AUDITOR-GENERAL

BUDGET AND STRATEGIC PLAN

OF THE

AUDITOR-GENERAL FOR 2006-07

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STRATEGIC PLAN FOR THE YEAR 2006-07

1. Auditor-General's statement of policy and commitment

I am pleased to present the 2006-07 strategic plan and budget for the Auditor-General (AG); a document that reflects our commitment to improving the quality of service, becoming even more cost-effective and increasing the AG's focus on service delivery through the use of performance audits.

The implementation of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) has provided a new strategic direction and focus to the AG. We have already made good progress in reviewing policies and guidelines relating to the requirements of the act and we envisage achieving readiness for full implementation by the end of March 2006.

In line with Government's overall drive towards policy implementation and service delivery, the AG will continue to focus on doing specific performance (value-for-money) audits, in order to support this drive.

The challenge for the AG continues to be refining our ability to provide cost-effective and added-value regularity audits and specific performance audits. Regularity audits currently employ 93% of the AG's auditing resources against 7% employed for performance audits. It is my considered opinion to maintain resources for performance audits at the current level of 7% for the 2006-07 financial year.

Since a number of government departments have not yet achieved the desired state of readiness, the implementation of the PFMA provisions relating to performance information has been delayed. This further limits the AG's ability to meet stakeholders' expectations to audit and report on performance information relating to "non-financial" or service delivery aspects of organisations.

A forum consisting of key role players and led by the National Treasury, is currently busy developing an accounting guideline framework to assist organisations to standardise the manner in which performance information is presented for audit purposes, prior to tabling in the various legislatures. The AG has also been doing research in this regard and we have adopted a phased approach to introducing this type of assessment in our audits.

Performance audit themes

The AG is focusing on the medium and long term to implement performance audits on a structured and incremental basis. This refers to fully-fledged performance audits, where the focus is on efficiency, effectiveness and economy, undertaken by the AG's specialised performance audit unit who provide a separate report to management and legislators.

The audit of ICT implementation in government departments and the housing subsidy process audit are planned for completion during the 2005-06 financial period. The following performance audit themes have been identified for the 2006-07 financial year:

- Allocation of low-cost housing projects to contractors and the control over these projects
- Investment in infrastructure
- Transfer payments

The AG performs different types of audits, including:

- regularity audits, which include financial and compliance audit reporting;
- performance audits;
- specialised audits, which include special investigations;
- information systems auditing; and
- sustainable development auditing, focusing on environmental auditing issues. (See glossary for more details.)

Regularity audit focus

The regularity audit focus areas that were under consideration during the 2004-05 period and reported in our annual report, were also given prominence in the 2005-06 audit period. Because of their significance as the biggest expenditure areas for the government, asset management, personnel expenditure and transfer payments will continue to receive extensive audit coverage in the 2006-07 budget period.

Integrated value-adding audit themes

A value-adding audit methodology has been developed by the AG that integrates elements of performance auditing with the regularity auditing. It is a cost-effective approach to bring another level of expertise and audit focus to the regularity audit. During 2005-06, three audit themes (human resource management, supply chain management and investment in public infrastructure) were identified for coverage as part of the regularity audit process. These were confirmed as necessary to be carried forward as audit themes into the 2006-07 budget period for all tiers of government as well.

The audit focus on HIV/Aids that was piloted in some provincial health departments during 2005-06 as well as the audit of government spending on subsistence and travelling will be additional identified focus areas for the next budget period.

Conclusion

I am satisfied that the budget being submitted for 2006-07, which represents a 30% expenditure increase compared to last year and a 23% increase in the income budget, is a fair reflection of the resources that we will require to deliver on the AG's mandate. I am also confident that this will enable us to remain relevant by being able to respond even more effectively to our key stakeholders' needs.

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

I have been privileged to be part of the AG team on our journey to become an independent world-class provider of public sector audit and related value-added services. When my term ends in November 2006, I will proudly hand the baton over to my successor, knowing that many of the key building blocks required for his or her successful tenure are already in place.

I thank you.

Shauket Fakie

S A Fakie
Auditor-General

2. Overview by the Deputy Auditor-General

My strategic aim for this year continues to be the building of the AG's strategic focus as well as achieving efficiencies from initiatives that have been implemented.

The strategic focus areas of People, Process and Product and the six key success factors that have been identified for the organisation, namely *communication, change management, training, quality control, project management* and *corporate governance*, shape the focus of the 2006-07 budget. The successful implementation of the following initiatives will ensure efficient service delivery and added value for our stakeholders:

2.1 People

- Leadership baseline measurement actions are to be included in the 2006-07 corporate balanced scorecard (BSC) to ensure standardised leadership behaviour that empowers and inspires employees.
- The next phase of the affirmative action plan will be implemented in 2006-07, as part of our drive to transform the AG's employee profile to reflect the sectoral demographics of our country and better meet our stakeholder needs.
- Focused initiatives aimed at developing the remaining strategy and policy in respect of managing diversity and discrimination will also be rolled out during this budget year.
- The trainee accountant scheme will be strengthened through effective scheduling and management of the trainees' required audit exposure, in order to meet the requirements of the accredited professional bodies.
- Recruitment processes are to be aligned to support the business requirements in positioning the AG as an employer of choice.
- The training curriculum will be expanded to support the method of auditing and strengthen leadership.
- Greater emphasis will be placed on improving strategic and internal communication, to enable every leader and employee to be effectively aligned with the AG's vision and strategy, so as to be able to contribute towards it.
- Change management capabilities will be strengthened through improved strategic dialogue, coaching and training.

2.2 Process

- The risk management process will be supported by the Control Self-Assessment tool (CSA) to facilitate compliance with the governance requirements in terms of the PAA.

- The new Corporate Services Governance unit will have the responsibility to drive the CSA with respect to the entire organisation, which includes the overseeing and reporting on the compliance of new or enhanced audit and administrative processes (refer to section 4.2 for more information on the unit.)
- The implementation of the integrated maturity capability model will also enable the AG's internal processes to be benchmarked for efficiency and effectiveness.

- Specific attention will thus be given to the ongoing project of formalising our business processes through the CSA tool, in keeping with our target of having all key business processes managed through the CSA tool by the end of the 2007-08 financial period.
- Knowledge management is another process of importance, which is scheduled for incremental development and implementation over the next three to five years. It is through this mechanism that our interaction with both internal and external stakeholders will become more cost-effective and mutually beneficial in the long run.

2.3 Product

- Performance audit priorities are to be established in full consultation with stakeholders in order to inform our priorities for ongoing product innovation and research in this area.
- The phased approach to the auditing of performance information will be continued, taking the state of readiness of government to manage and account consistently on matters of service delivery into account.
- A standardised method of work for all audit disciplines will support the audit mandate as required by the Public Audit Act. This method, which will be developed and upgraded on an ongoing basis, will require continuous attention of the audit teams during 2006-07 as well. This will further enhance the quality of our audits and reporting. It is through this method that our reports will also provide positive impact through an improved analysis of root causes and the impact of audit findings.
- All major audit and non-audit events will be realigned through effective project management, to provide balanced prioritisation of the Auditor-General's mandate. In this way we will effectively deal with the tight auditing deadlines and report timeously, in keeping with the finance management legislation that regulates all spheres of government.

2.4 Reputation and stakeholder management

As a service organisation, the AG strives to provide value-added audits while maintaining its independence. Effective leadership in implementing our values and the key success factors, in conjunction with a strong strategic focus on people, process and product will lead to sound stakeholder relationships and a strong corporate reputation.

2.5 Conclusion

I am confident that the strategic plan and budget for the 2006-07 financial year presents a fair reflection of resources required to support the AG's mission of providing independent and objective 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 the executive team for their support during the strategic planning and budgeting process.

Specific acknowledgement goes to all business unit managers and employees that were involved in the budget process for their display of commitment in assisting the finance team to coordinate this budget document.

To the finance budget team and their families, thank you for your positive attitude and immense sacrifice of your family life to make this budget the quality document it turned out to be within such a tight deadline.

Terence M Nombembe
Deputy Auditor-General

3. Strategic overview of the Auditor-General

3.1 Legislative mandate

The AG's legislative mandate is provided for in section 188 of the Constitution of South Africa, 1996, and in the Public Audit Act, 2004 (Act No. 25 of 2004). These acts clearly highlight the AG's responsibilities for auditing and reporting on all tiers of government as well as public entities.

The Public Audit Act (PAA), which was gazetted on 20 December 2004, has been effective from 1 April 2004. The new PAA has brought with it several new dimensions to public sector auditing, the AG, its stakeholders and the private audit firms.

With the enactment of the PAA, there is now only one legal entity, namely the AG. Previously, the Auditor-General Act governed the functions and powers of the Auditor-General assigned to him or her in addition to the powers and functions contained in the Constitution; while the Audit Arrangements Act governed the administration of the Office of the Auditor-General.

The PAA now governs both the audit powers and functions of the Auditor-General and all the issues of his or her organisation.

The Auditor-General, as head of the AG organisation, is accountable to Parliament and as such, is responsible for submitting the AG budget. The Deputy Auditor-General is the head of the administration of the AG, and as such, he or she is the accounting officer of the organisation, accountable to the Auditor-General.

4. Service delivery

The AG's service delivery environment consists 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 includes financial auditing and compliance auditing and comprises 93% of the AG's audit resources.

During the 2006-07 financial year the AG plans to conduct the following audits in compliance with the PFMA and MFMA:

Sector	Number of audits	Budgeted fees Rm	
	2006-07	**2005-06**	**2006-07**
National votes	36	186,6	213,9
Provincial votes	129	205,2	250,1
Local authorities	287	195,0	184,7
Public and other entities	392	125,5	150,1
International	10	-*	15,9
SUBTOTAL	854	712,3	814,7**
Performance audit	42	-*	44,5
Special investigations	24	-*	16,3
TOTAL	**920*******	**712,3**	**875,5*****

* *These fees are included in the other budgeted audit fees*

** *This figure includes regularity, compliance and integrated value-added audits*

*** *This figure represents 0,21% of Government's total budget for 2006-07 (0,17%, 2005-06)*

**** *With the ongoing reclassification and regrouping of accounts in the system, the number of audits has changed from 985 in the 2005-06 budget to a total of 920 in the 2006-07 budget*

Financial management

In full understanding of the mandate given to the AG by section 188(1) of the Constitution, sections 38(1)(a) and 51(1)(a) of the PFMA and section 62(1)(c)(i) of the MFMA, it is accepted that the AG will specifically focus on financial management. Following extensive research conducted by the AG, an approach for auditing financial management has been adopted. This approach essentially involves evaluating audit findings against predetermined levels of financial management in terms of the financial management capability model.

The importance of establishing sound risk management practices as well as effective internal processes and controls in the public sector institutions is increasingly recognised, since these are key elements of good corporate governance. These processes and controls are aimed at reducing significant risks for the organisation to an acceptable level of risk at both a strategic as well as an operational level.

The objective is to reach a common understanding of the key risks and controls for public sector institutions. Once the risks and controls have been commonly identified, the management of the entities, internal auditors and external auditors will be reporting on the same basis. Management of the institutions can then focus its attention on those areas and appropriately respond to the audit findings. In order to make this a reality, the AG acknowledges that we have a joint responsibility with the National Treasury to enhance the system of internal control within the financial management processes in the public sector institutions.

4.1.2 Key cost drivers for audit operations

The AG faces the challenge of improving its audits while managing escalating costs. The intention is to develop strategies that will enable the organisation to add value in a cost-effective manner.

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

(a) People

The AG provides its audit service through a professionally qualified and experienced workforce and is structured along similar lines as the audit firms in South Africa. For 2006-07, the AG envisages an overall audit staff complement of 1 530 persons at a total cost of R306,6 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 as part of the budget assumptions.

(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 employees. The AG will continue to utilise the services of private audit firms in specialised areas where the office may require additional experience or skills to conduct specific types of audits. For the utilisation of this resource to remain mutually beneficial, a minimum of 20% of audit work conducted by the AG is set aside for the firms (rand value R185,9 million).

In addition to the norm of 20%, an amount of R58,3 million has been set aside to accommodate a 10% employee vacancy. This vacancy level has been experienced industry-wide, due to staff turnover and insufficient supply of qualified candidates in a highly competitive market.

Furthermore, in order to provide for audit continuity while some of our employees engage in international audits, a provision of R3,8 million has been made for 2006-07, to augment this capacity with contract work.

The AG requires audit firms appointed by him to demonstrate commitment to black economic empowerment (BEE), and to the transformation of the auditing profession. Specific criteria are used to evaluate firms, namely % black ownership and management; employment equity; skills development; affirmative procurement and corporate social investment. The allocation and approval of audits contracted out to private audit firms and the contracting in of persons are the responsibility of the AG Tender Committee and the AG Contract Work Committee.

The total cost of contract work is expected to be R248 million, representing 28,3% of the AG audit work.

(c) Subsistence and travelling (S&T)

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 AG. As such, subsistence and travelling expenditure for travelling to and from these various auditees is paid to employees on a reimbursement basis.

The AG has followed a more structured approach to arrive at a more realistic estimate of S&T costs for 2006-07. The AG's S&T costs are managed carefully and effectively, in terms of the financial and budget guidelines. Once the budgets have been approved, employees must gain approval from a senior manager before incurring costs for subsistence and travel. The senior manager would review the S&T request against an approved costing schedule that is reviewed by the Executive Committee from time to time; review the need; review the most appropriate mode of travel; and review the request for accommodation or other items. Lastly, employees have to provide proper supporting documentation when submitting a claim.

The total cost of subsistence and travelling is expected to be R37,8 million.

4.2 Core business support

The restructuring of Corporate Services, with the goal of establishing a unit of specialist advisory services to support effective decision-making, is to be completed in November 2005.

The new unit is based on a service delivery model that is designed to achieve:

- an efficient and cost-effective capacity
- a responsive output-based capability
- streamlined and enhanced processes

Having outlined these overarching requirements, all key outputs and processes will be benchmarked to international standards, including Auditors-General offices in other countries. However, all benchmarks will be reviewed on a continuous basis and appropriately refined. As a first step, internal baselines for the achievement areas will be submitted to the AG Executive Committee for acceptance during the transitional period. The new Corporate Services consists of five business units.

