Budget and strategic plan

of the Auditor-General of South Africa for 2009-2012

Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

AUDITOR-GENERAL

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GLOSSARY OF TERMS

ACCA	Association of Chartered Certified Accountants
AFROSAI	African Organisation of Supreme Audit Institutions
AFROSAI–E	African Organisation of English-Speaking Supreme Audit Institutions
ASB	Accounting Standards Board
BEE	Black economic empowerment
BBBEE	Broad-based black economic empowerment
CA	Chartered accountant
CAATs	Computer assisted auditing techniques
CISA	Certified Information Systems Auditor
CMM	Capability maturity model
CTA	Certificate in the Theory of Accounting
CPD	Continuing professional development
CSA	Control Self-Assessment
CW	Contract work
DAG	Deputy Auditor-General
EE	Employment equity
Exco	Executive Committee
FMCM	Financial management capability model
FTE	Full-time equivalent
GP	Gross profit margin
HC	Human Capital
ICT	Information and Communications Technology
IPFA	Institute for Public Finance and Auditing
INCOSAI	International Congress of Supreme Audit Institutions
INTOSAI	International Organization of Supreme Audit Institutions
IRBA	Independent Regulatory Board for Auditors
ISA	International Standards on Auditing
ISQC1	International Standard on Quality Control
MFMA	Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
MQF	Minimum Qualifications Framework
NT	National Treasury
OHSA	Occupational Health and Safety Act
OM	Oversight mechanism
PAA	Public Audit Act, 2004 (Act No. 25 of 2004)

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PAAB	Public Accountants' and Auditors' Board
PFMA	Public Finance Management Act, 1999 (Act No. 1 of 1999)
RoI	Return on investment
RPL	Recognition of prior learning
SADC	Southern African Development Community
SAI	Supreme Audit Institution
SAICA	South African Institute of Chartered Accountants
SAIGA	Southern African Institute of Registered Government Auditors
SCoAG	Standing Committee on the Auditor-General
SCOPA	Standing Committee on Public Accounts
UNBoA	United Nations Board of Auditors
UN	United Nations
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
WHO	World Health Organization

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Auditor-General's statement of policy and commitment

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

I am pleased to affirm my commitment as head of the institution charged with the (external) auditing of all spheres of government and promise to fulfil the constitutional mandate of the Auditor-General of South Africa in an even greater measure.

This ideal is reflected in the revised vision of the Auditor-General: ***"To be recognised by our stakeholders as a relevant Supreme Audit Institution that enhances public sector accountability".***

The achievement of unqualified reports in all spheres of government is central to the realisation of our mandate. To this end, we strive to:

- ensure simplicity, clarity and relevance of the messages contained in all our reports, including the performance audit reports that are in a continuous growth phase
- improve the visibility of our leadership through clear communication in championing the implementation of audit recommendations
- strengthen the human resource strategy with particular emphasis on the comprehensive trainee accountant scheme that forms the cornerstone of our skills pipeline and leadership succession
- focus on the implementation of the redefined funding model with a view to stabilising our margins and cash-flow situation
- lead by example on matters of risk management, internal controls and transformation.

The success of these initiatives would be evident through an improved reputation index.

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Reputation promise of the Auditor-General

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

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Overview by the Deputy Auditor-General

As head of the Auditor-General's administration, I present to you my strategic plan and budget for the years 2009-2012. During this period, I will perform my duties and responsibilities in accordance with section 32 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and, as accounting officer, in line with my financial responsibilities in terms of section 43 of the PAA. The Audit Committee, established in terms of sections 40 and 43 of the PAA, assists me primarily in discharging my duties relating to the maintenance of sound financial and risk management and the efficient functioning of an effective internal control system.

This *Budget and strategic plan* outlines our five-year vision, goals and objectives as shown in figure 1: Strategy map, which we plan to achieve by 2013-14. The strategic plan was developed after a thorough review of the overall corporate strategy of the Auditor-General. The initial strategy, Siyanqoba, was developed in 2001 and, since then, important legislative and regulatory changes have taken place, notably the promulgation in 2004 of the PAA. The review was conducted to align the Auditor-General's corporate strategy with the new legislative framework.

The revised corporate strategy does not deviate from the Siyanqoba strategy but builds on it. Siyanqoba set the Auditor-General on a path of operational excellence through continuous improvement in our core business, public sector auditing, and support business processes, and by strengthening the focus on meeting the needs of stakeholders. All these elements have been retained in the revised strategy. The difference is that the strategy now also emphasises the importance of being financially sustainable and remaining relevant to our stakeholders. Hence, it reiterates the Auditor-General's commitment to providing excellent service to customers and stakeholders and to being more efficient in our operations, but also highlights financial sustainability and our continued relevance as the SAI, as measured by the reputation index. The common denominators that ensure cohesiveness in achieving all these goals are an engaged leadership and a motivated workforce that is committed to the organisational strategic goals and objectives.

Briefly, the Auditor-General aims to achieve the following broad objectives:

- Strive to create an organisation that understands the direction of the public service in South Africa
- Create an office that serves the public with passion whilst maintaining independence
- Reflect the profile of South African society on all levels

The five-year corporate strategy is complemented by a three-year implementation plan which articulates the strategic objectives, measures and strategic initiatives that the Auditor-General will be implementing over the next three years.

These commitments will be accompanied by an aggressive plan to address capacity and skills challenges by adopting a fresh perspective on recruiting and retaining staff, and on rewarding performance. Among others, skills will be addressed by looking off-shore for auditing personnel to assist in transferring skills to local employees, and expanding the base not only of chartered accountants (CAs) but of all auditing professionals.

The organisation's key strategic focus areas that will be addressed together with the others over the next three years are as follows:

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Filling significant vacancies within the audit environment

The Auditor-General relies on its people to achieve its strategic objectives and so focuses strongly on key processes that promote a culture of high performance. During 2007-08, the Auditor-General initiated a number of people-management practices designed to attract, motivate and retain talent.

These initiatives include the following:

- Developing a Human Capital strategy, the content of which forms part of the balanced scorecard.
- Implementing a more focused and aggressive recruitment and selection intervention to address the high vacancy rate.
- Developing an orientation and induction programme framework as part of the recruitment and selection strategy.
- Revising a number of conditions of employment, including the fixed-term employment procedure.
- Relaxing the requirements of the Minimum Qualifications Framework (MQF) to facilitate manager-level audit appointments, provided that the staff appointed meet the minimum requirements.
- Talent sourcing through a schools programme to feed into the TA Scheme.
- Differentiating the recruiting scheme for rural areas.

Strengthening the leadership focus on operational and strategic focus areas

Improving on leadership effectiveness is a strategic focus area of the Auditor-General. The belief is that effective leadership is the only way to elevate and sustain organisational performance to a level of excellence.

These initiatives are targeted at the organisational, leadership and business unit levels:

- Morale driver – the high vacancy rate, which Human Capital addressed by implementing a more focused and aggressive recruitment and selection intervention.

- Compensation driver – pending further input and benchmarking, the remuneration policy will be reviewed during 2008-09.

- Performance management driver – the individual performance contracts (IPCs) for 2007-08 were reviewed for the various salary levels for implementation in 2008-09. The next step is to align the indicators to correspond with the repositioned performance management system and process, which is to be implemented in 2009-10.

- Corporate social responsibility driver – a number of Employee Wellness Programme (EWP) initiatives were implemented during 2007-08. Utilisation of this programme has increased and a more focused and strategic EWP process is being mapped out for the entire organisation.

- Enablers driver – enablers are tools that empower the Auditor-General's staff to perform their duties more effectively and efficiently, and to interact more meaningfully with stakeholders and each other. There are three main categories of enablers, namely Information and Knowledge Management, Information and Communications Technologies (ICTs) and Process enablers.

- Initiatives on a leadership level – Human Capital developed a Leadership Development Framework to provide guidelines on how management and leadership development should be pursued.

- Initiatives on a business unit level – each business executive and his/her senior management team developed their own action plans for improving staff morale within their own business units, using their individual business unit culture index results and drivers as a basis.

Improve working capital

The management of working capital and liquidity is of the utmost importance owing to the Auditor-General's non-profit business model. The most critical element of working capital is debt collection which, given the ongoing problems experienced in collecting outstanding debt, has highlighted the need to review the current funding model and consider alternative models.

These initiatives include the following:

The ring-fencing of certain debt will ensure that long-outstanding debt does not affect the collection of current debt. It also ensures that debts which are problematic to collect within the targeted period are dealt with separately, without the risk of their being written off. Another initiative being employed is the e-billing tool, which will assist in speeding up billing and therefore facilitate collection from auditees.

Ongoing process improvement

The main objective is to enhance operational excellence and the quality of products and services.

These initiatives include the following:

The business processes for Human Capital, Finance and ICT have been selected as priority areas. The processes are being mapped, evaluated and streamlined for efficiency. The maturity level of 3 is envisaged in this strategic plan.

Performance auditing and the auditing of performance information

Performance auditing focuses on the evaluation of measures implemented by management to ensure that auditees procure resources economically and use the resources efficiently and effectively. A transversal audit of infrastructure on provincial and municipal level will be concluded during the 2009-10 financial year. The management of performance auditing has been centralised to address this focus area.

Auditing of performance information commenced several years ago when the Auditor-General began phasing it in over five years. This process, which is an integral part of the regularity audit process, lends additional context to the audit process and findings. It does this by bringing the process of strategic planning, budgeting, execution/service delivery and reporting under the auditor's scrutiny.

Drive towards achieving clean audits

The Auditor-General strives to achieve unqualified reports in all spheres of government.

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Extensive stakeholder consultations on audit focus areas have been implemented on an ongoing basis to achieve an unqualified audit. The Auditor-General partners with the auditees in the full audit cycle from pre- to post-audit processes, eventually leading to the presentation of the annual audit outcomes. The presentations of annual audit outcomes aim to be compelling in order to inspire excitement and motivate action on issues by those charged with governance.

As part of ensuring its relevance, the Auditor-General of South Africa continues to be an active member of the International Organization of Supreme Audit Institutions (INTOSAI) and the African Organisation of Supreme Audit Institutions (AFROSAI).

INTOSAI

INTOSAI is an autonomous, independent, professional and non-political organisation. It is currently the second largest international body in the world, comprising 188 member countries and two associate member countries. The four key components of INTOSAI are the:

- International Congress (INCOSAI), which is held every three years
- Governing Board, which is constituted from the ranks of the Auditors-General of the member countries
- General Secretariat, which is based in Vienna
- Regional working groups (including AFROSAI).

AFROSAI

AFROSAI is the regional body for all the supreme audit institutions in Africa and is currently the largest regional group within INTOSAI, with 50 member countries. It consists of three sub-regional groups, which are structured around the predominant language used in each region. As such, the regional working groups cater for the English, Arabic and French-speaking countries. The Auditor-General of SA was appointed president of this body for the period 2008-2010, and also serves as chairperson of the strategic steering committee.

The Auditor-General is a member of AFROSAI-E, which is the English-speaking sub-regional group. In addition, the Auditor-General provides management and secretariat facilities to AFROSAI-E. For this purpose, a dedicated team from the South African audit office has been assigned on a full-time cost-recovery basis to AFROSAI-E to manage the organisation and administer its activities. Furthermore, subject matter experts are made available to AFROSAI-E as and when required to assist the organisation with specific assignments.

INCOSAI 2010

At the 19th International Congress of Supreme Audit Institutions (INCOSAI) held in Mexico in November 2007, the Auditor-General of South Africa re-confirmed its commitment to host INCOSAI in 2010 – an event that had been endorsed by Parliament. Apart from being the first time that an INCOSAI has been held on the African continent, the event is strategically important to the establishment of world-class public sector accounting and auditing practices on the continent.

During the Governing Board meeting that took place just prior to INCOSAI in Mexico, the Auditor-General was appointed as the second vice-chair of the INTOSAI Governing Board. The Auditor-General will assume the position of president of the INTOSAI Governing Board in November 2009, in the build-up to hosting INCOSAI in 2010.

Constitutional and legislative mandate

Mandate and functions

Chapter 9 of the Constitution of the Republic of South Africa, 1996[1] establishes the Auditor-General as one of the state institutions supporting constitutional democracy[2]. The Constitution recognises the importance and guarantees the independence of the Auditor-General, stating that the Auditor-General is independent and subject only to the Constitution and the law. The Auditor-General must be impartial and must exercise its powers and perform its functions without fear, favour or prejudice[3].

The functions of the Auditor-General are described in section 188 of the Constitution and further regulated in the PAA[4], which mandates the Auditor-General to perform constitutional and other functions. Constitutional functions are those which the Auditor-General performs to comply with the broader mandate described in the Constitution. Section 4 of the PAA makes a further distinction between mandatory and discretionary audits.

Accountability and reporting

The Auditor-General is accountable to the National Assembly in terms of section 181(5) of the Constitution and section 3(d) of the PAA and has to report on its activities and the performance of its functions in terms of section 10 of the PAA. The main accountability instruments are the Auditor-General's *Budget and strategic plan,* as well as the *Annual report,* both of which are tabled annually in the National Assembly. The Standing Committee on the Auditor-General (SCoAG), established in terms of section 10(3) of the PAA, oversees the performance of the Auditor-General on behalf of the National Assembly.

Auditor-General's products

The Auditor-General annually produces audit reports on all government departments, public entities, municipalities and public institutions. Over and above these entity-specific reports, the audit outcomes are analysed in general reports that cover both the Public Finance Management Act[5] (PFMA) and Municipal Finance Management Act[6] (MFMA) cycles. In addition, reports on discretionary audits, performance audits, and other special audits are also produced. The Auditor-General tables reports to the legislatures with a direct interest in the audit, namely Parliament, provincial legislatures or municipal councils. These reports are then used by these bodies in accordance with their own rules and procedures for oversight.

[1] Constitution of the Republic of South Africa, 1996
[2] The Auditor-General plays a pivotal role in strengthening one of the constitutional values referred to in section 1(d) of the Constitution, namely that of accountability
[3] Section 181(2)
[4] Public Audit Act, 2004 (Act No. 25 of 2004)
[5] Public Finance Management Act, 1999 (Act No. 1 of 1999)
[6] Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

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Organisational environment

This section describes the environment in which the Auditor-General operates, highlighting the organisation's strengths and the challenges it faces in enabling oversight, accountability and governance in the public sector.

Strengths

Unique niche

The Auditor-General is the only public sector audit institution in South Africa authorised by the Constitution and PAA to audit and report on the accounts, financial statements and financial management of public sector institutions and administrations. Although this is essentially a captive market, the Auditor-General's knowledge and experience of public sector auditing is unrivalled, enabling it to fulfil its constitutional mandate fully and effectively.

Independence

Section 181 of the Constitution guarantees the Auditor-General's independence, and the PAA also underlines the constitutional provisions concerning independence. In addition, the constitutional and statutory framework contains provisions that are accepted markers of independence. This allows the Auditor-General to perform its powers and functions without fear, favour or prejudice. The task of the Auditor-General is to provide an independent investigation and evaluation of the financial administration and reporting of the executive authority of the public sector. In this way, it assists Parliament or any other legislative body to exercise its oversight function.

Global reputation

As one of the international supreme audit institutions, the Auditor-General is part of the international fraternity that provides international audit services. For example, the Auditor-General is involved in developing financial management and accountability models for the public sector in parts of Africa. In addition, the Auditor-General has audited the World Health Organization and the United Nations Industrial Development Organization, and is presently auditor to the United Nations Organization itself. These contracts have been obtained competitively and are evidence of the Auditor-General's good standing and professionalism.

Reputation among stakeholders

The results of the most recent annual reputation surveys that the Auditor-General has conducted show that external stakeholders respect and value the role of the organisation in strengthening public sector financial management and, in turn, South Africa's democracy. This is especially so in respect of the Auditor-General's reputation among key stakeholders such as the National Assembly's Standing Committee on the Auditor-General, the National Treasury, provincial legislatures and professional bodies such as the Accounting Standards Board (ASB). The close working relationships that the Auditor-General has with such stakeholders are essential for the organisation to fulfil its mandate effectively and efficiently, especially considering the technical nature of the work done and the range of audit information required.

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World-class audit methodology and standards

A recent survey conducted by the Professional Standards Committee of INTOSAI indicated that South Africa is a leader in applying both the International Federation of Accountants (IFAC) and INTOSAI standards in its audits. This demonstrates that the Auditor-General of this country is one of the leading public sector audit institutions in contributing to democratic insight and monitoring the application and use of public funds.

Challenges

Debt collection

The management of the Auditor-General's working capital and liquidity has become an area of serious concern over the years. Delays in debt collection, which is a key element of working capital, have resulted in serious cash flow problems for the organisation. The Auditor-General will be implementing new working capital strategies to address this challenge.

Maturity levels of business processes

Another ongoing challenge is the need for continuous improvement of the Auditor-General's business processes to ensure that they are efficient and cost-effective, and support effective risk management and decision-making. To improve the maturity levels of management information, associated information and ICT systems, the Auditor-General is currently identifying all the core support business processes that underpin optimal organisational performance.

Risk management

Specific risks have been identified over a number of years and processes have been put in place to ensure that these risks are adequately identified, assessed, managed and monitored across the organisation (see annexure 10). Building on this, a concerted effort is being made to reduce the residual risk by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

Leadership

The Auditor-General recognises that an engaged leadership is a critical success factor for all change interventions within the organisation, including those relating to the revised vision, mission/reputation promise and culture. To develop the desired leadership competencies within the Auditor-General, various leadership-focused initiatives for the senior leadership were introduced in 2007 and are being extended to other management levels. These initiatives will ensure that the redefined strategy is effectively communicated and implemented with clear lines of accountability.

Vacancies

Attracting and retaining sufficient qualified and skilled staff is becoming increasingly difficult given the scarcity of accounting and auditing professionals in South Africa. To build the Auditor-General's auditing and accounting skills base, which directly affects its ability to perform according to its mandate, the organisation has for some time been investing in a Trainee Accountant Scheme (TA Scheme). Recruitment for the TA Scheme, which also addresses employment equity requirements, is now being driven in conjunction with an improved retention strategy. In the short to medium term, the Auditor-General is looking off-shore for auditing skills to augment its capacity. This initiative, which will be rolled out from the 2008-09 financial year, should also lessen the organisation's growing reliance on external professional assistance in the form of contract work. While some degree of outsourcing is a necessity considering the workload of the Auditor-General, the current vacancy rate is counterproductive. It compels the organisation to draw disproportionately on outsourced skills, which adversely affects cash-flow management and financial sustainability.

Transformation

Transformation through employment equity (EE) and broad-based black economic empowerment (BBBEE) is one of the Auditor-General's primary focus areas. The challenge for the organisation is to maintain its current EE profile and to further improve on its BBBEE plan despite the scarcity of African, Coloured and Indian auditing professionals. The Auditor-General continues to address this challenge by training its own auditing professionals through the TA Scheme and by retaining existing EE employees.

Engagement with local government

Local administration is arguably the sphere of government in which the Auditor-General's constitutional mandate is least understood. A need has been identified to intensify the level of audit engagement with local authorities to ensure that the Auditor-General's messages are better understood and that corrective measures are properly focused on root causes. Focusing on appropriate areas in local government will enable oversight mechanisms, the executive and legislatures to gain additional momentum towards transforming public finance management.

Meanwhile, the Auditor-General will continue with the broader drive of enhancing the relevance of its audit processes and reports for all spheres of government. This includes promoting more effective auditing practices, reviewing the product mix (type of audit opinions and entities subject to auditing) and strengthening knowledge-sharing abilities.

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Five-year strategic overview

Introduction

After 2001, when the Auditor-General initially charted its long-term direction through an organisational strategy, a number of internal initiatives were implemented to ensure effective and efficient service delivery. However, best practice demands that an organisation's long-term strategic plan be reviewed and updated every five years so that it is aligned with internal and external environmental changes. The legislative framework for the Auditor-General changed in December 2004 when the PAA was promulgated with retrospective effect from 1 April 2004. This change necessitated a review of the Auditor-General's strategy, resulting in a revised strategy that articulates the organisation's aspirations for the next five years. The five-year strategic plan is based on a redefined vision, mission, culture/values, strategic goals and strategic objectives, all of which support the Auditor-General's reputation promise.

The strategic plan is the blueprint for the Auditor-General's direction over the five years until 2014. It identifies the building blocks of key strategic goals and objectives that will assist in advancing the Auditor-General's vision and achieving the reputation promise. The five-year strategy is shown on the strategy map (see figure 1). The strategy will be reviewed annually to ensure that it is consistent with developments in the environment and reflects the long-term direction of the organisation.

Vision

In its corporate strategy of 2001, the Auditor-General established the following vision: *We are the independent world-class provider of public sector audit and related value-added services*. This vision has served the organisation well but, due to a number of critical factors, it became clear in 2008 that a revised vision and corporate strategy would be required for the future.

One of the key risks that the Auditor-General had identified was that of not appearing relevant to its stakeholders and customers. Consequently, the corporate vision was revised to be more succinctly linked to the constitutional mandate, with the aim of ensuring that the Auditor-General retains and increases its relevance as the SAI of South Africa.

The revised vision is: ***To be recognised by all our stakeholders as a relevant Supreme Audit Institution that enhances public sector accountability.*** This vision not only speaks more directly to the organisation's role as the public sector auditor but also underlines the Auditor-General's commitment to delivering quality products and services that are relevant and easy to use. In other words, the impact that the Auditor-General has should be so positive and visible that all stakeholders will recognise its value.

Mission/Reputation promise

In its corporate strategy of 2001, the Auditor-General established the following mission: *Providing independent and objective quality audit and related value-added services in the management of public resources, thereby enhancing good governance in the public sector.* As with the revised vision and strategy, this mission was also revised in 2008.

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The revised mission reads as follows: ***The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence***. Again, this mission speaks more directly to the reason for the Auditor-General's existence, and clearly articulates who the organisation is, its mandate and its objectives. In essence, the revised mission is an updated version of the reputation promise, which was finalised in 2007-08 after extensive consultation with stakeholders and employees.

Values

After extensive benchmarking and research, the organisational culture and values have also been aligned with the vision and reputation promise. The Auditor-General is adopting a performance-driven culture where each individual employee is accountable for his or her performance and is appropriately recognised. This change was prompted by staff, who indicated that the organisation needed to change the way it interacts with employees and recognises and rewards their contribution. Employees will receive practical, ongoing guidance as to the kind of behaviour required to support the performance-driven culture. Part of this culture is to adopt a "warm on people – high on task" environment that will underpin accountability.

