



A U D I T O R - G E N E R A L  
S O U T H A F R I C A

*Auditing to build public confidence*

# **Strategic plan and budget of the Auditor-General for 2010-2013**

RP 266/2009  
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AUDITOR-GENERAL  
SOUTH AFRICA

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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
AG	The Auditor-General (the person)
AGSA	Auditor-General of South Africa: the institution
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
IFAC	International Federation of Accountants
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
ISSAI	International Standards of Supreme Audit Institutions
MFMA	Municipal Finance Management Act
MQF	Minimum Qualifications Framework
NT	National Treasury
OHSA	Occupational Health and Safety Act
OM	Oversight mechanism
PAA	Public Audit Act
PAM	Public Audit Manual
PFMA	Public Finance Management Act
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

## Auditor-General's statement of policy and commitment

I am pleased to introduce the strategic plan and budget of the Auditor-General of South Africa (AGSA) for the period April 2010 to March 2013. As Auditor-General, I affirm my commitment and undertake to discharge my mandate as head of the institution. The ultimate purpose is to uphold and strengthen the country's democracy by enabling oversight, accountability and good governance in the public sector through auditing, thereby building public confidence.

This medium-term plan reflects our strategic thrust and absolute commitment to raise our performance to a higher level as a chapter 9 institution. The realisation of clean audit reports is at the centre of our vision.

The AGSA remains committed to the following goals in order to impact positively on all aspects of public sector accountability:

- Ensuring simplicity, clarity and relevance of the messages contained in all our reports, including identification of the root causes and recommendations, and deepening of stakeholders' understanding of our reports
- Improving the visibility of our leadership through clear communication in championing the implementation of audit recommendations
- Strengthening the human resource strategy, with particular emphasis on the comprehensive trainee auditor scheme
- Focusing on the funding model with a view to stabilising our margins and cash flow situation
- Leading by example on matters of risk management, internal controls, transformation and quality and timeliness of our products.

The overall success of our strategy will be evident as we progress towards achievement of our vision: *To be recognised by all our stakeholders as a relevant Supreme Audit Institution that enhances public sector accountability.*

## Vision, mission and values

### Our vision

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

### Our mission

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

*This is our reputation promise.*

### Our values

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



## Overview by the Deputy Auditor-General

### Introduction

As head of administration, I present to you the strategic plan and budget of the Auditor-General of South Africa (AGSA) for the period April 2010 to March 2013. During this period, I will fulfil 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 sound financial and risk management and the efficient functioning of an effective internal control system.

The purpose of this strategic plan and budget is to present what we, as the AGSA leadership, plan to achieve during each of the three years (2010 – 2013), given stakeholder needs and requirements. This plan is aligned to our five-year strategy as articulated in our vision, mission and values.

The main thrust of our strategy responds effectively to the need to influence the achievement of unqualified reports, thereby building public confidence. We continue to focus on auditing while also reviewing the effectiveness and efficiency of our administrative capacity to deliver according to the AG's commitments. Our organisational priorities include the transformation agenda, which entails:

- deepening the institution's understanding of the direction of the country's public service;
- serving the public sector with passion, while maintaining our independence; and
- reflecting the profile of South African society at all levels in the organisation.

As articulated in the AG's statement of commitment, the ultimate outcome of the institution's activities is the strengthening of democracy and building of public confidence through the achievement of clean audit opinions. This strategic plan outlines the ultimate outcome, as well as the following five strategic goals that support clean audit opinions:

#### 1. Simplicity, clarity and relevance of messages

This goal highlights the identification of root causes and recommendations in all our reports as a key focus within our audit and support processes. By communicating the root causes and recommendations simply and clearly, and by highlighting their relevance, we will deepen stakeholders' understanding of our reports. This will enable stakeholders to know which financial management and performance information areas need to be addressed and by whom. By focusing on these areas and ensuring the involvement of the appropriate role players, stakeholders will be able to make strides towards achieving clean audit opinions.

