incentives               | 3.6  | 1 213            | 1 163              | (49)            | -4,05%        | 1 239            | 26            | 2,17%         |
| UIF and WCA                    | 3.7  | 1 912            | 1 305              | (606)           | -31,73%       | 1 900            | (12)          | -0,62%        |
| <b>Total</b>                   |      | <b>308 008</b>   | <b>297 320</b>     | <b>(10 688)</b> | <b>-3,47%</b> | <b>339 441</b>   | <b>31 433</b> | <b>10,21%</b> |

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

**Discretionary spending 1:**

**The Committee is requested to consider the extending of the 7,5% discretionary allowance on personnel expenditure to the 2005-06 budget period for personnel expenditure (amounting to R11,5 million as shown in the table below) of which the certainty is dependent on the conclusion of the corporate services restructuring. Thus this amount is ringfenced for final confirmation by 31 March 2005. In this regard specific approval is being requested for this amount as well.**

| Employee group                | Ringfenced vacancies pending restructuring at 2005-06 salary scales |                   | Total     |                   |
|-------------------------------|---|-------------------|-----------|-------------------|
|                               | No.   | Amount            | No.       | Amount            |
| Corporate executives          | –   | –                 | –         | –                 |
| Business executives           | 2   | 1 239 552         | 2         | 1 239 552         |
| Senior managers               | 4   | 1 889 720         | 4         | 1 889 720         |
| Managers                      | 14  | 5 245 900         | 14        | 5 245 900         |
| Specialists and practitioners | 11  | 1 862 425         | 11        | 1 862 425         |
| Administrative staff          | 10  | 1 266 854         | 10        | 1 266 854         |
| <b>Total</b>                  | <b>41</b>   | <b>11 504 450</b> | <b>41</b> | <b>11 504 450</b> |

## 3.1 Leave pay provision

Leave pay provision is influenced by the accumulation of leave days allowed in terms of the policy as well as pay increase levels for staff. The level of accumulated leave is expected not to deviate from last year, as new appointments are no longer entitled to accumulated leave. Therefore the increase in the estimate is based on the increase of 6% in salaries.



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

### 3.2 Post-retirement medical aid provision

The PRMA estimates were based on actuarial projections for the 2004-05 forecast and 2005-06 budget.

### 3.3 Statutory leave (RSC)

These levies are based on the full staff complement (refer 3.4.1 above) and have been calculated for the full year as it is anticipated that the most vacancies will be filled before the beginning of the 2005-06 financial year. The rate used is in terms of the relevant legislation which is assumed to be constant during the budget year, hence the budget-to-budget increase of 10% is in line with that of the staff remuneration.

### 3.4 Normal salary

The tables below set out the detailed movement of staff numbers and costs, based on an increase of 6% (effective increase of 4,5%) and the business requirements for new staff. The current staff reflects the actual position as at 31 October 2004. The filling of vacancies will take place during the 2004-05 period and the full staff complement is expected to be in place by the beginning of the new financial year.

#### 3.4.1 Audit staff

| Employee group       | Current staff at 2005-06 salary scales |                    | Vacancies filled between December 2004 and March 2005 at 2005-06 salary scales |                   | Total        |                    |
|----------------------|--|--------------------|--|-------------------|--------------|--------------------|
|                      | No.                                    | Amount             | No.  | Amount            | No.          | Amount             |
| Corporate executives | –                                      | –                  | –  | –                 | –            | –                  |
| Business executives  | 16                                     | 10 638 932         | 0  | –                 | 16           | 10 638 932         |
| Senior managers      | 85                                     | 40 951 238         | 4  | 1 957 091         | 89           | 42 908 329         |
| Managers             | 245                                    | 79 632 057         | 20   | 6 384 228         | 265          | 86 016 285         |
| Auditors             | 428                                    | 67 668 926         | 39   | 7 559 062         | 467          | 75 227 988         |
| Trainee accountants  | 419                                    | 31 391 542         | 211  | 14 407 203        | 630          | 45 798 745         |
| Administrative staff | 69                                     | 6 505 960          | 1  | 156 750           | 70           | 6 662 710          |
| <b>Total</b>         | <b>1 262</b>                           | <b>236 788 656</b> | <b>275</b>   | <b>30 464 333</b> | <b>1 537</b> | <b>267 252 989</b> |

#### 3.4.2 Support staff

| Employee group                | Current staff at 2005-06 salary scales |                   | Vacancies |                | Total      |                   |
|-------------------------------|--|-------------------|-----------|----------------|------------|-------------------|
|                               | No.                                    | Amount            | No.       | Amount         | No.        | Amount            |
| Corporate executives          | 7                                      | 6 410 927         | –         | –              | 7          | 6 410 927         |
| Business executives           | 4                                      | 2 729 364         | –         | –              | 4          | 2 729 364         |
| Senior managers               | 17                                     | 8 588 329         | –         | –              | 17         | 8 588 329         |
| Managers                      | 58                                     | 20 457 193        | 1         | 335 445        | 59         | 20 792 638        |
| Specialists and practitioners | 61                                     | 13 176 474        | 1         | 202 730        | 62         | 13 379 204        |
| Trainee accountants           | –                                      | –                 | –         | –              | 0          | 0                 |
| Administrative staff          | 54                                     | 5 950 241         | –         | –              | 54         | 5 950 241         |
| <b>Total</b>                  | <b>201</b>                             | <b>57 312 527</b> | <b>2</b>  | <b>538 175</b> | <b>203</b> | <b>57 850 702</b> |



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

## 3.4.3 Total staff

| Employee group                       | Current staff at 2005-06 salary scales |                    | Vacancies  |                   | Total        |                    |
|--------------------------------------|--|--------------------|------------|-------------------|--------------|--------------------|
|                                      | No.                                    | Amount             | No.        | Amount            | No.          | Amount             |
| Corporate executives                 | 7                                      | 6 410 927          | 0          | –                 | 7            | 6 410 927          |
| Business executives                  | 20                                     | 13 368 296         | 0          | –                 | 20           | 13 368 296         |
| Senior managers                      | 102                                    | 49 539 568         | 4          | 1 957 091         | 106          | 51 496 658         |
| Managers                             | 303                                    | 100 089 250        | 21         | 6 719 673         | 324          | 106 808 923        |
| Auditors, specialists, practitioners | 489                                    | 80 845 400         | 40         | 7 761 792         | 529          | 88 607 192         |
| Trainee accountants                  | 419                                    | 31 391 542         | 211        | 14 407 203        | 630          | 45 798 745         |
| Administrative staff                 | 123                                    | 12 456 200         | 1          | 156 750           | 124          | 12 612 950         |
| <b>Total</b>                         | <b>1 463</b>                           | <b>294 101 183</b> | <b>277</b> | <b>31 002 508</b> | <b>1 740</b> | <b>325 103 692</b> |

## 3.5 Foreign allowances and taxes

This amount represents an allowance for possible taxes due to SARS in respect of the New York based staff. The payment thereof is however dependent on a pending directive from SARS.

## 3.6 Other incentives

| Budget item                      | Percentage increase | Comments   |
|----------------------------------|---------------------|--|
| Group life scheme                | 6%                  | The increase is linked to the salary increase of 6%. The office contributes 100% to the scheme                                   |
| Long service awards              | -1%                 | This is used on the number of entitlements as per the HC database  |
| Business unit recognition scheme | 0%                  | This is used for team excellence recognition initiatives. The amount is capped at R500 000 and is equitably allocated to all BUs |

## 3.7 UIF &amp; WCA

These levies are based on the full staff complement (refer 3.4.1 above) and have been calculated for the full year as it is anticipated that most vacancies will be filled before the beginning of the 2005-06 financial year. The rate used is in terms of the relevant legislation.

## 4. CONTRACT WORK - IRRECOVERABLE

| Budget item                   | '04-05 budget | '04-05 forecast | Variance     |              | '05-06 budget | Change       |              |
|-------------------------------|---------------|-----------------|--------------|--------------|---------------|--------------|--------------|
|                               | '000 (1)      | '000 (2)        | '000 (2)-(1) | % (2)-(1)    | '000 (3)      | '000 (3)-(1) | % (3)-(1)    |
| Contract work - irrecoverable | 6 348         | 6 728           | 380          | 5,98%        | 6 498         | 149          | 2,35%        |
| <b>Total</b>                  | <b>6 348</b>  | <b>6 728</b>    | <b>380</b>   | <b>5,98%</b> | <b>6 498</b>  | <b>149</b>   | <b>2,35%</b> |





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

The analysis below reflects details of the nature of expenditure. As these activities are by nature not repetitive, the comparatives and commentary for the previous year are not provided, since it does not relate to the 2005-06 budget.

| Business unit                           | '05-06<br>budget | Ringfenced<br>amounts<br>pending<br>restructuring | Total        | Comments (Nature of expense)  |
|---|------------------|---|--------------|---|
|   | '000             | '000  | '000         |   |
| Communication & Publishing              | 352              | 279   | 631          | Brand & imaging research including documentary history of the office  |
| Information & Communications Technology | 1 611            | –   | 1 611        | Rollout of MS Select and MS Office, CMDB implementation, SMS and active directory setup   |
| Finance                                 | 108              | 210   | 318          | Costing project (R210 000 ringfenced pending restructuring). Assistance during peak times   |
| Technical Support Services              | 980              | –   | 980          | Public Accountants' & Auditors' Board reviews   |
| Parliamentary                           | 183              | –   | 183          | Assistance in the business re-engineering of the Parliamentary business unit as well as the development of a strategy on knowledge management sharing in a parliamentary environment  |
| Product Innovation                      | 405              | 721   | 1 126        | Development and update of guidelines, information systems risk assessments, audit practices. (R721 550 has been ringfenced pending the restructuring)   |
| Corporate Services                      | 1 404            | 245   | 1 649        | Restructuring costs for consultants assisting have been included in the forecast. Assistance with the Corporate Manual, Record Management Framework for knowledge management, Control Self-Assessment tool enhancements. The external chair for the Employment Equity Forum, the Corporate Governance implementation and rollout have been budgeted for in the 2005-06 year. (R245 000 has been ringfenced pending the restructuring) |
| <b>Total</b>                            | <b>5 043</b>     | <b>1 455</b>                                      | <b>6 498</b> |   |