The *Code of ethics* will comply fully with the IFAC ethical values; however, there will be a close integration with the behavioural values. The ethical values will also comply with the principles as set out in the ISQCI review.
The revised values, which will be rolled out in 2008-09, describe what the Auditor-General stands for and define its code of conduct and behaviour. There are six explicit values, each of which is guided by behavioural indicators. The revised values are as follows:

Table A: Values and behavioural indicators

Value	Behavioural indicators
We value, respect and recognise our people	o We value and encourage diversity o We respect all individuals o We listen and consider each other's contribution o We recognise talent and effort
Our accountability is clear and personal	o We execute our functions with integrity and honesty o We make a difference in all that we do o We understand our roles and responsibilities o We are responsible for our individual and collective actions
We are performance driven	o We produce products of a high quality o Our performance is key to the success of the AG o We achieve our deadlines within given time frames
We value and own our reputation and independence	o We are impartial, transparent and objective o We demonstrate due professional care at all times o Our reputation relies on the actions and statements of every employee o We all contribute to strengthening the democracy of SA

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Value	Behavioural indicators
We work effectively in teams	o We value and embrace teamwork o Our teams lead by example o Through knowledge sharing we • impart knowledge to all and respect confidentiality • innovate • lead and develop relationships o We celebrate our achievements
We are proud to be South African	o We are passionate and care about South Africa o We are ambassadors for South Africa o We build and strengthen strategic partnerships

Strategic goals and objectives

The Auditor-General's strategic goals are the "pillars of excellence" that define the organisation's direction and the strategic results it aims to achieve in support of the vision and reputation promise. To support the strategic goals, 16 strategic objectives have been identified. The strategic objectives, which can be found in the strategy map (see figure 1), translate the strategic goals into more concrete activities that lead to the intended strategic result. Our strategic goals and objectives are outlined below.

Value and service excellence

This strategic goal will ensure that the Auditor-General enhances the customer experience and excels in providing value and service to key stakeholders. This goal will be driven through the following objectives:

- Enhance service offerings and features
- Improve the quality of audit reports
- Ensure cost-effective auditing
- Improve the timeliness of audit reports
- Ensure relevance of products and services

Financial sustainability

This strategic goal is intended to focus the Auditor-General on remaining financially sustainable so that the organisation can then focus its efforts on providing excellent service, in turn increasing customer satisfaction and enhancing its reputation among stakeholders. This goal will be driven by the following objectives:

- Improve financial performance
- Improve the management of working capital

Operational excellence

The strategic goal of operational excellence is intended to ensure that all processes are continuously improved and that organisational risk and quality issues are identified and adequately addressed. Operational excellence

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is focused on improving processes in order to provide services in a seamless and integrated manner, particularly by harnessing ICT. In practical terms, this entails ensuring that employees have the necessary ICT tools to effectively deliver on the Auditor-General's mandate and that these ICT tools are driven by business process requirements. This goal will be driven by the following objectives:

- Improve key non-audit internal processes
- Improve ICT tools
- Ensure compliance with BBBEE legislation

Leadership and transformational excellence

The strategic goal of leadership and transformational excellence ensures that the Auditor-General continues to focus on enhancing the competencies and capabilities of its leadership. Through effective leadership communication and performance management, including coaching and mentoring, the leadership helps to instil a performance-driven culture and create an environment in which change management interventions are readily accepted and implemented. The Auditor-General also aims to have a professional and diverse workforce because it is in diversity that creative solutions can be found for the organisation. With the right skills and competencies, the Auditor-General can improve its processes, maintain financial independence, provide excellent customer service and achieve its reputation promise. This goal will be driven by the following objectives:

- Improve leadership effectiveness
- Develop a professional and diverse workforce

Reputation management excellence

The strategic goal of excellence in reputation management will focus the Auditor-General on being relevant and thus on delivering products and services that meet stakeholders' needs. Stakeholders include the general public, auditees (customers), employees and professional bodies, among many others. This goal will be driven through the following objectives:

- Improve reputation
- Build and maintain key relationships
- Improve communication
- Improve branding

Auditor-General's strategy map

The strategy map (see figure 1) is a visual representation of the Auditor-General's strategic objectives and how they align with the organisational vision and reputation promise.

The objectives are spread across the five balanced scorecard perspectives, namely reputation (stakeholder), customer (product), financial (pouch), internal processes and learning and growth (people).

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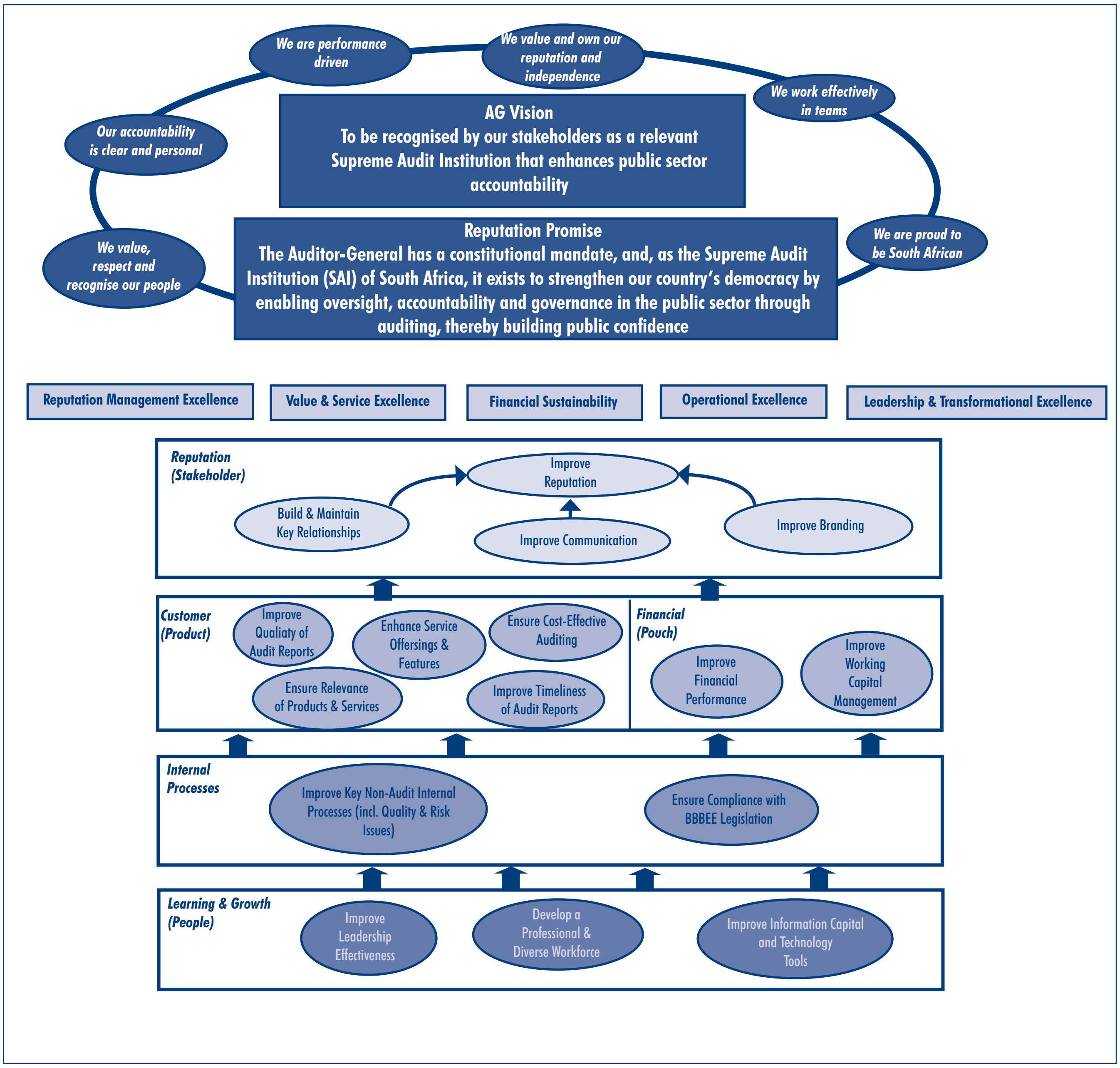
Figure 1: Strategy map



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Medium-term (three-year) strategy implementation plan

The *Budget and strategic plan for 2009-2012* translates the five-year strategy of the Auditor-General into an implementation plan. The details of this medium-term implementation plan are contained in the following five strategic goals:

Strategic goal: Value and service excellence

The aim is to achieve excellence and create value in the various aspects of products and services through the following measurable objectives:

Objective 1: Enhance service offerings and features

The Auditor-General aims to fulfil its mandate by delivering the right mix of audit products and services such as regularity audits, performance audits, auditing of performance information and international audits. Although regularity audits remain a main focus area, the other audit services are being increased in response to the imperative of remaining relevant to stakeholders.

Performance measure and targets: performance auditing

Performance auditing focuses on the evaluation of measures implemented by management to ensure that auditees procure resources economically and use them efficiently and effectively. The key themes for transversal performance auditing are:

- Education
- Consultants
- Public entities

A transversal audit of provincial and municipal infrastructure will be concluded during the 2009-10 financial year.

In keeping with the commitment to performance auditing, the Auditor-General will be undergoing an international peer review of its performance auditing practices in 2010.

Ongoing stakeholder consultations are taking place with a view to raising awareness about performance auditing and to consult on future focus areas. The Auditor-General, with the assistance of an international expert, is refining the process of identifying performance auditing focus areas. Furthermore, subject matter experts will assist in researching the transversal performance audit themes.

Up to now, performance auditing has been based on two main principles:

- Integrating the auditing of economy and efficiency with the core regularity auditing methodology. This has been achieved by adding a "value-for-money" assertion for the evaluation of certain selected groupings of transactions/themes.
- Performing stand-alone performance audits. This has allowed the Auditor-General to focus on the

performance aspects of certain key strategic government initiatives, over and above its already wide mandate.

The previous target of 10% for performance auditing included a 5% allocation of resources to value-for-money assertions. This measure has been reconsidered as it is more appropriate to determine measures specifically for stand-alone performance auditing.

Although the current target for performance auditing is a monetary value, consultation is under way around the possibility of using an output-based target for performance audits. The five-year target is to derive income of R75 million (based on an annual year-on-year increase of 10%) from performance audits. This target reflects an increasing allocation of resources to performance audit services by the year 2013-14.

Table 1a: Audit income derived from performance audits

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
Audit income derived from performance audits (R million)	49.7	56.8	62.5
Tool	Automated PeopleSoft report		

Performance measure and targets: auditing of performance information

In striving for relevant audit reporting, the Auditor-General has been investing significantly in the analysis of audit findings at root cause level. This is part of the process of moving from the provision of one financial audit opinion to four different audit opinions, namely on financial information, performance information, compliance with laws and regulations and internal control. The move towards expressing a separate opinion on compliance with laws and regulations, as well as on internal control, is in the conceptualisation phase. Detailed plans on the phasing in of this approach are expected towards the middle of 2009-10.

While development is ongoing in all these areas, the most prominent elements are:

- Root cause analysis, which will eventually lead to a separate reflection on internal control.
- Auditing of performance information (AoPI), which should lead to a separate opinion on performance information in the near future.

Auditing of performance information commenced several years ago when the Auditor-General began phasing it in over five years. This process, which is an integral part of the regularity audit process, lends additional context to the audit process and findings. It does this by bringing the process of strategic planning, budgeting, execution/service delivery and reporting under the auditor's scrutiny.

Since developments have reached a relatively advanced stage, the emphasis has moved from process evaluation to a more detailed evaluation of the essence of service delivery. In keeping with the current pace of development, a separate opinion on performance information should be achieved in 2010, initially expected in the national sphere of government.

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Table 1b: Auditing of performance information

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
% compliance with predetermined audit coverage milestones as defined in the AoPI plan (annexure 4)	100%	100%	100%
Tool	Project progress report		

Performance measure and targets: international auditing

The involvement of the Auditor-General in the international arena is carefully balanced against its legal mandate. The strategy is to ensure that, as an SAI, it is able to benefit from and contribute to international auditing developments and also add value to the global public sector audit community. This strategy also provides for knowledge sharing, both internally and externally, as well as opportunities for employees to gain broader experience. Exposure to international auditing assignments is maximised by maintaining a core team of dedicated international auditors, and by providing fixed short-term opportunities to professional audit staff drawn from all the audit business units throughout South Africa.

The most significant international commitment to date has been the Auditor-General's appointment since 2000 as a member of the United Nations Board of Auditors (UNBoA). In July 2006, after being reappointed by the General Assembly of the United Nations, the Auditor-General commenced a second six-year term. These auditing duties are shared with the SAIs of France and China.

Care is taken to ensure that participation in international audits does not compromise the Auditor-General's ability to fulfil its local constitutional mandate. In addition, the assurance has been given that international audit participation will not take place at the expense of the local taxpayer, meaning that these assignments are accepted on a fully cost-recoverable basis. With this commitment in mind, the Auditor-General has stipulated that income from international audits should not exceed 5% of total audit income. This target applies throughout the period from 2009-2012.

Table 1c: Percentage of total audit resources for international audits

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
Limit audit resources for international audits to a set % of total audit resources and ensure that international audits break even	5%	5%	5%
Tool	Calculated using PeopleSoft report		

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Objective 2: Improve quality of audit reports

The Auditor-General is committed to producing audit reports that meet the quality requirements of the International Standards on Auditing (ISA). The specific standard dealing with quality is the International Standard on Quality Control (ISQC1). This standard requires adherence to a system of quality control that ensures compliance with professional standards and requirements, and results in appropriate audit reports being issued.

In line with ISQC1, the Auditor-General has policies and procedures addressing each of the following elements of the system of quality control (QC):

- Leadership responsibilities for quality within the organisation
- Ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Human resources
- Engagement performance (the execution of audits)
- Monitoring

These quality control policies and procedures are encapsulated in the *AG's Quality control manual*. The roll-out of the manual in 2009-10 will go hand in hand with ongoing maintenance and revision by a dedicated team of employees.

The six QC elements are achieved through various activities and improvement processes that will continue to be part of the Auditor-General's medium-term strategy. The main activities and processes that directly ensure the quality of audit reports are those for engagement performance and monitoring.

Engagement performance

The policies and processes dealing with engagement performance are as follows:

- Governance structures for technical development and interaction: All technical matters in the Auditor-General are overseen by a Technical Committee, which is a subcommittee of the Executive Committee.
- An annual review of auditing standards: The audit standards applied are reviewed annually and, after consultation with SCoAG, are confirmed through a formal directive. The Auditor-General currently subscribes to ISA, which will continue to be the basis of its auditing processes.
- An annual review of matters affecting audit cycles: For this annual review, the Auditor-General interacts extensively with the National Treasury to confirm the accounting standards and guidance applicable for each audit cycle. These standards are then confirmed in an audit response contained in a formal audit directive.
- Alignment with auditing standards and best auditing practices: The auditing methodology is reviewed annually to ensure alignment with auditing standards and with international and local auditing benchmarks.
- Integration of new audit developments: On reaching a reasonable level of maturity, new developments are integrated into the core auditing methodology. Currently, the emphasis is on integrating the auditing of performance information, information systems and value for money. The legal/compliance side of the audit process is also receiving attention.
- Seeking more efficient, effective ways of auditing: Initiatives that are currently under way include transversal

audits, increased use of computer assisted auditing techniques (CAATs) and standard auditing practices for auditing in similar environments. In addition, the use of technology in the audit process is continuously being improved.

- Provision of technical guidance: All new developments and each audit cycle are fully supported by detailed guidance and information to assist auditors in following the most appropriate and consistent approach.
- Formal technical learning: The technical learning curriculum is revisited annually to reflect the latest developments and competence requirements for trainees and permanent staff. The Auditor-General also supports interventions to qualify appropriately skilled auditing professionals and provide continuing development opportunities.
- Stringent quality process for audits: The Auditor-General has formal quality assurance processes that address all issues ranging from supervision and review per individual audit, to pre-issuance reviews and consistency reviews. The commitment to quality is also evident in the performance contracts of all audit staff.
- Proactive involvement in the accounting and auditing profession: The Auditor-General is involved in a variety of activities, nationally and internationally. These include participation in audit standard-setting at IRBA and INTOSAI, and monitoring the development and implementation of accounting standards at the ASB and National Treasury.

Monitoring

This applies to auditing work done by private firms on behalf of the Auditor-General. The monitoring function involves ongoing evaluation of each firm's system of quality control, including a periodic inspection of a selection of completed engagements. The review processes are based on the Auditor-General's monitoring policy and *Quality control manual*.

In evaluating a firm's system of quality control, close attention is paid to the steps taken to inform personnel about new professional standards and regulatory requirements. In the case of completed engagements, the Auditor-General does inspections on a cyclical basis. Engagements inspected must include at least one engagement by each engagement manager over an inspection cycle, which spans three years.

The Auditor-General is in the process of preparing for an external firm-level review by IRBA towards the end of 2009. From then onwards, a monitoring team from the Auditor-General will conduct annual firm-level reviews.

The review results will initially be used to manage corrective action in the event of non-compliance and then, from 2010-11, to recognise good performance. Appropriate recognition criteria and performance measures will be compiled after the IRBA review.

The goal for 2009-2012 is to deliver audit engagements and reports that meet professional quality requirements. The performance measure and targets are based on the percentage of reviewed audit engagements that meet the criteria of excellent performance.

Table 2: Quality

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
% compliance with Quality Review Standard	75%	76%	77%
Tool	Quality control assessment		

Objective 3: Improve timeliness of audit reports

The PFMA, MFMA and PAA set stringent reporting requirements for all auditees to meet their deadlines. According to the PFMA, the Auditor-General has two months to complete all audit reports on national and provincial departments, as well as public and departmental entities. The audit reports must therefore be completed by the end of July each year. For local authorities and their entities, the MFMA requires the Auditor-General to finalise audit reports within three months. In other words, these audit reports must be completed by the end of November each year.

The deadlines of the Auditor-General are directly affected by the internal deadlines of auditees. Receiving financial statements after the prescribed deadline not only impacts on the ability of the Auditor-General to perform its auditing function but could ultimately hamper the ability of the auditees to perform within the accountability framework.

The Auditor-General continues to monitor the remedial steps already taken by auditees, in conjunction with the National Treasury, to ensure ongoing improvements in the quality and submission of financial statements.

To further improve the timeliness of audit reports, the Auditor-General maintains the internal processes that were originally established for the PFMA and MFMA audit cycles. This guidance takes cognisance of the following:

- The need for preparatory/debriefing sessions around these audit cycles. MFMA debriefing/PFMA preparation takes place in April and May each year, and PFMA debriefing/MFMA preparation in August and September.
- The receipt of confirmation of specific audit directives to drive the audit processes. Ideally, these directives should be confirmed between January and March each year, depending on the timing of similar guidance from the National Treasury, which triggers the audit directives. Currently, the directives for the MFMA cycle still fall outside the ideal cycle (around July of each year).
- Planning for formalised guidance in each cycle, which is done in a specific annual project charter to drive technical support.
- Time needed to plan for specific processes (such as consistency reviews) as part of finalising each audit cycle.
- The need to promote a better understanding of the individual audit reports before they are tabled through the general reports and roadshows. The general reports on the PFMA and the MFMA are published two months after the end of the PFMA and MFMA periods.

Performance measure and targets

The Auditor-General is committed to an overall performance target for finalising audit reports within the legislative deadlines for financial statements submitted on time (meaning within two months for PFMA reports and three months for MFMA). To reach a five-year target that is as close as possible to 100% compliance for both PFMA and MFMA, annual targets have been set for the medium term. As the table below shows, these targets increase from year to year.

Table 3: Timeliness of audit reports

Performance measure		Target 2009-10	Target 2010-11	Target 2011-12
% compliance with statutory and legislative guidelines	(PFMA)	80%	85%	95%
	(MFMA)	70%	70%	70%
Tool	Audit tracking tool			

Objective 4: Ensure relevance of products and services

The concept of "relevance" is key to the vision statement of the Auditor-General. In previous years, this gave rise to the overarching theme of audit product development and audit execution as confirmation that audit processes and related reporting were relevant. This theme was defined as a balancing act between the quality of auditing and stakeholder requirements. These two requirements were brought together by a commitment to be responsive to the needs of stakeholders through auditing, especially in giving momentum to transformation in public finance management and improved service delivery, within the parameters of the auditing standards.

A solid foundation was laid for the quality of audit. This was underpinned by the adoption of a set of recognised auditing standards, as well as the ability to focus on the appropriate areas. While the Auditor-General currently applies the International Standards on Auditing (ISAs), it is also actively involved in the development of the International Standards for Supreme Audit Institutions (ISSAIs). Recent key developments that are expected to be advanced in this area include involvement in the audit standard-setting processes, locally through the IRBA Committee of Auditing Standards (CFAS) and internationally through the INTOSAI Financial Auditing Guidelines Sub-committee (FAS). This is being supplemented by an extensive participation in INTOSAI working committees.

Performance measure and targets

For the 2009-10 period, it is proposed that the combined effect of all efforts to improve the relevance of products and services be measured through a custom-developed relevance index – an indicator that will bring together the elements of quality of audits, efficiencies created in the audit process and responsiveness to stakeholder needs.

The use of such a relevance index would be a major innovation in the external auditing community of the public sector. Hence, the Auditor-General plans to develop this measure in 2009-10, ideally as part of its work in defining the relevance and value of SAIs. The Auditor-General has gained insight into this topic as chair of the

INTOSAI working group that is investigating the value and benefits of SAIs internationally. The next step, also in 2009-10, will be to set a baseline for the relevance index. In future years, this would be used for in-house year-on-year comparisons and, ultimately, as a measurement of SAI relevance throughout the INTOSAI community.

Table 4: Relevance index

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
% improvement on the relevance index survey	Establish baseline and targets for future measurement	2% increase from previous baseline	2% increase from previous year
Tool	Independent quantitative survey conducted by an independent external research house		

Objective 5: Ensure cost-effective auditing

The cost of auditing to government is driven by a combination of factors: those which are particular to auditing government and those particular to the Auditor-General.