The **Strategy** unit will be responsible for:

- Identifying needs and conducting feasibility studies
- Conceptualising and developing business cases
- Planning and initiating strategic interventions
- Providing guidance on the implementation and roll-out of projects
- Focusing on scanning the environment in which the AG operates and identifying areas for the strategic consideration of the AG

The **Governance** unit will focus on:

- Ensuring compliance with good governance practices, particularly in the areas of risk management, internal controls and legislation
- Enabling quality decision-making by providing an effective corporate secretariat function
- Managing the established quality assurance framework for the audit business units
- Developing and managing an effective quality assurance framework for Corporate Services

The **Special and Strategic Projects** unit will be responsible for:

- Providing detailed, cross-functional research for all service lines
- Providing audit standard-setting capabilities
- Designing and developing products and services
- Providing full programme management support, ranging from piloting and training to change management, to ensure a high level of acceptance by the users

The **Operational and Transactional Management** unit will be responsible for:

- Implementing and delivering new projects, programmes or initiatives developed in the Special and Strategic Projects unit
- Maintaining and improving current transactional processes and functions for greater efficiency

The **Reputation and Stakeholder Management** unit will be responsible for:

- Monitoring and coordinating reputation and stakeholder satisfaction requirements and projects
- Providing capability for reputation and stakeholder satisfaction analysis, testing and assurance
- Providing an integrated strategy, a coordinated approach, and needs analysis to reputation and stakeholder relationship management
- Providing communication products, services and tools to enable reputation and stakeholder relationship management
- Providing capability for centralised reporting on the strategic planning and performance of the AG
- Developing and coordinating a knowledge management culture for the AG

The method of work now being established for these business units will include feedback loops to assess the effectiveness of the processes in place and to validate the accuracy, quality and completeness of work done.

4.2.1 Transitional plan

The changes in Corporate Services will be managed by a structured transitional plan in three major phases:

Phase 1: The employee selection and appointment, to be completed by November 2005

Goal: To reappoint all current staff in the most appropriate position and to recruit additional specialists where required.

Phase 2: The rollout period begins in November 2005 and concludes at the end of March 2006.

Goal:

- To establish a baseline to deliver the required management reporting methods
- The establishment of a quality assurance process
- The establishment of baseline benchmarks

At the end of this phase reporting criteria for management information will have been established.

Phase 3: To address the longer-term capacity issues by November 2007

Goal: The full transition from the current method and means of operations to an integrated service delivery model addressing issues of people and processes as the key cost drivers.

The last period, from April 2006 – November 2007, focuses on the development and/or enhancement of key process where its success is partially determined by the sustained ability of those processes to improve performance and service delivery, utilising the above-mentioned benchmarks as a marker. The human resource gap will be addressed in individualised competency development plans.

The AG and his Executive Committee will monitor the achievements of the plan on a quarterly basis. These performance areas will be reported upon in the 2006-07 annual report. The results of the ongoing monitoring will present the AG with an opportunity to effect necessary corrective action to the original plan and structure in a manner deemed appropriate for the AG to achieve the objectives of restructuring within the allocated timeframe of the transition. (i.e. by November 2007)

4.2.2 Key cost drivers for corporate support services

As part of its restructuring project, criteria to benchmark its capacity and capability requirements have been independently determined. The criteria focused on the people and processes necessary to deliver on its expanded mandate as a specialised advisory service in support of the AG. Through this process, Corporate Services has also been able to develop limited input benchmarks, but all key outputs and processes will be benchmarked to international standards.

(a) Employee capacity

The first criterion was the cost of Corporate Services in respect of people and process. The 2005-06 personnel budget for Corporate Services included 203 employees and made provision for an additional 41, totalling 244 employees. Corporate Services had been operating under a hiring moratorium for two and a half years so that the restructuring project could:

- identify the appropriate capacity and
- determine the staffing mix with respect to management levels and expertise.

Based on the new service delivery model, the total corporate support services, including Corporate Services, employees from Africa Projects and Employment Equity; as well as the AG's corporate executives and their support staff (total of 14), will comprise 253 employees:

The total corporate services	**2005-06**						**2006-07**	
	Budget		**Provision**		**Total Projection**		**Budget**	
	No.	Rand	No.	Rand	No.	Rand	No.	Rand
Corporate executives & support staff	7	6 410 927	-	-	7	6 410 927	14	10 485 632
Business executives	4	2 729 364	2	1 239 552	6	3 968 916	8	7 082 838

The total corporate services	2005-06						2006-07	
	Budget		Provision		Total Projection		Budget	
Senior managers	17	8 588 329	4	1 889 720	21	10 478 049	28	15 891 591
Managers	59	20 792 638	14	5 245 900	73	26 038 538	95	36 256 351
Specialists & practitioners	62	13 379 204	11	1 862 425	73	15 241 629	91	17 513 283
General administrators	54	5 950 241	10	1 266 854	64	7 217 095	17	1 407 341
TOTAL	**203**	**57 850 703**	**41**	**11 504 451**	**244**	**69 355 154**	**253**	**88 637 036**

The corporate support staff (253) represent 14,2% of the total AG staff complement (1 783). The corporate support staff costs represent 22,4% of total staff costs. When comparing the personnel expenditure of the total projected amount to the 2006-07 budget, the size of Corporate Services has increased by 9 employees or 3,6% and the salary cost has increased by R29 281 882 or 33%.

Under the service delivery model, additional capacity has been provided at the executive and senior management levels followed by an increase in the number of managers and a decrease in the number of general administrators. The capacity requirements indicated a need for more senior personnel with greater expertise.

As the benchmarking is completed, the personnel cost will be measured against an employee competence metric and the cost to deliver, to determine an optimal staffing level and mix plus the employee utilisation profile for the AG. Where comparable information is not available, the AG baseline will be monitored for improvements.

The cost of Corporate Services as measured by its salaries as a percentage of total cost is outlined below:

	2006-07		2005-06
	Staffing ratio Org: Corporate Services	Salaries as % of total expenditure	Salaries as % of total expenditure
AG** total	7:1	8,8%	9,0%
AG*	9:1	5,7%	6,8%
Comparable organisation	8:1	6,8%	6,8%

* *As compared to industry information, where Corporate Services include the disciplines of HR, IT, Finance, Marketing, Strategy and Legal.*

** *The standard corporate services plus the AG's teams for research and development for audit and corporate disciplines; as well as a parliamentary support capacity*

(b) Contract work

The following key principles have been applied with regard to the budgeting of contract work in Corporate Services:

- In cases where, for reasons of objectivity or independence to ensure credibility (e.g. stakeholder satisfaction surveys or quality control), work needs to be contracted out
- In cases where there is a need for highly specialised skills that do not yet exist in the AG (e.g. ICT development)

In the new Corporate Services, there are a number of special initiatives to improve service delivery. Since many of these activities are not repetitive by nature, comparatives for the previous year cannot be provided, since it does not relate to the 2006-07 budget. The total cost of contract work for Corporate Services for 2006-07 is R8,1 million, which represents a 2,4% increase (R1,6 million) from 2005-06.

4.2.3 Key efficiency drivers for operations in Corporate Services

The key drivers to operations include the following:

(a) Employee competency

A human capital readiness measure will be determined to quantify the application of discipline-specific expertise. This will be used to determine the gap between required and actual competencies, as well as to determine employee development plans.

(b) Process efficiency

Key processes will be enhanced and mapped with standard operating procedures. The process mapping will be quality assured by an independent external assessor. The standard operating procedures have been developed and are internationally benchmarked. The internal controls, risk framework and compliance will be regularly reviewed by the internal auditors. All process teams will be given targets with regard to time, quality, cost and risk that will form part of their performance review.

(c) Product quality

The delivery of specialised advisory services is only successful when concluded within a cost structure that is efficient and effective for the AG. Hence, all cost drivers will be monitored and measured continually to ensure that improvements deliver an acceptable return on investment (ROI).

The quality of products is measured by stakeholder satisfaction levels, on-time delivery, turnaround time, cost per transaction, overall service quality, relevance of new and improved products developed and development turnaround time in respect of the necessary internal controls.

Issues of employee capacity and competence are viewed as input factors. The issue of financial management is a marker of well-planned activities. Outputs will be measured on the effectiveness of the processes and the quality of the product. Then, we can ask the question: “Are the stakeholders satisfied?”

4.3 Core business resources

4.3.1 Accommodation

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 employees are housed in offices around the country that reflect this.

The total cost of office accommodation as per lease agreements for the 2006-07 year is anticipated to be R29,4 million (R19,1 million rental and R10,3 million operating cost) for its entire staff complement of 1 783 (1 530 audit staff + 253 support staff). This translates to a cost-per-square metre of R13,5 and value per employee ratio of 1:R10 712. This is in line with the industry benchmarks:

Ratio (rental)	AG budget for 2006-07	Industry benchmark
Cost per employee	1:R10 712	1:R11 232
Cost per square metre	R13,5	R15,6

4.3.2 Technological services

An investment is made in technological services as a tool to enable both audit and audit support services to run effectively and efficiently. The criteria for the AG’s investment in technological services include:

- providing appropriate speed and secure access for our employees
- enabling our employees to access the office network remotely and securely
- providing capacity to enable business continuity in the event of catastrophic events and
- providing appropriate software packages and support.

The AG's ICT Steering Committee has established a governance framework and has implemented different tiers of meetings to ensure adherence to the delegation of authority, approval frameworks and organisational policies.

To this end a total amount of R25,4 million is expected to be spent on technological services, which represents a cost per employee of R14 200.

4.3.3 Capital expenditure

The total capital expenditure budgeted for 2006-07 amounts to R29 million. The total ICT capital expenditure (R20,8 million) budgeted for 2006-07, is 0,92% of the total own hours income (R578,3 million). This is in line with the AG's budget guidelines, which stipulates that ICT capital expenditure (excluding notebooks) may not exceed 1,5% of total own hours income. Similarly, the capital expenditure of each audit business unit cannot exceed 0,5% of total own hours.

4.4 Core business investment

4.4.1 Professional assistance

Professional assistance is directed towards trainee accountants and other employees who study part-time or full-time in order to meet MQF requirements:

- Trainee accountants:

The AG has a total of 668 trainee accountants, and it is justly proud of its trainee accountant scheme, which is nurturing our profession by coaching and mentoring its fledglings. Extensive study support and bursaries are provided to the trainees and they are encouraged to enhance their status by obtaining a professionally recognised accounting and auditing qualification.

- Continuing professional development (CPD):

The AG's investment is also directed toward continuing professional development. CPD requirements exist for fully qualified professionals that are members of professional bodies who need to maintain membership thereof and keep up to date with the latest developments in their respective professional disciplines.

The composition of the budget towards professional assistance is as follows:

Assistance	Amount Rm	%
Bursaries for tuition, study material and accommodation	6,3	16%
Study support by tuition providers that monitor study progress and provide motivational support on study and examination techniques	9,4	23%

Assistance	Amount Rm	%
Training and related costs that complement the academic information that employees acquire through academic studies and qualifications	16,1	40%
Membership fees for employees who are registered with professional bodies as trainees or qualified professionals	2,9	7%
Innovation and learning development projects	5,4	14%
TOTAL	**40,1***	**100%**

** This represents 4,7% of the total expenditure budget*

Proper policies, control mechanisms and tracking systems are in place to ensure that the professional assistance provided by the AG is managed effectively. For example, bursary holders who do not pass their examinations have no claim to further study support.

The AG further invests in its employees by providing industry-benchmarked study leave in addition to their normal vacation and other leave benefits, which cannot be directly recovered from the auditees.

4.4.2 Reputation and stakeholder management

In our drive to ensure that the AG continues to remain relevant to all its key stakeholders, a key focus will be placed on enhancing its corporate reputation through refining its relationships with stakeholders. This will include a structured process to determine the needs of stakeholders; a feedback loop into the AG organisation to guide corporate actions and strategies to accommodate the needs of stakeholders and a structured approach to track and monitor stakeholder satisfaction on a more regular basis.

We believe that a determined adherence to the AG's values and identified key success factors, in conjunction with a strong strategic focus on the people, process and product perspectives, would result in sound stakeholder relationships and a strong corporate reputation.

The AG has committed an investment of R11,2 million toward building and sustaining relations across the various stakeholder groups. We are currently busy researching and developing an international industry benchmark, to be able to compare the amount spent on reputation and stakeholder management with the total expenditure of the organisation.

From a governance perspective, the AG will develop a reputation index. A baseline for the reputation and loyalty index measurement for all key stakeholders will be established by 31 March 2006. The AG will also establish a Reputation and Stakeholder Management Steering Committee, to establish a sound governance framework. This forum will enable the effective management of reputation issues and stakeholder satisfaction requirements and projects. It will consider the regular feedback received from stakeholders and the possible impact thereof on the AG's reputation and it will provide an approval framework for the corrective actions that need to be taken to address the identified reputation and stakeholder concerns.

4.5 Performance bonus

In addition to the normal employee salaries, the AG makes provision for an annual performance bonus that is variable by nature and payable to employees 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.

The performance bonus is driven by the effort made by business units in achieving specific set targets. In consultation with the external auditors, it is accounted for in line with the South African Statements of Generally Accepted Accounting Practice. As such, no provision is included in the detailed budget, but it is determined only after the performance results reflected in the balanced scorecard have been audited and approved by the Auditor-General.

The amount of this bonus for the 2006 performance year, which is payable in the 2006-07 financial year, is estimated to be R15,8 million. This is based on the assumption that 20% of employees, excluding trainee accountants, will be eligible for the bonus and that the average rate of such bonus will be 20% of the total package. The payment of performance bonuses at these levels is subject to the availability of funds set aside for staff liabilities.

4.6 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 the compensation policy of the AG provides for annual market positioning, the likelihood of utilising the 4% discretionary allowance for the 2006-07 budget period is possible.

4.7 Funding for hosting prestigious events

The AG accepted the nomination to host the 11th General Assembly of the African Organisation of Supreme Audit Institutions (AFROSAI) in South Africa in 2008, which can be seen as an invitation to the organisation to share its expertise and extend the ambit of its influence to all Auditors-General in Africa. The estimated cost for this event is R800 000. Because this cost will not have a material impact on the budget, this amount will be reflected in the 2008-09 budget.

The AG will also host the 20th Congress of the International Organisation of Supreme Audit Institutions (INTOSAI) in 2010. The AG's hosting role of this event has been endorsed by the President of South Africa as well as by Parliament. This event will benefit the AG, our country as well as the greater African region, and will allow South Africa to influence the strategic direction of the INTOSAI in a direct and meaningful way in shaping world-class public sector accounting and auditing standards and practices. The estimated cost for this event is US$1,5 million, which at an estimated exchange rate of R8/$ translates to R14,4 million. Because this a significant amount, it is recommended that the AG provides for the funding of this prestigious event from its future surplus funds over the medium term, as reflected in the statement of the projected funding requirements.

5. Overview of the medium-term budget

The budget is based on the increase of 4% in the AG's tariffs for the 2006-07 budget period to cover fixed overheads and the effective increase in audit-related salaries. The effect thereof is reflected below in the form of the projected income statement and the projected funding requirements schedule.