**The 2005-06 budget has also made provision for expenditure (amounting to R1,45 million) of which the certainty is dependent on the conclusion of the corporate services restructuring. Thus this amount is ringfenced for final confirmation by 31 March 2005.**

#### 5. S&T IRRECOVERABLE

| Budget item       | '04-05<br>budget | '04-05<br>forecast | Variance     |               | '05-06<br>budget | Change       |               |
|-------------------|------------------|--------------------|--------------|---------------|------------------|--------------|---------------|
|                   | '000             | '000               | '000         | %             | '000             | '000         | %             |
|                   | (1)              | (2)                | (2)-(1)      | (2)-(1)       | (3)              | (3)-(1)      | (3)-(1)       |
| S&T irrecoverable | 2 435            | 4 379              | 1 944        | 79,85%        | 3 908            | 1 473        | 60,51%        |
| <b>Total</b>      | <b>2 435</b>     | <b>4 379</b>       | <b>1 944</b> | <b>79,85%</b> | <b>3 908</b>     | <b>1 473</b> | <b>60,51%</b> |



## AUDITOR - GENERAL

The variance of R1,944 million between the 2004-05 budget compared to the 2004-05 forecast is due mainly to the overstatement of the payback amount relating to the utilisation of the video-conferencing facility. This translates to R1,473 million when compared to the 2005-06 budget.

| Business unit              | Total amount without video-conferencing | Reduction due to video-conferencing | '04-05 budget | Comments (nature of expense)  |
|----------------------------|---|-------------------------------------|---------------|---|
|                            | '000                                    | '000                                | '000          |   |
| Communication & Publishing | 123                                     | 48                                  | 76            | For assisting regions with events coordination  |
| Audit Services             | 1 237                                   | 66                                  | 1 145         | Mainly for provinces where there is more than one office, e.g. Eastern Cape, KwaZulu-Natal and North West Province, the S&T costs of the senior management workshop |
| Corporate Services         | 319                                     | 217                                 | 102           | For the knowledge management champions to visit Pretoria  |
| Employment Equity          | 595                                     | 5                                   | 590           | S&T for EE Forum members to attend meetings and for the Women's Day event which will be centrally held  |
| Corporate Executives       | 874                                     | 47                                  | 827           | Travel by the AG, CEO and CEs to the provincial business units for meetings, VA/OA sessions and feedback sessions   |
| Human Capital              | 754                                     | 216                                 | 538           | Travel to provinces for assessment sessions and recruitment interviews  |
| ICT                        | 323                                     | 106                                 | 216           | PeopleSoft roll-out to the regions and Microsoft Select and Office roll-out   |
| Parliamentary Services     | 178                                     | 94                                  | 84            | Travel to head office and APAC conference costs   |
| Product Innovation         | 491                                     | 184                                 | 306           | TeamMate and technical training rollout   |
| TSS                        | 262                                     | 240                                 | 22            | Meetings with stakeholders  |
| <b>Total</b>               | <b>5 155</b>                            | <b>1 222</b>                        | <b>3 908</b>  |   |

## 6. ACCOMMODATION

### 6.1 Rentals

The 3% increase in rentals from the 2004-05 budget to the 2005-06 budget is based on the rental escalations per lease agreements of 10% which is offset by 7% income on the planned sub-letting of the head office ground floor.

The following benchmarks were considered to assess the reasonableness of our rental expenditure. Overall the benchmarks indicate that the office expenditure in all regions is within acceptable industry norms.



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

| Location      | Square metres occupied | Total staff establishment | Annual cost       | OAG - square metres per staff member | Industry benchmark square metres per staff member | Monthly cost per square metre | Industry benchmark monthly cost per square metre |
|---------------|------------------------|---------------------------|-------------------|--------------------------------------|---|-------------------------------|--|
| Western Cape  | 1 500                  | 144                       | 976 640           | <b>10,4</b>                          | <b>15,6</b>                                       | 54                            | 76   |
| Eastern Cape  | 2 215                  | 157                       | 1 267 638         | <b>14,1</b>                          | <b>15,6</b>                                       | 48                            | 56   |
| Mpumalanga    | 811                    | 60                        | 431 002           | <b>13,5</b>                          | <b>15,6</b>                                       | 44                            | 49   |
| KwaZulu-Natal | 1 957                  | 171                       | 633 900           | <b>11,4</b>                          | <b>15,6</b>                                       | 27                            | 50   |
| North West    | 1 430                  | 82                        | 1 005 497         | <b>17,4</b>                          | <b>15,6</b>                                       | 59                            | 75   |
| Limpopo       | 1 414                  | 80                        | 924 000           | <b>17,7</b>                          | <b>15,6</b>                                       | 54                            | 61   |
| Northern Cape | 994                    | 57                        | 531 574           | <b>17,4</b>                          | <b>15,6</b>                                       | 45                            | 59   |
| Johannesburg  | 1 007                  | 154                       | 686 520           | <b>6,5</b>                           | <b>15,6</b>                                       | 57                            | 59   |
| Free State    | 1 743                  | 105                       | 982 444           | <b>16,6</b>                          | <b>15,6</b>                                       | 47                            | 50   |
| Pretoria      | 10 919                 | 771                       | 9 944 212         | <b>15,2</b>                          | <b>15,6</b>                                       | 76                            | 80   |
| <b>Total</b>  | <b>23 990</b>          | <b>1 781</b>              | <b>17 383 427</b> | <b>13,5</b>                          | <b>15,6</b>                                       | <b>60</b>                     | <b>70</b>  |

Refer 3.4.3  
aboveRefer  
document 1  
page 22

- 6.2 When comparing the 2004-05 budget to the 2005-06 budget, the increase of 10% is based on service agreements, most of which are linked to the rental agreements. Hence this is in line with the rental increase of 10% in 6.1 above (excluding the sub-lease rental income).

## 7. LIAISON

### 7.1 Stakeholder relationships

#### 7.1.1 Budget '04-05 to forecast '04-05 variance

The reduction of 25% is largely due to the change in the envisaged approach to stakeholder relationships, e.g. the reduction in the TV broadcasts which are replaced by CEO visits to the business units and performing the coordination of stakeholder functions in-house.

#### 7.1.2 Budget '04-05 to budget '05-06 change

The increase in the liaison account is mainly due to the focused effort to improve our internal and external stakeholder relationship management. This is part of the office's strategy to focus on the employee satisfaction in the workplace, auditees, suppliers and public accounts committees. An allocation of R720 per staff member has been allowed for internal liaison.

An amount of R20 000 per provincial business executive, R10 000 per national business executive and R5 000 per senior manager has been allowed for external stakeholder liaison.

In addition to the above, other activities include the initiatives in marketing and promoting the office by the corporate executive team (AG, CEO and CEs) and centrally coordinated activities by the Communication and Publishing component. These include the stakeholder surveys, "Take a Girl Child to Work" campaign, and preliminary work for the office's branding and imaging strategy.



## AUDITOR - GENERAL

### 7.2.2 Budget '04-05 to budget '05-06 change

The business units are expected to have at least three breakaway sessions to continually reaffirm staff alignment with the office's strategic goals. For each session the business units are allowed an average of R300 per staff member.

### 7.3 Foreign visitors

These relate to hospitality expenses for foreign visitors from supreme audit institutions on a reciprocal basis. This is based on the expected visitors for the following year. The reduced forecast is due to cancellation/deferral of scheduled visits.

### 7.4 Overseas travel

| Budget item           | Ref. | '04-05<br>budget | '04-05<br>forecast | Variance    |               | '05-06<br>budget | Change    |              |
|-----------------------|------|------------------|--------------------|-------------|---------------|------------------|-----------|--------------|
|                       |      | '000             | '000               | '000        | %             | '000             | '000      | %            |
|                       |      | (1)              | (2)                | (2)-(1)     | (2)-(1)       | (3)              | (3)-(1)   | (3)-(1)      |
| Auditor-General & CEO | 1    | 372              | 379                | 7           | 1,93%         | 402              | 30        | 8,06%        |
| Other                 | 2    | 595              | 546                | (49)        | -8,24%        | 623              | 28        | 4,71%        |
| <b>Total</b>          |      | <b>967</b>       | <b>925</b>         | <b>(42)</b> | <b>-4,32%</b> | <b>1 025</b>     | <b>58</b> | <b>6,00%</b> |

1. AG and CEO
  - AG INTOSAI global working group
  - AFROSAI activities
  - Contingency for unplanned visits to two countries on invitation

2. Various international technical and study tours

All overseas travel will be supported by a detailed motivation to Exco for approval.

### 8. CONTROL BODIES

#### 8.1 Oversight bodies

##### 8.1.1 Budget '04-05 to forecast '04-05 variance

During the transitional period between the elections and the passing of the Public Audit Act by Parliament, no oversight body for the office was established, hence the much reduced forecast amount. The oversight function was performed by the Auditor-General with the support of the Ad Hoc Audit Committee.

##### 8.1.2 Budget '04-05 to budget '05-06 change

The full sitting of the advisory board to the AG in terms of the new Public Audit Act and its sub-committees has been budgeted for the 2005-06 year. The budgeted amount is based on the fees for four sittings of the advisory board to the AG together with the necessary sub-committee meetings. The reduced cost is mainly due the smaller composition of the board compared to the Audit Commission.



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

## 8.2 SCOPA liaison

The increase from the 2004-05 period to the 2005-06 budget is mainly due to planned increase in liaison and knowledge sharing with the SCOPA and PPAC members.

## 9. AUDIT FEES

### 9.1 External audit fees

Included in the external audit fees are fees for the audit of compliance with the BU balanced scorecard by the office. The final audit fee budget is approved by the Audit Committee on approving the external audit plan. The reason for the flat fee (of R850 000) from the 2004-05 period to the 2005-06 budget is based on the effort that the Finance and Human Capital components are expected to put into coordinating the efficient presentation to the auditors of the financial year-end and balanced scorecard information.