The factors particular to auditing government include:

- The size and complexity of the departments and entities
- The inherent risk of departments and entities being audited
- The maturity of financial management within departments and entities
- Compliance with existing policies, procedures, regulations and legislation by departments and entities

The factors particular to the Auditor-General include:

- The effectiveness of audit supervision (span of control)
- The ratio of work performed by the staff compared to that contracted out to private audit firms (contract work)
- The adequate utilisation of available hours for recoverable activities (recovery rates) by staff
- The determination of appropriate tariff structures for staff, compared to tariff structures used by private firms
- The efforts to increase operational efficiency
- The adoption of appropriate standards of auditing

These factors are the subject of ongoing interaction between the Auditor-General, its Audit Committee, the Standing Committee on Public Accounts and the Standing Committee on the Auditor-General.

The organisation has adopted the hierarchical model of span of control to determine the ideal staff mix for audit assignments. The model takes the form of a pyramid, with a senior manager in control of three audit managers, one assistant manager and 11 trainee accountants. The model enables the actual staffing ratio to be compared to an ideal staffing ratio. Cost recovery should be improved by the development and placement of qualified audit managers and assistant managers at the correct levels.

The number of professional staff has been increased from the previous year. As previously reported, the Auditor-General faces a legacy issue in the sense that, in many instances, the earnings of auditors are incompatible with their years of experience and qualifications. These employees have been offered the opportunity to become registered professionals and good progress has been made with this initiative.

The manner in which audit resources are used has a further impact on the cost of auditing. The recovery rates that the Auditor-General uses to measure its utilisation of audit resources centre on the percentage of total time spent on recoverable audit work. When the recovery rate is determined, allowance is made at each level of audit staff for non-recoverable activities such as management, administration and leave when the recovery rate is determined.

It has always been the practice of the Auditor-General to price its audit work in such a manner that a small surplus is achieved, and this practice remains unchanged. The small surplus is used to fund capital purchases and accumulate funding for the future. The anticipated surplus for the budget year is 4% of audit income. The anticipated surplus is factored into the pricing model of audit work budgeted for each year.

The cost of audit is influenced by the tariff structure that is used as a basis for pricing audit work. The determination of these tariffs is influenced by the total costs of running the office and the margin that is provided so that the Auditor-General can achieve a small net surplus of no more than 6%. These tariffs are determined according to the job band and earnings of each audit post. According to the span of control, the closer the audit business is to the ideal span of control, the more cost-effective its auditing will be. The tariffs include a mark-up factor of 2.22.

During 2007-08, the Auditor-General decided to revise its funding model and so reached agreement with stakeholders on the most appropriate model. This agreement enables the Auditor-General to secure sufficient funding to fulfil its constitutional mandate.

The cost of auditing is reflected in the reported figures. For the 2009-10 financial year, the Auditor-General has budgeted for audit fees of R1.71 billion, which is 32.6% more than the 2008-09 audit fee of R1.29 billion. The budgeted audit fee is expected to increase to R1.93 billion and R2.18 billion in 2010-11 and 2011-12 respectively.

The audit fee increase is driven largely by the following items:

- The principles of the funding model which allowed lifting of the cap on tariff
- The impact of inflation on both the internal tariffs and the contract work tariffs
- The impact of inflation on remuneration costs

The Auditor-General continues to increase the capability of the audit research and development function, with the aim of identifying, implementing and measuring efficiencies of the total audit process.

The performance measures below illustrate the key financial ratios for the next three financial years. The main ratio is the gross profit percentage, which measures the percentage of income used to cover operating expenditure. The gross profit margin for 2009-10 increases to 34%, which represents an increase of 4% compared to 2008-09.

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Performance measure and targets

Implementation of the principles of the funding model enables the office to recover full revenue. Accurate budgeting and forecasting will be used to ensure that costs are controlled and that the budgeted income is generated.

Table 5: GP ratio

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
GP ratio	34%	34%	34%
Tool	Monthly variance report		

The Auditor-General wishes to emphasise that, although it operates in a robust manner suited to its constitutional mandate, it still faces certain challenges in respect of its funding model.

Strategic goal: Financial sustainability

The Auditor-General aims to continue running its business efficiently by being financially sustainable through the following measurable objectives:

Objective 6: Improve financial performance

The financial turnaround plan is a structured plan for diagnosing and addressing the root causes of the sub-optimal performance of the Auditor-General's Finance department. Critical interventions in the financial turnaround plan are to employ the right people in Finance, deliver product that is relevant and timely and streamline processes to increase efficiencies. A number of milestones have been achieved, but the project continues and longer-term milestones will be achieved over the next two years.

Retention of surplus

The principles by which the Auditor-General considers whether to retain or surrender its surplus to the National Revenue Fund are outlined in detail in the overview of the budget. This is in line with the requirements of the PAA, which states that the Auditor-General may, after consultation with the National Treasury and by agreement with the oversight mechanism, retain all or part of any surplus shown in the financial statements for working capital and general reserve requirements.

Performance measure and targets

The main measure of financial sustainability that the Auditor-General will use is the increase in the percentage net surplus within the five-year target of 6%. The table below shows the proposed annual net surplus per year during the medium term. The summary of the financial information on which this measure will be based is reflected in the projected income statement and balance sheet sections of this plan.

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Table 6: Net surplus

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
% net surplus	4%	4%	4%
Tool	Analysis of the projected income statement		

Objective 7: Improve working capital management

Collecting funds from auditees and paying creditors are both critical factors for the efficient management of working capital. The target is 30 debtors' days for national and provincial government departments and 90 days for local government departments. The payment term for creditors is 30 days after the date of statement. In practice, this results in the Auditor-General collecting its debts in 60 days on average but paying its creditors within an average of 45 days from invoice date. This impacts on the Auditor-General's working capital management. The ring-fencing of certain debt ensures that long-outstanding debt does not affect the collection of current debt. It also ensures that debts which are problematic to collect within the targeted period are dealt with separately, without the risk of their being written off. Another initiative being employed is the e-billing tool, which will assist in speeding up billing and therefore facilitate collection from auditees.

Performance measures and targets

Two performance measures are used to track improvements in the management of the organisation's working capital: percentage compliance of debtors with payment terms, and percentage compliance with creditor payment terms. The annual targets for the medium term are shown in the table below. The five-year strategy of the Auditor-General will continue to focus on the development and implementation of solutions for working capital management issues such as:

- Slow and non-paying debtors (i.e. debtors over 90 days), highlighted by total arrears at the beginning of 2008-09. These debts amounted to R67.7 million, of which R37.0 million was local government's debt.
- Significant growth in audit work performed by private firms for which the Auditor-General receives no compensation for administration and funding costs. The forecast for 2008-09 is R512.5 million and the budget for 2009-10 is R507.4 million.
- The need to continuously invest in, among others, technology and professional development to improve efficiencies and support planned growth.

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Table 7: Debtors and creditor payment terms

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
Compliance of debtors with payment terms	Local government: Max. 90 days Provincial and national government: Max. 30 days	Local government: Max. 90 days Provincial and national government: Max. 30 days	Local government: Max. 90 days Provincial and national government: Max. 30 days
% compliance with creditor payment terms	80%	85%	90%
Tool	Automated age analysis report		

Strategic goal: Operational excellence

Objective 8: Improve the key non-audit internal processes, including quality and risk issues

Achieving operational excellence by improving processes is a project that began in the 2006-07 financial year. The project started out by identifying all processes within the Auditor-General, and then pointing out key processes and problem areas requiring immediate attention. Where processes were not at the required level, these would be re-engineered in such a way as to lift their maturity to the desired level. Process maturity has a direct link with an organisation's ability to accept change and ensure consistency of service delivery. It is therefore especially relevant in the light of the service delivery focus of government.

For 2008-09, the Human Capital and Finance processes were prioritised for re-engineering. The Finance process maturity will be based on the financial management maturity model, which was developed specifically for financial environments. Human Capital will be measured according to the capability maturity model.

Performance measure and targets

The five-year target is to move all key internal processes to level 3 as a minimum, meaning that the processes should have improved beyond just focusing on compliance and control. The table below outlines the annual targets for the medium term.

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Table 8: Capability maturity level

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
Capability maturity level	3	3 (Stabilise processes at level 3)	4
Tool	Final report from Internal Audit		

Risk management

There is a clear link between risk management and the goal of operational excellence. Specifically, the risks that have been identified dictate which processes are prioritised for improvement projects (see annexure 10). In addition to the process improvement aspect of risk management, there is also a legislative requirement for risks to be addressed. Section 43 of the PAA requires the Deputy Auditor-General to establish and maintain a system of risk management and internal control. Up to now, risk management has focused primarily on key operational risks as monitored through the Control Self-Assessment Tool (CSA). Next, during the 2008-09 financial year, the groundwork will be done for the implementation of enterprise-wide risk management. Following that, in the 2009-10 financial year, enterprise-wide risk management will be introduced. This will constructively address the current risk management approach, which is fragmented and does not enable the organisation to deal adequately with continually evolving risks and opportunities created by globalisation, advances in technology and a greater reliance on intangible assets such as the knowledge of its people.

Enterprise-wide risk management is a structured and systematic process that is interwoven with existing management responsibilities. It provides a framework for analysing risks and opportunities, with the ultimate objective of creating value for the Auditor-General. It entails the alignment of the organisation's strategy, processes, people, technology and knowledge to meet its risk management purpose, and offers a systematic and integrated way of identifying and responding to all the sources of risk. Enterprise-wide risk management provides a coherent framework for dealing with all the risks brought about by operating in the new economy. It puts managers in the best position to see the risks they face, assess the implications relative to the entire organisation and plan an integrated response. Once the framework has been adopted and implemented throughout the Auditor-General, it is envisaged that the control environment will be substantially strengthened.

Objective 9: Ensure compliance with BBBEE legislation

The Auditor-General is focused on complying with and supporting the objectives of BBBEE. This commitment contributes to strengthening the democracy of South Africa and meets the legislative requirement of BBBEE as vehicle for transformation. The specialised codes of good practice for chapter 9 institutions will be used as a guideline. As an example, the Auditor-General can contribute to economic growth by using the employment equity and skills development codes to increase the resources in the auditing sector. Similarly, the integration of preferential procurement and enterprise development will enable the Auditor-General to influence the growth of small and medium black firms.

Performance measure and targets

The implementation of the BBBEE strategy will occur in phases. The first is to align all relevant policies and procedures with the strategy, which will be a key focus for 2009-10, with the emphasis on full compliance with all procurement processes.

The BBBEE performance target has been set in accordance with the level contributor rating. The reason is that, although the Auditor-General is a chapter 9 institution and can follow the specialised codes, it chooses to adopt more stringent practices in the interests of strengthening democracy and the economic growth of the country. The target has been set as a level 3 contributor for a five-year period.

Table 9: BBBEE

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
Achieve identified BBBEE rating level	5	4	3
Tool	Audit by an independent party		

Objective 10: Improve information and communications technology tools

The Auditor-General aims to improve the ICT tools within the organisation. Users will have a suite of technology providing access to relevant information, innovative communications products and streamlined tools to facilitate the audits. To achieve this, the ICT business unit has embarked on a five-year strategic plan that supports the overall organisational strategy. After implementing this strategy, all systems will be integrated and up to date, and there will be only one source of all data that all users can access with ease. An enhanced security layer around the technologies will protect the Auditor-General's intellectual capital.

Preparatory work included a complete "as-is" and "to-be" gap analysis, along with a comprehensive industry scan of the technologies that are available to enable the organisation to reach its desired level of maturity at the end of 2009-10, since maturity of technology is important in preventing exposure to risk. In addition, the enterprise architecture has been established with a clear technology direction. The Auditor-General has already made good progress by upgrading its legacy systems and implementing the necessary infrastructure for systems integration over the next two years.

Performance measures and targets

Technological maturity was measured at 2.84 on the COBIT maturity model for technology as defined by ISACA. This was a significant achievement as it was accomplished within the first year of the five-year strategy. As shown in the table below, a target of level 3.5 has been set for the medium term. An optimal five-year target of level 4 will be considered since specialist technology companies regard it as an ideal indicator of technology maturity on the COBIT measure.

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Table 10: COBIT

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
Achievement of identified capability maturity level (technology)	3	3.25	3.5
Tool	Final report from Internal Audit		

ICT infrastructure

A major focus in the medium term will be the implementation of integrated administrative system improvements. Specific projects in this area include an e-billing module, a budgeting and planning module and a balanced scorecard tool. In the area of information security and disaster recovery, projects to be implemented include the encryption of notebooks to ensure security of all Auditor-General information.

Management information tools

Management information tools or business intelligence is a logical progression of the ICT strategy. The first step will be to implement the balanced scorecard tool, although the roll-out will depend on the process maturity within the business units. An investigation in 2008-09 will yield specifications that will enable the Auditor-General to make informed decisions about which additional business intelligence tools to select for the organisation. Such tools must not only fit into the overall architecture but should require minimal support and maintenance so as to avoid inflating the organisation's operating costs.

Knowledge and content management

An ongoing focus area for the Auditor-General is the implementation of knowledge-sharing tools within the organisation. One project to be implemented in the medium term is the integrated records and document system, which will provide a more convenient way for users to access business information from a common source. Other projects include the implementation of audit knowledge databases.

Strategic goal: Leadership and transformational excellence

This goal is designed to ensure that the Auditor-General adequately capacitates its employees with the right tools and systems to do their jobs in line with the desired performance-driven culture.

Objective 11: Improve leadership effectiveness

After developing a blueprint of the desired organisational culture in 2006, the Auditor-General launched a leadership effectiveness initiative to enhance leadership practices. The next step was to incorporate a measure for leadership into the annual culture index. The rationale for this was that a healthy culture and motivated employee corps are the ultimate reflection of the effectiveness of the leadership of an organisation.

Since culture change is a long-term initiative, the focus in the medium term will continue to:

- support the senior leadership team to strategically align the organisation with the desired vision, mission/ reputation promise and culture
- develop leadership competencies
- implement coaching and mentoring processes for senior managers
- redesign and implement performance management, including rewards and recognition schemes.

This multi-year programme is intended to improve the Auditor-General's reputation as an employer of choice and positively improve employees' levels of motivation and trust.

Performance measure and targets

The key driver for the leadership initiative is the culture index. The five-year target for the culture index is 25% due to the high impact it has on the reputation index. Whereas the industry norm is at 40%, the Auditor-General's current culture index is 15% (2007-08). Action plans for addressing the culture index will focus on all four areas listed above, with a view to shaping a performance culture.

Table 11: Culture index

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
% improvement in the culture index	Implement all the actions that are drivers of the culture index	21%	Implement all the actions that are drivers of the culture index
Tool	Independent quantitative survey conducted by an independent external research house		

Objective 12: Develop a professional and diverse workforce

The Auditor-General is committed to recruiting, developing and retaining diverse professionals so that it has the talent to accomplish its mission. Achieving the mission depends on more than just the right workforce size and structure. It also requires the "right people, in the right jobs at the right time".

Performance measure and targets: Employment equity plan

The organisation will strive to ensure compliance with EE requirements and beyond. The intended result is a fair and representative workforce with a culture that supports, encourages and motivates people, thereby underpinning accountability and operational excellence.

The following targets will apply:

- Employment equity: 80/20 target, employees from designated groups (all women, disabled people and African, Indian and Coloured people) making up 80% of the workforce and 20% coming from non-designated groups (white males and foreigners). This ratio will be the total organisation's baseline and

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will apply from the executive to clerical levels. Similarly, the trainee accountant target has been set to reflect South Africa's economically active population, the number of trainee entrants and the environment of the profession. Thus, a 90/10 target has been set, with 90% of trainees coming from designated groups and 10% from non-designated groups.

Table 12a: Percentage compliance with EE plan

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
% compliance with AG EE plan	80%	85%	90%
Tool	Manual tracking and progress report		

Performance measure and targets: Number of unqualified staff reduced

In realising the objective of professionalising the environment, the Auditor-General is committed to reducing the number of unqualified staff. This will be achieved by the following:

- Institutionalising employee skill assessments by implementing a competency management process to identify and reduce actual and potential competency and skills gaps.
- Ensuring that strategies for investing in human capital are developed and implemented to meet the identified gaps and are fully integrated into the strategic planning, budgeting and annual workforce planning processes.
- Continuously monitoring the efficiency and effectiveness of the investment in human capital, which will be periodically evaluated and reported on.

Table 12b: Number of unqualified staff reduced

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
Number of unqualified staff reduced	Establish baseline number of unqualified staff and reduce by 5%	5% reduction from previous year baseline	5% reduction from previous year baseline
Tool	Manual tracking		

Performance measure and targets: Percentage of trainee accountants retained

More than 50% of the Auditor-General's staff are trainees. The intention is to retain trainee accountants after they qualify but, owing to strong industry competition for auditing resources, it may not be possible to retain 100% of all qualified trainees. To maximise its retention capacity, the Auditor-General will focus on the following:

- Developing and implementing retention strategies for keeping trainee accountants.
- Doing monthly monitoring of attrition and retention rates among trainees.

Table 12c: Percentage of trainee accountants retained

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
% of trainee accountants retained	Establish baseline % retention for those who completed trainee contracts and improve retention by 10% per year	10% increase from previous year baseline	10% increase from previous year baseline
Tool	Manual tracking		

Performance measure and targets: Percentage improvement of labour turnover per category

Another priority is to address the high turnover rate among employees in general, particularly those with professional skills. This will be achieved by:

- Developing retention strategies for skilled employees currently on board.
- Conducting an analysis of employees eligible for retirement.
- Establishing, documenting and reporting on projections for retirements in mission-critical occupations.
- Implementing strategies for managing potential full-time equivalent (FTE) and competency gaps.

Table 12d: Labour turnover

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
% improvement on labour turnover per category	Establish baseline % turnover for band D & band E retention for those who completed trainee contracts and improve their retention by 20% (for band D) per year, by 25% (for band E) per year	25% turnover reduction for band D; 30% turnover reduction for band E	30% turnover reduction for band D; 35% turnover reduction for band E
Tool	Automated tool to measure the staff turnover rate		

Strategic goal: Reputation management excellence

The Auditor-General's reputation promise is directly linked to the products and services that it has to deliver – to make a difference in South Africa by fulfilling its constitutional mandate. The organisation will know that it has delivered on this strategic mandate and reputation promise when all its stakeholders:

- know and understand the unique role that the Auditor-General fulfils as a Supreme Audit Institution and
- recognise that the Auditor-General is making a relevant contribution in strengthening South Africa's democracy.

Objective 13: Improve reputation

The reputation of the Auditor-General is described as the collective opinion of all its internal and external stakeholders, built over time, in terms of its constitutional mandate and reputation promise.

The following issues will continue to receive specific attention during 2009-10 and beyond:

- Continued focus on improving and strengthening media liaison, since the media is a key channel for keeping the South African public informed about the Auditor-General's role and contribution to strengthening our country's democracy.
- Increased focus on creating awareness and understanding of the Auditor-General's mandate and performance, by improving and strengthening all internal and external corporate communication messages and channels to effectively reach all its key stakeholders.
- Continued investment in further building and improving the Auditor-General's corporate identity (branding), both in terms of its physical environment and all tangible forms of visual presentation. This will ensure that the way in which the organisation visually presents itself is fully aligned with and in support of its desired reputation and culture. This is a multi-year programme.
- Continued focus on supporting the Auditor-General's initiative to make its audit reports more relevant and user-friendly, by helping the institution to communicate more effectively both in the reports and about the reports, in order to get the organisation's message across to all relevant stakeholders. This is a multi-year programme.

Performance measure and targets

Improving on the Auditor-General's reputation is a strategic focus area in the organisation. For this reason, it is important to determine the collective opinion of its stakeholders and how they perceive the Auditor-General and its delivery on its constitutional mandate. The reputation index (RI) is used to measure these stakeholder opinions. The RI five-year target has been set at 25%.

Table 13: Reputation index

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
% improvement on the overall reputation index	(Measure: tracks compliance with communication, stakeholder relationship management and branding milestones for the year)	21%	(Measure: tracks compliance with communication, stakeholder relationship management and branding milestones for the year)
Tool	Independent quantitative survey conducted by an independent external research house		

Objective 14: Build and maintain key relationships

In 2007-08, the Auditor-General identified three key stakeholder groupings with whom it needs to continue to build its relationship in the next two years. These stakeholders are internal employees, so that they become ambassadors for the organisation, prospective employees, so that the Auditor-General becomes an employer of choice, and auditees, so that good relations are maintained with customers.

Performance measure and targets

For the 2009-2012 period, the focus will be on continuing to implement and refine the planned actions per stakeholder group, with the aim of improving the reputation index results, first per stakeholder group and, through that, the overall reputation index. The results of the reputation index survey to be conducted in 2010-11 will be used to measure improvement, and also to continuously guide and direct the Auditor-General's stakeholder strategies and actions.

Table 14: Reputation index per key stakeholder group

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
% improvement on the reputation index per identified/key stakeholder group	60 – 79.9% achievement of all milestones in identified action plans	6% average improvement on 2007-08 baseline per stakeholder group	60 – 79.9% achievement of all milestones in identified action plans
Tool	Independent quantitative survey conducted by an independent external research house		

Objective 15: Improve communication

The reputation promise guides all communication messages to ensure consistency and better understanding of the Auditor-General's role. Effective communication is a key driver for enhancing the reputation of the Auditor-General. The emphasis will be on ensuring that all communication is clear and consistent and provides clarity on the reputation promise and the key messages emanating from it. Specific items/documents have been identified to ensure consistency and compliance, which is measured annually through a content audit.

Performance measure and targets

To measure the effectiveness of communicating the reputation promise and key messages to stakeholders, a content audit is conducted annually by an independent external service provider. Specific items are identified and measured annually. Using a phased approach, the scope increases every year and will ultimately reach a point where the full spectrum of communication can be measured. The results of the reputation index (RI) survey to be conducted in 2010-11 will provide an indication of the success of the Auditor-General's stakeholder communication. However, the actual measurement for balanced scorecard (BSC) purposes will be done through the content audit. Action plans relating to the survey feedback received will be developed to ensure that any gaps are closed.