5.5.1 Projected income statement

The projected income statement reflects the net surplus of R11,0 million, R20,4 million and R25,1 million for the three budget years 2006-07 through to 2008-09. As a percentage of total income, this translates to 1%, 2% and 3% for the same budget periods. In comparison to the projected income reported in the 2005-06 budget and strategic plan, these income levels more prudently reflect the challenges created by the audit staff vacancies. The income levels are determined using a 10% employee vacancy assumption, the consequence being an increase in contract work above the 20% norm and a decrease in the AG audit hours.

5.5.2 Projected funding requirements

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

- employee liabilities and reserve for special audits;
- working capital;
- capital expenditure; and
- hosting of prestigious events.

The sum of these items is compared to the cash reserves to determine the medium-term surplus/deficit on funding.

It is important to take note of the impact of the new assumption with respect to the expected employee vacancy rate of 10% which is applicable to the audit business units. In the past, the AG has always budgeted on the assumption of a full establishment, which resulted in projected surplus levels that were difficult to achieve. The application of this assumption creates a more realistic projection of performance levels and the funding requirements reflected in annexures 1 and 2.

Annexure 1

Statement of projected income

	2005-06 Budget	2006-07 Budget	2007-08 Budget	2008-09 Budget
	Rm	Rm	Rm	Rm
AUDIT INCOME	**712,31**	**875,4**	**923,2**	**973,7**
Own hours	510,92	578,3	610,2	643,7
S&T recoverable	39,45	49,1	51,5	54,1
Contract work	161,94	248,0	261,5	275,9
DIRECT AUDIT EXPENDITURE	**468,64**	**603,7**	**636,5**	**671,2**
Personnel	267,25	306,6	323,5	341,3
S&T recoverable	39,45	49,1	51,5	54,1
Contract work	161,94	248,0	261,5	275,9
Gross income	**243,67**	**271,7**	**286,7**	**302,5**
Gross margin %	**34%**	**31%**	**31%**	**31%**
Other income	**10,36**	**10,3**	**10,9**	**11,5**
Gross profit plus other income	**254,03**	**282,0**	**297,6**	**314,0**
Overhead expenses	**187,61**	**249,1**	**254,0**	**264,6**
Depreciation	**22,66**	**20,0**	**21,0**	**22,1**
Net surplus	**43,76**	**12,9**	**22,6**	**27,4**
Net surplus %	**6%**	**1%**	**2%**	**3%**

Assumptions

1. 4% increase in rates
2. Salary expenditure inflationary increase of 5,5%
3. Overhead expenditure inflationary increase of 5%
4. Increased contract work to accommodate 10% vacancy rate on audit staff; which had the impact of reducing the margins and therefore, the net surplus from 6% (2005-06) to 1% (2006-07)

Annexure 2

Statement of projected funding requirements

4% increase in rates

	2005-06 Budget Rm	2006-07 Budget Rm	2007-08 Budget Rm	2008-09 Budget Rm
Part 1				
Reserves and staff liabilities				
Staff liabilities	**75,85**	**81,8**	**91,0**	**95,8**
- PRMA	53,33	56,6	62,2	63,5
- Leave liability	22,52	25,2	28,7	32,3
Office reserves	**5,27**	**21,1**	**21,0**	**22,9**
- Special audit services fund	5.27	5,3	5,3	5,3
- Performance bonus		15,8	16,7	17,6
	81,12	**102,9**	**112,9**	**118,6**
Part 2				
Working capital				
Current assets (excluding bank)	98,93	121,6	128,2	135,2
Current liabilities (excluding leave liability)	(34,15)	(48,7)	(39,1)	(41,2)
Net working capital	**64,78**	**72,9**	**89,1**	**94,0**
Part 3				
Capital expenditure				
Interest-bearing borrowing payments	2,66	3,3	5,9	6,4
Fixed assets acquisitions	36,27	30,0	24,4	25,7
Capital requirement of the office	**38,93**	**33,3**	**30,3**	**32,1**
Part 4				
Prestigious events (INTOSAI)		4,8	4,8	4,8
Cash and cash equivalents	**182,10**	**149,9**	**160,2**	**181,4**
Office funding requirements (1+2+3+4)	**184,83**	**213,8**	**237,1**	**249,5**
Surplus/(Deficit) on funding of the office	**(2,73)**	**(63,9)**	**(76,9)**	**(68,2)**

6. Measuring outputs for the Auditor-General

The recently promulgated Public Audit Act (PAA) requires the Auditor-General to report on performance outcomes in its Annual Report. In the past, the balanced scorecard performance review was used to prepare the performance outcomes and it was not a requirement for this to be audited.

With the introduction of the PAA, it soon became clear that the new PAA requirement placed undue pressure on the organisation, as the performance review cycle coincided with the audit cycle. The result was that efforts to improve the operational efficiency of the organisation, specifically the management of the audit cycle, would be impeded by these conflicting activities.

This situation was assessed for the 2005-06 reporting cycle and its immediate impact was outlined to the parliamentary Ad Hoc Committee of the Auditor-General. The Auditor-General took a decision and recommended to the parliamentary Ad Hoc Committee to change the performance review cycle; to defer the performance review of the organisation to the following financial year (2006-07) and to grant employees a general salary increase based on market movements for the year (2005-06).

At its meeting of 30 March, 2006, the parliamentary Ad Hoc Committee agreed to condone the Auditor-General’s decision and recommendation, even though it has the unintended consequences of also deferring the external auditor’s review and conclusion on the organisation’s performance against predetermined objectives, because:

(a) the Act is only in its first year of full implementation and it is understandable that such anomalies could have arisen, and

(b) the rationale underlying the decision was that the public interest would be better served by ensuring more effective project management during the audit periods (by rescheduling the performance cycle to an earlier stage) than by having the performance review period and audits coinciding.

As a result the Auditor-General will provide its performance indicators for the year 2006-07 to the Standing Committee on the Auditor-General in September 2006 as a separate submission. The next audited performance review of the Auditor-General will be for the calendar year 2006 and conducted in March 2007 by its external auditors.

AUDITOR-GENERAL

7. DETAILED BUDGET FOR THE YEAR 2006-07

DOCUMENT 1

AUDITOR-GENERAL

The Auditor-General
DETAILED BUDGET FOR 2006-07

Description	Notes	Budget Jun-05 (A)	Forecast Jun-05 (B)	Variance (B-A) (C)	Variance % (B-A)/A (D)	Budget Jul-06 (E)	Variance (E-B) (F)	Variance % (E-B)/B (G)	Variance (E-A) (H)	Variance % (E-A)/A (I)
AUDIT INCOME	2	**712,307,737**	**709,708,001**	**(2,599,737)**	**0%**	**875,466,352**	**165,758,351**	23%	**163,158,615**	23%
Own hours	2.1	510,924,634	486,327,552	(24,597,082)	-5%	578,348,219	92,020,667	19%	67,423,585	13%
Contract work	2.2	161,936,117	181,675,888	19,739,771	12%	248,045,976	66,370,088	37%	86,109,859	53%
S & T	2.3	30,814,508	33,072,083	2,257,575	7%	37,822,308	4,750,225	14%	7,007,800	23%
Billed S&T - international audit	2.3	8,632,478	8,632,478	-	0%	11,249,849	2,617,371	30%	2,617,371	30%
DIRECT AUDIT COST		**469,888,873**	**492,675,077**	**22,786,205**	**5%**	**603,724,261**	**111,049,184**	**23%**	**133,835,388**	**28%**
Staff remuneration - audit business units	3.4.1	268,505,770	269,294,629	788,858	0%	306,606,128	37,311,499	14%	38,100,358	14%
Contract work - recoverable	2.2	161,936,116	181,675,888	19,739,771	12%	248,045,973	66,370,085	37%	86,109,857	53%
S&T recoverable	2.3	30,814,508	33,072,083	2,257,575	7%	37,822,311	4,750,228	14%	7,007,803	23%
Billed S&T -international audit	2.3	8,632,478	8,632,478	-	0%	11,249,849	2,617,371	30%	2,617,371	30%
GROSS PROFIT		**242,418,865**	**217,032,923**	**(25,385,941)**	**-10%**	**271,742,091**	**54,709,168**	**25%**	**29,323,226**	**12%**
GROSS PROFIT PERCENTAGE		**34%**	**31%**			**31%**				
OTHER INCOME		**10,364,995**	**8,902,518**	**(1,462,477)**	**-14%**	**10,277,896**	**1,375,378**	**15%**	**(87,099)**	**-1%**
Interest	2.5	8,175,014	7,166,918	(1,008,096)	-12%	8,197,177	1,030,259	14%	22,163	0%
Africa Projects	2.6	2,189,981	1,735,600	(454,381)	-21%	2,080,719	345,119	20%	(109,262)	-5%
SURPLUS BEFORE OPERATING COST		**252,783,860**	**225,935,441**	**(26,848,419)**	**-11%**	**282,019,987**	**56,084,546**	**25%**	**29,236,127**	**12%**
OPERATING COST		**186,034,144**	**184,632,497**	**(1,401,647)**	**-1%**	**249,809,067**	**65,176,569**	**35%**	**63,774,923**	**34%**
Staff remuneration - support business units	**3.4.2**	**57,059,062**	**51,463,261**	**(5,595,801)**	**-10%**	**86,800,021**	**35,336,760**	**69%**	**29,740,958**	**52%**
Staff remuneration - Africa Projects	**3.4.2**			**-**	**-**	**1,837,017**	**1,837,017**	**-**	**1,837,017**	**-**
Other personnel expenditure		**13,084,692**	**12,867,181**	**(217,510)**	**-2%**	**14,697,731**	**1,830,550**	**14%**	**1,613,039**	**12%**
Leave pay provision	3.1	3,347,515	3,347,515	-	0%	3,548,400	200,885	6%	200,885	6%
Medical aid provision	3.2	5,408,549	5,408,549	-	0%	5,628,648	220,099	4%	220,099	4%
Statutory levies	3.3	1,190,167	1,032,121	(158,046)	-13%	1,404,332	372,211	36%	214,165	18%
Group life scheme	3.6	508,800	760,734	251,934	50%	937,119	176,385	23%	428,319	84%
Long service awards & other	3.6	230,000	230,000	-	0%	227,500	(2,500)	-1%	(2,500)	-1%
UIF: Employer contribution	3.7	1,629,540	1,402,475	(227,065)	-14%	1,987,482	585,007	42%	357,942	22%
Workmen's compensation premiums	3.7	270,121	270,121	-	0%	290,000	19,879	7%	19,879	7%
BU recognition scheme	3.6	500,000	415,667	(84,333)	-17%	674,250	258,583	62%	174,250	35%
						8,060,533				
Contract work - irrecoverable	4	**6,497,934**	**8,617,526**	**2,119,592**	**33%**	**8,060,533**	**(556,993)**	**-6%**	**1,562,599**	**24%**
Ongoing				-	100%	2,706,393	2,706,393	100%	2,706,393	100%
One-off				-	100%	5,354,140	5,354,140	100%	5,354,140	100%
Subsistence & travelling - irrecoverable	5	**3,908,461**	**3,712,520**	**(195,941)**	**-5%**	**4,517,007**	**804,487**	**22%**	**608,546**	**16%**
Accommodation	6	**26,870,948**	**28,565,731**	**1,694,783**	**6%**	**29,415,384**	**849,653**	**3%**	**2,544,437**	**9%**
Rental	6.1	17,383,427	18,921,778	1,538,350	9%	19,087,499	165,721	1%	1,704,072	10%
Operating costs	6.2	9,487,521	9,643,953	156,433	2%	10,327,885	683,932	7%	840,365	9%

Description	Notes	Budget Jun-05	Forecast Jun-05	Variance (B-A)	Variance % (B-A)/A	Budget Jul-06	Variance (E-B)	Variance % (E-B)/B	Variance (E-A)	Variance % (E-A)/A
Liaison	7	**7,251,748**	**7,045,495**	**(206,253)**	**-3%**	**11,200,892**	**4,155,397**	**59%**	**3,949,144**	**54%**
Stakeholder relationships	7.1	4,367,868	4,190,400	(177,468)	-4%	7,521,536	3,331,136	79%	3,153,668	72%
Regional congresses	7.2	1,715,880	1,687,095	(28,785)	-2%	2,511,356	824,261	49%	795,476	46%
Foreign visitors	7.3	143,000	143,000	-	0%	143,000	-	0%	-	0%
Overseas travel	7.4	1,025,000	1,025,000	-	0%	1,025,000	-	0%	-	0%
Control bodies	8	**1,115,341**	**790,180**	**(325,161)**	**-29%**	**1,124,763**	**334,583**	**42%**	**9,422**	**1%**
Oversight bodies	8.1	898,180	698,180	(200,000)	-22%	758,708	60,528	9%	(139,472)	-16%
Parliamentary liaison	8.2	217,161	92,000	(125,161)	-58%	366,055	274,055	298%	148,894	69%
Audit expenses	9	**2,015,000**	**2,925,230**	**910,230**	**45%**	**3,284,753**	**359,523**	**12%**	**1,269,753**	**63%**
Audit fees	9.1	850,000	1,220,000	370,000	44%	1,409,000	189,000	15%	559,000	66%
Internal audit costs	9.2	1,165,000	1,705,230	540,230	46%	1,875,753	170,523	10%	710,753	61%
Bank charges	Immateria	**224,127**	**222,044**	**(2,083)**	**-1%**	**205,683**	**(16,361)**	**-7%**	**(18,444)**	**-8%**
Finance charges	10	**1,360,491**	**1,360,491**	**-**	**0%**	**1,054,979**	**(305,511)**	**-22%**	**(305,511)**	**-22%**
Recruitment expenses	11	**999,106**	**1,420,731**	**421,625**	**42%**	**5,124,375**	**3,703,644**	**261%**	**4,125,269**	**413%**
Professional assistance	12	**33,079,251**	**32,201,551**	**(877,699)**	**-3%**	**40,123,267**	**7,921,716**	**25%**	**7,044,017**	**21%**
Employee Wellness Programme (EWP fees to independent service provider)		**606,000**	**606,000**	**-**	**0%**	**1,008,332**	**402,332**	**66%**	**402,332**	**66%**
Technological services	13	**17,026,368**	**18,134,256**	**1,107,887**	**7%**	**25,404,675**	**7,270,419**	**40%**	**8,378,307**	**49%**
Computer services	14	14,427,625	15,572,361	1,144,737	8%	21,803,120	6,230,759	40%	7,375,496	51%
Hiring of equipment - rental	13.1	2,079,124	2,023,874	(55,249)	-3%	2,966,522	942,648	47%	887,398	43%
Hiring of equipment - copy charges		519,620	538,020	18,400	4%	635,033	97,013	18%	115,413	22%
Insurance & legal fees	15	**2,396,564**	**1,345,089**	**(1,051,475)**	**-44%**	**1,868,278**	**523,189**	**39%**	**(528,286)**	**-22%**
Insurance	15.1	1,853,050	801,575	(1,051,475)	-57%	908,278	106,703	13%	(944,772)	-51%
Legal costs		543,514	543,514	-	0%	960,000	416,486	77%	416,486	77%
Auxillary services	16	**7,855,398**	**7,544,861**	**(310,537)**	**-4%**	**9,625,385**	**2,080,524**	**28%**	**1,769,987**	**23%**
Cleaning: Contracts/services		346,966	345,777	(1,189)	0%	384,075	38,298	11%	37,109	11%
Cleaning: Materials		263,035	152,784	(110,251)	-42%	291,513	138,729	91%	28,478	11%
Office improvements		259,903	225,968	(33,935)	-13%	337,926	111,958	50%	78,023	30%
Refreshments		376,206	370,334	(5,872)	-2%	393,145	22,812	6%	16,940	5%
Publications		739,030	721,437	(17,593)	-2%	714,984	(6,453)	-1%	(24,046)	-3%
R&M: Computer equipment and software		268,396	253,539	(14,857)	-6%	463,808	210,269	83%	195,412	73%
R&M: Furniture and equipment		138,912	143,991	5,079	4%	151,943	7,952	6%	13,031	9%
R&M: Site and buildings		112,240	115,742	3,502	3%	175,205	59,463	51%	62,965	56%
R&M: Leased computers		26,500	26,500	-	0%	36,000	9,500	36%	9,500	36%
R&M: Office vehicles		322,947	441,856	118,909	37%	416,415	(25,441)	-6%	93,468	29%
Printing of audit reports		810,746	778,446	(32,300)	-4%	816,516	38,070	5%	5,770	1%
Stationery and printing	16.1	3,783,517	3,560,086	(223,431)	-6%	4,982,503	1,422,417	40%	1,198,986	32%
Artwork and design		227,000	227,000	-	0%	219,000	(8,000)	-4%	(8,000)	-4%
Medical examinations		60,000	60,000	-	0%	62,064	2,064	3%	2,064	3%
Freight and removal		120,000	121,400	1,400	1%	180,288	58,888	49%	60,288	50%