#### 2. Visibility of our leadership

An important contributing factor in the realisation of clean audit reports is the quality of interaction between our leadership and stakeholders. By visibly engaging our stakeholders, our leadership can enhance their understanding of our messages, findings

and recommendations. With this in mind, both our reports and stakeholder interactions are structured according to three key areas within the auditees' environment, namely skills in their finance departments, governance structures such as audit committees and the involvement of the auditee leadership. This synergy ensures that our leaders amplify the messages contained in our reports and empower our auditees to address the key areas of concern.

### **3. Funding**

The AGSA will continue running the organisation economically, efficiently and effectively by ensuring the implementation of the funding model. The organisation has implemented improvements to its debt collection and cost-effectiveness.

### **4. Strengthen human resources**

A skilled, motivated, high-performing and diverse workforce is a pillar that enables us to deliver on our mandate. The organisation will continue to drive effective implementation of the comprehensive trainee auditor scheme (TA Scheme), ensuring that we grow talent from within while aggressively recruiting and retaining staff.

### **5. Lead by example**

As an institution charged with ensuring that public funds are spent efficiently and accountably, we will continue to be exemplary in our own internal control environment. We commit to adhering to standards of excellence in all areas and to maximising our contribution to transformation. The AGSA will ensure that internal controls are observed and are in line with good practices by conducting regular internal and external audits. We will continue to produce quality reports on time, including audit reports, general reports, the annual report and the strategic plan and budget.

## Organisational environment

Our organisation's reputation and image are underpinned by our independence, our adherence to world-class auditing standards and our participation in the global arena. However, we face certain challenges in attracting and retaining staff and in ensuring that we remain self-sustainable. We have a comprehensive risk management framework that allows us to mitigate identified risks and challenges.

## Strengths and opportunities

### Unique niche

The AGSA is the only public sector audit institution in South Africa authorised by the Constitution and the PAA to audit and report on the accounts, financial statements and financial management of public sector institutions and administrations. The AGSA's knowledge and experience of public sector auditing is unrivalled, enabling us to fulfil our constitutional mandate fully and effectively.

### Independence

Section 181 of the Constitution guarantees the AGSA's independence, while the PAA underlines the constitutional provisions concerning independence. In addition, the constitutional and statutory framework contains provisions that are accepted criteria of independence. This allows the AGSA to execute its powers and functions without fear, favour or prejudice. Our task is to perform an independent investigation and evaluation of the financial administration and reporting of the public sector executive authority. This assists Parliament or any other legislative body to exercise its oversight function.

### Principles of good practice

The AGSA adheres to ISSAI 21, namely the principles of transparency and accountability standardised by INTOSAI. ISSAI 21 advances nine major principles of transparency and accountability to assist SAs in leading by example in their own governance and practices<sup>1</sup>.

### World-class audit methodology and standards

The particular principle of good practice (Principle 3) for adhering to audit standards is outlined below.

SAs adopt audit standards, processes and methods that are objective and transparent:

- These standards, processes and methods are confirmed in a directive published in terms of the PAA.
- The AGSA has adopted all IFAC auditing pronouncements and mention is also made of the context created by the current ISSAI developments.
- Specialist functions are handled in terms of either the IFAC or the ISSAI standards.
- Methodology processes and methods are defined and described in the Public Audit Manual. This is updated for each audit cycle through appropriate technical development governance processes, supported by in-depth technical learning processes.

<sup>1</sup> Annexure 9: Principles of good practice

## Global reputation

As one of the international supreme audit institutions, the AGSA is part of the international fraternity that provides international audit services. Currently, the AGSA is involved in developing financial management and accountability models for the public sector in parts of Africa and is also auditor to the United Nations. These contracts were secured competitively and confirm the AGSA's good standing and professionalism.