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Table 15: Percentage of compliance with reputation promise and key messages in identified Auditor-General documents

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
% compliance with reputation promise and key messages in identified documents	100% compliance on specifics and 45% - 79.9% where contextualisation is required	100% compliance on specifics and 50% - 79.9% where contextualisation is required	100% compliance on specifics and 55% - 79.9% where contextualisation is required
Tool	Content audit conducted by an independent external auditor		

Objective 16: Improve branding

There is a clear link between an organisation's reputation and the ease with which stakeholders recognise and identify with its brand and corporate identity. For this reason, the Auditor-General has over the past three years been incrementally investing in its brand, in terms of both its physical environment and all tangible forms of visual presentation. The overall objective is to ensure that all branding requirements are adhered to, with compliance being measured annually by means of an independent visual audit. The results of the RI survey to be conducted in 2010-11 will provide an indication of the level of brand recognition and affiliation. However, the actual measurement for BSC purposes will be done through the visual audit.

Performance measure and targets

Each year, specific targets are set to determine brand compliance by all business units in the Auditor-General. A phased approach is being used, meaning that the scope increases every year to ultimately reach a level where all 2D material (printed material) and 3D items (physical work environment) are fully brand compliant. A visual audit is conducted every year to measure business units' compliance.

Table 16: Percentage of compliance with all branding requirements

Performance measure	Target 2009-10	Target 2010-11	Target 2011-12
% compliance with all 2D (printed material) and 3D (office environment) branding requirements	2D – 100% and 3D – 60 – 79.9% achievement on development of 3D action plan	2D – 100% Set 3D baseline	2D – 100% Implementation of the 3D action plans
Tool	Visual audit conducted by an independent external auditor		

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Strategic initiatives

A number of strategic initiatives have been proposed in the medium-term budget. These initiatives include the following six categories, each of which entails the development and implementation of specific projects.

Table B: Strategic initiatives

Main categories	Strategic initiatives/Projects
1. Leadership	Improvement of leadership effectiveness • Executive coaching for corporate executives and business executives • Leadership programme for managers
2. Training and development	Development of a professional workforce • Management of Trainee Accountant Scheme • Learning material and narrowing of competency gaps
3. ICT infrastructure	Improvement of information capital and technology tools • Implement e-billing module • Implement budgeting and planning module • Implement balanced scorecard tool • Encrypt all notebooks to ensure security of all information
4. Stakeholder management	Improvement of reputation, relationships and communication • Constitutional stakeholder relationship mapping • INTOSAI Governing Board
5. Performance improvement	Monitoring and achievement of customer service delivery and internal performance objectives • Further development of the performance management system • Implementation of financial turnaround projects
6. Process improvement	Development of internal processes (including quality and risk control) • Implementation of capability maturity model requirements • Firm-level review; risk framework and CSA tool upgrade
Business unit projects (incl. Facility Services, Audit Research and Development)	

Strategic initiatives scope overview

1. Leadership

Following the unfavourable results of the 2006 culture index, scoring 14% against an average culture index of 40%, the Auditor-General decided to focus on enhancing leadership practices to ensure a healthy culture and motivated employees. As a result, a decision to embark on a leadership programme was taken and will be implemented from 2008. The leadership programme will offer senior management targeted training on how to become effective communicating leaders. The leadership programme comprises three strategic initiatives/ projects:

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- Communicating Leader
- Executive coaching for CEs and BEs
- Leadership programmes for managers

The business benefit of the leadership programme will be the following:

- The senior leadership team will be supported in implementing and cultivating the desired performance-driven culture among their employees.
- The Auditor-General's reputation as an employer of choice will be improved.
- Mentoring and coaching of audit teams will be enhanced.
- The leadership team will become visible in the audit team and engage both the customer and team.

2. Training and development

The following projects have been proposed for the training and development of new recruits and current staff:

- Development of learning material
- Narrowing of competency gaps
- Schools programme (part of pipeline programme) aligned with corporate social investment

The overall benefit to the organisation will be to:

- ensure employment of adequate staff with qualifications and skills to deliver required audit services and products
- provide a feeder stream of qualified staff for employment at management and executive level
- ensure that the organisation can respond to increased stakeholder demands through the improved professionalism and diversity of staff
- contribute to developing accounting and auditing professionals for the broader public sector, which in turn will enhance government departments' ability to comply with the requirements of financial accountability and corporate governance
- contribute towards skills development in the audit profession, as the intention of the schools programme is to feed into the TA Scheme.

3. ICT infrastructure

The following proposed projects are aimed at improving business users' access to information and at providing technology tools for streamlining processes:

- Implement e-billing module
- Implement budgeting and planning module
- Implement balanced scorecard tool
- Encrypt all notebooks to ensure security of all information

The overall benefit to the organisation will be as follows:

- Implementing the e-billing module and budgeting and planning module will enhance integrated Human

Capital and Finance administrative systems. It will also improve the quality and integrity of information.

- The BSC tool will render effective performance management and a centralised repository from which data analysis and reports can be retrieved for quick decision-making.
- Encrypted notebooks will mitigate security risks to all information.

4. Stakeholder management

Management of international events (e.g. INCOSAI)

The Auditor-General has been awarded the privilege of hosting the conference of the International Organization of Supreme Audit Institutions (INTOSAI) in 2010. The appointment as the hosts of this conference has been endorsed by the President of South Africa. This conference, referred to as INCOSAI (International Conference of Supreme Audit Institutions), is held every three years.

The business benefits for the organisation will be as follows:

- Opportunity to benchmark and network with peers.
- Share knowledge and best practices.
- Building the reputation of the Auditor-General through the hosting of a world-class event.
- Staff of the organisation will have an opportunity to benefit from skills transfer.

INCOSAI 2010 will be held in Gauteng in November 2010, but is preceded by the INTOSAI Governing Board meeting in November 2009 in Cape Town. The Auditor-General also hosted the AFROSAI 2008 General Assembly during 2008-09. This conference served as a dry run for INCOSAI 2010 and was invaluable in identifying action items going forward.

5. Performance improvement

The following proposed projects are geared towards the improvement of the Auditor-General's business results:

- Further development of the performance management system
- Implementation of the remaining elements of the financial turnaround plan

The overall benefit to the organisation will be to ensure the following:

- Progress towards achievement of organisational objectives is monitored and maintained.
- Performance of individuals and teams is aligned with organisational requirements.
- A sustainable financial position is reached in order to maintain own funding for operational and strategic matters.

6. Process improvement

The main project in this area is business process re-engineering.

The Internal Audit unit (Governance) has identified enterprise risk types and put plans in place to address these

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risks (see annexure 10). Processes associated with these risks areas are being mapped and improvement plans executed. The organisation has set maturity level targets (starting at level 3) for improvements in the following internal processes:

- ICT processes
- Finance process
- Human Capital processes
- Finance management learnership programmes (possibly SAIC/CIMA accredited)
- Deployment of audit methodologies and tools
- Development and revision of all audit guidelines

The overall benefit to the organisation will be to:

- minimise organisational risks as identified by internal auditors
- improve turnaround time in the recruitment process
- increase efficiency by reducing time in the billing process
- enhance reports on debtors collections
- enhance financial statements for quick decision making
- streamline and standardise standard operating procedures
- centralise procurement, ensuring quick delivery of goods and services
- develop core competencies in financial management
- ensure application of latest technology and techniques to facilitate compliance with auditing standards
- revise audit guidelines, enhancing more efficient auditing.

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Management structure

The AG organisational structure is depicted in figure 2 below. The structure includes the following executive and management aspects:

Executive Committee

The Executive Committee assists the Deputy Auditor-General (DAG) in the performance of the work of the AG. The Executive Committee consists of the following members:

- Deputy Auditor-General
- Chief Operations Officer (COO)
- Head of Audit (HoA)
- All corporate executives (CEs)

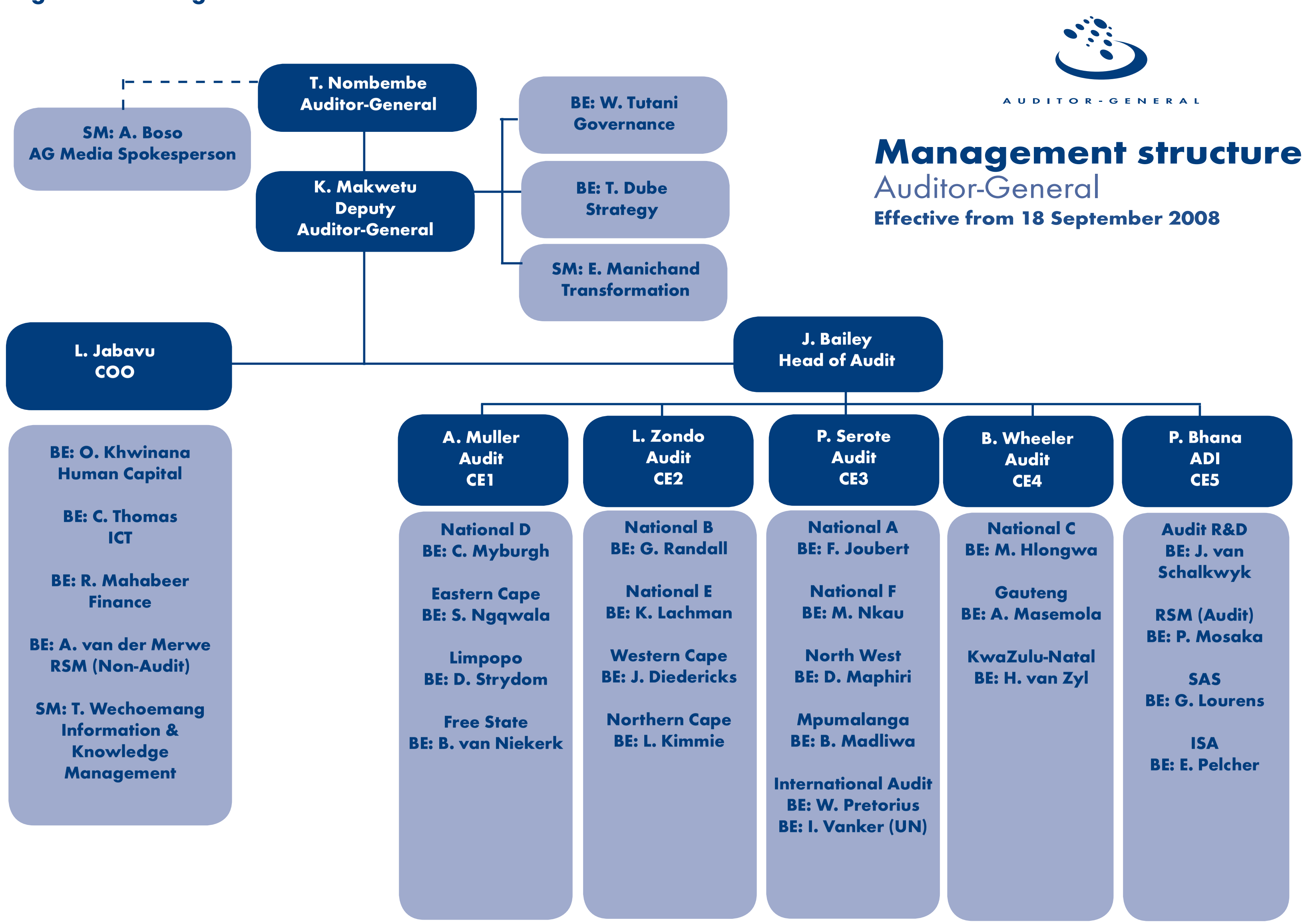
Operations Committee

The DAG, COO and Head of Audit have constituted an Operations Committee (Opsco) whose main focus is to ensure that all initiatives and tactical operational matters continue to be aligned with the overall strategy. These Opsco engagements will continue to feed into the Executive Committee.

As shown in figure 2, media issues are handled at several levels in the organisation. Functional responsibilities for media rest with designated business units. The Office of the Auditor-General also has resources to support it in its various stakeholder communication activities.

We firmly believe that the structure as articulated below will continue to ensure that our resources are properly planned and allocated to areas that will generate the best possible results as we implement the plan to which we have committed.

Figure 2: Management structure



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Projected income statement

	Actual 31 March 2008	Forecast 31 March 2009	Budget 31 March 2010	Forecast 31 March 2011	Forecast 31 March 2012
	Rm				
AUDIT INCOME	**1,108.9**	**1,369.7**	**1,706.7**	**1,928.7**	**2,179.4**
Own hours	648.8	796.9	1,124.5	1,270.7	1,435.9
S&T recoverable	42.3	60.3	74.8	84.6	95.6
Contract work	417.8	512.5	507.4	573.4	647.9
DIRECT AUDIT EXPENDITURE	**829.8**	**1,024.0**	**1,129.0**	**1,264.7**	**1,429.1**
Personnel	370.6	451.7	546.8	617.9	698.2
S&T recoverable	41.9	59.8	74.8	73.4	83.0
Contract work	417.3	512.5	507.4	573.4	647.9
CW % of audit income excl. S&T	***39%***	***39%***	***31%***	***31%***	***31%***
Gross income	**279.1**	**345.7**	**577.7**	**664.0**	**750.3**
Own hrs gross profit	**278.2**	**345.2**	**577.7**	**652.8**	**737.7**
Gross margin % of audit income	***25%***	***25%***	***34%***	***34%***	***34%***
Other income	**16.7**	**11.2**	**10.3**	**11.6**	**13.1**
Gross profit plus other income	**295.8**	**356.9**	**588.0**	**675.6**	**763.4**
Overhead expenses	**283.1**	**369.0**	**493.9**	**557.7**	**630.1**
Overhead as % of audit income	***26%***	***27%***	***29%***	***29%***	***29%***
Depreciation	**21.0**	**22.3**	**28.1**	**31.1**	**40.0**
Net surplus / (deficit) before special events	**(8.3)**	**(34.4)**	**66.0**	**86.8**	**93.3**
Net surplus as % of audit income	***-1%***	***-3%***	***4%***	***5%***	***4%***
Special events	**-**	**9.7**	**13.8**	**70.1**	**-**
Net surplus / (deficit) after special events	**(8.3)**	**(44.1)**	**52.2**	**16.7**	**93.3**

Assumptions
1. 35.1% increase in own hours rates
2. Salary expenditure inflationary increase of 15%

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Projected balance sheet

	Actual 31 March 2008	Forecast 31 March 2009	Budget 31 March 2010	Forecast 31 March 2011	Forecast 31 March 2012
	Rm				
Capital employed					
Capital	**125.0**	**80.9**	**133.1**	**149.8**	**243.1**
- Reserves	128.3	120.0	75.9	128.1	144.8
- Special audit services fund	5.0	5.0	5.0	5.0	5.0
- Net income for the year	(8.3)	(44.1)	52.2	16.7	93.3
Long-term liabilities	**75.1**	**78.1**	**81.9**	**90.3**	**99.6**
Interest-bearing borrowings	10.3	6.9	3.2	3.2	3.0
Medical aid liability	64.8	71.2	78.7	87.1	96.6
Current liabilities	**212.7**	**238.1**	**254.4**	**285.9**	**325.1**
Trade and other payables	175.6	198.0	211.9	237.1	267.5
Leave liability	24.7	30.6	37.3	44.8	53.3
Current portion of long-term loan	12.4	9.5	5.2	4.0	4.3
	412.8	**397.1**	**469.4**	**526.0**	**667.8**
Employment of capital					
Fixed assets	**50.3**	**64.0**	**68.4**	**66.0**	**59.7**
Cash investment	**87.7**	**98.9**	**107.2**	**116.6**	**127.2**
Current assets	**274.8**	**234.2**	**293.8**	**343.4**	**480.9**
Trade and other debtors	245.2	273.9	319.4	385.7	435.9
Bank and cash	29.6	(39.7)	(25.6)	(42.3)	45.0
	412.8	**397.1**	**469.4**	**526.0**	**667.8**

Working capital assumptions

1. Trade and other payables are calculated on a 45-day payment period.
2. Trade debtors are calculated based on the following days outstanding:
   30 days for the national and provincial departments and 90 days for local authorities.

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Projected funding statement

Explanation of funding schedule

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

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

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

Key principles

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

2. The funding deficit (part 5) is considered temporary in nature and within an acceptable norm provided that the amount thereof is less than the working capital requirements (part 2), as in this instance the cash is normally collectable on average within a period of 60 days. Additional funding is required in order for the Auditor-General to remain a going concern.

	Actual 31 March 2008	Forecast 31 March 2009	Budget 31 March 2010	Forecast 31 March 2011	Forecast 31 March 2012
	Rm				
Part 1					
Reserves and staff liabilities					
Staff liabilities	**89.5**	**101.8**	**116.0**	**131.9**	**149.9**
- Post-retirement medical aid (PRMA)	64.8	71.2	78.7	87.1	96.6
- Leave liability	24.7	30.6	37.3	44.8	53.3
Office reserves	**19.1**	**12.3**	**17.0**	**18.2**	**19.5**
- Special audit services fund	5.0	5.0	5.0	5.0	5.0
- Performance bonus	14.1	7.3	12.0	13.2	14.5
	108.6	**114.1**	**133.0**	**150.1**	**169.4**
Part 2					
Working capital					
Current assets (excluding bank)	245.2	273.9	319.4	385.7	435.9
Current liabilities (excluding leave liability)	(175.6)	(198.0)	(211.9)	(237.1)	(267.5)
Net working capital	**69.6**	**75.9**	**107.5**	**148.6**	**168.4**
Part 3					
Capital expenditure					
Interest-bearing borrowing payments	11.9	15.3	12.2	7.4	6.5
Fixed asset acquisitions	19.6	47.9	51.3	38.6	43.1
Capital requirement of the office	**31.5**	**63.2**	**63.5**	**46.0**	**49.6**

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	Actual 31 March 2008 Rm	Forecast 31 March 2009	Budget 31 March 2010	Forecast 31 March 2011	Forecast 31 March 2012
Part 4					
Prestigious events (AFROSAI/ INTOSAI / INCOSAI)	-	9.7	13.8	70.1	-
Part 5					
Comparison to available cash reserves					
Cash and cash equivalents	**117.3**	**59.2**	**81.6**	**74.3**	**172.2**
Office funding requirements (1+2+3+4)	**209.7**	**262.9**	**317.8**	**414.8**	**387.4**
Surplus/(Deficit) on funding of the office	**(92.4)**	**(203.7)**	**(236.2)**	**(340.5)**	**(215.2)**

Conclusion

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

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

Annexure 1: Detailed budget

Description	Notes	2008-09 Budget (A)	2008-09 Forecast (B)	Variance (B-A) (C)	Variance % (B-A)/A (D)	2009-10 Budget (E)	Variance (E-B) (F)	Variance % (E-B)/B (G)	Variance (E-A) (H)	Variance % (E-A)/A (I)	2010-11 Forecast	2011-12 Forecast
AUDIT INCOME	2	**1,292,642,514**	**1,369,678,836**	**77,036,322**	**6%**	**1,706,775,831**	**337,096,995**	25%	**414,133,317**	32%	**1,928,656,689**	**2,179,382,059**
Own hours	2.1	857,097,251	796,829,111	(60,268,140)	-7%	1,124,528,582	327,699,472	41%	267,431,331	31%	1,270,717,298	1,435,910,547
Contract work	2.2	368,302,333	512,531,671	144,229,338	39%	507,432,442	(5,099,229)	-1%	139,130,109	38%	573,398,660	647,940,486
S & T	2.3	56,170,915	54,084,238	(2,086,677)	-4%	64,982,396	10,898,158	20%	8,811,481	16%	73,430,107	82,976,021
International S&T	2.3	11,072,015	6,233,816	(4,838,199)	-44%	9,832,410	3,598,594	58%	(1,239,605)	-11%	11,110,624	12,555,005
DIRECT AUDIT COST		**901,273,524**	**1,024,057,853**	**122,784,329**	**14%**	**1,129,039,557**	**104,981,704**	**10%**	**227,766,033**	**25%**	**1,264,704,075**	**1,429,115,605**
Staff remuneration - audit business units	3.4.1	465,420,957	451,684,520	(13,736,437)	-3%	546,792,308	95,107,788	21%	81,371,351	17%	617,875,308	698,199,098
Contract work - recoverable	2.2	368,302,334	512,531,671	144,229,337	39%	507,432,443	(5,099,228)	-1%	139,130,109	38%	573,398,660	647,940,486
S&T: recoverable	2.3	56,478,218	53,607,846	(2,870,372)	-5%	64,982,396	11,374,550	21%	8,504,178	15%	62,319,484	70,421,017
International S&T	2.3	11,072,015	6,233,816	(4,838,199)	-44%	9,832,410	3,598,594	58%	(1,239,605)	-11%	11,110,624	12,555,005
GROSS PROFIT		**391,368,990**	**345,620,983**	**(45,748,007)**	**-12%**	**577,736,274**	**232,115,291**	**67%**	**186,367,284**	**48%**	**663,952,614**	**750,266,454**
GROSS PROFIT PERCENTAGE		**30%**	**25%**			**34%**					**34%**	**34%**
OTHER INCOME		**9,282,362**	**11,194,408**	**1,912,046**	**21%**	**10,283,848**	**(910,560)**	**-8%**	**1,001,486**	**11%**	**11,620,748**	**13,131,445**
Interest and sundry income	2.4	7,943,810	11,194,408	3,250,598	41%	8,297,848	(2,896,560)	-26%	354,038	4%	9,376,568	10,595,522
Africa Projects	2.5	1,338,552	-	(1,338,552)	-100%	1,986,000	1,986,000	100%	647,448	48%	2,244,180	2,535,923
SURPLUS BEFORE OPERATING COST		**400,651,352**	**356,815,391**	**(43,835,961)**	**-11%**	**588,020,122**	**231,204,731**	**65%**	**187,368,770**	**47%**	**675,573,362**	**763,397,899**
OPERATING COST		**363,279,373**	**368,950,509**	**5,671,136**	**2%**	**493,904,707**	**124,954,198**	**34%**	**130,625,334**	**36%**	**557,672,005**	**630,092,017**
Staff remuneration - support business units	3.4.2	**116,473,195**	**131,795,422**	**15,322,227**	**13%**	**197,604,045**	**65,808,623**	**50%**	**81,130,850**	**70%**	**223,292,571**	**252,320,605**
Staff remuneration - Africa Projects	3.4.2	**2,047,064**	**3,294,476**	**1,247,412**	**61%**	**412,907**	**(2,881,569)**	**-87%**	**(1,634,157)**	**-80%**	**466,585**	**527,242**