Description	Notes	Budget Jun-05	Forecast Jun-05	Variance (B-A)	Variance % (B-A)/A	Budget Jul-06	Variance (E-B)	Variance % (E-B)/B	Variance (E-A)	Variance % (E-A)/A
Communication	17	**4,214,448**	**4,179,950**	**(34,497)**	**-1%**	**4,455,991**	**276,040**	**7%**	**241,543**	**6%**
Cellphone charges	17.2	719,410	725,440	6,030	1%	795,644	70,204	10%	76,234	11%
Postage & courier services		695,640	654,511	(41,129)	-6%	720,979	66,468	10%	25,339	4%
Telephone charges	17.1	2,799,398	2,800,000	602	0%	2,939,368	139,368	5%	139,970	5%
SURPLUS / (DEFICIT) BEFORE DEPRECIATION		**66,749,715**	**41,302,944**	**(25,446,772)**	**-38%**	**32,210,920**	**(9,092,024)**	**-22%**	**(34,538,795)**	**-52%**
Depreciation	18	**22,662,972**	**22,662,972**	**-**	**0%**	**20,007,483**	**(2,655,489)**	**-12%**	**(2,655,489)**	**-12%**
Depr. motor vehicles		451,372	451,372	-	0%	621,519	170,147	38%	170,147	38%
Depr. furniture & equipment		1,847,413	1,847,413	-	0%	2,047,340	199,927	11%	199,927	11%
Depr. computer equipment		13,190,954	13,190,954	-	0%	10,647,477	(2,543,477)	-19%	(2,543,477)	-19%
Depr. computer software		6,528,676	6,528,676	-	0%	5,503,111	(1,025,565)	-16%	(1,025,565)	-16%
Depr. leasehold improvements		644,557	644,557	-	0%	1,188,037	543,480	84%	543,480	84%
NET SURPLUS / (DEFICIT)		**44,086,744**	**18,639,972**	**(25,446,772)**	**-58%**	**12,203,437**	**(6,436,535)**	**-35%**	**(31,883,306)**	**-72%**
Net surplus ratio before transfers		**6%**	**3%**			**1%**				
CAPITAL	19	**36,266,242**	**33,977,365**	**(2,288,877)**	**-6%**	**28,967,779**	**(5,009,586)**	**-15%**	**(7,298,463)**	**-20%**
Motor vehicles - cost	19.1	200,000	200,000	-	0%	550,000	350,000	175%	350,000	175%
Furniture & equipment	19.2	2,986,419	2,016,143	(970,276)	-32%	5,601,215	3,585,072	178%	2,614,796	88%
Computer equipment - cost	19.4	21,871,456	22,124,605	253,149	1%	17,509,414	(4,615,191)	-21%	(4,362,042)	-20%
Computer software - cost	19.5	9,366,617	9,366,617	-	0%	3,325,600	(6,041,017)	-64%	(6,041,017)	-64%
Leasehold improvements - cost	19.3	1,841,750	270,000	(1,571,750)	-85%	1,981,550	1,711,550	634%	139,800	8%
TOTAL BUDGET		**7,820,502**	**(15,337,393)**	**(23,157,895)**	**-296%**	**(16,764,342)**	**(1,426,949)**	**9%**	**(24,584,844)**	**-314%**

Notes to Budget: 1 April 2006 - 31 March 2007

2 INCOME

Budget Item	Ref.	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Own hours	2.1	510,925	486,328	(24,597)	-5%	578,348	67,424	13%
Contract work	2.2	161,936	181,676	19,740	12%	248,046	86,110	53%
Subsistence and travel	2.4	30,815	33,072	2,258	7%	37,822	7,008	23%
International subsistence and travel		8,632	8,632	-	0%	11,250	2,617	30%
Total Audit Income		**712,308**	**709,708**	**(2,600)**	**0%**	**875,466**	**163,159**	**23%**

EFFECT OF THE ESTIMATES OF THE OFFICE FOR 2006/2007 ON TOTAL STATE EXPENDITURE

The total estimated audit costs of R875.47 million for 2006/07 (2005/06: R712.31 million) when compared with the estimate of state expenditure for 2006/07 of approximately R418.2 billion amounts to only 0.21 percent (2005/06: 0.17 percent). As such the estimate of the office 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 Office. Having achieved the ideal span of control at management levels the focus will shift towards correcting the span of control for auditors and trainee accountants in line with the medium term target. The analysis below indicates that there is still a room for improvement of the span of control at the trainee accountant and auditor level.

Audit staff	Medium term target		'05/06 Budget	'06/07 Budget	'05/06 Budget	'06/07 Budget	Change		Comments
	Span of control assuming 10% vacancies for managers and trainees		Span of control	Span of control	Staff	Staff	Staff	%	
					(1)	(2)	(2)-(1)	(2)-(1)	
- Business Executives	17				16	17	1	6.25%	Re-evaluation of international posts
- Senior Managers	91	1	1	1	89	91	2	2.25%	2 Provinces created additional centres due to workload.
- Audit Managers	246	3	3	3	265	246	(19)	-7.17%	The 7% reduction is due to the 10% vacancy rate assumption which is offset by 3% growth in span of control as a result of 2 additional senior managers
- Auditors	91	1	5	4	467	395	(72)	-15.42%	Reduction of auditors during the 2005-06 year due to natural attrition and resignations replaced with trainee accountants
- Trainee Accountants	983	11	7	7	630	668	38	6.03%	The 6% increase in trainees is in line with the 15% reduction in auditors, after taking the 10% vacancy rate assumption into account
- Admin	108	1	1	1	70	113	43	61.43%	The increase in admin staff is necessitated by the decision to relieve the senior managers of the increase in admin workload so as to focus on audit responsibilities. A detailed work study on the impact of increased admin requirements at business units level informed the determination of a norm of 1 admin support per senior manager and 1 admin manager per business unit.
Total Audit staff	**1536**	**17**	**17**	**17**	**1,537**	**1,530**	**(7)**	**-0.46%**	

2.1.2 Recoverable own hours

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

The calculation of recoverable hours is based on (the total available hours of 2009 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 '05/06	Expected recovery rate per band '06/07	'05/06 Budget	'06/07 Budget	Change		Comments
			Hours	Hours	Hours	%	
			(1)	(2)	(2)-(1)	(2)-(1)	
Audit Staff							
- Business Executives	50.00%	50.00%	16,269	17,077	808	4.96%	Trend in line with personnel movements reflected in 2.1.1 above.
- Senior Managers	67.50%	67.50%	122,169	123,403	1,234	1.01%	
- Audit Managers	70.00%	70.00%	377,233	345,950	(31,283)	-8.29%	
- Auditors	72.50%	72.50%	688,526	575,327	(113,199)	-16.44%	
- Trainee Accountants	71.00%	71.00%	909,629	952,829	43,199	4.75%	
Total	**71.50%**	**71.50%**	**2,113,826**	**2,014,585**	**(99,241)**	**-4.69%**	

Refer 2.1.4 for calculation of total own hours income

	Annual Leave	Sick Leave	Study Leave	Training	Mgmt & Supervision	Total
- Business Executives	9.0%	5.0%	2.0%	8.0%	26.0%	50.0%
- Senior Managers	9.0%	5.0%	2.0%	8.0%	8.5%	32.5%
- Audit Managers	9.0%	5.0%	4.0%	6.0%	6.0%	30.0%
- Auditors	9.0%	5.0%	4.0%	6.0%	3.5%	27.5%
- Trainee Accountants	9.0%	5.0%	4.0%	6.0%	5.0%	29.0%

Annual leave and study leave is informed by the Basic Conditions of Employment Act while the combined study leave and training time is consistent to that provided within the profession. Improvement in the recoverability based upon the time allocation must therefore focus on the use of the management and supervisory time plus the use of sick leave. Given increased admin support for the business units as well as the historical trend over the utilisation of sick leave, the AG will evaluate opportunities for an improvement in the recovery rate.

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	'05/06 Budget	'06/07 Budget	Change		Comments
	Rand / hour	Rand / hour	Rand / hour	%	
	(1)	(3)	(3)-(1)	(3)-(1)	
Audit staff					
- Business Executives	850	884	34	4%	The increase is limited to the normal tariff increase in line with the historical practice. Therefore the full impact of the salary repositioning for this band is not incorporated into the audit cost
- Senior Managers	702	845	143	20%	Due to normal tariff increase, annual salary increase and repositioning
- Audit Managers	456	548	93	20%	
- Auditors	211	258	47	23%	
- Trainee Accountants	104	125	21	21%	
Office average	**242**	**286**	**45**	**18%**	

Refer 2.1.4 for calculation of total own hours income. Refer also to document 5 for the detailed internal tariff schedule for 2006/07

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 charge out tariff in 2.1.3

Budget Item	'05/06 Budget	'06/07 Budget	Change			
				%		
			(3)-(1)	(3)-(1)		
Recoverable hours	2,113,826	2,014,585	(99,241)	-5%		
Average tariff	242	286	45	18%		
Total own hours income	**510,925**	**576,788**	**65,864**	**13%**	***Note 2***	***Refer 2.1.5 below***
Foreign allowances recovered	-	1,560	1,560	100%		
Own hours income (R'000)	**510,925**	**578,348**	**67,424**	**13%**		

Foreign allowances recovered

The amount represents a living allowance in respect of the New York based staff which is fully recovered from the auditee (refer note 3.4.1).

Note 2

The 13% increase in own hours income is mainly due to the increase in the average rate of 18% as explained in 2.1.3 above. This is offset by a decrease in the total audit hours as a result of the 10% vacancy assumption which resulted in R58.3million being allocated to contract work in addition to the 20% norm that is allocated to contract work annually.

2.1.5 Own hours 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 2005/06 budget to the 2006/07 budget.

CHANGE IN OWN HOURS BETWEEN 2005/06 BUDGET TO 2006/07 BUDGET

Regularity audits		**Regularity - normal**	**Catch-up work**	**New audits**	**Increase in scope**		**Total**	
National	Hours	(94,487)	108	130	4,239		**(90,010)**	
	Rand '000	(329)	64	37	1,036		**807**	
Provincial	Hours	(24,076)	1,077	1,756	13,135		**(8,108)**	
	Rand '000	18,742	411	571	3,776		**23,500**	
Local	Hours	(42,335)	(4,707)	7,640	4,703		**(34,699)**	
	Rand '000	4,840	(1,184)	1,889	1,402		**6,947**	
Statutory	Hours	13,863	(1,439)	16,419	4,373		**33,216**	
	Rand '000	20,070	(253)	1,007	1,173		**21,997**	
Other	Hours	4,643	(338)	487	137		**4,929**	
	Rand '000	3,625	(77)	264	89		**3,901**	
Total	**Hours**	**(142,392)**	**(5,299)**	**26,432**	**26,587**		**(94,672)**	
	Rand '000	**46,949**	**(1,039)**	**3,768**	**7,474**		**57,152**	
		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	7,081	3,194	(3,350)			**6,925**	
	Rand '000	4,614	2,779	1,539			**8,931**	
Local	Hours	(858)	(900)	(968)			**(2,726)**	
	Rand '000	61	(54)	349			**355**	
Statutory	Hours	(664)	(281)	(7,823)			**(8,768)**	
	Rand '000	(4)	(69)	(501)			**(575)**	
Total	**Hours**	**5,559**	**2,013**	**(12,141)**			**(4,569)**	
	Rand '000	**4,671**	**2,655**	**1,386**			**8,712**	
		Note 7		***Note 8***				
Total change in own hours	**Hours**						**(99,241)**	***Refer 2.1.4***
	Rand '000						**65,864**	***Refer 2.1.4***

Note 3 The total reduction in the regularity-normal audit work is primarily caused by a greater allocation of work to outside firms. This is made necessary by the AG vacancies.
Note 4 The level of catch-up work is defined by the timeous submission of the financials. The total amount of catch-up work has decreased and more of this work will be allocated to outside firms.
Note 5 The additional audit hours of 26,432 reflects thirty-three new audits.
Note 6 The increase in scope is largely driven by the implementation of additional compliance procedures and the fraud & error standard necessitated by the SA Auditing Standards in areas of higher risk.
Note 7 The increase in performance and value for money audit work is driven by the specifc audit focus areas to be implemented at the national and provincial departments.
Note 8 The AG took a decision to consolidate its informattion systems auditing to achieve greater efficiencies while maintaining the level of expertise 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 AG's practice to allocate at least 20% of audit work to the firms. This particularly assists the AG to optimise its own staff efficiencies whilst simultaneously offering a meaningful proportion of work to the private audit firms. For the first time, based on the AG's prior experience of the impact of staff vacancies on the performance results, specific provision has been made for additional contract work to accommodate employee vacancies at an assumed level of 10% as well as staff working on international audit assignments.