The AGSA is a member of AFROSAI-E which is a subsidiary of AFROSAI. In 2008, we hosted the 11th General Assembly of AFROSAI, which is the congress for all SAIs in Africa. This was a valuable opportunity to work closely with the AGSA's counterparts to address issues of mutual interest and share best practices. In the same year, the Auditor-General became the President of AFROSAI.

The AGSA continues to provide secretariat functions to AFROSAI-E. A dedicated team from the South African audit office is assigned on a full-time, cost-recovery basis to AFROSAI-E to manage the organisation and administer its activities. In addition, subject matter experts are made available to AFROSAI-E on an ad hoc basis to assist with specific assignments.

The AGSA is also a member of INTOSAI, which has 189 member countries and is the second largest international body in the world (the United Nations being the largest). The AGSA has been awarded the privilege of hosting the 20th Congress of INTOSAI in 2010, which will allow the organisation to influence the strategic direction of INTOSAI in shaping world-class public sector accounting and auditing standards and practices.

The benefits for the organisation in participating in the global arena are as follows:

- Opportunities for benchmarking and networking with peers
- Sharing knowledge and best practices
- Building the reputation of the AGSA by participating in international audits and hosting world-class events
- Skills transfer opportunities for AGSA staff

## Challenges

### Declining margins

The causes of and mitigating actions for declining margins are as follows:

- Flawed legacy funding model, which is being mitigated by the implementation of a revised funding model. Regular reviews are conducted to monitor the progress of implementation.
- High vacancy rates at middle management levels, which are being mitigated by targeted recruitment and the decentralisation of the recruitment process, a review of employment terms and conditions and the creation of alternative positions, such as audit supervisor and audit clerk, within the auditing career path.
- Excessive contracting of audit work caused by the high vacancy rate, with no additional recovery of direct costs incurred.

### **Ineffective working capital management**

The causes of and mitigating actions for ineffective working capital management are as follows:

- Ongoing challenges in collecting outstanding cash balances, which are concentrated largely within certain municipalities.
- The impact of the global financial crisis, which is being mitigated by improved cost control and continued monitoring and review of our financial sustainability in relation to the current funding model.

### **Attraction and retention of staff**

The causes of and mitigating actions for attracting and retaining staff are as follows:

- Inadequate talent sourcing, which is being mitigated by increasing the visibility of the AGSA brand in the labour market and forging relationships with tertiary institutions and professional bodies such as ABASA and SAICA.
- Stringent recruitment requirements, which are being mitigated by improving the recruitment process and expanding the recruitment criteria to include other relevant professional qualifications.
- Targeted retention of third-year trainee auditors and greater emphasis on long-term career growth opportunities within the AGSA.

## Constitutional and legislative mandate

### Mandate and functions

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

Its functions are described in section 188 of the Constitution and further regulated in the PAA, which mandates the AGSA to perform constitutional and other functions. Constitutional functions are those which the AGSA 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 AGSA 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. Its main accountability instruments are the strategic plan and budget and the annual report, both of which are tabled annually in the National Assembly. SCoAG, established in terms of section 10(3) of the PAA, oversees the AGSA's performance on behalf of the National Assembly.

### The AGSA's products

The AGSA annually produces audit reports on all government departments, public entities, municipalities and public institutions. In addition to these entity-specific reports, the audit outcomes are analysed in general reports that cover both the PFMA and the MFMA cycles. Reports on discretionary audits, performance audits and other special audits are also produced. The AGSA tables reports to the legislatures with a direct interest in the audits, namely Parliament, provincial legislatures or municipal councils, as the case may be. The reports are then used by these bodies in accordance with their own rules and procedures for oversight.