Annexure 1: Detailed budget

Description	Notes	2008-09 Budget (A)	2008-09 Forecast (B)	Variance (B-A) (C)	Variance % (B-A)/A (D)	2009-10 Budget (E)	Variance (E-B) (F)	Variance % (E-B)/B (G)	Variance (E-A) (H)	Variance % (E-A)/A (I)	2010-11 Forecast	2011-12 Forecast
Other personnel expenditure		**32,482,352**	**28,447,348**	**(4,035,004)**	**-12%**	**35,521,351**	**7,074,003**	**25%**	**3,038,999**	**9%**	**39,779,126**	**44,554,413**
Leave pay provision	3.1	5,388,464	5,927,300	538,836	10%	6,662,232	734,932	12%	1,273,768	24%	7,528,322	8,507,004
Medical aid provision	3.2	10,365,716	6,365,716	(4,000,000)	-39%	7,469,288	1,103,572	17%	(2,896,428)	-28%	8,440,295	9,537,533
Group life scheme	3.6	3,500,000	4,205,330	705,330	20%	4,384,932	179,602	4%	884,932	25%	4,954,973	5,599,120
Long service awards & other	3.6	385,000	62,500	(322,500)	-84%	-	(62,500)	-100%	(385,000)	-100%	-	-
Performance bonus		9,000,000	7,252,500	(1,747,500)	-19%	12,000,000	4,747,500	65%	3,000,000	33%	13,200,000	14,520,000
UIF: employer contribution	3.7	2,583,178	3,099,610	516,432	20%	2,955,524	(144,086)	-5%	372,346	14%	3,339,742	3,773,908
Workmen's compensation premiums	3.7	440,000	940,345	500,345	114%	1,034,380	94,035	10%	594,380	135%	1,168,849	1,320,799
BU recognition scheme	3.6	819,994	594,047	(225,947)	-28%	1,014,996	420,949	71%	195,002	24%	1,146,945	1,296,048
Contract work - irrecoverable	4	**18,329,242**	**19,600,789**	**1,271,547**	**7%**	**18,119,878**	**(1,480,911)**	**-8%**	**(209,364)**	**-1%**	**20,475,462**	**23,137,272**
Subsistence & travelling - irrecoverable	**5**	**7,349,541**	**8,200,125**	**850,584**	**12%**	**12,788,156**	**4,588,030**	**56%**	**5,438,614**	**74%**	**14,450,616**	**16,329,196**
Accommodation	6	**42,322,272**	**41,928,819**	**(393,453)**	**-1%**	**47,970,124**	**6,041,305**	**14%**	**5,647,852**	**13%**	**54,603,596**	**62,178,890**
Rental	6.1	27,878,235	27,927,729	49,493	0%	32,465,253	4,537,525	16%	4,587,018	16%	36,685,736	41,454,882
Operating costs	6.2	14,444,037	14,001,091	(442,946)	-3%	15,504,871	1,503,780	11%	1,060,834	7%	17,917,860	20,724,008
Liaison	7	**19,998,907**	**17,362,783**	**(2,636,124)**	**-13%**	**29,141,759**	**11,778,976**	**68%**	**9,142,852**	**46%**	**32,930,188**	**37,211,113**
Liaison		6,534,836	3,416,962	(3,117,873)	-48%	5,004,140	1,587,178	46%	(1,530,695)	-23%	5,654,679	6,389,787
Internal stakeholder liaison		3,200,318	3,308,394	108,076	3%	7,375,842	4,067,448	123%	4,175,524	130%	8,334,701	9,418,212
External stakeholder liaison		1,776,771	1,600,008	(176,763)	-10%	2,741,492	1,141,485	71%	964,722	54%	3,097,886	3,500,612
Constitutional liaison		295,885	295,885	-	0%	573,083	277,198	94%	277,198	94%	647,584	731,770
Non-constitutional liaison		370,000	873,000	503,000	136%	470,000	(403,000)	-46%	100,000	27%	531,100	600,143
Regional congresses	7.2	5,168,711	5,162,455	(6,256)	0%	9,157,698	3,995,243	77%	3,988,987	77%	10,348,199	11,693,465

Annexure 1: Detailed budget

Description	Notes	2008-09 Budget (A)	2008-09 Forecast (B)	Variance (B-A) (C)	Variance % (B-A)/A (D)	2009-10 Budget (E)	Variance (E-B) (F)	Variance % (E-B)/B (G)	Variance (E-A) (H)	Variance % (E-A)/A (I)	2010-11 Forecast	2011-12 Forecast
Foreign visitors	7.3	84,600	86,906	2,306	3%	154,500	67,594	78%	69,900	83%	174,585	197,281
Overseas travel	7.4	2,567,787	2,619,174	51,387	2%	3,665,004	1,045,831	40%	1,097,217	43%	4,141,455	4,679,844
Control bodies	8	**448,932**	**452,575**	**3,643**	**1%**	**490,647**	**38,072**	**8%**	**41,715**	**9%**	**554,431**	**626,507**
Oversight bodies	8.1	448,932	452,575	3,643	1%	490,647	38,072	8%	41,715	9%	554,431	626,507
Audit expenses	9	**4,100,000**	**3,990,900**	**(109,100)**	**-3%**	**5,255,000**	**1,264,100**	**32%**	**1,155,000**	**28%**	**5,938,150**	**6,710,110**
Audit fees	9.1	1,900,000	1,790,900	(109,100)	-6%	2,250,000	459,100	26%	350,000	18%	2,542,500	2,873,025
Internal audit costs	9.2	2,200,000	2,200,000	0	0%	3,005,000	805,000	37%	805,000	37%	3,395,650	3,837,085
Bank charges		**246,720**	**184,357**	**(62,363)**	**-25%**	**246,650**	**62,293**	**34%**	**(70)**	**0%**	**278,715**	**314,947**
Bank charges		240,000	180,420	(59,580)	-25%	241,850	61,430	34%	1,850	1%	273,291	308,818
Foreign bank charges		6,720	3,937	(2,783)	-41%	4,800	863	22%	(1,920)	-29%	5,424	6,129
Finance charges	10	**2,516,383**	**2,225,332**	**(291,051)**	**-12%**	**1,422,127**	**(803,205)**	**-36%**	**(1,094,256)**	**-43%**	**1,129,334**	**1,117,972**
Recruitment expenses	11	**11,018,628**	**6,626,202**	**(4,392,426)**	**-40%**	**6,991,067**	**364,865**	**6%**	**(4,027,561)**	**-37%**	**7,899,906**	**8,926,893**
Advertising		500,000	743,172	243,172	49%	830,780	87,608	12%	330,780	66%	938,781	1,060,823
Personnel agency fees		8,280,000	3,990,040	(4,289,960)	-52%	3,999,996	9,956	0%	(4,280,004)	-52%	4,519,995	5,107,595
Interviews		488,628	421,957	(66,671)	-14%	320,291	(101,666)	-24%	(168,337)	-34%	361,929	408,979
Transfer & relocation expenses		1,750,000	1,471,033	(278,967)	-16%	1,840,000	368,967	25%	90,000	5%	2,079,200	2,349,496
Professional assistance	12	**53,054,913**	**54,805,107**	**1,750,194**	**3%**	**79,736,617**	**24,931,510**	**45%**	**26,681,704**	**50%**	**90,102,377**	**101,815,686**
Membership fees		5,530,902	5,446,362	(84,540)	-2%	6,998,579	1,552,216	29%	1,467,677	27%	7,908,394	8,936,485
Internal training		1,946,372	1,770,252	(176,120)	-9%	4,471,600	2,701,349	153%	2,525,229	130%	5,052,909	5,709,787
External training		10,030,526	9,736,055	(294,471)	-3%	16,941,876	7,205,821	74%	6,911,350	69%	19,144,320	21,633,081

Annexure 1: Detailed budget

Description	Notes	2008-09 Budget (A)	2008-09 Forecast (B)	Variance (B-A) (C)	Variance % (B-A)/A (D)	2009-10 Budget (E)	Variance (E-B) (F)	Variance % (E-B)/B (G)	Variance (E-A) (H)	Variance % (E-A)/A (I)	2010-11 Forecast	2011-12 Forecast
S&T: training		3,371,415	3,027,723	(343,692)	-10%	8,402,633	5,374,910	178%	5,031,219	149%	9,494,976	10,729,322
Study assistance: employees		12,944,778	12,458,071	(486,708)	-4%	16,137,397	3,679,326	30%	3,192,619	25%	18,235,259	20,605,842
I&L development projects		5,810,000	4,950,671	(859,329)	-15%	8,624,760	3,674,089	74%	2,814,760	48%	9,745,979	11,012,956
Bursaries		10,500,000	9,488,159	(1,011,841)	-10%	11,210,000	1,721,841	18%	710,000	7%	12,667,299	14,314,048
Skills development levy		5,841,841	8,095,007	2,253,165	39%	7,001,572	(1,093,435)	-14%	1,159,731	20%	7,911,776	8,940,307
Skills dev. levy - recovered		(2,920,921)	(167,192)	2,753,729	-94%	(51,800)	115,392	-69%	2,869,121	-98%	(58,534)	(66,143)
Employee Wellness Programme (EWP fees to independent service provider)	20	**1,729,950**	**1,649,130**	**(80,820)**	**-5%**	**1,745,552**	**96,422**	**6%**	**15,602**	**1%**	**1,972,474**	**2,228,895**
Employee Wellness Programme		1,154,400	1,068,880	(85,520)	-7%	934,572	(134,308)	-13%	(219,828)	-19%	1,056,066	1,193,355
Employee social responsibility		118,250	118,250	-	0%	141,500	23,250	20%	23,250	20%	159,895	180,681
AG social responsibility (general)		457,300	457,000	(300)	0%	489,880	32,880	7%	32,580	7%	553,564	625,528
Corporate social investment		-	5,000	5,000	100%	179,600	174,600	3492%	179,600	100%	202,948	229,331
Technological services	13	**28,913,977**	**26,451,287**	**(2,462,690)**	**-9%**	**32,616,107**	**6,164,820**	**23%**	**3,702,130**	**13%**	**36,856,201**	**41,647,507**
Computer services	14	25,022,936	23,197,636	(1,825,300)	-7%	28,575,787	5,378,150	23%	3,552,851	14%	32,290,639	36,488,422
Hiring of equipment - rental	13.1	2,906,375	2,394,762	(511,612)	-18%	2,986,797	592,035	25%	80,423	3%	3,375,081	3,813,842
Hiring of equipment - copy charges		984,666	858,888	(125,778)	-13%	1,053,522	194,634	23%	68,856	7%	1,190,480	1,345,243
Insurance & legal fees	15	**2,041,291**	**4,118,005**	**2,076,714**	**102%**	**1,704,000**	**(2,414,005)**	**-59%**	**(337,291)**	**-17%**	**1,925,520**	**2,175,838**
Insurance	15.1	811,291	2,888,005	2,076,714	256%	660,000	(2,228,005)	-77%	(151,291)	-19%	745,800	842,754
Legal costs		1,230,000	1,230,000	0	0%	1,044,000	(186,000)	-15%	(186,000)	-15%	1,179,720	1,333,084
Auxiliary services	16	**13,163,067**	**11,621,481**	**(1,541,586)**	**-12%**	**14,468,351**	**2,846,871**	**24%**	**1,305,285**	**10%**	**16,349,237**	**18,474,638**
Cleaning: contracts/services		1,443,622	915,892	(527,730)	-37%	1,155,745	239,853	26%	(287,877)	-20%	1,305,991	1,475,770
Cleaning: materials		312,694	176,552	(136,142)	-44%	184,311	7,759	4%	(128,383)	-41%	208,272	235,347

Annexure 1: Detailed budget

Description	Notes	2008-09 Budget (A)	2008-09 Forecast (B)	Variance (B-A) (C)	Variance % (B-A)/A (D)	2009-10 Budget (E)	Variance (E-B) (F)	Variance % (E-B)/B (G)	Variance (E-A) (H)	Variance % (E-A)/A (I)	2010-11 Forecast	2011-12 Forecast
Office improvements		2,135,911	1,006,698	(1,129,212)	-53%	1,613,890	607,191	60%	(522,021)	-24%	1,823,695	2,060,776
Refreshments		1,144,717	982,547	(162,170)	-14%	1,342,914	360,367	37%	198,198	17%	1,517,493	1,714,767
Publications		762,467	879,102	116,635	15%	1,157,078	277,976	32%	394,611	52%	1,307,498	1,477,472
R&M: computer equipment & software		553,748	530,730	(23,018)	-4%	573,850	43,120	8%	20,102	4%	648,451	732,749
R&M: furniture and equipment		226,324	240,704	14,380	6%	257,780	17,076	7%	31,456	14%	291,292	329,159
R&M: site and buildings		202,428	77,374	(125,054)	-62%	127,194	49,820	64%	(75,234)	-37%	143,729	162,414
R&M: office vehicles		506,392	339,391	(167,001)	-33%	346,975	7,584	2%	(159,417)	-31%	392,082	443,053
Printing of audit reports		1,479,413	1,144,763	(334,650)	-23%	1,488,896	344,133	30%	9,482	1%	1,682,452	1,901,171
Stationery and printing	16.1	4,226,726	5,159,528	932,802	22%	6,025,227	865,699	17%	1,798,501	43%	6,808,507	7,693,612
Artwork & design		52,500	52,500	(0)	0%	100,000	47,500	90%	47,500	90%	113,000	127,690
Medical examinations		-	-	-	100%	-	-	100%	-	100%	-	-
Freight and removal		116,125	115,700	(425)	0%	94,492	(21,208)	-18%	(21,633)	-19%	106,776	120,657
Communication	17	**6,195,037**	**6,196,371**	**1,334**	**0%**	**7,670,369**	**1,473,998**	**24%**	**1,475,332**	**24%**	**8,667,517**	**9,794,294**
Cellphone charges	17.2	1,610,352	1,586,632	(23,720)	-1%	1,975,962	389,330	25%	365,609	23%	2,232,837	2,523,106
Postage & courier services		713,770	827,442	113,672	16%	1,157,856	330,415	40%	444,087	62%	1,308,377	1,478,467
Telephone charges	17.1	3,870,915	3,782,297	(88,618)	-2%	4,536,551	754,254	20%	665,636	17%	5,126,303	5,792,722
Other expenses		**847,902**	**-**			**-**					**-**	**-**
Bad debts provision		847,902		(847,902)	-100%			100%	(847,902)	-100%		
SURPLUS / (DEFICIT) BEFORE DEPRECIATION		**37,371,979**	**(12,135,118)**	**(49,507,098)**	**-132%**	**94,115,415**	**106,250,533**	**-876%**	**56,743,435**	**152%**	**117,901,357**	**133,305,882**
Depreciation	18	**29,012,601**	**22,287,420**	**(6,725,182)**	**-23%**	**28,130,915**	**5,843,495**	**26%**	**(881,686)**	**-3%**	**31,121,988**	**40,037,549**
Depr. motor vehicles		299,465	233,320	(66,145)	-22%	300,000		0%	535	0%	404,051	404,282
Depr. furniture & equipment		2,156,594	1,768,423	(388,171)	-18%	2,400,000	631,577	36%	243,406	11%	2,882,825	2,615,153

Annexure 1: Detailed budget

Description	Notes	2008-09 Budget (A)	2008-09 Forecast (B)	Variance (B-A) (C)	Variance % (B-A)/A (D)	2009-10 Budget (E)	Variance (E-B) (F)	Variance % (E-B)/B (G)	Variance (E-A) (H)	Variance % (E-A)/A (I)	2010-11 Forecast	2011-12 Forecast
Depr. computer equipment		17,893,406	11,097,449	(6,795,957)	-38%	18,787,347		0%	893,941	5%	18,872,665	25,752,272
Depr. computer software		7,185,443	7,854,420	668,977	9%	5,203,568		0%	(1,981,875)	-28%	6,432,556	7,944,545
Depr. leasehold improvements		1,477,693	1,333,808	(143,885)	-10%	1,440,000		0%	(37,693)	-3%	2,529,891	3,321,297
NET SURPLUS / (DEFICIT) BEFORE SPECIAL EVENTS		**8,359,378**	**(34,422,538)**	**(42,781,916)**	**-512%**	**65,984,500**	**100,407,037**	**-292%**	**57,625,121**	**689%**	**86,779,369**	**93,268,333**
Net surplus ratio before special events and capital expenditure		**1%**	**-3%**			**4%**					**4%**	**4%**
Special events		**-**	**9,722,662**	**9,722,662**	**100%**	**13,797,225**	**4,074,563**	**42%**	**13,797,225**	**100%**	**70,085,456**	**-**
AFROSAI		-	9,722,662	9,722,662	100%	-	(9,722,662)	-100%	-	100%	-	-
INTOSAI		-	-	-	100%	13,797,225	13,797,225	100%	13,797,225	100%	-	-
INCOSAI		-	-	-	100%	-	-	100%	-	100%	70,085,456	-
NET SURPLUS / (DEFICIT) AFTER SPECIAL EVENTS		**8,359,378**	**(44,145,200)**	**(52,504,578)**	**-628%**	**52,187,275**	**96,332,474**	**-218%**	**43,827,896**	**524%**	**16,693,913**	**93,268,333**
Net surplus ratio before capital expenditure		**1%**	**-3%**			**3%**					**1%**	**4%**
CAPITAL	19	**50,140,795**	**50,956,252**	**815,457**	**2%**	**57,537,637**	**6,581,385**	**13%**	**7,396,842**	**15%**	**43,711,719**	**48,718,824**
Motor vehicles - cost	19.1	429,474	579,474	150,000	35%	1,180,450	600,976	104%	750,976	175%	391,870	457,960
Furniture & equipment	19.2	13,072,171	18,235,802	5,163,631	40%	13,177,227	(5,058,575)	-28%	105,056	1%	3,155,970	5,889,319
Computer equipment - cost	19.4	29,580,900	20,997,532	(8,583,368)	-29%	22,027,529	1,029,997	5%	(7,553,371)	-26%	38,011,616	21,885,857
Computer software - cost	19.5	1,784,500	2,806,250	1,021,750	57%	9,928,143	7,121,893	254%	8,143,643	456%	2,031,625	10,162,020
Leasehold improvements - cost	19.3	5,273,750	8,337,194	3,063,444	58%	11,224,288	2,887,094	35%	5,950,538	113%	120,638	10,323,667
CAPEX AS % OF TOTAL INCOME		**3.9%**	**3.7%**			**3.4%**					**2.3%**	**2.2%**
NET SURPLUS / (DEFICIT) AFTER SPECIAL EVENTS AND CAPITAL EXPENDITURE		**(41,781,416)**	**(95,101,452)**	**(53,320,035)**	**128%**	**(5,350,362)**	**89,751,089**	**-94%**	**36,431,054**	**-87%**	**(27,017,807)**	**44,549,509**

Annexure 2: Notes on the budget

2 INCOME

Budget item	Ref.	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
		'000			%	'000		%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Own hours	2.1	857,097	796,829	(60,268)	-7.0%	1,124,529	267,431	31.2%
Contract work	2.2	368,302	512,532	144,229	39.2%	507,432	139,130	37.8%
Subsistence and travelling	2.3	56,171	54,084	(2,087)	-3.7%	64,982	8,811	15.7%
International subsistence and travelling		11,072	6,234	(4,838)	-43.7%	9,832	(1,240)	-11.2%
Total audit income		**1,292,643**	**1,369,679**	**77,036**	**6.0%**	**1,706,776**	**414,133**	**32.0%**

EFFECT OF THE ESTIMATES OF THE OFFICE FOR 2009-10 ON TOTAL STATE EXPENDITURE

The total estimated audit costs of R1.706 billion for 2009-10 (2008-09: R1.292 billion) when compared with the estimate of state expenditure for 2009-10 of approximately R704.1 billion amounts to only 0.24 per cent (2000-09: 0.22 per cent). The estimate of the office has no material effect on the total state expenditure.

2.1 Calculation of own hours income

The calculation of own hours income takes into account three variables, namely number of staff (including vacancies to be filled), recoverable hours and tariffs. The 09-10 revenue budget has been compiled utilising a revised tariff formula. The change was necessitated due to an inherent limitation contained in the historic tariff determination mechanism. This limitation caused increasing cash flow difficulties and led to a review of the AG's funding model which was completed in April 2008. A brief background is set out below.

Commencing budget 04-05, hourly tariff increases were limited to 4% whilst the upper level tariff intervals per band were frozen. This had little effect in the initial years as few staff members' salaries placed them in the "frozen" interval. Over time a greater number of staff migrated to the upper interval due to salary increases. As more staff members were migrated to this interval, so the total increase in revenue increasingly moved towards 4%. This movement was, however, not matched by the growth of both direct and overhead costs resulting in declining surpluses and free cash flow.

In April 2008 SCoAG agreed to a revised tariff approach which would effectively align revenue generation with underlying costs. This approach is aligned with the method of determining hourly rates for contract work, whereby recoverable staff costs are marked up by a fixed factor per band, and rates are determined with reference to standard recoverable hours. This approach has been adopted by the AG and has been included in the 09-10 budget preparation.

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. For 2009-10 the span of control was changed slightly to accommodate the change in the structure to accommodate a new staff level of operational leader. This newly created level applies to only four business units (Western Cape, Eastern Cape, KwaZulu-Natal and Gauteng).

Audit staff	Medium-term target		2008-09 Budget	2009-10 Budget	2008-09 Budget	2009-10 Budget	Change		Comments
	Span of control		Span of control ratio	Span of control ratio	Staff numbers (1)	Staff numbers (2)	Staff numbers (2)-(1)	% (2)-(1)	
- Business executives	19				19	19	-	0.0%	The budgeted staff numbers are in line with the ideal span of control.
- Operational leaders	4					3			
- Senior managers	130	1.0	1.0	1.0	131	130	(1)	-0.8%	
- Audit managers	396	3.0	2.5	2.6	324	338	14	4.3%	
- Auditors	396	3.0	2.9	3.1	379	402	23	6.1%	In line with the ideal span of control
- Trainee accountants	1,452	11.2	7.2	6.9	939	899	(40)	-4.3%	The budgeted number of trainee accountants is not in line with the ideal span of control due to vacancies, which are the result of the shortage of candidates for trainee accountants.
- Admin	124	0.8	1.1	0.4	164	66	(98)	-59.8%	
- Business unit admin managers	19	1.0	0.9	0.9	18	17	(1)	-5.6%	
Total audit staff	**2,540**	**20.1**	**15.6**	**14.9**	**1,974**	**1,874**	**(103)**	**-5.2%**	

2.1.2 A Own hours - recoverable hours and ratios

The next logical variable in the computation of audit income is the recoverable hours. This variable is influenced solely by the recovery rate that is determined for each staff band within the audit business units. The level of these recovery rates is arrived at after providing for sufficient time for essential non-recoverable activities such as annual leave, study leave, sick leave, management and supervision. These are in line with the norms in the profession. For 2009-10 the recovery rates have been revised slightly downward.