### 9.2 Internal audit fees

#### 9.2.1 Budget '04-05 to forecast '04-05 variance

The increase (of 24%) in the forecast is mainly due to increased work on PeopleSoft standard operating procedures and controls (both manual and system procedures, particularly the day-to-day operating controls).

#### 9.2.2 Budget '04-05 to budget '05-06 change

The reason for the flat fee (of R1,165 million) from the 2004-05 period to the 2005-06 budget is based on the fact that management is expected to continuously put adequate effort into monitoring compliance with established business processes through the Control Self-Assessment tool. While this is expected to reduce the internal audit fee, there is a need for increased involvement of internal auditors in assisting with the development of standard operating procedures for additional business processes.

## 10. FINANCE CHARGES

The decrease in finance charges (of 39%) from the 2004-05 budget to the 2005-06 budget is in line with the gradual reduction of the amount owing on the notebook computers, as well as a decrease in the interest rates in line with economic trends.

## 11. RECRUITMENT EXPENSES

### Budget '04-05 to forecast '04-05 variance

The main driver of the increase in budget to forecast (of 28%) is the business units' undertaking to fill vacancies in the current year.

### Budget '04-05 to budget '05-06 change

The minimal increase (of 2%) is due to the fact that the office will be embarking on a new strategy of head-



## AUDITOR - GENERAL

hunting by means of electronic head-hunting web sites which are more directed to the persons the office is endeavouring to recruit. This is based on the assumption that with the turnover rate remaining at 15% (3% above market), the lead time to filling vacancies will be reduced significantly to no more than a month.

### 12. PROFESSIONAL ASSISTANCE

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

| Budget item                  | Ref. | '04-05<br>budget | '04-05<br>forecast | Variance       |            | '05-06<br>budget | Change       |            |
|------------------------------|------|------------------|--------------------|----------------|------------|------------------|--------------|------------|
|                              |      | '000             | '000               | '000           | %          | '000             | '000         | %          |
|                              |      | (1)              | (2)                | (2)-(1)        | (2)-(1)    | (3)              | (3)-(1)      | (3)-(1)    |
| Membership fees              | 12.1 | 1 887            | 1 839              | (48)           | -3%        | 2 417            | 529          | 28%        |
| Internal training            | 12.2 | 1 686            | 1 552              | (134)          | -8%        | 1 555            | (130)        | -8%        |
| External training            | 12.3 | 5 482            | 5 333              | (149)          | -3%        | 5 199            | (283)        | -5%        |
| S&T: training                | 12.4 | 1 923            | 1 578              | (345)          | -18%       | 1 993            | 70           | 4%         |
| Africa training initiative   |      | 187              | 187                | (0)            | 0%         | 100              | (87)         | -47%       |
| Study assistance: employees  | 12.5 | 6 986            | 6 691              | (296)          | -4%        | 10 686           | 3 700        | 53%        |
| HC development projects      | 12.6 | 5 397            | 5 004              | (394)          | -7%        | 6 450            | 1 053        | 20%        |
| Bursaries                    | 12.7 | 2 205            | 2 350              | 145            | 7%         | 3 000            | 795          | 36%        |
| Skills development levy      |      | 3 722            | 2 965              | (757)          | -20%       | 3 697            | (25)         | -1%        |
| Skills dev. levy - recovered |      | (2 026)          | (1 779)            | 247            | -12%       | (2 019)          | 7            | 0%         |
| <b>Total</b>                 |      | <b>27 451</b>    | <b>25 719</b>      | <b>(1 732)</b> | <b>-6%</b> | <b>33 079</b>    | <b>5 628</b> | <b>21%</b> |

#### 12.1 Membership fees

The budget 2004-05 to budget 2005-06 increase (of 28%) is based on the expected increase in the number of qualified staff and trainee accountants and the normal increase in membership rates by the various professional bodies.

#### 12.2 Internal training

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

| Type of expense                          | % breakdown |
|--|-------------|
| Meals                                    | 61%         |
| Internal presenters - S&T cost to region | 8%          |
| Venue costs                              | 22%         |
| Other                                    | 10%         |
| <b>Total internal training</b>           | <b>100%</b> |

The main driver of the decrease in the 2004-05 budget to the 2004-05 forecast (by 8%) and 2005-06 budget (by 8%) is the expected continuation of the reduced number of trips by the internal presenters as a result of the efficient coordination of training sessions by business units.



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

## 12.3 External training

| Type of expense    | '04-05<br>budget | '04-05<br>forecast | Variance        |              | '05-06<br>budget | Change          |              |
|--------------------|------------------|--------------------|-----------------|--------------|------------------|-----------------|--------------|
|                    | '000<br>(1)      | '000<br>(2)        | '000<br>(2)-(1) | %<br>(2)-(1) | '000<br>(3)      | '000<br>(3)-(1) | %<br>(3)-(1) |
| Cost of programmes | 5 482            | 5 333              | (149)           | -3%          | 5 199            | (283)           | -5%          |
| <b>Total</b>       | <b>5 487</b>     | <b>5 333</b>       | <b>(149)</b>    | <b>-3%</b>   | <b>5 199</b>     | <b>(283)</b>    | <b>-5%</b>   |

With the introduction of the minimum qualification framework, staff at management level are focused more on achieving professional qualifications instead of attending external courses. This is partly offset by the utilisation of external training programmes mainly by the trainee accountants whose development programme requires regular attendance of compulsory and prescribed formal training.

## 12.4 S&amp;T: training

| Budget item       | Ref. | '04-05<br>budget | '04-05<br>forecast | Variance        |              | '05-06<br>budget | Change          |              |
|-------------------|------|------------------|--------------------|-----------------|--------------|------------------|-----------------|--------------|
|                   |      | '000<br>(1)      | '000<br>(2)        | '000<br>(2)-(1) | %<br>(2)-(1) | '000<br>(3)      | '000<br>(3)-(1) | %<br>(3)-(1) |
| Internal training |      | 821              | 846                | 25              | 3%           | 857              | 36              | 4%           |
| External training |      | 1 102            | 732                | (370)           | -34%         | 1 136            | 34              | 3%           |
| <b>Total</b>      |      | <b>1 923</b>     | <b>1 578</b>       | <b>(345)</b>    | <b>-18%</b>  | <b>1 993</b>     | <b>70</b>       | <b>4%</b>    |

The increase between the 2004-05 budget and the 2005-06 budget is mainly driven by the inflationary increase in accommodation and travelling costs which is capped at no more than 4%.

## 12.5 Study assistance: employees

The analysis below reflects an encouraging trend generally on the expected increase in the number of students that are studying and in particular those at a post-graduate level. The office has assumed a pass rate of 32% as reflected below.

| Course of study     | 04-05<br>budget | 05-06<br>budget | No. of<br>students<br>'04-05 | No. of<br>students<br>'05-06 |
|---------------------|-----------------|-----------------|------------------------------|------------------------------|
|                     | '000            | '000            |                              |                              |
| Diploma             |                 |                 | 49                           | 68                           |
| Degree              |                 |                 | 84                           | 144                          |
| CTA/honours         |                 |                 | 119                          | 204                          |
| FQE support courses |                 |                 | 75                           | 110                          |
| Other               |                 |                 | 99                           | 183                          |
| <b>Total</b>        | <b>6 986</b>    | <b>10 686</b>   | <b>426</b>                   | <b>709</b>                   |



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

|   | <b>New intake<br/>of trainees</b> | <b>Existing<br/>staff</b> | <b>Total</b> |
|---|-----------------------------------|---------------------------|--------------|
| Number of staff                             | 233                               | 476                       | 709          |
| Average cost of bursary                     | 19 000                            | 13 150                    |              |
|   | 4 427 000                         | 6 259 400                 | 10 686 400   |
| Assumed pass rate of 32% for existing staff |                                   |                           |              |

## 12.6 Human Capital development projects

| Type of project   | Budget       |              | Comments  |
|---|--------------|--------------|---|
|   | '04-05       | '05-06       |   |
| Development of technical courses                                  | 615          | 729          | To ensure technical development of staff  |
| Development of non-technical courses                              | 3 527        | 3 075        | To update and maintain programmes initiated in previous years   |
| Human resource development  | 1 255        | 1 146        | Position profiles, compensation reporting, Assessment Centre licence fee for approximately 900 staff members, PeopleSoft overflow work and benchmarking |
| Registered government auditors - examination fees for 150 persons | –            | 750          | Related to the minimum qualification framework and recognition of prior learning  |
| CTA pilot project   | –            | 750          | This project is funded from the staff training reserve. The amount budgeted for is the budgeted over-run of this reserve                                |
| <b>Total</b>  | <b>5 397</b> | <b>6 450</b> |   |

The increase from the 2004-05 budget to the 2005-06 budget (of R1,352 million) is mainly due to the two new items, namely the examination fees for the RGAs and the overrun on the CTA pilot project. These are necessitated by the introduction of the minimum qualification framework.

## 12.7 External student bursaries

Budget '04-05 to budget '05-06 change

| Institution   | No. of<br>students | '04-05<br>budget | No. of<br>students | '04-05<br>forecast | No. of<br>students | '05-06<br>budget |
|---|--------------------|------------------|--------------------|--------------------|--------------------|------------------|
| University of Pretoria                                  |                    |                  |                    |                    |                    |                  |
| - CTA   | 5                  | 175 000          | 5                  | 187 500            | 5                  | 250 000          |
| - Degree  | 35                 | 1 225 000        | 35                 | 1 312 500          | 35                 | 1 750 000        |
| University of Port Elizabeth                            |                    |                  |                    |                    |                    |                  |
| - CTA   | 17                 | 700 000          | 17                 | 750 000            | 0                  | –                |
| Denel Youth Foundation Programme - net of FASSET rebate | 20                 | 105 475          | 20                 | 100 000            | 0                  | –                |
| Thuthuka Fund   | 0                  | –                | 0                  | –                  | 20                 | 1 000 000        |
| <b>Total</b>  | <b>77</b>          | <b>2 205 475</b> | <b>77</b>          | <b>2 350 000</b>   | <b>60</b>          | <b>3 000 000</b> |

The funding for the University of Port Elizabeth CTA bridging course and the Denel Youth Foundation Programme, both of which have been discontinued, will be channelled to the SAICA Thuthuka Fund in 2005-06. The objective of the fund is to continue the acceleration of the number of PDIs qualifying as CAs.