<sup>2</sup> Constitution of the Republic of South Africa, 1996

<sup>3</sup> Section 181(2)

### Ultimate outcome: Strengthen democracy

The constitutional mandate of the AGSA as the Supreme Audit Institution of South Africa is conveyed in our mission statement, which has two key phrases:

- Strengthening our country's constitutional democracy
- Building public confidence

In practical terms, these two phrases translate into the achievement of clean audit opinions by the various government departments and entities. Clean audit opinions will give the public the confidence that our government is committed to and practising sound governance principles. A high percentage of clean audit opinions will also free up AGSA resources to concentrate on other types of public sector audits, particularly performance audits.

The ultimate outcome will be the strengthening of our democracy in two ways. Firstly, a predominance of clean audits will demonstrate that government as a whole is using public resources in accordance with the requirements of the legislature, representing the electorate. Secondly, through the AGSA's stronger focus on other measures of public accountability, such as service delivery, the various stakeholders will be empowered to improve their service delivery track records. Thus, clean audit opinions will achieve the objective of building public confidence in the ability of government to meet the electorate's service delivery requirements, in the legislature's ability to hold government accountable, and in the overall effectiveness of South Africa's instruments and institutions of democracy, including the AGSA.

The AGSA defines a clean audit opinion as one in which there is no financial qualification of an auditee, with no other matters raised during the audit. Using this definition, an analysis of historical trends indicates that there have been marginal improvements in clean audit opinions in recent years:

- PFMA clean audit opinions increased from 10% to 21% over five financial years (from 2004-05 to 2008-09).
- MFMA clean audit opinions increased from 0% to 2% over four financial years (from 2004-05 to 2007-08).

While there has been some positive movement in clean audit opinions, the momentum is too slow, especially in MFMA audits. In response, the AGSA is injecting serious effort into the achievement of significant improvements in the medium term.

For the institution to succeed in substantially improving the percentage of clean audit opinions, however, we are reliant on strategic partnerships with other role players. As one of these role players, the Ministry of Cooperative Governance and Traditional Affairs has made a firm commitment to driving clean audit opinions in local government.

While committed to playing our full part in increasing the percentage of clean audit opinions, the AGSA recognises its reliance on a multiplicity of other stakeholders to ensure that our audit findings and recommendations are acted upon. These stakeholders include the public accounts committees, the portfolio committees, the legislatures, the national and provincial treasuries, the executive authorities and auditees themselves.

### Performance measure

Clean audit opinions as a percentage of total audits will be tracked to evaluate year-on-year improvements for each PFMA and MFMA audit cycle in the medium term, as shown in the tables below. The immediate target is to eliminate all worst-case audit opinions (disclaimers and adverse opinions).

**Table 1: Clean audit opinions as a percentage of total (PFMA and MFMA audits)**

Performance measure		Target 2010-11	Target 2011-12	Target 2012-13
Clean audit opinions as % of total audits	PFMA	60%	80%	100%
	MFMA	30%	60%	75%
Tool	Consolidated audit outcomes			

In the case of the targets set for MFMA audits, the AGSA's targets have been aligned with those of the Department of Cooperative Governance and Traditional Affairs.

The targets for clean audit opinions have been incorporated into the AGSA's balanced scorecard for the next three years and will carry a weighting of 15%. However, this measure will only apply to the levels that can positively influence clean audit opinions. The audit teams will continue to focus on root cause analysis, stakeholder interaction at the audit team level, and the quality and timeliness of the management and audit reports.



### Strategic goal 1: Simplicity, clarity and relevance of messages

This goal highlights the identification of root causes and recommendations in all our reports as a key focus within our audit and support processes. The intention is to deepen stakeholders' understanding of the reports, thus enabling them to understand which financial management and performance information areas need to be addressed and by whom. With a clear understanding of what the audit concerns are, why these are relevant and how they can be resolved, stakeholders will be empowered to achieve clean audit opinions. For the purposes of this strategic goal, emphasis will be placed on:

- identifying stakeholder needs and expectations of AGSA reports
- ensuring that AGSA reports are written in simple, plain, non-technical language that the target audience will understand
- contextualising audit messages to enhance understanding.