Budget Item	05/06 Budget	06/07 Budget	Comments
	'000	'000	
20% Norm	161,936	185,900	This is in line with the Office practice to award at least 20% of work to firms.
Vacancies	-	58,331	Provision for additional contract work to accommodate the 10% vacancy assumption
International	-	3,816	Provision made to augment resources made available to international audit assignments
Total	**161,936**	**248,046**	

2.3 Subsistence and travel recoverable

Budget Item	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change		
	'000	'000	'000	%	'000	'000	%	
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)	
Subsistence and travel recoverable	30,815	33,072	2,258	7.33%	37,822	7,008	22.74%	**Ref. 2.3.2**
International S&T	8,632	8,632	-	0.00%	11,250	2,617	30.32%	**Ref. 2.3.3**
Total	**39,447**	**41,705**	**2,258**	**5.72%**	**49,072**	**9,624**	**24.40%**	
				Ref. 2.3.1.				

2.3.1 Budget 05/06 to Budget 06/07 change

The domestic increase is driven largely by an increase in rates at levels of 15% for car travel, 17% for accommodation and 8.9% for flights.

2.3.2 In addition to the expected price increases this variance is due to the increased international travel planned to adequately discharge our responsibilities under the various audit mandates in more distant international destinations.

2.4 Interest received

The decrease between budget 2005/06 and forecast 2005/06 is due to the actual interest rate being lower than budgeted. The increase between forecast 2005/06 and budget 2006/07 is due to the higher balance after transfers were made from the foreign accounts.

2.5 Africa Projects

In terms of the Memorandum of Understanding, monthly recoveries from AFROSAI-E in respect of seconded staff are based on total package plus 10% for overheads (refer note 3.4.2).

3 PERSONNEL EXPENDITURE

Budget Item	Note	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Leave pay provision	3.1	3,348	3,348	-	0.00%	3,548	201	6.00%
Medical Aid provision	3.2	5,409	5,409	-	0.00%	5,629	220	4.07%
Statutory levies (RSC)	3.3	1,190	1,032	(158)	-13.28%	1,404	214	17.99%
Normal salary and benefits ***	3.4	325,565	320,758	(4,807)	-1.48%	395,243	69,678	21.40%
Other incentives	3.6	1,239	1,406	168	13.53%	1,839	600	48.44%
UIF and WCA	3.7	1,900	1,673	(227)	-11.95%	2,277	378	19.89%
Total		**338,650**	**333,625**	**(5,024)**	**-1.48%**	**409,941**	**71,291**	**21.05%**

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

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.

3.2 Post retirement medical aid provision

The PRMA estimates were based on actuarial projections for the 2005/06 forecast and 2006/07 budget.

3.3 Statutory levies (RSC)

This is overall in line with the increase in staff costs.

3.4 Normal salary

3.4.1 Audit staff

Employee Group	Total		Average salary per band	Positioning against benchmark	Comments
	No	Amount			
Business Executive	17	14,918,067	877,533	870,000	In line with market benchmarks
Senior Manager	91	53,079,989	583,297	577,444	
Managers	246	91,205,447	370,754	400,889	A few managers still studying towards Minimum Qualification
Assistant Managers	196	43,617,468	222,538	263,222	Majority still studying towards Minimum Qualification
Auditors	199	29,690,684	149,199	100,333	Effect of long service for majority of auditors in line with current span of control
Trainee Accountants	668	56,973,767	85,290	85,000	Always in line with market benchmarks
Admin staff	113	15,560,946	137,707	89,667	Office average includes managerial level staff
Total audit staff	**1,530**	**305,046,368**			
Foreign allowances	-	1,559,760			This amount represents a living allowance in respect of the New York based staff which is fully recovered from the auditee (refer note 2.1.4).
Total	**1,530**	**306,606,128**			

3.4.2 Support Staff

Employee Group	Total		Average salary per band	Positioning against benchmark	Comments
	No	Amount			
Corporate Executive Group	**14**	**10,485,632**	748,974	717,200	
Corporate Executives	7				
Support team	7				
Business Executive	**8**	**7,082,838**	885,355	886,000	
Africa Projects	1				
Corporate Services	7				
Senior Manager	**28**	**15,891,591**	567,557	584,400	
Africa Projects	1				
Corporate Services	26				
Employment Equity	1				
Managers	**95**	**36,256,351**	381,646	361850	
Africa Projects	2				
Corporate Services	93				
Specialists and practitioners	**91**	**17,513,283**	192,454	189,724	In line with market benchmarks
Africa Projects	2				
Corporate Services	88				
Employment Equity	1				
Admin staff	**17**	**1,407,341**	82,785	89,667	
Africa Projects	2				
Corporate Services	14				
Employment Equity	1				
Total Corporate Services	246	86,800,021			
Total Africa Projects	7	1,837,017			
Total	**253**	**88,637,038**			

3.4.3 Total Staff

The analysis below shows a budget to budget staff movement with commentary on the main cost drivers

Business Focus Areas	'05/06 Total		'06/07 Total		Comments
	No	Amount	No	Amount	
Total Audit staff (including foreign allowance)	1,537	267,252,989	1,530	306,606,128	In spite of the 15% increase in the costs resulting from the market positioning of staff salaries, the reduction in staff numbers is driven by the 10% vacancy assumption which is partly offset by the increase in the administrative capasity.
Total Corporate Services staff	203	57,850,702	246	86,800,021	In addition to the impact of the market positioning, the increased costs are largely formed by the full placement of corporate services staff in line with the restructuring objectives.
Total Africa Projects - secondents			7	1,837,017	In terms of the Memorandum of Understanding, monthly recoveries from AFROSAI-E in respect of seconded staff will be based on total package plus 10% for overheads. This income is included under other income (refer note 2.5)
Total	**1,740**	**325,103,691**	**1,783**	**395,243,166**	

From the above analysis it is clear that the salary levels are in line with the industry norm which will assist the office in attracting and retaining qualified staff.

3.6 Other incentives

Budget Item	%tage increase	Comments
Group Life scheme	84%	The increase is linked to the repositioning of staff as well as an increase in the tariff from R0.32 per R1,000 to 0.49 per R1,000. The office contributes 100% to the scheme. It also includes a new funeral policy.
Long service awards	-1%	This is based on the number of entitlements as per the HC database
Business unit recognition scheme	35%	This is used for team excellence recognition initiatives. The amount is equitably allocated to all BU's.

3.7 UIF & WCA

These levies are based on the full staff compliment (refer 3.4.1 above) and have been calculated for the full year. The rate used is in terms of the relevant legislation.

4 CONTRACT WORK - IRRECOVERABLE

Budget Item	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
	'000	'000	'000	%	'000	'000	%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Contract Work - Irrecoverable	6,498	8,618	2,120	32.62%	8,061	1,563	24.05%
- Ongoing					2,706		
- Once-off					5,354		
Total	**6,498**	**8,618**	**2,120**	**32.62%**	**8,061**	**1,563**	**24.05%**

The analysis below reflects details of the nature of expenditure. As these activities are by nature not repetitive, the comparatives and commentary for the previous year are not provided, since these do not relate to the 2006/2007 budget.

Description	06/07 Budget	Ongoing	Once-off
	R	R	R
Independent reviews	**1,039,440**		
Legal			
Annual Employment law / regulations audit	62,000	62,000	
QC	150,000		
Non audit QC framework maintenance	100,000		100,000
Gap analusis to ensure alignment & relevancy	50,000		50,000
PAAB	827,440		
PAAB Discussions (13 Files)	200,960	200,960	
PAAB Evaluation of QC process	69,600	69,600	
PAAB Reviews (13 Files)	556,880	556,880	
Independent stakeholder survey	**1,000,000**	1,000,000	
System development programmes / initiatives	**4,510,140**		
PeopleSoft	3,846,000		
PeopleSoft 8.8/8.9 Upgrade	1,404,000		1,404,000
PeopleSoft Cashbook Implementation	546,000		546,000
PeopleSoft Budget Implementation	546,000		546,000
MIS implementation	1,000,000		1,000,000
Creating the ICT Architecture	350,000		350,000
Special	664,140		
CRM	514,140		514,140
Develop, poulate & maintain database	150,000		150,000
Regional ICT support	**300,000**		300,000
Rollout of notebook computers			
Specialised services / independent advisors	**1,210,953**		
EE Forum	227,713	227,713	
ICT	728,000		
Assistance & maintenance	370,000	370,000	
Upgrading of telecommunication system and implementation of the Helpdesk	358,000		358,000
Control bodies	219,240		
ICT Steercom External Representative	52,200	52,200	
ICT Tactical Committee External Representative	167,040	167,040	
Branding	36,000		36,000
Total	**8,060,533**	**2,706,393**	**5,354,140**

Once-off initiatives are defined by those projects necessary to establish capabilities that have not previously existed and/or to upgrade current capabilities and technologies.

5 S&T IRRECOVERABLE

Budget Item	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
	'000	'000	'000	%	'000	'000	%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
S&T Irrecoverable	3,908	3,713	(196)	-5.01%	4,517	609	15.57%
Total	**3,908**	**3,713**	**(196)**	**-5.01%**	**4,517**	**609**	**15.57%**

In addition to the details in the table below the main components of the S&T irrecoverable include the travel management fee, travel for 1700 assessments (800 current staff and 900 recruitment) and the travel of the recruitment team.

Business Unit	Total amount without video-conferencing	Reduction due to video-conferencing	'06/07 Budget	Comments (nature of expense)
	'000	'000	'000	
Audit Services	1,753	492	1,262	Mainly for provinces where there is more than one office, e.g., Eastern Cape, KwaZulu-Natal and North West
Corporate Executives	1,446	488	958	Travel by AG, DAG and CEs to the provincial business units for meetings, VA/OA sessions and feedback sessions. SCOPA sessions, Oversight Body sessions.
Africa Projects	137	47	90	AFROSAI meetings, highlevel visits to SAI's
Governance	464	181	283	QC system and mandatory reviews, CSA Tool refresher course, Employment law and relations,
Operations & Transactional	886	89	797	S&T for new staff induction costs
Stakeholder Management	1,124	333	791	Visits to centres, EWP management training
Special & Strategic Projects	249	156	93	Technical Committee meetings, SAICA, PAAB and IPFA committee meetings
Strategy	180	104	76	Highlevel environmental research wrt strategy, BSC roll-out
Employment Equity	246	78	168	S&T for EE Forum members to attend meetings
Total	**6,485**	**1,968**	**4,517**	

6 ACCOMMODATION

6.1 Rentals

The 10% increase in rentals from 2005/06 budget to 2006/07 budget is based on the rental escalations per lease agreements of 10%.

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.

Location	Square metre occupied	Total staff establishment	Annual cost	AG - square metre per staff member	Industry benchmark square metre per staff member	Monthly cost per square metre	Industry benchmark monthly cost per square metre
Western Cape	1,500	143	778,160	**10.5**	**15.6**	43	72
Eastern Cape	2,215	174	1,328,930	**12.7**	**15.6**	50	52
Mpumalanga	811	57	431,964	**14.2**	**15.6**	44	55
Kwazulu Natal	1,957	159	1,537,185	**12.3**	**15.6**	65	63
North West	1,430	82	1,078,907	**17.4**	**15.6**	63	75
Limpopo	1,414	74	1,020,000	**19.1**	**15.6**	60	56
Northern Cape	994	66	557,505	**15.1**	**15.6**	47	46
Johannesburg	1,007	140	744,452	**7.2**	**15.6**	62	58
Free State	1,743	95	910,505	**18.3**	**15.6**	44	46
Pretoria	10,919	793	10,699,891	**15.2**	**15.6**	82	78
Total	**23,990**	**1,783**	**19,087,499**	**13.5**	**15.6**	**66**	**60**
		Refer 3.4.3 above	***Refer document 1 page 2***				

6.2 Operating costs

When comparing the 2005/06 budget to the 2006/07 budget, the increase of 9% 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.

7 LIAISON

Budget Item	Ref.	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Liaison	7.1.1	1367	1369	2	0.11%	3,538	2,171	158.76%
Internal Stakeholder	7.1.2	1687	1505	(182)	-10.77%	2,499	813	48.19%
External Stakeholder	7.1.3	1314	1317	3	0.20%	1,485	170	12.97%
Total		**4,368**	**4,190**	**(177)**	**-4.06%**	**7,522**	**3,154**	**72.20%**

7.1 STAKEHOLDER RELATIONSHIP

7.1.1 Liaison

Included in liaison is sponsorships of R270k for inter-governmental sports team sponsorships, internal & external stakeholder communication events of R540k as well as an amount of R1,5 million for "first time" staff motivational initiatives in line with the AG's internal stakeholder strategic priorities. This initiative is intended to be repeated every 5 years to complement the Senior Management Workshop which takes place on an annual basis.

7.1.2 Internal stakeholder

Budget Item	'05/06 Budget			'06/07 Budget			Variance	
	No	Amount	Total	No	Amount	Total	Rate	Volume
	(1)	(2)	R	(3)	(4)	R	(3)-(1)	(3)-(1)
BU team interventions	1,726	720	1,242,720	1,769	750	1,326,750	51,780	32,250
Exco led staff interventions			380,450			685,670	305,220	
Employment Equity interventions			-			156,000	156,000	
Staff welfare			63,420			75,888	12,468	
Special recognition for academic excellence			-			252,000	252,000	
Total			**1,686,590**			**2,496,308**	**777,468**	**32,250**

Previous experience has indicated that management should regularly recognise individual and team efforts. The cost of such recognition activities is contained by the organising of focused interactions. This is in line with the strategic focus to enhance staff motivation.

7.1.3 External stakeholder

Budget Item	'05/06 Budget			'06/07 Budget			Variance	
	No	Amount	Total	No	Amount	Total	Rate	Volume
	(1)	(2)	R	(3)	(4)	R	(3)-(1)	(3)-(1)
BE - National	11	10,000	110,000	16	10,000	160,000	-	50,000
BE - Provincial	9	20,000	180,000	9	20,000	180,000	-	-
SM	106	5,000	530,000	119	5,000	595,000	-	65,000
Exco	7	43,600	305,200	7	47,129	329,900	24,700	-
AG farewell for external stakeholders			-			150,000	150,000	
SMW communication strategy implementation			188,878			69,628	(119,250)	
Total	**133**		**1,314,078**	**151**		**1,484,528**	**55,450**	**115,000**

Each senior management level has a fixed amount for external stakeholder interactions. The standard amount has not changed from the previous year.