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

## 13. TECHNOLOGICAL SERVICES

| Budget item                        | Ref. | '04-05<br>budget | '04-05<br>forecast | Variance       |                | '05-06<br>budget | Change         |                |
|------------------------------------|------|------------------|--------------------|----------------|----------------|------------------|----------------|----------------|
|                                    |      | '000             | '000               | '000           | %              | '000             | '000           | %              |
|                                    |      | (1)              | (2)                | (2)-(1)        | (2)-(1)        | (3)              | (3)-(1)        | (3)-(1)        |
| Computer services                  | 14   | 18 334           | 13 803             | (4 531)        | -24,71%        | 14 428           | (3 906)        | -21,31%        |
| Hiring of computers - staff        | 13.1 | 1 242            | 1 891              | 649            | 52,23%         | –                | (1 242)        | -100,00%       |
| Hiring of equipment - rental       | 13.2 | 1 702            | 1 966              | 264            | 15,53%         | 2 079            | 378            | 22,19%         |
| Hiring of equipment - copy charges |      | 505              | 503                | (2)            | -0,40%         | 520              | 15             | 2,90%          |
| <b>Total</b>                       |      | <b>21 782</b>    | <b>18 163</b>      | <b>(3 620)</b> | <b>-16,62%</b> | <b>17 026</b>    | <b>(4 756)</b> | <b>-21,83%</b> |

## 13.1 Hiring of computers - staff

The remaining leased notebook computers were settled during the year. This is due to the change in financial arrangements of purchasing the notebook computers through an instalment sale agreement.

## 13.2 Hiring of equipment - rental

Budget '04-05 to forecast '04-05 variance and budget '04-05 to budget '05-06 change

The increase (of 16% and 20% respectively) is due to increased rentals, the result of the roll-out and standardisation of the multi-functional devices in the office. This is with the view to improve operational efficiencies in the manner in which documentary information is utilised.

## 14. COMPUTER SERVICES

| Budget item                | Ref. | '04-05<br>budget | '04-05<br>forecast | Variance       |                | '05-06<br>budget | Change         |                |
|----------------------------|------|------------------|--------------------|----------------|----------------|------------------|----------------|----------------|
|                            |      | '000             | '000               | '000           | %              | '000             | '000           | %              |
|                            |      | (1)              | (2)                | (2)-(1)        | (2)-(1)        | (3)              | (3)-(1)        | (3)-(1)        |
| IT maintenance and support | 14.1 | 6 047            | 4 678              | (1 369)        | -22,64%        | 3 560            | (2 486)        | -41,12%        |
| Networks                   | 14.2 | 6 850            | 5 335              | (1 515)        | -22,11%        | 6 525            | (325)          | -4,74%         |
| Security                   | 14.3 | 2 250            | 1 000              | (1 250)        | -55,56%        | 1 060            | (1 190)        | -52,89%        |
| Telecommunication          | 14.4 | 3 187            | 2 790              | (397)          | -12,46%        | 3 282            | 95             | 2,98%          |
| <b>Total</b>               |      | <b>18 334</b>    | <b>13 803</b>      | <b>(4 531)</b> | <b>-24,71%</b> | <b>14 428</b>    | <b>(3 906)</b> | <b>-21,31%</b> |

## 14.1 IT maintenance and support

The main reason for the decrease in the 2004-05 budget to the 2004-05 forecast (of R1,369 million) is due to a large portion of the knowledge management - PeopleSoft integration implementation budget (amounting to R2 million) not being used as phase 1 of the project is still in progress. The additional work on the performance testing on the database and the additional licence maintenance fee resulted in these activities being over-budgeted by R0,65 million.



## AUDITOR - GENERAL

The reduction in the 2005-06 budget is due to knowledge management - PeopleSoft integration implementation being done in-house with minimal use of outside resources with the resultant saving.

### 14.2 Networks

The reduction in the 2004-05 budget to the 2004-05 forecast is mainly because of the wide area network operating costs being forecasted at R300 000 a month compared to R337 500 budgeted, therefore the forecasted saving of R450 000. Other savings include a saving (of R250 000) on the 512k internet line, to improve the bandwidth, which was approved later during the year than the assumption made in the budget, saving on the variable cost of the remote access dial-up costs of R325 000 and the remainder R490 being savings forecasted from the internet service provider costs.

The slight decrease in the 2004-05 budget to the 2005-06 budget (of R325 000) is due to the reduced wide area network costs negotiated with the service provider.

### 14.3 Security

The decrease in the 2004-05 budget to the 2004-05 forecast (of R1,994 million) and the 2005-06 budget (of R1,060 million) is mainly because of the disaster recovery site being procured at a cheaper monthly rate than budgeted for.

### 14.4 Telecommunication

The decrease in the 2004-05 budget to the 2004-05 forecast (of R397 000) is mainly due to the remote access dial-up tollfree number not being utilised fully. The budget assumed a utilisation of 3 hours per employee (1 200 employees) having remote access per month, however, there are fewer users (900 to 1 000) using this facility at reduced durations.

The marginal increase in the 2004-05 budget to the 2005-06 budget (of R97 000) is mainly due to the increased cost of the remote access tollfree line (of R480 00) as utilisation is expected to increase with the increased bandwidth available and the increase in the number of users to 1 300 for the year. This increase has been reduced by favourable maintenance agreements negotiated with the service provider for telecommunication support and maintenance (of R283 000).

## 15. INSURANCE AND LEGAL FEES

### 15.1 Insurance premiums

The reduction (of 37% on forecast and 16% of budget) in insurance premiums is due to the adoption of the self-insurance option for notebook computers.

## 16. AUXILIARY SERVICES

### 16.1 Stationery and printing

With the roll-out of the multi-functional devices (refer 13.2) and the related efficiencies expected in document utilisation, stationery and printing costs are expected to continue to reduce in the 2005-06 budget cycle.



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

## 17. COMMUNICATIONS

| Budget item                  | Ref. | '04-05<br>budget | '04-05<br>forecast | Variance   |              | '05-06<br>budget | Change      |               |
|------------------------------|------|------------------|--------------------|------------|--------------|------------------|-------------|---------------|
|                              |      | '000             | '000               | '000       | %            | '000             | '000        | %             |
|                              |      | (1)              | (2)                | (2)-(1)    | (2)-(1)      | (3)              | (3)-(1)     | (3)-(1)       |
| Telephone charges            | 17.1 | 2 953            | 3 301              | 348        | 11,78%       | 2 799            | (153)       | -5,20%        |
| Cellphone charges            | 17.2 | 700              | 718                | 18         | 2,54%        | 719              | 19          | 2,76%         |
| Postage and courier services |      | 657              | 570                | (87)       | -13,18%      | 696              | 39          | 5,89%         |
| <b>Total</b>                 |      | <b>4 310</b>     | <b>4 589</b>       | <b>279</b> | <b>6,47%</b> | <b>4 214</b>     | <b>(95)</b> | <b>-2,21%</b> |

## 17.1 Telephone costs

The 2005-06 budget is based on the cost-saving drive to contain the costs of telephone usage to less than 5% of the 2004-05 budget.

## 17.2 Cellphone charges

The 2005-06 budget is based on the cost-saving drive to contain the costs of cellphone usage to no more than 3% of the 2004-05 budget.

## 18. DEPRECIATION

| Budget item            | Ref. | '04-05<br>budget | '04-05<br>forecast | Variance     |               | '05-06<br>budget | Change        |                |
|------------------------|------|------------------|--------------------|--------------|---------------|------------------|---------------|----------------|
|                        |      | '000             | '000               | '000         | %             | '000             | '000          | %              |
|                        |      | (1)              | (2)                | (2)-(1)      | (2)-(1)       | (3)              | (3)-(1)       | (3)-(1)        |
| Motor vehicles         |      | 273              | 569                | 296          | 108,63%       | 451              | 179           | 65,43%         |
| Furniture & equipment  |      | 592              | 1 811              | 1 219        | 205,92%       | 1 847            | 1 256         | 212,14%        |
| Computer equipment     |      | 4 782            | 12 703             | 7 921        | 165,62%       | 13 191           | 8 409         | 175,82%        |
| Computer software      |      | 4 273            | 3 154              | (1 119)      | -26,19%       | 6 529            | 2 256         | 52,79%         |
| Leasehold improvements |      | 354              | 946                | 592          | 167,36%       | 645              | 291           | 82,11%         |
| <b>Total</b>           |      | <b>10 274</b>    | <b>19 183</b>      | <b>8 909</b> | <b>86,71%</b> | <b>22 663</b>    | <b>12 389</b> | <b>120,58%</b> |

With the implementation of the PeopleSoft fixed asset module which provides more detailed information on fixed asset movements, the ability to estimate the depreciation is more accurate and complete. This led to the correction of the 2004-05 forecast and the determination of the 2005-06 budget on a consistent basis, hence the large movements from the 2004-05 budget to the 2005-06 budget (of R12,098 million).

## 19. CAPITAL EXPENDITURE BUDGET

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

- 0,5% capping on own hours turnover for the audit BUs.
- 4% capping on own hours turnover for centralised ICT capex.

Where in exceptional cases capex expenditure exceeds the overall capping as stipulated above, a 3-year capex holiday principle shall be applied.