The AGSA has been enhancing the product mix and expanding its relevance beyond a financial/regularity auditing focus, for example by increasing the number of performance audits and integrating the Auditing of Performance Information (AoPI) into reports<sup>4</sup>. This focus will continue into 2010-11 as part of the ongoing drive to increase our relevance and capacity to conduct performance audits and investigations.

In the case of performance audits, the AGSA has selected the following performance audit themes<sup>5</sup> for 2010-11:

- Poverty reduction, with specific emphasis on the services provided by the Departments of Education. Three main categories of activities will be covered: cross-sectional education activity areas, basic education areas, and higher education and training areas.
- A performance audit on the economy, efficiency and effectiveness of the oversight and governance systems used by shareholding departments in respect of state-owned enterprises (SOEs). Emphasis will be placed on determining whether departments' level of oversight is equipped to influence strategic direction at SOEs and monitor its implementation, to identify associated risks and implement corrective actions and to ensure transparency and accountability.
- A transversal performance audit on the use of consultants by national and provincial government departments. This audit will incorporate considerations of economy, efficiency and effectiveness.

Another important initiative planned for 2010-11 is the establishment of a separate investigations business unit. Until the 2009-10 financial year, all performance audits and most investigations were conducted by one business unit. The splitting of performance audits and investigations into two separate units will greatly enhance the AGSA's capacity to undertake these processes.

### Objective: Identify root causes and make recommendations in all our reports

This objective revolves around communicating relevant root causes and recommendations simply and clearly in AGSA reports. In this way, it will be clear to stakeholders what appropriate action needs to be taken to address the financial management and performance information areas of concern.

<sup>4</sup> Annexure 6: Auditing of Performance Information

<sup>5</sup> Annexure 5: Performance audit initiatives for 2010-11

### Performance measure

The clarity of messages on root causes is the key measure and will apply to all AGSA reports, as well as roadshow presentations.

**Table 2: Percentage clarity of messages on root causes in all our reports**

Performance measure		Target 2010-11	Target 2011-12	Target 2012-13
% Clarity of messages on root causes in all our reports.	Management report, audit report, general report and roadshow presentations	100%	100%	100%
Tool	Qualitative rating by immediate supervisor			

### Initiatives

The strategic objective is supported by the following initiatives:

- Identify stakeholder needs and expectations of AGSA reports
- Ensure simplicity and clarity of messages in AGSA reports
- Understand government service delivery imperatives at national, provincial and local government levels
- Increase the AoPI focus and visibility in order to report on the achievement of service delivery goals

## Strategic goal 2: Visibility of the leadership

The leadership of the organisation will continue to engage stakeholders so as to enhance understanding of the AGSA's messages, findings and recommendations. In the interest of empowering auditees, AGSA reports and stakeholder interactions will be structured into three key areas, namely financial skills, governance and leadership. Visible leadership facilitates the implementation of audit recommendations by stakeholders so that they can achieve clean reports.

This goal has the following focus areas:

- Ensuring efficiency and effectiveness of stakeholder interaction.
- Developing required leadership competencies through mentoring, coaching and leadership programmes and processes for effectively managing change.

### Objective: Develop stakeholder relationships so as to influence improvements in audit outcomes

The AGSA will enhance interaction with stakeholders to deepen their understanding of the messages in our reports. Such interaction will also be used to gain a better mutual understanding of the respective needs of each stakeholder and the AGSA.

Stakeholder information will be updated and there will be a greater focus on the efficiency and effectiveness of stakeholder interaction. Auditees will be urged to implement our recommendations on audit findings.

### Performance measure

The measure focuses on high-quality, value-adding stakeholder interactions. Where necessary, the AGSA will escalate interactions to ensure effective implementation.