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 ratio and recoverable hours per band is reflected below:

Budget item	2008-09 Expected recovery ratio per band	2009-10 Expected recovery ratio per band	2008-09 Budget	2009-10 Budget	Change		Comments
			Hours	Hours	Hours	%	
			(1)	(2)	(2)-(1)	(2)-(1)	
Audit staff							
- Business executives	50.0%	40.0%	19,238	14,399	(4,838)	-25.1%	The decrease is mainly attributable to the reduction in total available hours in the year 2009-10 (2009 hours) - (2008-09 - 2025 hours).
- Operational leaders		50.0%		3,003	3,003		
- Senior managers	62.5%	60.0%	165,797	141,246	(24,551)	-14.8%	
- Audit managers	70.0%	68.0%	459,270	444,211	(15,059)	-3.3%	
- Auditors	72.5%	70.0%	556,419	571,777	15,358	2.8%	
- Trainee accountants	71.0%	70.0%	1,350,047	1,301,697	(48,350)	-3.6%	
Total			**2,550,771**	**2,476,333**	**(74,438)**	**-2.9%**	

Refer 2.1.4 for calculation of total own hours income

2.1.2 B Non-recoverable ratios (before flexing):

	2009-10 Ratios						2009-10 Budget		2008-09 Budget	
Budget item	Annual leave	Sick leave	Study & other	Training	Management & supervision	Total	Total	Per capita	Total	Per capita
- Business executives	9.0%	2.0%	2.0%	6.0%	41.0%	60.0%	21,599	1,137	19,238	1,013
- Operational leaders	9.0%	2.0%	2.0%	6.0%	31.0%	50.0%	3,003	23	-	-
- Senior managers	9.0%	2.0%	2.0%	6.0%	21.0%	40.0%	94,164	724	99,478	759
- Audit managers	9.0%	2.0%	8.2%	6.0%	6.9%	32.0%	209,040	618	196,830	608
- Auditors	9.0%	2.0%	8.2%	6.1%	4.8%	30.0%	245,047	610	211,056	557
- Trainee accountants	9.0%	2.0%	8.2%	8.6%	2.3%	30.0%	557,870	621	551,428	587

Note 1

The non-recovery ratios for all levels were revised based on the detailed work study that confirmed a need for additional administration time.

2.1.3 Recommended tariffs

This is the final and most important variable to compute the own hours audit income. The detailed determination thereof is reflected in annexure 3 which assumed a 4% increase in tariffs from 2007-08. Normally, any deviation in the tariff increase in excess of the 4%, would be influenced largely by the movement in pay levels of audit staff and the staff mix (span of control) in each business unit. The 09-10 revenue budget has been compiled utilising a revised tariff formulae. The change was necessitated due to an inherent limitation contained in the historic tariff determination mechanism. This limitation caused increasing cash flow difficulties and led to a review of the AG's funding model which was completed in April 2008. A brief background is set out below.

Commencing budget 04-05, hourly tariff increases were limited to 4% whilst the upper level tariff intervals per band were frozen. This had little effect in the initial years as few staff members' salaries placed them in the "frozen" interval. Over time a greater number of staff migrated to the upper interval due to salary increases. As more staff members were migrated to this interval, so the total increase in revenue increasingly moved towards 4%. This movement was, however, not matched by the growth of both direct and overhead costs resulting in declining surpluses and free cash flow.

In April 2008 SCoAG agreed to a revised tariff approach which would effectively align revenue generation with underlying costs. This approach is aligned with the method of determining hourly rates for contract work, whereby recoverable staff costs are marked up by a fixed factor per band, and rates are determined with reference to standard recoverable hours. This approach has been adopted by the AG and has been included in the 09-10 budget preparation. The analysis of the recommended average tariffs per band is as follows:

Budget item	2008-09 Budget	2009-10 Budget	Change		Comments
	Rand / hour	Rand / hour	Rand / hour	%	
	(1)	(2)	(2)-(1)	(2)-(1)	
Audit staff					
- Business executives	957	1,957	1,000	104.5%	The increase is limited to the normal tariff increase which is in line with the historical practice.
- Operational leaders		1,371			
- Senior managers	936	1,210	274	29.3%	Tariff increase for these bands is more than the 4% adjustment due mainly to appointment of staff that meet the competency requirements. As a result, their salary levels are adjusted to match such competencies in line with the market. This trend is expected to continue for the next five years, which is the AG's target for the competencies of all audit staff to reach the desired levels.
- Audit managers	673	920	247	36.7%	
- Auditors	310	436	126	40.8%	
- Trainee accountants	150	202	52	34.9%	
Office average	336	454	118	35.1%	

Refer 2.1.4 for calculation of total own hours income. Refer also to annexure 3 for the detailed internal tariff schedule for 2008-09.

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	2008-09 Budget	2009-10 Budget	Change		
			Hours	%	
	(1)	(2)	(2)-(1)	(2)-(1)	
Recoverable hours	2,550,771	2,476,333	(74,438)	-2.9%	
Average tariff	336	454	118	35.1%	
Own hours income (R'000)	857,097	1,124,529	267,432	31.2%	Note 2

Note 2

The 31% increase in own hours income is mainly due to the increase in the average tariff of 35.1% (R292,207) as explained in 2.1.3 above and the 3% (R25,011) decrease in the volume of audit work that is explained in 2.1.5.

2.1.5 Own hours analysis by segment

This analysis reflects the main drivers of the cost of audits and is split between the regularity audit and specialised audit segments. The table below focuses on the change from the 2008-09 forecast to the 2009-10 budget.

CHANGE IN OWN HOURS BETWEEN FORECAST 2008-09 AND BUDGET 2009-10	
Regularity audits	
Increase in scope	129,838
New audits	5,513
Catch-up audits	7,429
Movement to & from CWC	91,140
Discontinued audits	(12,639)
Transfers between BUs	-
Consolidated audits	13,092
Change in risk profile	13,614
Improved efficiency	(71,819)
Total regularity audits	176,168
Specialised audits	16,918
Total change in own hours	**193,086**

2.2 Contract work movement

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

Budget item	2008-09 Budget	2009-10 Budget	Comments
	'000		
20% norm	242,813	363,681	This represents 20% of audit income excluding S&T income, which is in line with the AG practice of awarding at least 20% of work to private audit firms.
Pre-issuance	19,714	33,492	This is an independent review of audit reports before presentation to the auditees.
Vacancies	101,595	106,089	Provision for additional contract work to accommodate our vacancies.
International	4,180	4,170	
Total	**368,302**	**507,432**	

2.3 Subsistence and travelling recoverable

Budget item	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change		
	'000			%	'000		%	
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)	
Subsistence and travelling recoverable	56,171	54,084	(2,087)	-3.7%	64,982	8,811	15.7%	Ref. 2.3.1
International S&T	11,072	6,234	(4,838)	-43.7%	9,832	(1,240)	-11.2%	Ref. 2.3.2
Total	**67,243**	**60,318**	**(6,925)**	**-10.3%**	**74,815**	**7,571**	**11.3%**	

2.3.1 Budget 2008-09 to budget 2009-10 change

For 2009-10 S&T is calculated as percentage of own hours income based on historical trends.

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

2.4 Other income

Budget item	Ref	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
		'000			%	'000		%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Interest received	2.4.1	7,944	11,194	3,251	40.9%	8,298	354	4.5%
Total		**9,282**	**11,194**	**1,912**	**-59.1%**	**10,284**	**1,001**	**52.8%**

2.4.1 Interest received

The increase between budget 2008-09 and forecast 2008-09 is due to the withdrawal of R20 million from investment reserves for known future liabilities to fund working capital shortfall. As a result of the AG's current funding model limitations and local municipalities debtor arrears, it is unlikely that the full amount will be replenished.

3 PERSONNEL EXPENDITURE

Budget item	Note	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
		'000			%	'000		%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Leave pay provision	3.1	5,388	5,927	539	10.0%	6,662	1,274	23.6%
Medical aid provision	3.2	10,366	6,366	(4,000)	-38.6%	7,469	(2,896)	-27.9%
Normal salary and benefits ***	3.3	583,941	586,774	2,833	0.5%	744,809	160,868	27.5%
Other incentives	3.4	4,705	4,862	157	3.3%	5,400	695	14.8%
UIF & WCA	3.5	3,023	4,040	1,017	33.6%	3,990	967	32.0%
Total		**607,424**	**607,969**	**546**	**0.1%**	**768,331**	**160,907**	**26.5%**
% of total income		47.0%	44.4%			45.0%		

*** 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 not expected to deviate from last year, as new employees are no longer entitled to accumulated leave. Therefore the increase in the estimate is largely based on the increase of 15% in salaries.

3.2 Post-retirement medical aid provision

The PRMA estimates were based on actuarial projections for the 2008-09 forecast. The 2009-10 budget follows the trend of 2008-09.

3.3 Normal salary

3.3.1 Audit staff

Employee group	Total		Average salary per band	Positioning against benchmark - range	Comments
	No	'000			
Business executives	19	21,954	1,155	808 - 1,397	
Operational leaders	3	2,732	911		New employee group.
Senior managers	130	101,872	784	576 - 864	In line with benchmark range.
Managers	338	191,477	567	344 - 745	
Auditors	402	108,978	271	203 - 500	
Trainee accountants	899	108,102	120	73 - 294	
Admin staff	66	8,442	128	126 - 208	
Business unit admin managers	17	8,055	474	413 - 657	
Total	**1,874**	**551,613**			

Note: The total audit staff cost includes overtime but excludes foreign allowance and contracted staff.

3.3.2 Support staff

Employee group	Total		Average salary per band	Positioning against benchmark - range '000	Comments
	No.	'000			
Corporate executive group	18	14,471	804		
AG, DAG and corporate executives	9			1,146 - 1,594	This average salary includes the salaries of the CEs, DAG and AG.
Support team	9			386 - 759	Slightly below industry due to the upgrading of corporate secretaries to band D.
Business executives	9	10,910	1,212	808 - 1,397	In line with the benchmark range
Senior managers	46	35,580	773	598 - 994	In line with the benchmark range
Corporate Services	44	4,257	773		
Employment Equity	2				
Managers	134	65,836	491	386 - 759	In line with the benchmark range
Corporate Services	132				
Employment Equity	2				
Specialists and practitioners	177	39,827	225	216-373	In line with the benchmark range
Corporate Services	175				
Employment Equity	2				
Admin staff	38	4,861	128	124 - 276	In line with the benchmark range
Corporate Services	36				
Transformation	2				
Total	**422**	**171,485**			

3.3.3 Total staff

Business focus areas	2008-09 Total		2009-10 Total		Comments
	No.	'000	No.	'000	
Total audit staff (including foreign allowance)	1,974	452,762	1,874	551,613	The increase is influenced mainly by salary increase rate which is higher than 2008-09 budget. The cost includes overtime and excludes foreign allowances and contracted staff.
Total Corporate Services staff	296	116,067	422	171,485	The increase is due to growth in number of staff as well as the proposed salary increase.
Total Africa Projects - secondments	6	2,047	0	-	
Total	**2,276**	**570,876**	**2,296**	**723,097**	The 26% increase is explained below.

From the above analysis it is clear that the average salary levels are in line with the industry norm that was established in the previous year, hence the rate increase of 15% is in line with budget.

3.4 Other incentives

Budget item	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change		Comments
	'000			%	'000		%	
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)	
Group life scheme	3,500	4,205	705	20.2%	4,385	885	25.3%	The increase is in line with salary increase and the increase in number of staff.
Long service awards	385	63	(323)	-83.8%	-	(385)	-100.0%	This is based on the number of entitlements as per the Human Capital database.
Business unit recognition scheme	820	594	(226)	-27.6%	1,015	195	23.8%	This is used for team excellence recognition initiatives and is driven by the number of staff.
Total	**4,705**	**4,862**	**157**	**-91.2%**	**5,400**	**695**	**-50.9%**	

3.5 UIF & WCA

Budget item	2008-09 Budget	2009-10 Budget	Change		Comments
	'000			%	
	(1)	(2)	(2)-(1)	(2)-(1)	
UIF employer's contribution	2,583	2,956	372	14.4%	Increase is due to increase in number of staff as well as salary increase.
Workmen's compensation premiums	440	1,034	594	135.1%	
Total	**3,023**	**3,990**	**967**	**32.0%**	

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

4 CONTRACT WORK - IRRECOVERABLE

Budget item	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
	'000			%	'000		%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Contract work - irrecoverable	18,329	19,601	1,272	6.9%	18,120	(209)	-1.1%
- Ongoing	13,042	13,946			8,054		
- Once-off	5,288	5,654			10,066		
Total	**18,329**	**19,601**	**1,272**	**6.9%**	**18,120**	**(209)**	**-1.1%**
% of total income	1.4%	1.4%			1.1%		

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 2009-10 budget.

Budget item	2008-09 Budget			2009-10 Budget			Comments
	Ongoing	Once-off	Total	Ongoing	Once-off	Total	
	'000						
QC	1,576	473	2,049	1,068	2,037	3,105	Peer review, mandated firm-level review, independent Corporate Services quality check, Independent Regulatory Board for Auditors mandatory file review, Independent Regulatory Board for Auditors mandatory internal process quality control review and investigation specialists. Implementation and monitoring of policies.
Legal			-	208	-	208	Internal investigations. Amendments and regulations to PAA.
CS			-	135	6	141	Compliance framework review.
Risk	350		350	300	-	300	OHS risk assessment and OHS investigations for the entire AG.
Independent stakeholder survey	1,992		1,992	800	-	800	Reputation index and culture index surveys.
Branding	657		657	344	-	344	AG brand manual online and brand compliance.
Reporting	496		496	275	-	275	Publication of the AG book and translation of general reports.
Feasibility study of language practitioners	-	150	150	-	-	-	
Benchmarking	148	-	148	-	-	-	
ICT development	3,043	4,052	7,095	1,894	1,993	3,887	2009-10 is the third phase of the 5-year ICT road map that will stabilise the systems to ensure optimum use of the current anchor software and infrastructure. ICT's current focus is the ERP system which is de-supported and urgently needs upgrading. Other focus areas include software implementation.
EE Forum	210	-	210	-	200	200	Culture event day.
Technical development	2,159		2,159	2,079	1,078	3,157	The costs are based on audit technical developments required in respect of peer review, performance audit, quality assurance and *Public audit manual*.
Other				500	998	1,498	
HC projects	2,410	613	3,023	451	600	1,051	Projects include, amongst others, implementation of Leadership Development Programme and advice on strategic innovation management.
Balanced scorecard		613	613		600	600	Balanced scorecard roll-out
BPR			-		1,853	1,853	CMM requirements
Systems development			-		701	701	Systems development
Total	**13,042**	**5,288**	**18,329**	**8,054**	**10,066**	**18,120**	
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	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
	'000			%	'000		%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
S&T irrecoverable	7,350	8,200	851	11.6%	12,788	5,439	74.0%
Total	**7,350**	**8,200**	**851**	**11.6%**	**12,788**	**5,439**	**74.0%**
% of total income	0	0.6%			0.7%		

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

Business unit	Total amount without video-conferencing	Reduction due to video-conferencing	2008-09 Budget	Total amount without video-conferencing	Reduction due to video-conferencing	2009-10 Budget	Comments (nature of expense)
	'000						
Audit Services	2,757	612	2,145	5,154	469	4,685	The S&T is mainly for provinces where there is more than one office (Eastern Cape, KwaZulu-Natal, Mpumalanga and North West provinces) as well as the increase in staff numbers.
Corporate executives	1,197		1,197	1,875	433	1,442	The costs relate to travelling to enhance strategic alignment and leadership effectiveness of the business unit leaders. These costs are also to improve visibility of senior executives with senior officials such as Premiers and Speakers.
Africa Projects	36	-	36	-	-		
Governance	518	30	488	1,079	249	830	The costs are based on audit technical developments required in respect of peer review, performance audit, quality assurance and *Public audit manual*.
Finance	319	96	223	580	134	446	Engagement with core audit business planned in order to improve relevance of financial reporting.

Information Systems	181	-	181	341	79	262	ICT already make use of remote management tools and video-conferencing. This amount is reduced to the regional visits for set-up of new equipment or centres.
Human Capital	1,309	302	1,007	2,404	555	1,849	This is in respect of recruitment & assessments that relate to the proactive recruitment drive particularly for trainees & CAs throughout the country.
Research & Development	1,330	820	510	1,687	389	1,298	The costs related to new governance structures (technical committee and related forums) provided for. The costs related to the product champion forums were reduced by making use of video-conferencing. The increase is also influenced by the increased responsibilities of this business unit.
Knowledge Management	0	-	-	250	58	192	Centre moved from Reputation and Stakeholder Management.
Stakeholder Management	1,379	301	1,078	1,407	325	1,082	Essential travelling relating to facilitating action plans on the reputation index in the form of EWP workshops and senior management advisory sessions.
Strategy	173	40	133	255	59	196	Strategy review will necessitate consultative workshop process with business units.
Transformation	352	-	352	657	152	505	This is due to the S&T for the following (meetings) that would be taking place: * Benchmarking meetings - Transformation related * Meetings with the external chairperson * EE Forum meetings
Total	**9,551**	**2,201**	**7,350**	**15,688**	**2,900**	**12,789**	

6 ACCOMMODATION

6.1 Rentals

The 16% increase in rentals from 2008-09 budget to 2009-10 is as a result of increase in square metres occupied due to new premises for Pretoria.

Location	Monthly cost per square metre: 2008-09	Square metres occupied	Total staff establishment	Annual cost	AG - square metres per staff member	Industry benchmark square metres per staff member	Monthly cost per square metre: 2009-10	Industry benchmark monthly cost per square metre	Comments
Western Cape	59	1,436	159	1,146,800	9.0	15.6	67	90	Below benchmark
Eastern Cape	88	2,643	205	3,776,255	12.9	15.6	119	90	Above benchmark as this is a new building and made to AG requirements
Mpumalanga	78	1,010	77	963,696	13.1	15.6	80	110	Below benchmark
KwaZulu-Natal	70	2,188	195	2,111,368	11.2	15.6	80	80	Below benchmark
North West	70	1,422	103	1,458,939	13.8	15.6	85		No benchmark available
Limpopo	72	1,415	89	1,380,000	15.9	15.6	81	82	In line with the benchmark
Northern Cape	63	1,022	92	733,250	11.1	15.6	60		No benchmark available
Johannesburg	62	2,710	140	2,458,636	19.4	15.6	76	108	Below benchmark
Free State	66	1,528	116	1,110,000	13.2	15.6	61	75	
Pretoria	88	13,590	1,158	17,326,309	15.2	15.6	106	108	In line with the benchmark
Total	**70**	**28,964**	**2,334**	**32,465,253**	**12.4**	**15.6**	**93**	**93**	

% of total income	2009-10 budget	1.9%
	2008-09 budget	2.2%

6.2 Operating costs

When comparing the 2008-09 budget to the 2009-10 budget, the increase of 11% is based on service agreements, most of which are linked to the rental agreements.

7 LIAISON

Budget item	Ref.	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
		'000			%	'000		%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Liaison	7.1.1	6,535	3,417	(3,118)	-47.7%	5,004	(1,531)	-23.4%
Internal stakeholder	7.1.2	3,200	3,308	108	3.4%	7,376	4,176	130.5%
External stakeholder	7.1.3	1,777	1,600	(177)	-9.9%	2,741	965	54.3%
Total		**11,512**	**8,325**	**(3,187)**	**-27.7%**	**15,121**	**3,610**	**31.4%**
% of total income		0.8%	0.6%			0.9%		

7.1 STAKEHOLDER RELATIONSHIP

7.1.1 Liaison

Contained in liaison is employee communication, media management, events management and brand & visibility. The decrease is as a result of reclassification of AFROSAI and INCOSAI costs which have since been taken below the line.

7.1.2 Internal stakeholder

Budget item	2008-09 Budget			2009-10 Budget			Variance		Comments
	No	Amount	Total '000	No	Amount	Total '000	Rate	Volume	
	(1)	(2)	(1)x(2)	(3)	(4)	(3)x(4)			
BU team interventions	2,276	1,000	2,276	2,334	1,700	3,968	1,593	99	Increase in number of employees and the rate per employee. A provision of R500 per employee for the Christmas party has been made.
CE-led strategic alignment interventions			924			3,408	2,484	-	These are activities that occur every year and are integrated into the CEs' strategic alignment in order to achieve maximum impact and cost effectiveness
Total			**3,200**			**7,376**	**4,077**	**99**	

7.1.3 External stakeholder

Budget item	2008-09 Budget			2009-10 Budget			Variance
	No	Allowance '000	Total '000	No	Allowance '000	Total '000	
	(1)	(2)	(3)	(4)	(5)	(6)	(6)-(3)
BE - National	18	10	180	19	24	456	276
BE - Provincial	9	20	180	9	24	216	36
SM	165	5	825	176	7	1,267	442
Exco	9	66	592	9	89	802	210
Total	**201**		**1,777**	**213**		**2,741**	**964**

Each senior management level has a fixed amount for external stakeholder interactions. The standard amount has been increased from R5,000 to R7,200 . The Executives have planned to have increased regional and auditee engagements. Business executives' allowance is now pegged at R24,000.

7.2 Regional congresses (strategic alignment workshops (VA/OA))

Budget item	2008-09 Budget			2009-10 Budget			Variance	Comments
	No	Amount	Total	No	Amount	Total		
		'000			'000			
	(1)	(2)	(3)	(4)	(5)	(6)	(6) - (3)	
BU / CE workshop	2,276	2,271	5,169	2,334	2,956	6,899	1,730	The cost is based on an average of R2,956 p/p, the increase is due to staff numbers.
Senior Management Workshop	-	-	-	176	12,833	2,259	2,259	The costs were included in S&T irrecoverable for 2008-09.
Total	**2,276**	**2,271**	**5,169**	**2,510**	**15,789**	**9,158**	**3,989**	

7.3 Foreign visitors

Budget item	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
	'000			%	'000		%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Foreign visitors	85	87	2	2.7%	155	70	82.6%
Total	**85**	**87**	**2**	**2.7%**	**155**	**70**	**82.6%**

These expenses relate to foreign visitors from Supreme Audit Institutions and are based on expected number of visitors for the following year.