## AUDITOR - GENERAL

## 19.1 MOTOR VEHICLES

| Description    | '04-05<br>forecast | Acquisitions | Depreciation | '05-06<br>budget |
|----------------|--------------------|--------------|--------------|------------------|
|                | NCV                |              |              | NCV              |
|                | '000               |              |              | '000             |
| Motor vehicles | 1 762              | 200          | 451          | 1 511            |
| <b>Total</b>   | <b>1 762</b>       | <b>200</b>   | <b>451</b>   | <b>1 511</b>     |

|  | Budget<br>'04-05<br>'000 | Forecast<br>'04-05<br>'000 | Budget<br>'05-06<br>'000 |
|--|--------------------------|----------------------------|--------------------------|
| Corporate Secretariat  | 0                        | 121                        | 0                        |
| Finance  | 200                      | 293                        | 200                      |
| Differential between insured value and market value<br>for vehicles that have been written off or stolen |                          |                            |                          |
| Limpopo  | 150                      | 150                        | 0                        |
| Western Cape   | 295                      | 207                        | 0                        |
|  | 645                      | 772                        | 200                      |

## 19.2 OFFICE FURNITURE AND EQUIPMENT

These are business unit requirements which shall be procured through the office evaluation and approval procedure.

| Description             | '04-05<br>forecast | Acquisitions | Depreciation | '05-06<br>budget |
|-------------------------|--------------------|--------------|--------------|------------------|
|                         | NCV                |              |              | NCV              |
|                         | '000               |              |              | '000             |
| Furniture and equipment | 4 967              | 2 986        | 1 847        | 6 106            |
| <b>Total</b>            | <b>4 967</b>       | <b>2 986</b> | <b>1 847</b> | <b>6 106</b>     |

|               | Budget<br>'04-05<br>'000 | Forecast<br>'04-05<br>'000 | Budget<br>'05-06<br>'000 |  |
|---------------|--------------------------|----------------------------|--------------------------|--|
| KwaZulu-Natal | 147                      | 115                        | 262                      | Additional furniture for expanded staff complement   |
| Eastern Cape  | 125                      | 164                        | 111                      | Replacement of old furniture                         |
| North West    | 50                       | 447                        | 15                       | Furniture for new premises                           |
| Gauteng       | 49                       | –                          | 141                      | Additional furniture for expanded staff complement   |
| Limpopo       | 76                       | 75                         | 56                       | Replacement of old furniture                         |
| Mpumalanga    | 42                       | 39                         | 25                       | Replacement of old furniture                         |
| Lefika House  | 128                      | 250                        | 261                      | Furniture for offices occupied at auditees' premises |
| Head Office   | 329                      | 595                        | 1 357                    | Replacement of old furniture                         |
| Free State    | 111                      | 133                        | 86                       | Replacement of old furniture                         |
| Northern Cape | 62                       | –                          | 63                       | Additional furniture for expanded staff complement   |
| Western Cape  | 73                       | 63                         | 300                      | Furniture for new premises                           |
| Parliamentary | 32                       | 42                         | 199                      | Relocation of offices within Parliamentary building  |
|               | 1 224                    | 1 923                      | 2 876                    |  |



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

## 19.3 LEASEHOLD IMPROVEMENTS

| Description            | '04-05<br>Forecast<br>NCV | Acquisitions | Depreciation | '05-06<br>Budget<br>NCV |
|------------------------|---------------------------|--------------|--------------|-------------------------|
|                        | '000                      |              |              | '000                    |
|                        |                           |              |              |                         |
| Leasehold improvements | 5 103                     | 1 842        | 645          | 6 300                   |
| <b>Total</b>           | <b>5 103</b>              | <b>1 842</b> | <b>645</b>   | <b>6 300</b>            |

|               | Budget<br>'04-05<br>'000 | Forecast<br>'04-05<br>'000 | Budget<br>'05-06<br>'000 |
|---------------|--------------------------|----------------------------|--------------------------|
| Eastern Cape  | –                        | 145                        | 6                        |
| North West    | 231                      | –                          | –                        |
| Gauteng       | 10                       | –                          | 20                       |
| Mpumalanga    | –                        | –                          | 10                       |
| Head Office   | 605                      | 605                        | 1 800                    |
| Northern Cape | 15                       | 10                         | 6                        |
|               | <u>860</u>               | <u>760</u>                 | <u>1 842</u>             |

Improvements to the East London office  
 Replacement of old furniture  
 Minor structural changes to the Gauteng offices  
 Minor changes to Nelspruit office  
 Renovation cost for Head Office  
 Expansion for increased staff complement

## 19.4 COMPUTER HARDWARE

| Description       | '04-05<br>forecast<br>NCV | Acquisitions  | Depreciation  | '05-06<br>budget<br>NCV |
|-------------------|---------------------------|---------------|---------------|-------------------------|
|                   | '000                      |               |               | '000                    |
|                   |                           |               |               |                         |
| Computer hardware | 17 827                    | 21 871        | 13 191        | 26 508                  |
| <b>Total</b>      | <b>17 827</b>             | <b>21 871</b> | <b>13 191</b> | <b>26 508</b>           |

| Budget item        | Ref.   | '04-05<br>budget | '04-05<br>forecast | Variance     |               | '05-06<br>budget | Change        |                |
|--------------------|--------|------------------|--------------------|--------------|---------------|------------------|---------------|----------------|
|                    |        | '000             | '000               | '000         | %             | '000             | '000          | %              |
|                    |        | (1)              | (2)                | (2)-(1)      | (2)-(1)       | (3)              | (3)-(1)       | (3)-(1)        |
| Regional equipment | 19.4.1 | 2 337            | 3 044              | 707          | 30,25%        | 13 162           | 10 825        | 463,17%        |
| Networks           | 19.4.2 | 447              | 389                | (58)         | -13,03%       | 1 500            | 1 053         | 235,57%        |
| Systems            | 19.4.3 | 1 750            | 1 388              | (362)        | -20,69%       | 7 020            | 5 270         | 301,14%        |
| Security           | 19.4.4 | 1 050            | 655                | (395)        | -37,62%       | 100              | (950)         | -90,48%        |
| Video conferencing | 19.4.5 | 550              | 516                | (34)         | -6,18%        | –                | (550)         | -100,00%       |
| <b>Total</b>       |        | <b>6 134</b>     | <b>5 992</b>       | <b>(142)</b> | <b>-2,32%</b> | <b>21 782</b>    | <b>15 648</b> | <b>255,10%</b> |

## 19.4.1 Regional equipment

These are business unit requirements for notebooks, desktop computers, printers and other equipment which are beyond their 3-year life cycle. Included is the procurement of replacement notebook computers for new staff and those which have come to the end of the tenure in terms of the office's ownership scheme (R11 560 000).



## AUDITOR - GENERAL

### 19.4.2 Networks

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

### 19.4.3 Systems

|  | Budget<br>'04-05<br>'000 | Forecast<br>'04-05<br>'000 | Budget<br>'05-06<br>'000 |
|--|--------------------------|----------------------------|--------------------------|
| Upgrade of HP servers - to improve capacity and speed  | 100                      | 541                        | 3 920                    |
| CSA server - currently housed on a normal PC which is inadequate   | 100                      | 97                         | –                        |
| Payroll system   | 100                      | 150                        | –                        |
| Primary domain controller  | 100                      | 150                        | –                        |
| Web-logic server - identified as required by PeopleSoft QA   | 350                      | –                          | –                        |
| E-learning / knowledge management server - hardware required<br>for knowledge sharing as a strategic theme | 1 000                    | –                          | –                        |
| Storage device   | –                        | 450                        | 3 100                    |
|  | 1 750                    | 1 388                      | 7 020                    |

The terms listed above are required to further enhance the delivery of ICT services to the office to enhance business efficiencies.

### 19.4.3 Security

|                   | Budget<br>'04-05<br>'000 | Forecast<br>'04-05<br>'000 | Budget<br>'05-06<br>'000 |
|-------------------|--------------------------|----------------------------|--------------------------|
| Security hardware | 1 050                    | 655                        | 100                      |
|                   | 1 050                    | 655                        | 100                      |

The forecast includes the backup generator and the intrusion detection hardware. The disaster recovery hardware budgeted for will not be utilised as an off-site location will be used. The budget for the 2005-06 budget year reflects an amount for firewall equipment.

### 19.4.4 Video conferencing

Expansion of video conferencing facilities to further sites.



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

## 19.5 COMPUTER SOFTWARE

| Description       | '04-05<br>forecast<br>NCV | Acquisitions | Depreciation | '05-06<br>budget<br>NCV |
|-------------------|---------------------------|--------------|--------------|-------------------------|
|                   | '000                      |              |              | '000                    |
|                   |                           |              |              |                         |
| Computer software | 18 122                    | 9 367        | 6 529        | 20 960                  |
| <b>Total</b>      | <b>18 122</b>             | <b>9 367</b> | <b>6 529</b> | <b>20 960</b>           |

| Budget item        | Ref.   | '04-05<br>budget | '04-05<br>forecast | Variance       |                | '05-06<br>budget | Change         |                |
|--------------------|--------|------------------|--------------------|----------------|----------------|------------------|----------------|----------------|
|                    |        | '000             | '000               | '000           | %              | '000             | '000           | %              |
|                    |        | (1)              | (2)                | (2)-(1)        | (2)-(1)        | (3)              | (3)-(1)        | (3)-(1)        |
| Regional equipment | 19.5.1 | 7 289            | 4 179              | (3 111)        | -42,67%        | 4 016            | (3 274)        | -44,91%        |
| Networks           |        | 100              | 150                | 50             | 50,00%         | -                | (100)          | -100,00%       |
| Systems            | 19.5.2 | 2 904            | 2 756              | (148)          | -5,11%         | 4 289            | 1 385          | 47,69%         |
| Security           | 19.5.3 | 550              | 400                | (150)          | -27,27%        | 1 062            | 512            | 93,09%         |
| <b>Total</b>       |        | <b>10 843</b>    | <b>7 484</b>       | <b>(3 359)</b> | <b>-30,98%</b> | <b>9 367</b>     | <b>(1 477)</b> | <b>-13,62%</b> |