**Table 3: Stakeholder interactions**

Performance measure		Target 2010-11	Target 2011-12	Target 2012-13
High-quality, value-adding stakeholder interactions are conducted and escalated, where necessary	Visible to external and internal stakeholders	100%	100%	100%
Tool	Qualitative rating by immediate supervisor			

### Initiatives

The strategic objective is supported by the following initiatives:

- Understand and interpret audit outcomes.
- Discuss audit outcomes with the auditee and, where appropriate, with other stakeholders.
- Monitor the progress of implementing audit findings, and escalate if necessary.
- Obtain feedback from stakeholders to measure understanding of audit outcomes.
- Strategically align the organisation in terms of vision, mission and values so as to drive the desired strategic change.

### Strategic goal 3: Funding

The AGSA will continue running the organisation economically, efficiently and effectively by implementing the revised funding model. This goal includes the following focus areas:

- Continuing focus on horizontal and sectoral auditing
- Optimising the mix between contract work and own hours
- Managing working capital, including improving debt collection
- Ensuring cost-effective operations
- Implementing and tracking the impact of the revised funding model.

#### Objective: To execute the AGSA mandate economically, efficiently and effectively

Meeting this objective will facilitate the long-term financial sustainability of the AGSA. The focus is on the economical use of available resources so as to achieve greater output with less input (greater efficiency), and at the same time attain the desired results (effectiveness). Financial performance is influenced by critical parameters such as own hours, contract work, working capital and overheads.

Various improvements in audit processes are part of this objective: horizontal and sectoral audits are some of the innovative approaches that are being implemented by the AGSA. Horizontal auditing is an approach whereby areas that are common to a number of auditees are addressed transversally, based on a centrally coordinated approach. It is an initiative to improve the quality and cost-effectiveness of audits and to increase the extent of value-add to audits. Value is added, for example, when risks are identified as common trends across a whole system (such as the public service payroll system) and consistent approaches are then recommended<sup>6</sup>. Sectoral auditing fulfils the efficiency objective. More specifically, audits are coordinated on a sector basis, rather than with an individual entity focus, to form a more informed view of activities within that specific sector. It also allows for more consistent reporting.

#### Performance measure

The main measure revolves around achieving a net surplus.

**Table 4: Net surplus**

Performance measure	Target 2010-11	Target 2011-12	Target 2012-13
% Net surplus	5%	6%	6%
Tool	Analysis of the income statement		

#### Initiatives

The strategic objective is supported by the following initiatives:

- Operate cost-effectively
- Implement audit efficiencies
- Improve debt collection.

<sup>6</sup> Annexure 4: Horizontal auditing approach

#### Strategic goal 4: Strengthen human resources

A skilled, motivated, high-performing and diverse workforce is a pillar that enables us to deliver on our mandate. The organisation will continue to drive effective implementation of the comprehensive TA Scheme, ensuring that we grow talent from within and aggressively recruit and retain staff.

The AGSA's core business requires availability of skills that are scarce and critical. In order for the organisation to attract and retain these skills, various initiatives aimed at leveraging on what is available in the marketplace as well as within the AGSA will be undertaken during the coming years.

Within this goal, the institution has the following key focus areas:

- Processes that allow the AGSA to attract and retain skilled and competent people.
- Creating a learning environment where employees have ample opportunities to develop their levels of competence.
- Acknowledging and rewarding employees by offering remuneration and recognition benefits that are market related.
- Implementing staff retention processes that minimise the loss of critical skills and competencies.

#### Objective: To have a motivated, high-performing and diverse workforce

The AGSA's core business calls for skills that are scarce or critical and in strong demand across the economy. This necessitates robust recruitment and retention processes that enable the institution to compete with other employers in the labour market, not only in terms of remuneration and benefits but also development opportunities and career growth.

#### Performance measure

The main measure of the AGSA's success in meeting its objective is the occupancy level.