7.2 Strategic alignment workshops (VA/OA)

Budget Item	'05/06 Budget			'06/07 Budget			Variance	
	No	Amount	Total	No	Amount	Total	Rate	Volume
	(1)	(2)	'000	(3)	(4)	'000	(3)-(1)	(3)-(1)
BU / CE workshop	1,740	900	1,566,000	1,788	960	1,716,480	104,400	46,080
Exco			149,880			-	(149,880)	-
Senior Management Workshop			-			795,836	795,836	-
Total	**1,740**		**1,715,880**	**1,788**		**2,512,316**	**750,356**	**46,080**

The strategic alignment workshops are lead by the corporate executives with each of his/her business units. The workshops are held three times a year at the total cost indicated in the table above.

7.2.2. Budget 05/06 to Budget 06/07 change

The business units are expected to have at least 3 breakaway sessions to continuously reaffirm staff alignment towards the AG's strategic goals. The SMW, which was previously budgeted under professional assistance, is now included under regional congresses.

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.

7.4 Overseas travel

Budget Item	Ref.	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Auditor-General & DAG	1	402	402	-	0.00%	402	-	0.00%
Other	2	623	623	-	0.00%	623	-	0.00%
Total		**1,025**	**1,025**	**-**	**0.00%**	**1,025**	**-**	**0.00%**

1. AG and DAG
 - AG INTOSAI global working group
 - AFROSAI activities
 - Contingency for unplanned visits, 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. The amount is allocated in equal amounts to people, product and process issues.

8 CONTROL BODIES

8.1 Oversight bodies

Budget Item	Ref.	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Parliamentary Oversight Mechanism		-	-	-	0.00%	3	3	100.00%
Labour & staff relations (Union and consultative forum meetings)		-	-	-	0.00%	154	154	100.00%
Corporate Governance Boards (AG Advisory Board, Audit Committee and Quality Control Assessment Committee)		898	698	(200)	-22.27%	602	(296)	-32.97%
Total		**898**	**698**	**(200)**	**-22.27%**	**759**	**(139)**	**-15.53%**

Budget 05/06 to Budget 06/07 change

Labour and staff relations costs are covered under liaison in the 2005/06 budget.
The AG Advisory Board was budgeted for 10 persons for 2005/06 but has now been established at 5 people.

8.2 Parliamentary liaison

The increase from the 2005/06 period to the 2006/07 budget is mainly due to increased liaison work at the provincial level and participation with SADCOPAC.

9 AUDIT FEES

9.1 External audit fees

Budget Item	Ref.	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Financial audit		700	730	30	4.29%	862	162	23.14%
Performance information audit (Balanced Scorecard)		150	320	170	113.33%	327	177	118.00%
Tender Committee			50	50	100.00%	100	100	100.00%
Salary review			120	120	100.00%	120	120	100.00%
Total		**850**	**1,220**	**370**	**43.53%**	**1,409**	**559**	**65.76%**

The increase in audit cost is mainly due to additional work performed over and above the financial audits which was considered necessary to strengthen the audit assurance on internal controls.

9.2 Internal audit fees

Budget Item	Ref.	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Average rate / hour		463	652	189	40.75%	717	254	54.82%
Audit hours		2,408	2,540	132	5.47%	2,794	386	16.02%
Routine financial audits		418	381	(37)	-8.93%	419	1	0.18%
Routine human capital related audits		111	159	47	100.00%	174	63	100.00%
Routine internal controls audits		-	94	94	100.00%	104	104	100.00%
Business Unit visits		85	365	280	330.17%	401	316	373.19%
Ad hoc assignments and System queries (CAATS application)		210	180	(29)	-13.93%	198	(11)	-5.32%
Project management and attendance of Audit Committee meetings		152	329	177	116.77%	362	210	138.45%
Risk management meetings and strategic risk assessment		140	148	8	5.86%	162	23	16.44%
Disbursements		50	50	-	0.00%	55	5	10.00%
Total		**1,165**	**1,705**	**540**	**46.37%**	**1,876**	**543**	**46.64%**

The increase is mainly due to the increased scope of the audit in addition to the focus on PeopleSoft controls initially envisaged in last years budget. This provides the AG with more appropriate coverage and assurance on internal controls.

10 FINANCE CHARGES

The decrease in finance charges (of 22%) from the 2005/06 budget to the 2006/07 budget is in line with the gradual reduction of the amount owing on the notebook computers. New notebooks will be purchased during the year and the finance charges have been calculated on the budgeted timing that they will be purchased. Sixty per cent of the new notebooks will only be purchased in the period beginning in November.

11 RECRUITMENT EXPENSES

Budget Item	Ref.	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Interviews		180	180	-	0.00%	761	581	322.78%
Personnel Agency fees		350	533	183	52.19%	3,130	2,780	794.15%
Interviews		269	238	(31)	-11.54%	290	21	7.75%
Transfer and relocation expenses		200	470	270	135.00%	944	744	371.94%
Total		**999**	**1,421**	**422**	**42.20%**	**5,124**	**4,125**	**412.90%**

At management level, the implementation of the Minimum Qualification Framework, coupled with the high staff turnover and affirmative action requirements for all new appointments, required that the recruitment focus of the office be reviewed quite intensively. The office has decided to change its recruitment strategy and significantly increase the use of dedicated personnel agencies. This cost is allocated to the use of three agencies on a full-time basis in order to reduce the time and AG effort required to source qualified candidates.

In anticipation of the legislative requirement to rotate audit staff, the office began a rotation policy in 2005/06. Two Business Executives are required to be rotated in 2006/07 and a provision has been made to rotate two additional senior staff members.

12 PROFESSIONAL ASSISTANCE

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

Budget Item	Ref.	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Membership fees	12.1	2,417	2,289	(127)	-5%	2,962	545	23%
Internal training	12.2	1,555	1,547	(9)	-1%	1,536	(20)	-1%
External training	12.3	5,199	5,154	(45)	-1%	8,213	3,014	58%
S&T: Training	12.4	1,993	1,782	(212)	-11%	4,491	70	4%
Africa Training Initiative		100	54	(46)	-46%	-	(100)	-100%
Study assistance: Employees	12.5	10,686	10,394	(293)	-3%	9,359	(1,327)	-12%
HC Development Projects	12.6	6,750	6,750	-	0%	5,464	(1,286)	-19%
Bursaries	12.7	3,000	3,000	-	0%	6,284	3,284	109%
Skills development levy		3,397	3,251	(146)	-4%	4,009	612	18%
Skills Dev. Levy - Recovered		(2,019)	(2,019)	-	0%	(2,194)	(175)	9%
Total		**33,079**	**32,202**	**(878)**	**-3%**	**40,123**	**7,044**	**21%**

12.1 Membership fees

The budget 2005/06 to budget 2006/07 increase (of 23%) 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	'05/06 Budget		'06/07 Budget	
	% breakdown	Amount	% breakdown	Amount
Meals	61%	945,841	58%	887,332
Internal presenters - S&T cost to region	8%	118,414	7%	104,503
Venue Costs	22%	339,637	32%	492,695
Other	10%	151,463	3%	51,137
Total internal training	**100%**	**1,555,354**	**100%**	**1,535,666**

The effect of the efficient coordination of training sessions by the business units and internal trainers continues to reflect a downward trend in this cost item.

12.3 External training

Type of expense	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
	'000	'000	'000	%	'000	'000	%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Non-audit related	1,253	1,230	(23)	-2%	2,234	981	78%
Audit related	579	557	(22)	-4%	1,333	755	130%
Audit Study support (ATCOR courses for trainee accountants)	3,367	3,367	-	0%	3,796	428	13%
Induction	-	-	-	0%	850	850	100%
Cost of programs	5,199	5,154	(45)	-1%	8,213	3,014	58%

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

12.4 S&T: Training

Budget Item	Ref.	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Internal training		857	846	(11)	-1%	3,229	2,372	277%
External training		1,136	732	(404)	-36%	1,262	126	11%
Total		**1,993**	**1,578**	**(415)**	**-21%**	**4,491**	**2,498**	**125%**

The budget for 2006/07 includes S&T of R1,554million for trainee accountant induction as well as increased number of corporate services and business unit admin staff that will require intensive training and alignment during the budget period.

12.5 Study assistance: Employees

The movement in this figure is influenced by the requirements of the study support policy that offer bursaries only to employees that meet the academic progress requirements. In addition to the new intake of trainees, the academic progress assumption based on the historical trend is set at 30%.

Course of study	'05/06 Budget	'06/07 Budget
	'000	'000
Diploma		456
Degree		3,041
CTA / honours		5,276
FQE Support Courses		555
Other		32
Total	**10,686**	**9,359**

12.6 Human Capital Development Projects

Type of project	Budget '05/06	Budget '06/07	Comments
Development of technical courses	729	1,182	In order to improve audit efficiencies and quality, this development is intended to train audit staff at all levels on the enhanced and standardised audit methodolgy
Development of non-technical courses	3,075	1,414	To update and maintain programmes initiated in previous years
Competency development	1,446	2,868	The increase in licence fees for the assessment centre material and support is in line with the expected increase in the number of users which is influenced largely by a more frequent utilisation of the assessment centre facility in line with the established performance management system of the office.
Registered Government Auditors - examination fees for 150 persons	750	-	Related to the minimum qualification framework and the recognition of prior learning. This was a once-off cost for 2005/06.
CTA pilot project	750	-	Included in 12.7 below
Total	**6,750**	**5,464**	

The decrease in the 2005/06 budget to the 2006/07 budget (of R1.286 million) is mainly due to the CTA pilot project now budgeted under bursaries, video purchases and copies for non technical courses being less and Corporate University development not budgeted.

12.7 External student bursaries

Budget 05/06 to Budget 06/07 change

Institution	No of students	'05/06 Budget	No of students	'05/06 Forecast	No of students	'06/07 Budget
NSOA - CTA pilot project						
- CTA	0	-	0	-	40	2,200,000
4 Top Universities						
- CTA	0	-	0	-	10	632,000
- Degree	0	-	0	-	10	632,000
University of Pretoria						
- CTA	5	250,000	5	250,000	5	260,000
- Degree	35	1,750,000	35	1,750,000	25	1,300,000
Other universities						
- CTA	0	-	0	-	5	260,000
Thuthuka Fund	20	1,000,000	20	1,000,000	20	1,000,000
Total	**60**	**3,000,000**	**60**	**3,000,000**	**115**	**6,284,000**

The increase in the student numbers for full time studies is in line with the medium to long term strategic intention to invest in people development so as to attract adequately qualified trainees that are ready to sit for their final qualifying exams.

13 EMPLOYEE WELLNESS PROGRAMME

Budget Item	Ref.	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Employee Wellness Programme		606	606	-	0%	1,008	402	66%
Total		**606**	**606**	**-**	**0%**	**1,008**	**402**	**66%**

The use of the employee wellness programme has continued to grow over the financial year. For the next budget cycle the wellness program will be extended to cover special focus on absenteeism and health issues. This proactive initiative will be managed with the assistance of a wellness service provider at an additional cost.

13 TECHNOLOGICAL SERVICES

Budget Item	Ref.	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Computer services	14	14,428	15,572	1,145	7.93%	21,803	7,375	51.12%
Hiring of equipment - Rental	13.1	2,079	2,024	(55)	-2.66%	2,967	887	42.68%
Hiring of equip - Copy charges		520	538	18	3.54%	635	115	22.21%
Total		**17,026**	**18,134**	**1,108**	**6.51%**	**25,405**	**8,378**	**49.21%**

13.1 Hiring of equipment - Rental

Budget Item	'05/06 Budget			'06/07 Budget			Variance	
	No	Amount	Total	No	Amount	Total	Rate	Volume
	(1)	(2)	R	(3)	(4)	R	(3)-(1)	(3)-(1)
Multi-functional devices	51	40,767	2,079,124	60	49,442	2,966,522	442,420	444,978
Total	**51**		**2,079,124**	**60**		**2,966,522**	**442,420**	**444,978**

The increase is due to a 20% increase in rentals (R415,973) as well as 9 additional multi-functional machines at a cost of R440,311 as reflected above.

14 Computer services

Budget Item	Ref.	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
IT maintenance and support	14.1	3,560	4,249	689	19.34%	3,709	149	4.18%
Networks	14.2	6,525	6,701	176	2.69%	8,318	1,793	27.48%
Security	14.3	1,060	1,081	21	1.98%	2,620	1,560	147.17%
Telecommunications	14.4	3,282	3,541	259	7.89%	7,156	3,874	118.04%
Total		**14,428**	**15,572**	**1,145**	**7.93%**	**21,803**	**7,375**	**51.12%**

14.1 IT maintenance and support

The marginal increase in the IT maintenance and support is a reflection of stability in the AG's investment in this area.

14.2 Networks

This increase is influenced by the need to improve the performance of the system to provide appropriate speeds and availability of the system in line with the expectation of the growing number of audit and non-audit staff.

14.3 Security

This relates to the additional virus protection software (R320k) as well as extensive investment in the remote disaster recovery site (R1,2m) in line with the business objective to provide capacity for business continuity in the event of a catastrophic event.

14.4 Telecommunication

This increase is driven by the additional cost of Telkom landline connection charges and PABX upgrades to accommodate the increased number of users (R1m). R2.8m is required to facilitate the connection of staff working in remote rural audit locations through wireless technology.

15 INSURANCE AND LEGAL FEES

15.1 Insurance premiums

The reduction (of 44% on forecast and 22% 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

Budget Item	Ref.	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Stationery & printing		3,784	3,560	(223)	-5.91%	4,983	1,199	31.69%
Total		**3,784**	**3,560**	**(223)**	**-5.91%**	**4,983**	**1,199**	**31.69%**

Increase mainly due to the setup cost of re-imaging corporate stationery and symbols in line with the AG's branding guideline (R900k). R250k relates to the acquisition of backup tapes to enhance the security of electronic audit files in line with the document retention and quality control guidelines.

17 COMMUNICATION

Budget Item	Ref.	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Telephone charges	17.1	2,799	2,800	1	0.02%	2,939	140	5.00%
Cellphone charges	17.2	719	725	6	0.84%	796	76	10.60%
Postage and courier services		696	655	(41)	-5.91%	721	25	3.64%
Total		**4,214**	**4,180**	**(34)**	**-0.82%**	**4,456**	**242**	**5.73%**

17.1 Telephone costs

The 2006/2007 budget is based on the cost saving drive to contain the costs of telephone usage to less than 5% of the 2005/06 budget.

17.2 Cellphone charges

The increase from budget 05/06 to budget 06/07 is due to an increase in the number of phones budgeted as well as an increase in the rate from R350 per month to R430 per month to ease the administration associated with the monitoring of cellphone costs.