7.4 Overseas travel

Budget item	Ref.	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change		Comments
		'000			%	'000		%	
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)	
Auditor-General & DAG	7.4.1	1,620	1,652	32	2.0%	985	(635)	-39.2%	Planned trips for the AG's and DAG's participation in the Commonwealth and INTOSAI forums.
Research and Development	7.4.2	948	967	19	2.0%	2,680	1,732	182.8%	This is in respect of Corporate Services trips abroad for training, conferences and research. These are however subject to approval by the DAG.
Total		**2,568**	**2,619**	**51**	**2.0%**	**3,665**	**1,097**	**42.7%**	

7.4.1 AG and DAG

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

7.4.2 Various international technical and study tours

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

8 CONTROL BODIES

Budget item	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change		Comments
	'000			%	'000		%	
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)	
Labour & staff relations (union and consultative forum meetings)	255	259	4	1.4%	302	47	18.4%	The amount is for consultative forums with the AG in common matters of policy.
Corporate Governance Boards (AG Advisory Board, Audit Committee and Quality Control Assessment Committee)	194	194	(0)	0.0%	189	(5)	-2.7%	Separate classification of the parliamentary oversight mechanism and reduction of frequency of meetings in line with the governance review study.
Total	**449**	**453**	**4**	**0.8%**	**491**	**42**	**9.3%**	
% of total income	0	0.03%			0.03%			

9 AUDIT FEES

9.1 External audit fees

Budget item	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change		Comments
	'000			%	'000		%	
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)	
Financial audit	959	819	(140)	-14.6%	1,000	41	4.3%	The audit costs are based on the estimates provided by auditors
Performance information audit (balanced scorecard)	703	703	-	0.0%	1,000	297	42.2%	The costs are based on the time estimated to conduct the balanced scorecard audit. The previous performance year's experience indicated that more hours were needed to perform the balanced scorecard audit.
Tender Committee	100	100	-	0.0%	-	(100)	-100.0%	
Salary review and other	138	138	-	0.0%	250	112	81.2%	The increase is due to more time required to conduct the audit due to increase in staff numbers as well as increase in scope. Included in the budget are costs related to due diligence to be conducted on suppliers.
Total	**1,900**	**1,760**	**(140)**	**-7.4%**	**2,250**	**350**	**18.4%**	
% of total income	0.1%	0.1%			0.1%			

9.2 Internal audit fees

Budget item	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
	'000			%	'000		%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Routine financial audits	909	400	(509)	-56.0%	500	(409)	-45.0%
Routine human capital related audits	200	160	(40)	-20.0%	200	-	0.0%
Routine internal controls audits	122	300	178	145.9%	500	378	309.8%
Business unit visits	599	830	231	38.6%	1,080	481	80.3%
Ad hoc assignments and system queries (CAATS application)	210	60	(150)	-71.4%	150	(60)	-28.6%
Project management and attendance of Audit Committee meetings	-	200	200	100.0%	300	300	100.0%
Risk management meetings and strategic risk assessment	100	200	100	100.0%	200	100	100.0%
Disbursements	60	50	(10)	-16.7%	75	15	25.0%
Total	**2,200**	**2,200**	**-**	**0.0%**	**3,005**	**805**	**36.6%**
% of total income	0.2%	0.2%			0.2%		

The forecast 2008-09 and budget 2009-10 are a reflection of the internal audit costs based on the audit coverage plan.

10 FINANCE CHARGES

Budget item	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
	'000			%	'000		%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Finance charge	2,516	2,225	(291)	-11.6%	1,422	(1,094)	-43.5%
Total	**2,516**	**2,225**	**(291)**	**-11.6%**	**1,422**	**-1,094**	**-43.5%**
% of total income	0.2%	0.2%			0.1%		

The budgeted cost of notebooks is R8 million compared to R18 million in the previous budget period, hence the reduction in finance charges.

11 RECRUITMENT EXPENSES

Budget item	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change		COMMENTS
	'000			%	'000		%	
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)	
Advertisements	500	743	243	48.6%	831	331	66.2%	The increase is due to more advertisements.
Personnel agency fees	8,280	3,990	(4,290)	-51.8%	4,000	(4,280)	-51.7%	The reduction is due to the utilisation of the e-recruitment tool. HC only pays the agency for specialised/ scarce resources such as CAs. HC wil not continue with NSOA project as trainee accountants fall within Research & Development unit.
Interviews	489	422	(67)	-13.6%	320	(168)	-34.5%	The decrease is in line with the recruitment strategy of involving provinces in the recruitment process.
Transfer and relocation expenses	1,750	1,471	(279)	-15.9%	1,840	90	5.1%	There is virtually no change from 08-09 budget.
Total	**11,019**	**6,626**	**(4,392)**	**-39.9%**	**6,991**	**(4,028)**	**-36.6%**	.
% of total income	0.9%	0.5%			0.4%			

12 PROFESSIONAL ASSISTANCE

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

Budget item	Ref.	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
		'000			%	'000		%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Membership fees	12.1	5,531	5,446	(85)	-1.5%	6,999	1,468	26.5%
Training	12.2	15,348	14,534	(814)	-5.3%	29,816	14,468	94.3%
Study assistance: employees	12.3	12,945	12,458	(487)	-3.8%	16,137	3,193	24.7%
HC development projects	12.4	5,810	4,951	(859)	-14.8%	8,625	2,815	48.4%
Bursaries	12.5	10,500	9,488	(1,012)	-9.6%	11,210	710	6.8%
Skills development levy		5,842	8,095	2,253	38.6%	7,002	1,160	19.9%
Skills dev. levy - recovered		(2,921)	(167)	2,754	-94.3%	(52)	2,869	-98.2%
Total		**53,055**	**54,805**	**1,750**	**3.3%**	**79,737**	**26,682**	**50.3%**
% of total income		3.9%	4.2%			4.7%		

12.1 Membership fees

The budget 2008-09 to budget 2009-10 increase (of 27%) 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. The increase is further influenced by the growth in the number of RGAs.

12.2 Training

Type of expense	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
	'000			%	'000		%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Internal	3,376	3,376	-	0.0%	4,472	1,096	32.5%
External	12,132	9,737	(2,395)	-19.7%	16,942	4,810	39.6%
Total	**15,508**	**13,113**	**(2,395)**	**-19.7%**	**21,414**	**5,906**	**38.1%**

12.2.1 Internal training

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

Type of expense	2008-09 Budget		2009-10 Budget		Change		Comments
	% breakdown	'000	% breakdown	'000		%	
Meals	34.7%	1,172	30.2%	1,352	180	15.4%	Trend is in line with the increase in staff numbers.
Internal presenters - S&T cost to region	9.7%	327	20.9%	933	606	185.4%	Increase in trips to regions for on-site training.
Venue costs	11.1%	376	15.6%	698	322	85.6%	
S&T	44.5%	1,501	33.3%	1,488	(13)	-0.9%	
Total internal training	**100.0%**	**3,376**	**100.0%**	**4,472**	**1,096**	**32.5%**	

12.2.2 External training

Type of expense	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change		Comments
	'000			%	'000		%	
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)	
Non-audit related	2,922	2,345	(577)	-19.7%	2,232	(690)	-23.6%	The movement in these costs is generally in line with the increase in staff numbers. The increase in audit-related training is largely attributable to the reintroduction of technical training.
Audit related	2,375	1,906	(469)	-19.7%	8,707	6,332	266.6%	
Audit study support (ATCOR courses for trainee accountants)	4,968	3,987	(981)	-19.7%	3,398	(1,569)	-31.6%	
S&T	1,867	1,499	(369)	0.0%	2,605	738	39.5%	
Total	**12,132**	**9,737**	**(2,395)**	**-19.7%**	**16,942**	**4,810**	**39.6%**	

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

12.3 Study assistance: employees

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

Course of study	2008-09 Budget	2009-10 Budget	Comments
	'000		
Diploma	179	223	
Degree	2,840	3,541	In line with the AG's preference to focus on graduate students as well as the increase in number of students.
CTA / Honours	4,783	5,963	
FQE support courses	3,700	4,613	
Other	426	587	
MBA	113	141	
Post-graduate	623	777	New trend relating primarily to Corporate Services staff pursuing MQF requirements.
Registered Government Auditor - examination and tuition fees	236	294	RGA programme
Train the Trainer	45	-	
Total	**12,945**	**16,138**	

12.4 HC development projects

Type of project	2008-09 Budget	2009-10 Budget	Comments
	'000		
Development of technical courses	1,163	2,738	Development of courses is focusing on improving audit efficiencies and quality, which is intended to train audit staff at all levels in the enhanced and standardised audit methodology. The other focus area relates to the development of leadership effectiveness programmes. Increased investment is planned as a result of increased needs for quality and efficiency in the audit business.
Development of non-technical courses	2,011	4,100	
Competency development	2,636	1,787	
Total	**5,810**	**8,625**	

12.5 External student bursaries

The programme of awarding bursaries is intended to create a future employment pool for the industry.

Institution	No. of students	Level	2008-09 Budget	No. of students	Level	2009-10 Budget
			'000			'000
NSOA/FLB	40	CTA	2,520	40	CTA	
Under-graduates	64	B.com	1,752	40	B.com	6,011
Fort Hare	25	CTA	1,368	20	CTA	3,852
Fort Hare lecturers	-		3,600			
Thuthuka	30		1,260	30		1,347
Total	**159**		**10,500**	**130**		**11,210**

Bursaries are awarded using the following process:

A number of students are budgeted for by the AG

Applications are then invited from prospective accountancy students

Interviews are conducted and selections made

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

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

WITS University

University of Johannesburg

University of Pretoria

University of South Africa

University of Cape Town

13 TECHNOLOGICAL SERVICES

Budget item	Ref.	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
		'000			%	'000		%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Computer services	14	25,023	23,198	(1,825)	-7.3%	28,576	3,553	14.2%
Hiring of equipment - rental	13	2,906	2,395	(512)	-17.6%	2,987	80	2.8%
Hiring of equipment - copy charges		985	859	(126)	-12.8%	1,054	69	7.0%
Total		**28,914**	**26,451**	**(2,463)**	**-8.5%**	**32,616**	**3,702**	**12.8%**
% of total income		2.1%	2.0%			1.9%		

13.1 Hiring of equipment - rental

The cost increase in forecast and future budget is due to an increase in the number of multi-functional devices.

14 COMPUTER SERVICES

Budget item	Ref.	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change		Comments
		'000			%	'000		%	
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)	
IT maintenance and support	14	11,981	5,537	(6,444)	-53.8%	12,272	291	2.4%	The decrease is mainly due to the internet bandwidth upgrade carried out during 2008-09 financial year which is a once-off project.
Networks	14	6,511	7,672	1,161	17.8%	7,757	1,246	19.1%	
Security	14	554	2,319	1,765	318.9%	2,450	1,896	342.6%	
Telecommunications	14	5,978	6,045	67	1.1%	921	(5,057)	-84.6%	
Total		**25,023**	**21,573**	**(3,450)**	**-13.8%**	**23,400**	**(1,623)**	**-6.5%**	
% of total income		1.9%	1.6%			1.4%		0.0%	

15 INSURANCE AND LEGAL FEES

15.1 Insurance premiums

Budget item	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change		Comments
	'000			%	'000		%	
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)	
Insurance premiums	811	2,888	2,077	256.0%	660	(151)	-18.6%	Reduction of the premiums is due to process of obtaining competitive rates.
Legal fees and contingency	1,230	1,230	0	0.0%	1,044	(186)	-15.1%	The decrease is in line with budgeted decrease in legal matters.
Total	**2,041**	**4,118**	**2,077**	**101.7%**	**1,704**	**(337)**	**-16.5%**	
% of total income	0.2%	0.3%			0.1%			

16 AUXILIARY SERVICES

Budget item	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
	'000			%	'000		%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Auxiliary services	13,163	11,621	(1,542)	-11.7%	14,468	1,305	9.9%
Total	**13,163**	**11,621**	**(1,542)**	**-11.7%**	**14,468**	**1,305**	**9.9%**
% of total income	1.0%	0.8%			0.8%		

The increase of 10% in auxiliary services is in line with inflation.

17 COMMUNICATION

Budget item	Ref.	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
		'000			%	'000		%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Telephone charges	17	3,871	3,782	(89)	-2.3%	4,537	666	17.2%
Cellphone charges	17	1,610	1,587	(24)	-1.5%	1,976	366	22.7%
Postage and courier services		714	827	114	15.9%	1,158	444	62.2%
Total		**6,195**	**6,196**	**1**	**0.0%**	**7,670**	**1,475**	**23.8%**
% of total income		0.5%	0.5%			0.4%		

17.1 Telephone charges

The costs are mainly influenced by the number of staff, the nature of the job and the unit cost.

17.2 Cellphone charges

The increase is due to the growth in the number of users with allowance being kept at a maximum of R585 per month.

18 DEPRECIATION

Budget item	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
	'000			%	'000		%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Motor vehicles	299	233	(66)	-22.1%	300	1	0.2%
Furniture & equipment	2,157	1,768	(388)	-18.0%	2,400	243	11.3%
Computer equipment	17,893	11,097	(6,796)	-38.0%	18,787	894	5.0%
Computer software	7,185	7,854	669	9.3%	5,204	(1,982)	-27.6%
Leasehold improvements	1,478	1,334	(144)	-9.7%	1,440	(38)	-2.6%
Total	**29,013**	**22,287**	**(6,725)**	**-23.2%**	**28,131**	**(882)**	**-3.0%**
% of total income	2.2%	1.6%			1.6%		

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

19 CAPITAL EXPENDITURE BUDGET

19.1 Motor vehicles

Description	2008-09 Forecast	Acquisitions	Depreciation	2009-10 Budget
	NCV			NCV
	'000			
Motor vehicles	1,444	1,180	300	2,324
Total	**1,444**	**1,180**	**300**	**2,324**

Location	2008-09 Budget	2008-09 Forecast	2009-10 Budget
	'000		
Pool cars for Eastern Cape	429	579	1,180
Contingency for the insurance excess	-	-	-
Total	**429**	**579**	**1,180**

19.2 Office furniture and equipment

Description	2008-09 Forecast	Acquisitions	Depreciation	2009-10 Budget
	NCV			NCV
	'000			
Furniture and equipment	25,653	13,177	2,400	36,430
Total	**25,653**	**13,177**	**2,400**	**36,430**

Location	2008-09 Budget	2008-09 Forecast	2009-10 Budget	Comments
	'000			
KwaZulu-Natal	975	1,258	1,563	Replacement of old furniture and acquisition of furniture for new employees.
Eastern Cape	487	1,179	1,073	Acquisition of furniture to comply with branding requirements.
North West	96	25	691	Upgrading of telephone system and acquisition of furniture for new employees.
Gauteng	3,292	1,743	934	Audio system for training room and chairs for the training room.
Limpopo		100	4,000	New furniture and replacement of old furniture.
Mpumalanga	510	1,890	-	Replacement of old furniture.
Pretoria	6,882	10,964	4,363	New furniture for newly established national business units.
Free State	18	180	344	Chairs and desks for workstations.
Northern Cape	792	788	99	Replacement of old furniture.
Western Cape	20	110	110	Replacement of old furniture.
Total	**13,072**	**18,236**	**13,177**	

19.3 Leasehold improvements

Description	2008-09 Forecast NCV	Acquisitions	Depreciation	2009-10 Budget NCV
	'000			
Leasehold improvements	11,813	11,224	1,440	21,598
Total	**11,813**	**11,224**	**1,440**	**21,598**

Location	2008-09 Budget	2008-09 Forecast	2009-10 Budget	Comments
	'000			
Eastern Cape		594	350	Improvements to comply with branding requirements.
North West	27	27	30	New office signage.
Gauteng		1,679		
Limpopo			2,000	New building.
Mpumalanga		600		
Pretoria	5,169	4,875	8,824	Leasehold improvements for the new offices for National Business Units and Information Systems.
KwaZulu-Natal	78	561	20	
Northern Cape				
Total	**5,274**	**8,337**	**11,224**	

19.4 Computer hardware

Description	2008-09 Forecast	Acquisitions	Depreciation	2009-10 Budget
	NCV			NCV
	'000			
Computer hardware	33,299	22,028	18,787	36,540
Total	**33,299**	**22,028**	**18,787**	**36,540**

Budget item	Ref.	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
		'000			%	'000		%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Regional equipment	19.4.1	12,602	8,945	(3,657)	-29.0%	9,384	(3,218)	-25.5%
Networks	19.4.2	4,060	2,882	(1,178)	-29.0%	3,023	(1,037)	-25.5%
Security	19.4.3	3,028	2,149	(879)	-29.0%	2,255	(773)	-25.5%
Notebooks	19.4.4	9,891	7,021	(2,870)	-29.0%	7,365	(2,526)	-25.5%
Total		**29,581**	**20,998**	**(8,583)**	**-29.0%**	**22,028**	**(7,553)**	**-25.5%**

19.4.1 Regional equipment

These are critical requirements to replace out-of-date regional servers, printers and other equipment which are well 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 Security

Upgrade of security relating to audit and the information stored.

19.4.4 Notebooks

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

19.5 Computer software

Description	2008-09 Forecast	Acquisitions	Depreciation	2009-10 Budget
	NCV			NCV
	'000			
Computer software	6,695	9,928	5,204	11,419
Total	**6,695**	**9,928**	**5,204**	**11,419**

Budget item	Ref.	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
		'000			%	'000		%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Regional systems	1	488	768	280	57.3%	2,716	2,228	456.5%
Systems	19.5.2	1,010	1,589	579	57.3%	5,621	4,611	456.5%
Security		286	450	164	57.3%	1,592	1,306	456.5%
Total		**1,784**	**2,806**	**1,022**	**57.3%**	**9,928**	**8,144**	**456.5%**

19.5.1 Regional systems

Budget item	2008-09 Budget	2008-09 Forecast	2009-10 Budget
	'000		
Scheduling and process software	-	768	-
Various software upgrades	208		1,158
Desktop publishing software	50		278
Monitoring software (event logs)	30		167
Network monitoring (HP)	200		1,113
Total	**488**	**768**	**2,716**

19.5.2 Systems

Budget item	2008-09 Budget	2008-09 Forecast	2009-10 Budget
	'000		
ADOBE Acrobat Reader	5	8	28
E-Learning Software	250	393	1,391
FrontPage upgrade	5	8	28
Ghost Software	500	787	2,783
Purchase of PS budget module if feasibility study is successful	250	393	1,391
Total	**1,010**	**1,589**	**5,621**

20 EMPLOYEE WELLNESS PROGRAMME

Budget item	2008-09 Budget	2008-09 Forecast	Variance		2009-10 Budget	Change	
	'000			%	'000		%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Employee Wellness Programme	1,730	1,649	(81)	-4.7%	1,746	16	0.9%
Total	**1,730**	**1,649**	**(81)**	**-4.7%**	**1,746**	**16**	**0.9%**

The Employee Wellness Programme is expected to continue to experience high usage in 2009-10. For the next budget cycle the wellness programme will be extended to cover special focus on prevalence testing, management intervention on MIS, treatment and support for employees, employee education and awareness. This proactive initiative will be managed with the assistance of a wellness service provider.