**Table 5: Occupancy level**

Performance measure	Target 2010-11	Target 2011-12	Target 2012-13
% Occupancy levels	80%	85%	90%
Tool	Staff occupancy rate report from PeopleSoft		

#### Initiatives

This strategic objective is supported by the following initiatives:

- Reposition the recruitment process for strategic talent sourcing: The focus is on shortening the recruitment cycle by reducing the time spent on advertising positions and selecting and appointing candidates.
- Recognition and reward strategy: Processes and mechanisms are being put in place to recognise and reward high-performing individuals within the organisation equitably and in line with best practice. These processes and mechanisms will include progression

systems, team-based rewards, long-term financial incentives, a non-monetary recognition scheme and staff promotion.

- Talent management strategy (growing talent from within): Through experiential learning and specific interventions in leadership and soft skills, the AGSA will ensure an adequate pool of skilled employees at any level within the organisation.
- Position the AGSA as a learning organisation through competence enhancement (staff rotation, succession planning and secondments), leadership and management learning interventions, soft skills learning interventions and a review of study assistance schemes for value-add and return on investment.
- Professionalise Corporate Services by adhering to the required qualification framework.

### **Strategic goal 5: Lead by example**

As an institution charged with ensuring that public funds are spent efficiently, the AGSA will continue to ensure that its own internal controls are exemplary, thus maintaining the institution's own unblemished track record of clean audit opinions. We reiterate our commitment to adhering to standards of excellence in all areas and to maximising our contribution to transformation.

This goal includes the following focus areas:

- Reinforcing internal controls through prompt corrective action to reduce and address audit findings as highlighted by our internal and external auditors
- Implementing the AGSA's enterprise-wide risk framework
- Implementing the transformation agenda (BBBEE), focusing on the Codes of Good Practice and DTI Codes
- Continuing to focus on the quality and timeliness of all our reports

#### **Objective: Adhere to standards of excellence in all our business processes**

The AGSA will reduce the level of key organisational risks by addressing internal and external audit findings and by improving the maturity level of processes relating to identified risks.

The institution will continuously improve on the prevention and elimination of internal and external audit findings that could potentially lead to a qualified report. This includes ensuring that organisational risks are managed on an ongoing basis.

#### **Performance measure**

For the AGSA to lead by example in the context of internal controls, it is critical to continue achieving clean audit reports.

**Table 6: Achieve AGSA clean audit report**

Performance measure	Target 2010-11	Target 2010-11	Target 2011-12
Achieve AGSA clean audit report	Clean audit report	Clean audit report	Clean audit report
Tool	Independent review conducted by our internal and external auditors.		

### Initiatives

The strategic objective is supported by the following initiatives:

- Implement the AGSA's enterprise-wide risk management framework. This initiative will comprise the following sub-initiatives:
  - Annual review of the risk management framework
  - Biannual update of the organisational risk profile
  - Development and maintenance of BU risk registers
  - Periodic development and review of key organisational policies and procedures to ensure mitigation of key organisational risks
  - Sharing of common internal control weaknesses through a centralised database and internal control and risk workshops
  - Conducting periodic audit preparation workshops with BUs identified for reviews
  - Periodic assurance by our internal auditors on the adequacy and effectiveness of key policies and procedures.
- Enhance the internal control environment through business process re-engineering
- Enhance the Management Information Systems.

### Objective: Maximise the AGSA's contribution to transformation

This commitment contributes to strengthening democracy in South Africa and meets the legislative requirement of BBBEE as a vehicle for transformation. The specialised codes of good practice for chapter 9 institutions will be used as a guideline. As an example, the AGSA can contribute to economic growth by using the employment equity and skills development codes to increase resources in the auditing sector. Similarly, the integration of preferential procurement and enterprise development will enable the organisation to influence the growth of small and medium black audit firms. The AGSA's schools poverty eradication programme will be a key priority for the code on corporate social investment.

The BBBEE strategy will be implemented in phases, starting with the alignment of all relevant policies and procedures with the strategy, with the emphasis on full compliance with all procurement processes. This will be a key focus for 2010-13.