## 19.5.1 Regional equipment

|   | Budget<br>'04-05<br>'000 | Forecast<br>'04-05<br>'000 | Budget<br>'05-06<br>'000 |
|---|--------------------------|----------------------------|--------------------------|
| Microsoft select - required to upgrade to MS-XP. Older software is no longer supported. The rollout will be done over two years | 6 994                    | 3 500                      | 3 500                    |
| Regional data per BU  | 76                       | 113                        | -                        |
| Imaging software  | 150                      | 150                        | -                        |
| Helpline software   | -                        | -                          | 100                      |
| Other business software - program office tool and licences, CD/DVD copying software, project portfolio management software      | 70                       | 416                        | 416                      |
|   | <u>7 289</u>             | <u>4 179</u>               | <u>4 016</u>             |

## 19.5.2 Systems

|   | Budget<br>'04-05<br>'000 | Forecast<br>'04-05<br>'000 | Budget<br>'05-06<br>'000 |
|---|--------------------------|----------------------------|--------------------------|
| CSA tool enhancement and development  | -                        | -                          | 300                      |
| Oracle licence  | 1 200                    | 1 650                      | 1 680                    |
| Application functional and load testing software - software used for testing developments within PeopleSoft | 984                      | 1 106                      | -                        |
| Cognos licence - business intelligence tool to enhance management information analysis                      | 600                      | -                          | -                        |
| COBIT implementation  | 120                      | -                          | -                        |
| TeamMate licences (additional users)  | -                        | -                          | 1 309                    |
| CMDB (configuration management database)  | -                        | -                          | 1 000                    |
|   | <u>2 904</u>             | <u>2 756</u>               | <u>4 289</u>             |

## 19.5.3 Security

Security software for encrypting data, filtering email and web content.



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

## **DOCUMENT 3**

# **SUMMARISED PROJECTED BALANCE SHEET**





AUDITOR - GENERAL

### Summarised projected balance sheet

|                                       |              | 31 March 2006<br>Budget | 31 March 2005<br>Forecast | 31 March 2004<br>Actual |
|---------------------------------------|--------------|-------------------------|---------------------------|-------------------------|
| <b>Capital employed</b>               | <b>Notes</b> |                         |                           |                         |
| Capital                               |              | 216,7                   | 174,5                     | 160,2                   |
| - Reserves                            | <b>1</b>     | 167,7                   | 151,4                     | 90,7                    |
| - Special audit services fund         | <b>2</b>     | 5,3                     | 5,3                       | 5,3                     |
| - Staff training reserve              | <b>3</b>     | –                       | 1,5                       | 3,5                     |
| - Net income for the year             |              | 43,8                    | 16,3                      | 60,7                    |
| Long-term liabilities                 |              | 69,0                    | 63,2                      | 68,2                    |
| Interest-bearing borrowings           | <b>4</b>     | 15,7                    | 15,3                      | 25,2                    |
| Post-retirement medical aid liability | <b>5</b>     | 53,3                    | 47,9                      | 43,0                    |
| Current liabilities                   |              | 56,7                    | 52,8                      | 60,5                    |
| Trade and other payables              | <b>6</b>     | 34,2                    | 33,6                      | 43,0                    |
| Leave liability                       | <b>7</b>     | 22,5                    | 19,2                      | 16,0                    |
| Current portion of long-term loan     | <b>8</b>     | –                       | –                         | 1,5                     |
|                                       |              | <u>342,4</u>            | <u>290,5</u>              | <u>288,9</u>            |
| <b>Employment of capital</b>          |              |                         |                           |                         |
| Fixed assets                          | <b>9</b>     | 61,4                    | 47,8                      | 50,1                    |
| Investment                            | <b>10</b>    | 130,2                   | 122,1                     | 84,3                    |
| Current assets                        |              | 150,8                   | 119,7                     | 154,5                   |
| Trade and other debtors               | <b>11</b>    | 98,9                    | 87,4                      | 91,6                    |
| Bank and cash                         | <b>12</b>    | 51,9                    | 32,3                      | 62,9                    |
|                                       |              | <u>342,4</u>            | <u>289,6</u>              | <u>288,9</u>            |



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

## **DOCUMENT 4**

# **SUMMARISED BUDGET**



AUDITOR - GENERAL

## SUMMARISED BUDGET

### Notes to the balance sheet

**1. Reserves**

The reserve is made up of previous year's reserve plus the previous year's net income.

**2. Special audit services fund**

A fund set aside to finance special investigations or audits for which the office may not be able to recover the cost from any specific auditee. The fund has been capped at R5,3 million.

**3. Staff training reserve**

This reserve was utilised for the CTA pilot project during 2004-05 and 2005-06.

**4. Interest-bearing borrowings**

Liabilities under instalment sale agreements secured by certain fixed assets (notebook computers and PABX), payable over 3 and 5 years respectively.

**5. Post-retirement medical aid liability**

The PRMA provision is based on actuarial projections on current staff profile.

**6. Trade and other payables**

Trade and other payables are calculated on a 45-day payment period for the 2004-05 forecast and 45-day payment period for the 2005-06 budget year.

**7. Leave liability**

Leave pay provision is influenced by the accumulation of leave days allowed in terms of the policy as well as pay increase levels for staff.

**8. Current portion of long-term loan**

The final payments in respect of the National Treasury loan will be made during the 2004-05 financial year.

**9. Fixed assets**

Fixed assets includes forecasted and budgeted acquisitions, and is shown net of depreciation.

**10. Investments**

Call accounts at the Public Investment Commissioners. The increase is to be generated mainly from compound interest.

**11. Trade and other debtors**

Trade debtors are calculated on a 50-day collection period for the 2004-05 forecast year and a 50-day collection period for the 2005-06 budget year, based on historical forecasts of 30 days for the national and provincial departments and 120 days for local authorities.

**12. Bank and cash**

Cash and bank is calculated on the net balance sheet movements.



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

## **DOCUMENT 5**

# **PROPOSED INTERNAL RATES**



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

**Proposed internal rates (at a 4% increase) for 2005-06**

| <b>1</b><br>Package<br>From To |           | <b>2</b><br>Total<br>staff | <b>3</b><br>Standard<br>recoverable hours | <b>4</b><br>Recoverable<br>hours | <b>5</b><br>Total own<br>hours income | <b>6</b><br>Proposed tariffs<br>as per markup | Budget (2004-05)<br>tariff |
|--------------------------------|-----------|----------------------------|---|----------------------------------|---------------------------------------|---|----------------------------|
| <b>SENIOR MANAGER</b> 89       |           |                            |   |                                  |                                       |   |                            |
| 580 000                        | -         | 2                          | 1 373,0                                   | 2 746                            | 2 284 672                             | 832   | 800                        |
| 560 000                        | - 579 999 | 0                          | 1 373,0                                   | -                                | -                                     | 832   | 800                        |
| 540 000                        | - 559 999 | 3                          | 1 373,0                                   | 4 119                            | 3 381 699                             | 821   | 775                        |
| 520 000                        | - 539 999 | 6                          | 1 373,0                                   | 8 238                            | 6 524 496                             | 792   | 747                        |
| 500 000                        | - 519 999 | 10                         | 1 373,0                                   | 13 730                           | 10 475 990                            | 763   | 719                        |
| 480 000                        | - 499 999 | 15                         | 1 373,0                                   | 20 595                           | 15 096 135                            | 733   | 691                        |
| 460 000                        | - 479 999 | 15                         | 1 373,0                                   | 20 595                           | 14 498 880                            | 704   | 663                        |
| 440 000                        | - 459 999 | 7                          | 1 373,0                                   | 9 611                            | 6 487 425                             | 675   | 634                        |
| 420 000                        | - 439 999 | 23                         | 1 373,0                                   | 31 579                           | 20 368 455                            | 645   | 606                        |
| 400 000                        | - 419 999 | 6                          | 1 373,0                                   | 8 238                            | 5 074 608                             | 616   | 578                        |
| 380 000                        | - 399 999 | 1                          | 1 373,0                                   | 1 373                            | 805 951                               | 587   | 550                        |
| 360 000                        | - 379 999 | 1                          | 1 373,0                                   | 1 373                            | 764 761                               | 557   | 522                        |
| 340 000                        | - 359 999 | 0                          | 1 373,0                                   | -                                | -                                     | 528   | 493                        |
|                                |           |                            |   | 122 197                          | 85 763 072                            | 702   | 636                        |
| <b>AUDIT MANAGER</b> 265       |           |                            |   |                                  |                                       | <b>10,4%</b>                                  |                            |
| 470 000                        | - 489 999 | 1                          | 1 424,0                                   | 1 424                            | 925 600                               | 650   | 625                        |
| 450 000                        | - 469 999 | 1                          | 1 424,0                                   | 1 424                            | 925 600                               | 650   | 625                        |
| 430 000                        | - 449 999 | 1                          | 1 424,0                                   | 1 424                            | 885 728                               | 622   | 598                        |
| 410 000                        | - 429 999 | 2                          | 1 424,0                                   | 2 848                            | 1 691 712                             | 594   | 571                        |
| 390 000                        | - 409 999 | 15                         | 1 424,0                                   | 21 360                           | 12 089 760                            | 566   | 544                        |
| 370 000                        | - 389 999 | 18                         | 1 424,0                                   | 25 632                           | 13 790 016                            | 538   | 517                        |
| 350 000                        | - 369 999 | 20                         | 1 424,0                                   | 28 480                           | 14 496 320                            | 509   | 489                        |
| 330 000                        | - 349 999 | 65                         | 1 424,0                                   | 92 560                           | 44 428 800                            | 480   | 462                        |
| 310 000                        | - 329 999 | 40                         | 1 424,0                                   | 56 960                           | 25 802 880                            | 453   | 435                        |
| 290 000                        | - 309 999 | 39                         | 1 424,0                                   | 55 536                           | 23 547 264                            | 424   | 408                        |
| 270 000                        | - 289 999 | 34                         | 1 424,0                                   | 48 416                           | 19 172 736                            | 396   | 381                        |
| 250 000                        | - 269 999 | 16                         | 1 424,0                                   | 22 784                           | 8 384 512                             | 368   | 353                        |
| 230 000                        | - 249 999 | 6                          | 1 424,0                                   | 8 544                            | 2 896 416                             | 339   | 326                        |
| 210 000                        | - 229 999 | 4                          | 1 424,0                                   | 5 696                            | 1 771 456                             | 311   | 299                        |
| 190 000                        | - 209 999 | 3                          | 1 424,0                                   | 4 272                            | 1 208 976                             | 283   | 272                        |
|                                |           |                            |   | 377 360                          | 172 017 776                           | 456   | 415                        |
| <b>AUDITOR</b> 467             |           |                            |   |                                  |                                       | <b>9,8%</b>                                   |                            |
| 270 000                        | -         | 3                          | 1 474,0                                   | 4 422                            | 1 569 810                             | 355   | 341                        |
| 250 000                        | - 269 999 | 4                          | 1 474,0                                   | 5 896                            | 2 093 080                             | 355   | 341                        |
| 230 000                        | - 249 999 | 29                         | 1 474,0                                   | 42 746                           | 14 020 688                            | 328   | 315                        |
| 210 000                        | - 229 999 | 50                         | 1 474,0                                   | 73 700                           | 22 183 700                            | 301   | 289                        |
| 190 000                        | - 209 999 | 58                         | 1 474,0                                   | 85 492                           | 23 424 808                            | 274   | 263                        |
| 170 000                        | - 189 999 | 59                         | 1 474,0                                   | 86 966                           | 21 306 670                            | 245   | 236                        |