18 DEPRECIATION

Budget Item	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
	'000	'000	'000	%	'000	'000	%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Motor vehicles	451	451	-	0.00%	622	170	37.70%
Furniture & equipment	1,847	1,847	-	0.00%	2,047	200	10.82%
Computer equipment	13,191	13,191	-	0.00%	10,647	(2,543)	-19.28%
Computer software	6,529	6,529	-	0.00%	5,503	(1,026)	-15.71%
Leasehold improvements	645	645	-	0.00%	1,188	543	84.32%
Total	**22,663**	**22,663**	**-**	**0.00%**	**20,007**	**(2,655)**	**-11.72%**

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 2005/06 forecast and the determination of the 2006/07 budget on a consistent basis.

19 CAPITAL EXPENDITURE BUDGET

As part of the cashflow management principle, the AG 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 BU's.
- 1.5% capping on own hours turnover for centralised ICT capex.
Where under exceptional cases capex expenditure exceeds the overall capping as stipulated above, a 3 year capex holiday principle shall be applied.

19.1 MOTOR VEHICLES

Description	'05/06 Forecast NCV	Acquisitions	Depreciation	'06/07 Budget NCV
	'000	'000	'000	'000
Motor vehicles	1,192	550	622	1,120
Total	**1,192**	**550**	**622**	**1,120**

		Budget '05/06 '000	Forecast '05/06 '000	Budget '06/07 '000
AG		-	-	350
Finance	Differential between insured value and market value for vehicles that have been written off or stolen	200	200	200
		200	200	550

19.2 OFFICE FURNITURE AND EQUIPMENT

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

Description	'05/06 Forecast NCV	Acquisitions	Depreciation	'06/07 Budget NCV
	'000	'000	'000	'000
Furniture and equipment	4,219	5,601	2,047	7,773
Total	**4,219**	**5,601**	**2,047**	**7,773**

	Budget '05/06 '000	Forecast '05/06 '000	Budget '06/07 '000	
KwaZulu-Natal	262	208	1,334	Furniture for new premises
Eastern Cape	111	517	876	Furniture for new premises
North West	15	-	79	Replacement of old furniture
Gauteng	141	118	-	
Limpopo	56	56	88	Replacement of old furniture
Mpumalanga	25	20	37	Replacement of old furniture
Pretoria	1,618	1,448	2,911	Scheduled replacement of old furniture and takeover of fixtures from previous tenant for new Head Office
Free State	86	52	72	Replacement of old furniture
Northern Cape	63	55	81	Replacement of old furniture
Western Cape	300	297	124	Replacement of old furniture
Parliamentary	199	189	-	
	2,876	2,959	5,601	

19.3 LEASEHOLD IMPROVEMENTS

Description	'05/06 Forecast NCV	Acquisitions	Depreciation	'06/07 Budget NCV
	'000	'000	'000	'000
Leasehold Improvements	4,050	1,982	1,188	4,844
Total	**4,050**	**1,982**	**1,188**	**4,844**

	Budget '05/06 '000	Forecast '05/06 '000	Budget '06/07 '000	
Eastern Cape	6	6	91	Improvements to the East London office
North West	-	-	8	
Gauteng	20	20	100	Minor structural changes to the Gauteng offices
Mpumalanga	10	10	33	Minor changes to Nelspruit office
Head office	1,800	-	1,750	Renovation cost for Head Office
Northern Cape	6	14	-	Expansion for increased staff compliment
	1,842	49	1,982	

19.4 COMPUTER HARDWARE

Description	'05/06 Forecast NCV	Acquisitions	Depreciation	'06/07 Budget NCV
	'000	'000	'000	'000
Computer Hardware	26,887	17,509	10,647	33,749
Total	**26,887**	**17,509**	**10,647**	**33,749**

Budget Item	Ref.	'05/06 Budget	'045/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Regional equipment	19.4.1	1,602	1,945	342	21.35%	1,525	(77)	-4.81%
Networks	19.4.2	1,500	1,500	-	0.00%	246	(1,254)	-83.60%
Systems	19.4.3	7,020	7,020	-	0.00%	-	(7,020)	-100.00%
Security	19.4.4	100	100	-	0.00%	200	100	100.00%
Notebooks	19.4.5	11,560	11,560	-	0.00%	15,538	3,978	34.41%
Total		**21,782**	**22,125**	**342**	**1.57%**	**17,509**	**(4,273)**	**-19.62%**

19.4.1 Regional equipment

These are business unit requirements for desk top computers, printers and other equipment which is beyond their 3 year life cycle.

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 '05/06 '000	Forecast '05/06 '000	Budget '06/07 '000
Upgrade of HP servers - to improve capacity and speed	3,920	3,920	-
CSA server - currently housed on a normal PC which is inadequate	-	-	-
Payroll system	-	-	-
Primary domain controller	-	-	-
Web-logic server - identified as required by PeopleSoft QA	-	-	-
E-learning / knowledge management server - hardware required for knowledge sharing as a strategic theme	-	-	-
Storage device	3,100	3,100	-
	7,020	7,020	-

19.4.4 Security

	Budget '05/06 '000	Forecast '05/06 '000	Budget '06/07 '000
Security hardware	100	100	200
	100	100	200

The budget includes the equipment for wireless network secure access

19.4.5 Notebooks

Replacement of the first notebooks purchased (764) and notebooks purchased for new employees (150).

19.5 COMPUTER SOFTWARE

Description	'05/06 Forecast NCV '000	Acquisitions '000	Depreciation '000	'06/07 Budget NCV '000
Computer Software	19,436	3,326	5,503	17,259
Total	**19,436**	**3,326**	**5,503**	**17,259**

Budget Item	Ref.	'05/06 Budget	'05/06 Forecast	Variance		'06/07 Budget	Change	
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Regional systems	19.5.1	4,016	4,016	0	0.01%	1,318	(2,698)	-67.18%
Systems	19.5.2	4,289	4,289	-	0.00%	1,208	(3,081)	-71.84%
Security	19.5.3	1,062		(1,062)	-100.00%	800	(262)	-24.67%
Total		**9,367**	**8,305**	**(1,062)**	**-11.33%**	**3,326**	**(6,041)**	**-64.50%**

19.5.1 Regional systems

	Budget '05/06 '000	Forecast '05/06 '000	Budget '06/07 '000
Microsoft select - required to upgrade to MS-XP. Older software is no longer supported. The rollout will be done over two years.	3,500	3,500	-
OLAP software	-	-	500
Training & Performance tracking	-	-	801
Helpline software	100	100	-
Other business software - program office tool and licences, CD/DVD copying software, project portfolio management software.	416	416	17
	4,016	4,016	1,318

19.5.2 Systems

	Budget '05/06 '000	Forecast '05/06 '000	Budget '06/07 '000
CSA Tool enhancement and development	300	300	600
Oracle Licence	1,680	1,680	-
Peoplesoft Cash Management	-	-	250
SAS Business Intelligence Toolset	-	-	150
Portfolio Manager Toolset	-	-	150
Teammate licences (additional users)	1,309	1,309	-
CMDB (Configuration Management Database)	1,000	1,000	
Other (Document Management & Coldfusion Web Software)	-		58
	4,289	4,289	1,208

19.5.3 Security

VPN Software - Wireless network secure access.

AUDITOR-GENERAL

DOCUMENT 3

Summarised projected balance sheet

Capital employed	**Notes**	31 March 2007 Budget	31 March 2006 Forecast	31 March 2005 Actual
Capital		189.4	177.2	160.1
- Reserves	**1**	171.9	153.3	116.7
- Special Audit Services Fund	**2**	5.3	5.3	5.3
- Staff training reserve	**3**	-	-	1.6
- Net income for the year		12.2	18.6	36.6
Long-term liabilities		72.1	53.6	53.1
Interest bearing borrowings	**4**	15.5	2.6	7.6
Post Retirment Medical Aid Liability	**5**	56.6	51.0	45.6
Current liabilities		73.9	59.1	97.4
Trade and other payables	**6**	48.7	37.5	67.1
Leave liability	**7**	25.2	21.6	18.3
Current portion of long term loan	**8**	-	-	12.0
		335.3	289.9	310.7
Employment of capital				
Fixed assets	**9**	64.7	55.8	44.5
Investment	**10**	129.9	121.7	114.5
Current assets		141.6	112.7	151.7
Trade and other debtors	**11**	121.6	98.6	109.7
Bank and cash	**12**	20.0	14.1	42.0
		336.2	290.1	310.7

SUMMARISED BUDGET **DOCUMENT 4**

Notes to the balance sheet

1. **Reserves**
The reserve is made up of previous year's reserve plus 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 special auditee. The fund has been capped at R5.3 million.

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

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 2005/06 forecast and 45-day payment period for the 2006/07 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. **Fixed assets**
Fixed assets includes forecasted and budgeted acquisitions, and is shown net of depreciation.

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

10. **Trade and other debtors**
Trade debtors are calculated on a 50-day collection period for the 2005/06 forecast year and 50-day collection period for the 2006/07 budget year, based on historical forecasts of 30 days for the national and provincial departments and 120 days for local authorities.

11. **Bank and cash**
Cash and bank is calculated on the net balance sheet movements.

Document 5

AUDITOR GENERAL

PROPOSED INTERNAL RATES (AT A 4% INCREASE) FOR 2006-07

1			**2**	**3**	**4**	**5**	**6**	
PACKAGE			Total	Standard recoverable	Recoverable	Total own	Proposed tariffs as per	Budget (2005/06)
From		To	Staff	hours	Hours	Hours Income	markup	tariff
SENIOR MANAGER		91						
580,000	-		39	1,356.1	52,887	45,747,190	865	832
560,000	-	579,999	14	1,356.1	18,985	16,422,068	865	832
540,000	-	559,999	13	1,356.1	17,629	15,055,145	854	821
520,000	-	539,999	9	1,356.1	12,205	10,056,652	824	792
500,000	-	519,999	11	1,356.1	14,917	11,843,959	794	763
480,000	-	499,999	5	1,356.1	6,780	5,166,646	762	733
					123,403	104,291,660	845	702
							20.4%	
AUDIT MANAGER		246						
470,000	-	489,999	3	1,406.3	4,219	2,851,976	676	650
450,000	-	469,999	3	1,406.3	4,219	2,851,976	676	650
430,000	-	449,999	37	1,406.3	52,033	33,665,416	647	622
410,000	-	429,999	33	1,406.3	46,408	28,680,082	618	594
390,000	-	409,999	19	1,406.3	26,720	15,737,903	589	566
370,000	-	389,999	32	1,406.3	45,002	25,200,896	560	538
350,000	-	369,999	47	1,406.3	66,096	34,964,837	529	509
330,000	-	349,999	21	1,406.3	29,532	14,736,618	499	480
310,000	-	329,999	26	1,406.3	36,564	17,221,550	471	453
290,000	-	309,999	10	1,406.3	14,063	6,201,783	441	424
270,000	-	289,999	7	1,406.3	9,844	4,055,769	412	396
250,000	-	269,999		1,406.3	-	-	383	368
230,000	-	249,999		1,406.3	-	-	353	339
210,000	-	229,999	6	1,406.3	8,438	2,725,409	323	311
190,000	-	209,999	2	1,406.3	2,813	826,904	294	283
					345,950	189,721,120	548	456
							20.3%	
AUDITOR		395						
270,000	-		14	1,456.5	20,391	7,524,408	369	355
250,000	-	269,999	16	1,456.5	23,304	8,599,324	369	355
230,000	-	249,999	48	1,456.5	69,913	23,840,401	341	328
210,000	-	229,999	64	1,456.5	93,218	29,177,109	313	301
190,000	-	209,999	86	1,456.5	125,261	35,699,428	285	274
170,000	-	189,999	48	1,456.5	69,913	17,827,866	255	245
150,000	-	169,999	15	1,456.5	21,848	4,959,468	227	218
130,000	-	149,999	17	1,456.5	24,761	4,927,424	199	191
110,000	-	129,999	14	1,456.5	20,391	3,486,921	171	164
100,000		109,999	11	1,456.5	16,022	2,403,266	150	144
90,000	-	99,999	19	1,456.5	27,674	3,735,987	135	130
80,000	-	89,999	15	1,456.5	21,848	2,643,593	121	116
70,000	-	79,999	10	1,456.5	14,565	1,543,917	106	102
60,000	-	69,999	12	1,456.5	17,478	1,608,004	92	88
50,000	-	59,999	4	1,456.5	5,826	454,436	78	75
40,000	-	49,999	2	1,456.5	2,913	183,522	63	61
					575,327	148,615,072	258	211
							22.5%	

AUDITOR GENERAL

PROPOSED INTERNAL RATES (AT A 4% INCREASE) FOR 2006-07

1			2	3	4	5	6	
PACKAGE			Total	Standard recoverable	Recoverable	Total own	Proposed tariffs as per	Budget (2005/06)
From		To	Staff	hours	Hours	Hours Income	markup	tariff
TRAINEE		668						
150,000	-	159,999	17	1,426.4	24,249	5,455,942	225	216
140,000	-	149,999		1,426.4	-	-	210	202
130,000	-	139,000	21	1,426.4	29,954	5,811,113	194	187
120,000	-	129,999	12	1,426.4	17,117	3,115,236	182	175
110,000	-	119,999	21	1,426.4	29,954	4,972,396	166	160
100,000		109,999	43	1,426.4	61,335	9,384,220	153	147
90,000	-	99,999	71	1,426.4	101,274	13,874,496	137	132
80,000	-	89,999	189	1,426.4	269,588	33,428,876	124	119
70,000	-	79,999	185	1,426.4	263,882	28,763,154	109	105
60,000	-	69,999	98	1,426.4	139,786	13,139,905	94	90
50,000	-	59,999	5	1,426.4	7,132	570,556	80	77
40,000	-	49,999	6	1,426.4	8,558	547,734	64	62
					952,829	119,063,626	125	104
							20.6%	
TOTAL AUDIT PERSONNEL			**1,400**		**1,997,509**	**561,691,478**		
BUSINESS EXECUTIVES			**17**	**1,004.5**	**17,077**	**15,096,981**	884	850
TOTAL RECOVERABLE					**2,014,585**	**576,788,459**	**286**	**242**
						576,788,459	**18.5%**	
						(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

8. Glossary

1. Regularity auditing

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 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.

c) 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. As there are no set standards by which this area should be audited and reported on, the AG is currently conducting research in this regard.

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.

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. 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 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.

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.

AUDITOR-GENERAL

9. ANNOUNCEMENTS, TABLINGS AND COMMITTEE REPORTS ON WEDNESDAY, 12 APRIL 2006

No 41 - 2006] THIRD SESSION, THIRD PARLIAMENT

PARLIAMENT
OF THE
REPUBLIC OF SOUTH AFRICA

ANNOUNCEMENTS, TABLINGS AND COMMITTEE REPORTS

WEDNESDAY, 12 APRIL 2006

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COMMITTEE REPORTS

National Assembly

1. Report of the Ad Hoc Committee on the Auditor-General on the Budget and Strategic Plan of the Office of the Auditor-General 2006/07, dated 30 March 2006:

1. Introduction

The Ad Hoc Committee sat on the 29 November 2005 to consider the Budget and Strategic Plan for the year 2006/07. The Committee does not have the constitutional or legal statutory power to effect amendments via approval from the House; its powers in this regard are purely advisory. In this capacity it makes recommendations to the Office of the Auditor-General which is then approved by the House. The Office of the Auditor-General was represented by Mr. S. Fakie (Auditor-General) and Mr. T. Nombembe (Deputy Auditor-General).