Budget item	2008-09 Budget	2009-10 Budget			
	Total	Ongoing	Once-off	New	Total
	'000				
Prevalence testing	343		343		343
Management intervention on MIS	325	325			325
Treatment and support for employees	165	165			165
Employee education and awareness and corporate social responsibility	717	717			717
Health and safety	180		180	16	196
Total	**1,730**	**1,207**	**523**	**16**	**1,746**

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Annexure 3: Proposed internal rates

Categories	Salary interval		Staff numbers	Tariff	
	Lower	Upper		Budget 09-10	Budget 08-09
Business executives			19	1,957	957
		Total staff	**19**	**1,957**	**957**
		Markup factor	1.37	**104.5%**	
Operational leaders					
	960,000	980,000	2	1,500	n/a
	940,000	960,000	0	1,469	n/a
	920,000	940,000	0	1,438	n/a
	900,000	920,000	0	1,407	n/a
	880,000	900,000	0	1,376	n/a
	860,000	880,000	0	1,345	n/a
	840,000	860,000	0	1,314	n/a
	820,000	840,000	0	1,283	n/a
	800,000	820,000	1	1,253	n/a
		Total staff	**3**	**1,415**	**n/a**
		Markup factor	1.55		
Senior managers					
	940,000	960,000	2	1,474	936
	920,000	940,000	3	1,443	936
	900,000	920,000	1	1,412	936
	880,000	900,000	3	1,381	936
	860,000	880,000	15	1,350	936
	840,000	860,000	7	1,319	936
	820,000	840,000	5	1,288	936
	800,000	820,000	24	1,257	936
	780,000	800,000	14	1,226	936
	760,000	780,000	10	1,195	936
	740,000	760,000	19	1,164	936
	720,000	740,000	5	1,132	936
	700,000	720,000	4	1,101	936
	680,000	700,000	6	1,070	936
	660,000	680,000	9	1,039	936
	640,000	660,000	1	1,008	936
	620,000	640,000	2	977	936
	600,000	620,000	0	946	936
	580,000	600,000	1	915	936
	560,000	580,000	0	884	936
	540,000	560,000	0	853	925
	520,000	540,000	0	822	891
	0	520,000	1	791	859
		Total staff	**132**	**1,213**	**936**

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Categories	Salary interval		Staff numbers	Tariff	
	Lower	Upper		Budget 09-10	Budget 08-09
Audit managers					
	790,000	810,000	1	1,318	732
	770,000	790,000	0	1,285	732
	750,000	770,000	0	1,252	732
	730,000	750,000	0	1,219	732
	710,000	730,000	0	1,186	732
	690,000	710,000	10	1,153	732
	670,000	690,000	2	1,120	732
	650,000	670,000	20	1,087	732
	630,000	650,000	3	1,054	732
	610,000	630,000	58	1,021	732
	590,000	610,000	2	988	732
	570,000	590,000	136	955	732
	550,000	570,000	3	922	732
	530,000	550,000	36	889	732
	510,000	530,000	4	856	732
	490,000	510,000	16	824	732
	470,000	490,000	4	791	732
	450,000	470,000	2	758	732
	430,000	450,000	31	725	700
	410,000	430,000	12	692	669
	390,000	410,000	1	659	638
	370,000	390,000	0	626	606
	350,000	370,000	3	593	573
	330,000	350,000	0	560	540
		Total staff	**344**	**921**	**673**
Auditors					
	450,000	470,000	1	746	400
	430,000	450,000	0	713	400
	410,000	430,000	8	681	400
	390,000	410,000	54	649	400
	370,000	390,000	6	616	400
	350,000	370,000	5	584	400
	330,000	350,000	18	551	400
	310,000	330,000	48	519	400
	290,000	310,000	63	486	400
	270,000	290,000	48	454	400
	250,000	270,000	33	422	400
	230,000	250,000	32	389	369
	210,000	230,000	13	357	339
	190,000	210,000	13	324	309
	170,000	190,000	12	292	277

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Categories	Salary interval		Staff numbers	Tariff	
	Lower	Upper		Budget 09-10	Budget 08-09
	150,000	170,000	12	259	246
	130,000	150,000	20	227	215
	110,000	130,000	19	195	185
	100,000	110,000	7	170	162
	90,000	100,000	1	154	147
	80,000	90,000	6	138	131
	70,000	80,000	2	122	115
	0	70,000	4	105	100
		Total staff	**425**	**437**	**310**
Trainee accountants					
	360,000	370,000	1	685	243
	350,000	360,000	2	666	243
	340,000	350,000	0	648	243
	330,000	340,000	1	629	243
	320,000	330,000	0	610	243
	310,000	320,000	0	591	243
	300,000	310,000	0	573	243
	290,000	300,000	0	554	243
	280,000	290,000	2	535	243
	270,000	280,000	1	516	243
	260,000	270,000	1	497	243
	250,000	260,000	0	479	243
	240,000	250,000	0	460	243
	230,000	240,000	1	441	243
	220,000	230,000	0	422	243
	210,000	220,000	10	404	243
	200,000	210,000	9	385	243
	190,000	200,000	19	366	243
	180,000	190,000	3	347	243
	170,000	180,000	30	329	243
	160,000	170,000	8	310	243
	150,000	160,000	46	291	243
	140,000	150,000	25	272	228
	130,000	140,000	56	253	210
	120,000	130,000	117	235	198
	110,000	120,000	187	216	180
	100,000	110,000	197	197	166
	90,000	100,000	63	178	149
	80,000	90,000	105	160	134
	70,000	80,000	24	141	119
	60,000	70,000	1	122	102
	50,000	60,000	0	103	87

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Categories	Salary interval		Staff numbers	Tariff	
	Lower	Upper		Budget 09-10	Budget 08-09
	0	50,000	1	84	70
	Total staff		**910**	**202**	**150**
	AG total staff		**1,833**	**455**	**336**

Note:
1. This table represents the budgeted staffing position as at 31 March 2010.
2. Staff numbers include permanent staff and limited duration contractors (LDCs).
3. Average tariffs for budget 09-10 are based on actual hours budgeted to be billed to auditees.

Annexure 4: Auditing of performance information

A phased-in approach

The AG has adopted a phasing-in approach for compliance with the relevant sections of the PAA until such time as a performance management and reporting framework has been legislated[7] and the audited environment has reached a level of maturity so as to provide reasonable audit assurance in the form of an audit opinion or conclusion. It is anticipated that this maturity level will only be reached during the April 2009 – March 2010 financial year.

The phasing-in approach has the following advantages:

- The National Treasury has the time and opportunity to provide structure and discipline to the processes used by the management of public sector institutions to measure and report on performance information and to facilitate the implementation of the necessary systems.
- It will provide an appropriate level of assurance on the quality of reported performance information in each phase of the implementation.
- Seeing that the AG is committed to playing a constructive and, where appropriate, a supportive role in order to assist the South African public service, it will provide ongoing advice and encouragement for continuous improvement in the quality, value and use of the information.
- The audit report will not be qualified in respect of performance information during the phasing-in approach (until the 2008-09 financial year) to provide management of the auditees with the opportunity to set up the necessary internal policies, structures, systems and processes to manage and report on performance information.

The details of the phasing-in approach are as follows:

1. The audit procedures for auditing the performance information of the **April 2005 to March 2006** financial year were indicated in *General Notice 544 of 2006,* issued per *Government Gazette 28723 of 10 April 2006* and *General Notice 808 of 2006,* issued per *Government Gazette 28954 of 23 June 2006.* The procedures included the following:

    - Obtain an understanding of the entity and its environment, including its internal control related to performance information.
    - Determine the level of performance reporting by evaluating the following aspects:

        - o The existence of, and reporting against, predetermined objectives
        - o The existence of specific, measurable and time-bound objectives
        - o The consistency of reporting on predetermined objectives
        - o The format and presentation of performance information in the annual report

[7] Although the National Treasury issued the *Framework for Managing Programme Performance information* during May 2007, the legal status (i.e. compulsory/legally binding or only a guideline) has not been officially indicated by the NT.

No separate opinion on performance against predetermined objectives was included in the audit reports. Conclusions on performance reporting were reached as part of the financial audit process and material shortcomings in the process of reporting against predetermined objectives which came to the attention of the auditor during the audits were reported in the *Emphasis of matter* section of the audit reports.

2. The audit procedures for auditing performance information of the **April 2006 to March 2007** financial year were indicated in *General Notice 646 of 2007,* issued per *Government Gazette 29919 of 25 May 2007.* The procedures included the following:

   - Obtaining an understanding of the internal controls relating to performance information.
   - Documenting system descriptions for the systems relevant to reporting on performance information. The system descriptions should be verified by means of walkthrough tests.
   - Determining the stage of performance reporting by evaluating the following:

     o The existence of, and reporting against, predetermined objectives
     o The existence of specific, measurable and time bound objectives
     o The consistency of the predetermined objectives recorded in the strategic plan, budget, quarterly reports and annual report
     o The format and presentation of performance information in the annual report

   - Comparing reported achievement of performance against objectives to the information sources and conducting limited substantive procedures on the information.

   No separate opinion on performance against predetermined objectives was included in the audit reports. Reporting in this regard formed part of the regularity audit process. Reporting related to material shortcomings in the process, systems and procedures of reporting against predetermined objectives that came to the attention of the auditor during the audit and that might impact on the public interest. This reporting was contained in the *Other reporting responsibilities* section of the audit report.

3. The audit procedures for auditing the performance information of the **April 2007 to March 2008** financial year are indicated in *General Notice 616 of 2008,* issued per *Government Gazette 31057 of 2008*. The procedures include the following:

   - Obtaining an understanding of the internal policies, structures and processes relating to the management of and reporting on performance information.
   - Obtaining an understanding of the relevant systems and internal controls to collect, monitor and report performance information.
   - Evaluating the existence, consistency, format and quality of performance information.
   - Comparing reported performance information to relevant source documentation and conducting limited substantive procedures to ensure valid, accurate and complete performance reporting.

   No separate opinion on performance against predetermined objectives will be included in the audit reports. Reporting in this regard forms part of the regularity audit process. Reporting will be in relation to material shortcomings in the process, systems and procedures of reporting against predetermined objectives that come to the attention of the auditor during the audit and that may impact on the public interest. This reporting will be contained in the *Other reporting responsibilities* section of the audit report.

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4. The audit procedures for auditing the performance information of the **April 2008 to March 2009 financial year** will include all the details referred to above for the 2007-08 financial year with additional procedures focusing on the validity, accuracy and completeness of reported performance information.

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

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Annexure 5: Capability maturity model

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

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

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

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

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

The levels of maturity are the following:

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

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

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

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

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

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

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

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

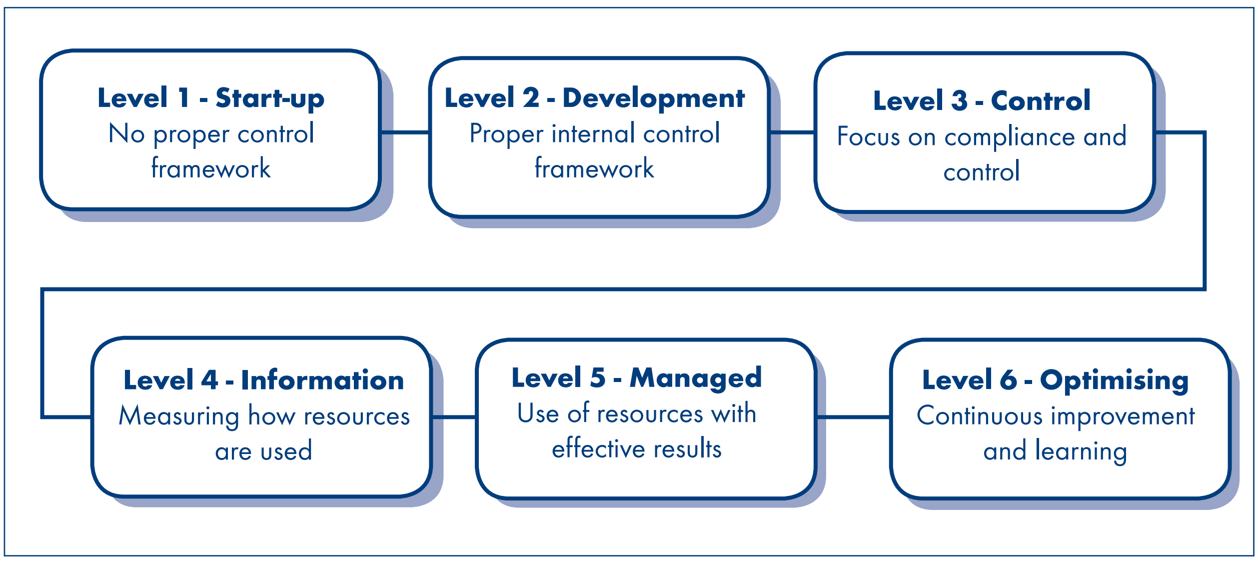
Level 5: Management level that will determine the utilisation of resources with effective results

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

Level 6: Optimisation level which enables continuous improvement and learning

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

Figure 1: Capability maturity model



Annexure 6: Control objectives for information and related technology (COBIT)

Level no.	Awareness & communication	Policies, plans & procedures	Tools & automation	Skills & expertise	Responsibility & accountability	Goal-setting measurement
1.	Recognition of the need for the process is emerging. There is sporadic communication of the issues	There are ad hoc approaches to processes and practices. The processes and policies are undefined	Some tools may exist: usage is based on standard desktop tools. There is no planned approach to the tool usage	Skills required for the process are not identified. A training plan does not exist and no formal training occurs	There is no definition of accountability and responsibility. People take ownership of issues based on their own initiative on a reactive basis	Goals are not clear and no measurement takes place
2.	There is awareness of the need to act. Management communicates the overall issues	Similar and common processes emerge, but are largely intuitive because of individual expertise. Some aspects of the process are repeatable because of individual expertise, and some documentation & informal understanding of policy & procedures may exist	Common approaches to use of tools exist but are based on solutions developed by key individuals. Vendor tools may have been acquired, but are probably not applied correctly, & may even be shelfware	Minimum skill requirements are identified for critical areas. Training is provided in response to needs, rather than on the basis of an agreed plan, & informal training on the job occurs	An individual assumes his/her responsibility & is usually held accountable, even if this is not formally agreed. There is confusion about responsibility when problems occur, & a culture of blame tends to exist	Some goal setting occurs: some financial measures are established but are known only by senior management. There is inconsistent monitoring in isolated areas
3.	There is understanding of the need to act. Management is more formal and structured in its communication	Usage of good practices emerges. The process, policies & procedures are defined & documented for all key activities	A plan has been defined for use & standardisation of tools to automate the process. Tools are being used for their basic purposes, but may not all be in accordance with the agreed plan & may not be integrated with one another	Skill requirements are defined & documented for all areas. A formal training plan has been developed, but formal training is still based on individual initiatives	Process responsibility & accountability are defined & process owners have been identified. The process owner is unlikely to have the full authority to exercise the responsibilities	Some effectiveness goals & measures are set, but are not communicated, & there is a clear link to business goals. Measurement processes emerge, but are not consistently applied. IT balanced scorecard ideas are being adopted, as is occasional intuitive application of root cause analysis

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Annexure 6: Control objectives for information and related technology (COBIT) (continued)

Level no.	Awareness & communication	Policies, plans & procedures	Tools & automation	Skills & expertise	Responsibility & accountability	Goal-setting measurement
4.	There is understanding of the full requirements. Mature communication techniques are applied and standard communication tools are in use	The process is sound & complete; internal best practices are applied. All aspects of the process are documented & repeatable. Policies have been approved & signed off by management. Standards for developing & maintaining the processes & procedures are adopted & followed	Tools are implemented according to a standardised plan, & some have been integrated with other related tools. Tools are being used in main areas to automate management of the process & monitor critical activities & controls	Skill requirements are routinely updated for all areas, proficiency is ensured for all critical areas, & certification is encouraged. Mature training techniques are applied according to the training plan, & knowledge sharing is encouraged. All internal domain experts are involved, & the effectiveness of the training plan is assessed	Process responsibility & accountability are accepted & working in a way that enables a process owner to fully discharge his/her responsibilities. A reward culture is in place that motivates positive action	Efficiency & effectiveness are measured & communicated & linked to business goals & the IT strategic plan. The IT balanced scorecard is implemented in some areas with exceptions noted by management & root cause analysis is being standardised. Continuous improvement is emerging
5.	There is advanced forward-looking understanding of requirements. Proactive communication of issues based on trends exists, mature communication techniques are applied, and integrated communication tools are in use	External best practices & standards are applied. Process documentation is evolved to automated workflows. Processes, policies & procedures are standardised & integrated to enable end-to-end management & improvement	Standard tool sets are used across the enterprise. Tools are fully integrated with other related tools to enable end-to-end support of the processes. Tools are being used to support improvement of the process and automatically detect control exceptions	The organisation formally encourages continuous improvement of skills, based on clearly defined personal & organisational goals. Training & education support external best practices & use of leading-edge concepts & techniques. Knowledge sharing is an enterprise culture, & knowledge-based systems are being deployed. External experts & industry leaders are used for guidance	Process owners are empowered to make decisions & take action. The acceptance of responsibility has been cascaded down throughout the organisation in a consistent fashion	There is an integrated performance measurement system linking IT performance to business goals by global application of the IT balanced scorecard. Exceptions are globally & consistently noted by management & root cause analysis is applied. Continuous improvement is a way of life

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Annexure 7: Black economic empowerment criteria

Black economic empowerment

Introduction

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

Category A: Ownership and control

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

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

Category B: Employment equity

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

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

Category C: Capacity building

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

- The ratio of discretionary procurement awarded to black companies
- The ratio of bursaries and study support given to black trainees

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

Classification of firms

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

The firms will be classified according to the following criteria:

Firm category	Number of partners	Number of TAs	Number of CAs	Maximum work allocation per annum
Large firms	51+	80+	25+	40%
Medium firms	11-50	20-80	7-25	40%
Small firms	1-10	4-20	1-7	20%

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

Criteria for awarding contracts to audit firms

The extent of work contracted out is based on capacity shortfall (± 20%).

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

The criteria consist of two major areas:

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

Capacity building

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

- The awarding of guaranteed medium-term contract work for a minimum of three years and a maximum of five years per term (this guarantee is subject to meeting the required quality standards)
- Access to AG quality control checklists
- Access to AG audit software
- Access to AG training programmes and facilities
- An orientation workshop for partners or firms that are new to the AG environment
- An annual updating session for small and medium firms on various issues relating to public sector auditing
- The AG will also establish an appropriate process whereby quality control deviations can be properly reviewed and assessed, enabling the firm to take timely corrective action.

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Annexure 8: Firm-level reviews and quality control in the IRBA process

In line with ISQC1, the AG has policies and procedures addressing each of the following elements of the system of quality control:

(a) Leadership responsibilities for quality within the firm
(b) Ethical requirements
(c) Acceptance and continuance of client relationships and specific engagements
(d) Human resources
(e) Engagement performance (the execution of audits)
(f) Monitoring

These quality control policies and procedures are encapsulated in the AG's *Quality control manual*. The roll-out of the manual in 2009 will be characterised by ongoing maintenance and revisions by dedicated personnel.

The monitoring function involves an ongoing consideration and evaluation of the firm's system of quality control including a periodic inspection of a selection of completed engagements. The review processes and the subsequent considerations are as follows:

A. Review of compliance at firm level

The evaluation and ongoing consideration of the system of quality control, as set out in the Auditor-General's monitoring policy, includes the following:

- Annual review of the AG's *Quality control manual* and considering whether it reflects recent professional pronouncements and provides information to personnel regarding new professional standards and regulatory requirements.
- Gathering evidence of compliance with the AG's *Quality control manual* (policies and procedures) by all business units on an annual basis.

B. Review of compliance at the engagement level

The inspection of selected completed engagements is performed on a cyclical basis. Engagements selected for inspection include at least one engagement by each engagement manager over an inspection cycle, which spans three years.

C. Results of the monitoring process

The AG is currently in the process of preparing for the external firm-level review by IRBA towards the end of 2009. After 2009, the AG's monitoring team will do the firm-level review which will be an annual occurrence.

The review results will initially be used for the AG as a whole for corrective action and also to recognise good performance from 2010 onwards. Appropriate recognition criteria and performance measures will be compiled subsequent to the IRBA review.

The results of the engagement reviews are evaluated in order to establish whether they are systemic, repetitive or business unit specific in order to determine appropriate and prompt corrective action.

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Annexure 9: Reputation index

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

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

The reputation index survey focuses on the following stakeholder groups:

- The Legislature in national, provincial and local government spheres. Include decision-makers (speakers and chairpersons of committees) as well as end-users (Public Accounts Committees and Portfolio Committees (Chairpersons of the Portfolio Committees only)
- The Executive in national, provincial and local government (metros only) spheres. Include national ministers, premiers, MECs, executive mayors and mayoral committees
- Auditees in national, provincial and local government spheres. Include CFOs and accounting officers (National: DGs; provincial: heads of departments; local: municipal managers)
- AG governance structures. Include SCoAG, Audit Committee and Remuneration Committee
- Standard-setters. Include the National Treasury (Accountant-General and team), ASB, IRBA and CFAS
- Professional bodies. Include SAICA, IPFA, ISACA, ACCA, SAIPA and SAIGA
- Service providers. Include audit firms, professional service providers (AG's internal and external auditors and consultants) and other vendors
- Media. Include print and broadcast media
- General public
- Chapter 9 institutions
- Prospective employees. Include Thutuka bursary students at university
- International bodies. Include INTOSAI and AFROSAI
- Employees

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

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

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

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Annexure 10: Strategic risk categories

RISK CATEGORY	SUB-RISK CATEGORY	FOCUS AREA	Milestones towards achieving CMM level 3 compliance		OBJECTIVE
			Current CMM level	Targeted CMM level – 2009-10	
Relevance of the Auditor-General	Product innovation	Non-audit service	Level 2	Level 3	To ensure continuous research, development and implementation of innovative and cost-effective business solutions for audit and non-audit services and products
		Audit product	Level 2	Level 3	
Quality of product	Quality control	Quality control – non-audit services	Level 2	Level 3	Deliver products and services that meet professional and statutory requirements for both audit and non-audit services
		Quality control – audit	Level 3	Level 3 – maintain	
	Human capital	Resource availability	Level 2	Level 3	Ensure that there are sufficiently qualified and adequate human resources who will contribute to the delivery of quality products and services
		Competencies of staff	Level 2	Level 3	
		Productivity	Level 2	Level 3	
Internal process	Business continuity	Technological availability	Level 2	Level 3	Ensure that efficient and adequate procedures are in place for continuity and availability of ICT services and equipment in the event of a business disruption/ natural disaster catastrophe
		HIV/Aids	Level 1	Level 3	Ensure that efficient procedures are in place for continuity and availability of staff in the event of terminal illness (HIV/Aids) or outbreak of contagious diseases
		Financial stability	Level 2	Level 3	To ensure sustainable, improved and healthy financial performance for the organisation to safeguard continuity of operations

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Annexure 10: Strategic risk categories (continued)

RISK CATEGORY	SUB-RISK CATEGORY	FOCUS AREA	Milestones towards achieving CMM level 3 compliance		OBJECTIVE
			Current CMM level	Targeted CMM level – 2009-10	
Reputation and image	Leadership	Leadership	Level 2	Level 3	To ensure interpretation and implementation of the AG's strategic plan through the demonstration of world-class leadership behaviour
	Corporate governance	Structural design adequacy	Level 2	Level 3	To ensure compliance with best practice corporate governance protocols and guidelines so as to be exemplary to public institutions that we audit
		Monitoring and compliance adequacy	Level 2	Level 3	
	Stakeholder relationships	Knowledge management effectiveness	Level 2	Level 3	Encourage a culture of producing, storing, retrieving and sharing useful knowledge and information internally as well as externally
	Transformation	Employment equity	Level 3	Level 3	Participation/commitment to transformation objectives that are in line with national priorities
		Black economic empowerment	Level 2	Level 3	

CMM level 1 – i.e. absence of documented and standardised processes.
CMM level 2 – i.e. although processes are standardised, the same are either not documented or communicated.
CMM level 3 – i.e. processes are documented, standardised and communicated through training.

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Annexure 11: BBBEE rating

BROAD - BASED ECONOMIC EMPOWERMENT (BBBEE) Level Contributors		
BEE status	**Qualification**	**BEE procurement recognition level**
Level One Contributor	≥ 100 points on the Generic Scorecard	135%
Level Two Contributor	≥ 85 but < 100 points on the Generic Scorecard	125%
Level Three Contributor	≥ 75 but < 85 on the Generic Scorecard	110%
Level Four Contributor	≥ 65 but <75 on the Generic Scorecard	100%
Level Five Contributor	≥ 55 but < 65 on the Generic Scorecard	80%
Level Six Contributor	≥ 45 but < 55 on the Generic Scorecard	60%
Level Seven Contributor	≥ 40 but < 45 on the Generic Scorecard	50%
Level Eight Contributor	≥ 30 but < 40 on the Generic Scorecard	10%
Non-Compliant Contributor	> 30 on the Generic Scorecard	0%

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