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

**Proposed internal rates (at a 4% increase) for 2005-06 (continued)**

| 1<br>Package<br>From To      |   |         | 2<br>Total<br>staff | 3<br>Standard<br>recoverable hours | 4<br>Recoverable<br>hours | 5<br>Total own<br>hours income | 6<br>Proposed tariffs<br>as per markup | Budget (2004-05)<br>tariff |
|------------------------------|---|---------|---------------------|------------------------------------|---------------------------|--------------------------------|--|----------------------------|
| 150 000                      | – | 169 999 | 83                  | 1 474,0                            | 122 342                   | 26 670 556                     | 218                                    | 210                        |
| 130 000                      | – | 149 999 | 21                  | 1 474,0                            | 30 954                    | 5 912 214                      | 191                                    | 184                        |
| 110 000                      | – | 129 999 | 19                  | 1 474,0                            | 28 006                    | 4 592 984                      | 164                                    | 158                        |
| 100 000                      | – | 109 999 | 19                  | 1 474,0                            | 28 006                    | 4 032 864                      | 144                                    | 138                        |
| 90 000                       | – | 99 999  | 36                  | 1 474,0                            | 53 064                    | 6 898 320                      | 130                                    | 125                        |
| 80 000                       | – | 89 999  | 29                  | 1 474,0                            | 42 746                    | 4 958 536                      | 116                                    | 112                        |
| 70 000                       | – | 79 999  | 20                  | 1 474,0                            | 29 480                    | 3 006 960                      | 102                                    | 98                         |
| 60 000                       | – | 69 999  | 22                  | 1 474,0                            | 32 428                    | 2 853 664                      | 88                                     | 85                         |
| 50 000                       | – | 59 999  | 13                  | 1 474,0                            | 19 162                    | 1 437 150                      | 75                                     | 72                         |
| 40 000                       | – | 49 999  | 2                   | 1 474,0                            | 2 948                     | 179 828                        | 61                                     | 59                         |
|                              |   |         |                     |                                    | 688 358                   | 145 141 832                    | 211                                    | 196                        |
| <b>TRAINEE</b> 630           |   |         |                     |                                    |                           |                                | <b>7,5%</b>                            |                            |
| 150 000                      | – | 159 999 | 1                   | 1 444,0                            | 1 444                     | 311 904                        | 216                                    | 208                        |
| 140 000                      | – | 149 999 | 3                   | 1 444,0                            | 4 332                     | 875 064                        | 202                                    | 194                        |
| 130 000                      | – | 139 000 | 4                   | 1 444,0                            | 5 776                     | 1 080 112                      | 187                                    | 180                        |
| 120 000                      | – | 129 999 | 2                   | 1 444,0                            | 2 888                     | 505 400                        | 175                                    | 168                        |
| 110 000                      | – | 119 999 | 6                   | 1 444,0                            | 8 664                     | 1 386 240                      | 160                                    | 154                        |
| 100 000                      | – | 109 999 | 12                  | 1 444,0                            | 17 328                    | 2 547 216                      | 147                                    | 141                        |
| 90 000                       | – | 99 999  | 26                  | 1 444,0                            | 37 544                    | 4 955 808                      | 132                                    | 127                        |
| 80 000                       | – | 89 999  | 59                  | 1 444,0                            | 85 196                    | 10 138 324                     | 119                                    | 114                        |
| 70 000                       | – | 79 999  | 283                 | 1 444,0                            | 408 652                   | 42 908 460                     | 105                                    | 101                        |
| 60 000                       | – | 69 999  | 198                 | 1 444,0                            | 285 912                   | 25 732 080                     | 90                                     | 87                         |
| 50 000                       | – | 59 999  | 26                  | 1 444,0                            | 37 544                    | 2 890 888                      | 77                                     | 74                         |
| 40 000                       | – | 49 999  | 10                  | 1 444,0                            | 14 440                    | 895 280                        | 62                                     | 60                         |
|                              |   |         |                     |                                    | 909 720                   | 94 226 776                     | 104                                    | 112                        |
| <b>TOTAL AUDIT PERSONNEL</b> |   |         |                     |                                    | <b>1 451</b>              | <b>2 097 635</b>               | <b>497 149 456</b>                     |                            |
| <b>BUSINESS EXECUTIVES</b>   |   |         |                     |                                    | <b>16</b>                 | <b>1 017,0</b>                 |  |                            |
| <b>TOTAL RECOVERABLE</b>     |   |         |                     |                                    | <b>16 191</b>             | <b>13 775 178</b>              | 850                                    | 800                        |
|                              |   |         |                     |                                    | <b>2 113 826</b>          | <b>510 924 634</b>             | <b>242</b>                             | <b>244</b>                 |

-1,0%

**Notes:**

1. Based on the salaries per level
2. Total staff per budget (see note 3.4)
3. Standard recovery hours (see note 2.1.2)
4. Recoverable hours = Total staff (2) X standard recoverable hours (3)
5. Total own hours income = Recoverable hours (4) X proposed tariff (6)
6. Proposed tariff = average salary per band (1)/standard recoverable hours (3) X factor of 1,9



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

## **DOCUMENT 6**

# **SUGGESTED TARIFFS FOR AUDITS DONE FOR THE AUDITOR-GENERAL:**

**PERIOD 1 APRIL 2005 TO 31 MARCH 2006**



AUDITOR - GENERAL

## SUGGESTED TARIFFS FOR AUDITS DONE FOR THE AUDITOR-GENERAL: PERIOD 1 APRIL 2005 TO 31 MARCH 2006

(using the midpoint of the interval with updated hrs)

| Monthly earnings | Annual earnings | Hours | Tariff per 3/31/05 | Tariff per hour @ 2,7 | % change |
|------------------|-----------------|-------|--------------------|-----------------------|----------|
| 2 500            | 30 000          | 1 350 | 56                 | 62                    | 12%      |
| 2 700            | 32 400          | 1 350 | 60                 | 67                    | 11%      |
| 2 900            | 34 800          | 1 350 | 65                 | 72                    | 11%      |
| 3 100            | 37 200          | 1 350 | 69                 | 77                    | 11%      |
| 3 300            | 39 600          | 1 350 | 74                 | 82                    | 11%      |
| 3 500            | 42 000          | 1 350 | 78                 | 88                    | 12%      |
| 3 800            | 45 600          | 1 350 | 85                 | 95                    | 12%      |
| 4 100            | 49 200          | 1 350 | 92                 | 102                   | 11%      |
| 4 400            | 52 800          | 1 350 | 98                 | 109                   | 11%      |
| 4 700            | 56 400          | 1 350 | 105                | 116                   | 11%      |
| 5 000            | 60 000          | 1 420 | 112                | 124                   | 11%      |
| 5 300            | 63 600          | 1 420 | 118                | 131                   | 10%      |
| 5 600            | 67 200          | 1 420 | 125                | 138                   | 10%      |
| 5 900            | 70 800          | 1 420 | 132                | 145                   | 10%      |
| 6 200            | 74 400          | 1 420 | 141                | 154                   | 9%       |
| 6 600            | 79 200          | 1 420 | 150                | 163                   | 9%       |
| 7 000            | 84 000          | 1 420 | 159                | 173                   | 9%       |
| 7 400            | 88 800          | 1 420 | 168                | 173                   | 3%       |
| 7 800            | 93 600          | 1 420 | 177                | 183                   | 3%       |
| 8 200            | 98 400          | 1 420 | 186                | 192                   | 3%       |
| 8 600            | 103 200         | 1 420 | 196                | 201                   | 3%       |
| 9 000            | 108 000         | 1 420 | 205                | 210                   | 3%       |
| 9 400            | 112 800         | 1 420 | 214                | 219                   | 2%       |
| 9 800            | 117 600         | 1 420 | 223                | 233                   | 4%       |
| 10 600           | 127 200         | 1 420 | 241                | 251                   | 4%       |
| 11 400           | 136 800         | 1 420 | 259                | 269                   | 4%       |
| 12 200           | 146 400         | 1 420 | 277                | 287                   | 4%       |
| 13 000           | 156 000         | 1 420 | 296                | 306                   | 3%       |
| 13 800           | 165 600         | 1 400 | 314                | 329                   | 5%       |
| 14 600           | 175 200         | 1 400 | 332                | 347                   | 5%       |
| 15 400           | 184 800         | 1 400 | 356                | 366                   | 3%       |
| 16 200           | 194 400         | 1 400 | 375                | 384                   | 2%       |
| 17 000           | 204 000         | 1 400 | 393                | 403                   | 2%       |
| 17 800           | 213 600         | 1 400 | 412                | 421                   | 2%       |
| 18 600           | 223 200         | 1 400 | 430                | 440                   | 2%       |
| 19 400           | 232 800         | 1 400 | 449                | 458                   | 2%       |
| 20 200           | 242 400         | 1 400 | 467                | 477                   | 2%       |
| 21 000           | 252 000         | 1 400 | 486                | 495                   | 2%       |
| 21 800           | 261 600         | 1 400 | 505                | 514                   | 2%       |
| 22 600           | 271 200         | 1 400 | 523                | 532                   | 2%       |
| 23 400           | 280 800         | 1 400 | 542                | 551                   | 2%       |
| 24 200           | 290 400         | 1 400 | 560                | 569                   | 2%       |