2. Overview of the Budget and Strategic Plan

In his introduction, The Auditor-General stated that the new Public Audit Act (PAA) has provided strategic direction to the Office of the Auditor-General (OAG) and that it will be fully implementable by the end of March 2006. The Budget and Strategic Plan of the Office reflects these developments and is directed towards improving the quality of service, greater cost-effectiveness and expanding its focus on performance auditing. A value adding audit methodology had been developed that combined elements of performance auditing with regulatory auditing. 7% of the Office's resources will be allocated to specific performance audits, which will be increased in the medium and long-term on a structured and incremental basis. Three themes have been identified for the coming year viz. allocation of low cost housing projects to contractors and controls over these projects, infrastructure investment and transfer payments. The regulatory audit process will continue with the previous year's themes (investment in public infrastructure and human resource and supply chain management), and three further themes will be added: asset management personnel expenditure and transfer payments. Additional focus areas will be HIV/AIDS in provincial health departments and government spending on subsistence and traveling. The Office is due to undergo a major transformation of its corporate services structure, from a model based on functional divisions to one based on a process-driven corporate services model, a process that will last 18 months.

The budget represented a 23% increase in income over last year, totaling R875,5 million and a 30% increase in the expenditure budget. A deficit of R63,9 million for the funding of the office was sustainable as this amount was lower than net working capital total of R72,9 million. There are several assumptions underlying the budget. Firstly, there is a proposed tariff increase of 4% with the total estimated audit costs amounting to 0:21 % of total state expenditure. Last year it stood at 0.17%. Secondly, the inflationary increases for salaries are set at 5.5% and for overheads expenditure it is set at 5%. Furthermore, due to staff shortages, there will be an increase in work that is contracted out amounting to a 37% increase over forecasted figures for 2005/06[1] totaling R248 million in 2006/07 of which R58 million will be used to accommodate the 10% vacancy assumption. This amount is fully recoverable. Irrecoverable contract work amounts to R8,1 million.

There are certain key ratios that ensure that expenditure should not exceed certain norms: each unit has a 30% margin on all of its activities, contracted work stands at 20% of the total audit work of the Office, overhead costs must not exceed 10% and staff vacancies should remain below 10%. The industry norm for vacancies is presently 15 to 20% because of the insufficient supply of qualified candidates in a highly competitive market.

Comment 1. The Committee endorses the annual tariff increase of 4% as it falls within the governments' recommended guidelines for inflation, and it falls within the three year period of raised spending that was endorsed in last years' budget. The actual percentage also remains constant from the previous year.
Comment 2. The Committee endorses salary increases of 5,5% as it lies within the acceptable inflation range.
Comment 3. The Committee notes however that the above percentage increase excludes the discretionary personnel allowance of 4% of normal staffing costs that would be activated in the event of the market repositioning of salaries. The Committee recommends that the future Oversight Mechanism address the merits of retaining this item in the budget.

3. *Corporate Services Restructuring*

This years' budget was mainly driven by the major shifts in corporate restructuring. The new Corporate Services will consist of five business units viz. Strategy, Governance, Special and Strategic Projects, Operational and Transactional Management, and finally, the Reputation and Stakeholder Management Unit. The key cost drivers will be a large increase of appropriately qualified staff at senior levels, and a significant reduction of staff at a general administrative level. The budget for corporate services will increase from R57,8 million that was budgeted for the previous year to R88,6 million for the present year. Contract work will only be done under special circumstances in this unit. The restructuring will only be completed by November 2007.
Comment 3. The Committee congratulates the OAG on this timely and much-needed initiative, which if successful, will considerably improve the quality of service delivery from the OAG by relieving senior executives of non-core responsibilities, enhancing corporate governance, and fine-tuning strategic planning and project management. The committee looks forward to regular progress reports and the completion of the process by November 2007.

4. *Professional Assistance*

4,7% of the total expenditure budget , translating to an amount of R40,1 million, is spent on professional assistance for staff. The OAG has a total of 668 trainee accountants out of a total projected audit personnel complement of 1,500. This ratio reveals the extent to which the OAG is affected by the industry-wide shortage of skilled personnel in these fields and also the commendable role that the OAG is playing in nurturing the profession.
Comment 4. The Committee notes the remedial steps taken to improve pass rates and looks forward to improved examination performance of candidates. The Committee also wishes to congratulate the OAG for its focus on training staff, thereby helping to alleviate critical skill shortages in South Africa. As noted in its comments on the Annual Report, the Committee anticipates improved recruitment and retention practices.

[1] If compared to the figures for 2005/06 budget, the amount increases by 53%.

5. *Reputation and Stakeholder Management.*

Given the escalation in auditee dissatisfaction, the OAG will develop a Reputation Index with baselines for the measurement for all key stakeholders; this will be in place by end of March 2006. A special Committee will be set up to manage stakeholder satisfaction requirements and projects. An amount of R11,2 million is allocated for these activities. An international benchmark is yet to be set with regards to this kind of expenditure against total expenditure.

6. *Performance Bonuses.*

In 2005/06 no performance bonuses were paid out due to the change in the performance review cycle from 1 April 2005 to 31 March 2006 to 1 January 2006 to 31 December 2006. Traditionally performance reviews happened at peak of the audit period, making heavy demands on management. Staff were content to forego bonuses in 2005/06 in order to effect the permanent change in the performance cycle review, in the interests of relieving workloads at pressured moments in the auditing cycle. With the change in the performance year, a review and audit of the OAG's performance for 2005/06 will not be possible and this will result in a technical qualification of the audit report. In the meantime, the R11 million budgeted for performance bonuses will be rolled over into the following year, for which an amount of R15,8 million has already been budgeted. A performance review will cover the two years.

Comment 5. The Committee condones the change to the Performance Review Cycle given that the Public Audit Act is just one year into implementation, and that an unintended consequence of that Act was a coincidence of a peak of the audit period with the period of the performance review; and recommends that the future Oversight Mechanism urgently advise on an option for regularizing this arrangement for the future and to report by mid- May at the latest.

7. *Final comments.*

The Committee is satisfied that it has enquired into the relevant aspects of the budget and strategic plan for the year 2006/07. It is mindful of the considerable achievements as well as the enormous challenges facing the OAG and of the critical importance of its work for sustaining accountability in a democratic South Africa. In this regard it has noted the considerable work-load of the Office in terms of regulatory audits alone and is encouraged by the incremental increases in performance auditing. Major challenges will lie in the achievement of sustained improvements in the quality of audits performed, attaining acceptable levels of auditee satisfaction, the training and retention of suitably qualified staff, progressive increases in performance audits and the roll-out of the ambitious reforms of the corporate services division. The Committee wishes the Auditor-General and its staff well in its endeavours.

Report to be considered.

2. Report of the Ad Hoc Committee on the Annual Report of the Auditor-General 2004 – 2005, dated 30 March 2006:

Introduction

The Ad Hoc Committee on the Auditor-General met on 28 November 2005 to consider the Annual Report of the Auditor-General 2004/05. In its preparation for the hearings, the Committee had submitted 39 questions to the Auditor General for reply which was effected by a detailed response to each question at the hearing.

1. *Schedule of Compliance with the Public Audit Act*

The AG identified 32 projects to align policies, guidelines and procedures to the PAA, of which 31 have been completed and reviewed by Exco, with one outstanding viz. the establishment of a stakeholder relationship with the parliamentary oversight mechanism. By the end of March 2006, after the strategy meeting in February, the Auditor General will have approved the 21 projects which he is required to do by law. The Office undertook to forward to the Committee a document outlining the four or five policies that related to the oversight Mechanism of which the standards of auditing were a critical part.[2]

[2] This document has not yet been submitted

Recommendation 1: The Ad Hoc Committee notes with appreciation, the ATC, dated 27 March 2006, announcing the establishment of the Standing Committee on Auditor General .

Recommendation 2: The Auditor General must submit a written report to Parliament detailing the implementation plans of all the 32 projects that were identified for the alignment of the Office with the PAA.

2. *2003/04 Audit Reports Not Considered By Legislatures*

The Mpumalanga Legislature has not considered 83.3% of the Audited Reports of the Provincial Government. SCOPA has not considered 13 of the 34 annual departmental reports that it had received in 2004. The national elections and the heavy workload of SCOPA had contributed to the problem. It appears that these reports will be reviewed together with next year's annual reports.

Recommendation 3: Once the Oversight Mechanism is set up, it should take procedural and legal advice on what (if any) mechanisms are available to any legislature for dealing with the non-consideration of audited reports and whether the Mechanism has any role in this regard given its interest in ensuring that the reports of the Auditor General are reviewed by appropriate legislature.

3. *Code of Ethics*

The Auditor General confirmed that the Office did have an approved Code of Ethics which also addressed the expectations contained in the PAA. The Advisory Board had not yet had sight of the Code as it had met only once.

4. *Statistics of Contracts Awarded to BEE Firms*

45% of the total contract value[3], equalling R75 million, was awarded to the Big Four; 35% went to the medium firms, equalling R59 million and 20% equalling R34 million went to small firms. The size of the firm is based on the number of partners and trainee accountants that were employed at the enterprises.

5. *Criteria for Awarding Contracts to Firms*

Guidelines for contract work were set in consultation with the audit firms, SAICA and the BEE Commission in 2001. Black Economic Empowerment has a 70% rating and Quality Control has a 30% rating. In Gauteng and KwaZulu Natal, 50 points have to be scored in order to be considered, whereas in North West and Limpompo 33 points must be scored and in the rest of the country 40 points are required. The differences are due to the scarcity of auditing firms in certain provinces. Work is not contracted out if there are conflicts of interests and for certain key audits such as SARS and National Treasury. The awarding of contracts was done in an open and transparent manner. Audit Controllers form the AG's Office monitored the work of each contracted firm and did quality control reviews. The Office did assist contracted audit firms to improve the quality of their work but they were not re-appointed in instances of continuous poor performance. The PAA was amended to enable the AG to audit public entities if it elected to do so; external auditors were appointed in other instances. In the latter case, they were audited to the Office's standards. In Provinces where there were small pools of accounting firms, no firm would be allowed to audit a department if they had done accounting work for that department.

6. *Levels of Municipal Compliance with Submission Timelines*

Whereas in 2003/04, when only 17 (6%) of municipalities had submitted their financial statements timeously, the situation has improved with 148 (52%) of municipalities having submitted on time. The AG's Office is obliged to report to Parliament those municipalities that have failed to submit their financial reports on time. The quality of reporting will also be checked.

Recommendation 4: as per Recommendation 3.

[3] Total Contract Value is approximately 20% of the work of the AG based on its capacity shortfall.

7. *Reasons for Late Submission of Municipal Financial Statements*

Lack of financial management capacity, especially with regards to systems of internal control and staff competencies, attitudes (perception that it is a low priority), the burden of outstanding financial statements, the migration to new accounting standards and weak oversight were the main reasons underlying late submission. Project Consolidate was aimed at improving financial management at municipal level.

8. *Levels of Provincial and National Compliance with Submission Timelines*

All National Departments submitted their financial statements on time and 97% of Provincial Departments. Eastern Cape (Health) and KZN (Finance Consolidated) did not submit on time.

Recommendation 5 as per recommendation 3

9. *Reasons for Non-Tabling of Special Investigation Reports*

Special Audits / Reports are very often requested by the auditee. Only those reports that are requested by Legislature or by the public, or that have high public interest, or that reveal significant findings, are tabled.

Recommendation 6: A detailed list should be provided in future annual reports of all Special Investigations that were tabled.

10. *Reasons for Low Pass Rates of Candidates in the Auditor-General's Office.*

Poor selection criteria were mainly responsible for the poor results of this pilot project in 2004. More stringent criteria and the limitation of service providers to only one provider should improve results. The AG's Office is progressively shifting its bursary focus to towards more stringently selected *full-time* students.

11. *The Minimum Qualifications Framework*

The MQF was introduced in 2000 and included the Recognition of prior learning. The introduction had led to a higher labour turnover as permanent staff who had previously been classified as auditors were now reclassified as trainee accountants. Staff had also left to become internal auditors in government and better remuneration had led to a higher turnover of chartered accountants. This had a serious impact on the operations of the Office, and even affected financial performance as the high level of vacancies led to more work having to be contracted out on a short-term basis.

Recommendation 7: The Ad Hoc Committee regards these as very serious problems as it notes that the Office even had to temporarily relax its MQF requirements as well as reset its entry qualification requirements to graduate instead of post-graduate level because the market is experiencing an under-supply of appropriately qualified trainees. The Office of the AG should place an even greater emphasis on the training, retention and recruitment of appropriately qualified staff.

12. *Audited Satisfaction Levels*

An average of 42% overall satisfaction of auditees was recorded for the year in question; this was a decline from the previous year. The AG has initiated a process for understanding these results in response to feedback from auditees. The results of the survey apply equally to the work performed by the AG's Office and to the work performed by private audit firms.

Recommendation 8: The Ad Hoc Committee recommends that the AG urgently review its survey methodology and its implementation to establish whether accurate and reliable feedback is being obtained. Secondly, that the Office share with the committee its understanding as to why stakeholder satisfaction appears to be declining. Thirdly, the Committee would like to have benchmarks for auditee satisfaction set, based on international experience. These matters should be regarded as priority.

13. Quality Assurances

Quality control results show a decline from last year, with disturbing increase to 39% from 20% for poor performance from the last year and a decline in good results from 47% to 30%. This is very worrying. The AG has identified a number of root causes of the problem. Peak audit periods still had conflicting non-audit related responsibilities which diverted focus from the main task at hand. This was compounded by inadequate project management of the audit process throughout the year that caused bottlenecks during peak audit periods. There were inconsistent methods of work and insufficient levels of training for management with regards to audit review requirements. These matters are to be addressed in this current year and adequate budgetary allocations are to be made in this regard. The AG's office is of the view that the implementation of the MQF would also assist in addressing this problem and that results should be seen by the end of 2006.

Recommendation 9: This is a matter of great concern to the Ad Hoc Committee and should be one of the points of most intensive engagement by the Committee (or its successor) with the Office of the Auditor General.

14. Retention of Surplus

Once the 2006/07 budget has been considered by Parliament, the application will be made for the retention of 2004 and 2005 surpluses. This should be finalized by the end on March 2006.

Report to be considered.