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

**SUGGESTED TARIFFS FOR AUDITS DONE FOR THE AUDITOR-GENERAL:  
PERIOD 1 APRIL 2005 TO 31 MARCH 2006 (continued)**

(using the midpoint of the interval with updated hrs)

| Monthly earnings | Annual earnings | Hours | Tariff per 3/31/05 | Tariff per hour @ 2,7 | % change |
|------------------|-----------------|-------|--------------------|-----------------------|----------|
| 25 000           | 300 000         | 1 400 | 579                | 588                   | 2%       |
| 25 800           | 309 600         | 1 312 | 597                | 647                   | 8%       |
| 26 600           | 319 200         | 1 312 | 616                | 667                   | 8%       |
| 27 400           | 328 800         | 1 312 | 634                | 687                   | 8%       |
| 28 200           | 338 400         | 1 312 | 653                | 719                   | 10%      |
| 30 000           | 360 000         | 1 312 | 694                | 772                   | 11%      |
| 32 500           | 390 000         | 1 312 | 752                | 833                   | 11%      |
| 35 000           | 420 000         | 1 312 | 810                | 864                   | 7%       |
| 37 500           | 450 000         | 1 312 | 810                | 926                   | 14%      |
| 40 000           | 480 000         | 1 312 | 810                | 988                   | 22%      |

**Schedule A**

| Partner/Specialist | 38 442,00 | 38 807,00 | % change |
|--------------------|-----------|-----------|----------|
| Partner            | 891,00    | 1 037,20  | 16%      |
| Specialist         | 980,10    | 1 089,05  | 11%      |

| Analysis of 2080 hours per category |        |             |        |         |                |
|-------------------------------------|--------|-------------|--------|---------|----------------|
| Category                            | Junior | Semi-senior | Senior | Manager | Senior manager |
| Total available                     | 2 080  | 2 080       | 2 080  | 2 080   | 2 080          |
| Public holiday                      | 88     | 88          | 88     | 88      | 88             |
| Annual leave                        | 120    | 120         | 120    | 160     | 160            |
| Discretionary leave                 | 24     | 24          | 24     | 24      | 24             |
| Training                            | 150    | 120         | 80     | 80      | 80             |
| Study leave                         | 160    | 120         | 120    | 40      | 40             |
| Sick leave                          | 60     | 60          | 40     | 40      | 40             |
| Administration                      | 96     | 96          | 160    | 288     | 288            |
| Mentorship                          | 32     | 32          | 48     | 48      | 48             |
| Recoverable                         | 1 350  | 1 420       | 1 400  | 1 312   | 1 312          |

**Principles:** Hours per category updated in consultation with PSC

Midpoint of interval used

Lowest category dropped

Two new categories added at top

Partner rate + 5% of top rate (previously 10%)

Specialist rate + 5% of partner rate (previously 10%)

No margin increase

*Report of the Ad Hoc Committee as published in the Announcements, Tablings and Committee Reports No. 30 of Tuesday, 29 March 2005*

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

**REPORT OF THE AD HOC COMMITTEE  
AS PUBLISHED IN THE  
ANNOUNCEMENTS, TABLINGS AND  
COMMITTEE REPORTS NO. 30 OF  
TUESDAY, 29 MARCH 2005**



AUDITOR - GENERAL

## **Report of the Ad Hoc Committee on Auditor-General dated 10 February 2005:**

### **A. Introduction**

The *Ad Hoc* Committee considered the Strategic Plan and the Budget of the Office of the Auditor General – OAG (for the year 2005/06) on 4 February 2005. A letter of apology from the Auditor-General, who is abroad on official business, was tabled and accepted. The Chief Executive Officer (CEO), Mr. Terence Nombembe, represented the Office of the Auditor-General. The following persons were also present from the Office of the Auditor-General: Mr. Cobus Botes, Mr Adiel Kamedien, Ms Zanele Keto, Ms Nkhopotseng Hlasa, Ms Amanda Jitsing and Mr Paul Savel.

### **B. Issues considered**

#### **1. Tariffs**

The 2005/06 budget of the Auditor-General refers to the projected funding requirements based on a 4% increase in tariffs. The *Ad Hoc* Committee noted that the OAG has a projected 2.4% increase in the deficit for its funding requirements, notwithstanding a 4% increase in tariffs. The OAG is still working on improving its performance to meet its funding requirements. Anything less than a 4% increase in the tariff would not make the OAG function efficiently. The OAG is anticipating a 3-year rise in spending to bring it up to maximum operational efficiency; thereafter it would be comfortable with lower percentage increases in future years.

The *Ad Hoc* Committee is of the opinion that a 4% increase in tariffs represents a realistic financial plan for the Office of the Auditor-General. This increase falls within government's inflation target of 3% to 6%. However, the *Ad Hoc* Committee will carefully monitor the retention of surpluses in the future.

#### **2. The retention of surplus**

In its report on the Annual Report (2003/04) of the Auditor-General, the *Ad Hoc* Committee noted that the Ministerial approval was granted for the retention of the 2003 surplus, but the Minister had yet to approve the retention of the accumulated surplus for 2004. The retention of the surplus was necessary in order to fund the Office's ongoing programmes for the next three years. It is only in 2007/08 that no surpluses will be required. These requirements account for the rise in retained income of approximately R35 million. The significant increases in cash and cash equivalents are due to improvements in the discipline in the OAG in collecting cash from its auditees.

The *Ad Hoc* Committee is of the opinion that the retention of the projected surplus represents a realistic financial plan for the Office of the Auditor-General. The



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

*Ad-Hoc* Committee recommends that the future Oversight Mechanism deal with the principles underlying the retention of any surplus by the Office of the Auditor-General as a matter of policy.

### **3. Performance bonuses**

The *Ad Hoc* Committee wanted to establish what informed the awarding of performance bonuses in the OAG. The CEO indicated that the bonuses were driven mainly by the variable pay policy employed by the OAG. The policy starts from the premise that the OAG does not budget for bonuses but instead it pays bonuses out of the surplus generated and the efforts of the staff in performing their respective tasks. The staff qualifying for performance bonuses as calculated by the executive committee in the OAG in December 2004 received an average of 20%. This would vary based on the level of performance. The overall financial costs would be R11m, which would be paid directly from the surplus.

The *Ad Hoc* Committee is of the opinion that R11 million for performance bonuses represents a realistic financial plan for the Office of the Auditor General. The *Ad Hoc* Committee recommends that the future Oversight Mechanism should look at the goals and targets on which the awarding of the performance bonuses is based.

### **4. Discretionary personnel expenditure allowance**

The *Ad Hoc* Committee wanted to identify the terms of reference used by the Audit Committee in defining the awarding of the personnel expenditure allowance for the OAG.

The OAG indicated that the discretionary personnel allowance was only used in some years but not in others. The allowance was most used 3 years ago, when the OAG made major adjustments in staff salaries to bring them in line with market related salaries. For the past two years there was no reason for the awarding of the allowance, but in the future years, the Office of the Auditor-General might need to make use of the allowance because of its conscious decision to conduct a thorough and an intensive survey of salary trends in the market for the purpose of staff retention and to ensure that the OAG's compensation levels were not out of line with those paid by competitors.

The overall increase would be 7.5%, 4% of which is related to the salary adjustments and 3.5% to the once-off payment to adjust funding that the OAG might require for improving corporate services efficiencies.

The *Ad Hoc* Committee is of the opinion that the 7.5% increase represents a realistic financial plan for the Office of the Auditor-General and recommends that the discretionary spending as a principle be considered by the future Oversight Mechanism.



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

## 5. General comments

The *Ad Hoc* Committee proceeded to do a detailed analysis of the budget figures. It noted the continuing shift from contracting out research to in-house auditing, with a changing composition of the audit teams to include more trainee accountants. This would lead to more trainee accountants gaining more experience on the job and to the configuration leading to the reduction in auditing costs. The *Ad Hoc* Committee was assured that the involvement of trainee accountants would not lead to increased hours. The policy underlying contracted work would have to be reviewed at some stage. At present, general practice is to award at least 20% of audit work to firms.

The emphasis of the OAG was still on regulatory auditing; performance auditing was still not a main driver of the OAG's work and accounts for only 7.5% of the work of the OAG. This figure would need to be reviewed at an appropriate time. Increased auditing costs would emanate from the requirements of the Municipal Finance Management Act (Act no 56 of 2003 - the MFMA)). This would amount to R12.183 million and this exercise would provide more exposure to the trainee accountants. An increase in the scope of the audits, arising out of a consistent implementation of compliance procedures and the fraud and error auditing standard required by the South African Auditing Standards, will lead to an increase of R16.530 million.

Five value-for-money audits will be undertaken focusing on human resource management, an assessment of the Information and Communication Technology (ICT) implementation, the housing subsidy process, and supply chain management at all national and provincial departments.

The termination of the World Health Organisation (WHO) audit and the reduced exchange rate has led to an expectation that a surplus will not be realised on this account. Insourced contract work shows a small variance of about 2.35% over the previous year. The capital expenditure budget is due to increase by 114% with increased spending on regional equipment, networks and systems taking up the bulk of the increases.

The *Ad Hoc* Committee is of the opinion that the strategic plan and the budget of the Auditor-General for the financial year 2005-06 represents a realistic financial plan of the Office of the Auditor-General.

Report to be considered.