The target has been set at a level 4 rating<sup>7</sup>, supported by 100% achievement of action plans as outlined in the BBBEE plan<sup>8</sup>.

<sup>7</sup> Annexure 10: BBBEE rating level

<sup>8</sup> Annexure 10: BBBEE Plan for the AGSA 2010-2013

### Performance measure

The main measure of the AGSA's contribution to economic transformation is the achievement of the identified BBBEE rating level.

**Table 7: Achieve identified BBBEE rating level**

Performance measure	Target 2010-11	Target 2011-12	Target 2012-13
Achieve identified BBBEE rating level	4	4	4
Tool	Independent review conducted by external agency		

### Initiatives

The strategic objective is supported by the following initiative:

- Develop and implement the broader transformation plan, focusing on economic development, poverty alleviation and employment.

**Objective: Continual improvement of the quality and timeliness of AGSA reports**

### Performance measure

**Table 8: Percentage adherence to all quality standards**

Performance measure		Target 2010-11	Target 2011-12	Target 2012-13
% Adherence to all quality standards	Excellent performance. (Regularity audits, general reports, performance audits & special investigations; Strategic plan and budget and annual report)	85%	86%	87%
Tool	Quality review report			



**Table 9: Percentage compliance with statutory and legislative deadlines**

Performance measure		Target 2010-11	Target 2011-12	Target 2012-13
% Compliance with statutory and legislative deadlines	Regularity audits	90%	90%	90%
	General reports, performance audits & special investigations	95%	96%	97%
	Strategic plan & budget; annual report	100%	100%	100%
Tool	Project tracking tool			

**Initiatives**

This strategic objective is supported by the following initiative:

- Adopt best practice methodologies (incorporating roles and responsibilities) in order to achieve timeliness and quality of AGSA reports.

## AGSA balanced scorecard 2010-2013

Table A: AGSA balanced scorecard

Goal		Objective	Performance measure		Target			Initiative
Description	Weight				2010-11	2011-12	2012-13	
Ultimate outcome: Strengthen democracy	15%	Build public confidence	Clean audit opinions as % of total	PFMA	60%	80%	100%	<ul style="list-style-type: none"> <li>These are the measures that will be tracked to indicate impact</li> </ul>
Simplicity, clarity and relevance of message	25%	Identify root causes and recommendations in all our reports	% Clarity of message on root causes in all our reports  (Management report, audit report, general report and roadshow presentations)	MFMA	30%	75%	100%	<ul style="list-style-type: none"> <li>Identify stakeholder needs &amp; expectations of AGSA reports</li> <li>Ensure simplicity &amp; clarity of messages in AGSA reports</li> <li>Understand government service delivery imperatives at national, provincial &amp; local government</li> <li>Increase AoPI focus &amp; visibility in order to report on the achievement of service delivery goals</li> </ul>

Goal		Objective	Performance measure		Target			Initiative
Description	Weight				2010-11	2011-12	2012-13	
Visibility of our leadership	20%	Develop stakeholder relationships so as to influence improvement in audit outcomes	High-quality, value-adding stakeholder interactions are conducted and escalated, where necessary	Visibility to external and internal stakeholders	100%	100%	100%	<ul style="list-style-type: none"> <li>Understand &amp; interpret audit outcomes</li> <li>Discuss audit outcomes with the auditee, other stakeholders &amp; escalated stakeholders</li> <li>Monitor progress of implementation of audit findings, and analyse &amp; escalate if necessary</li> <li>Obtain feedback from stakeholders to measure understanding of audit outcomes &amp; users</li> <li>Strategically align the organisation in terms of its vision, mission &amp; values so as to drive the desired strategic change</li> </ul>

Goal		Objective	Performance measure		Target			Initiative
Description	Weight				2010-11	2011-12	2012-13	
Funding	15%	Execute the AGSA mandate economically, efficiently and effectively	% Net surplus	-	5%	6%	6%	<ul style="list-style-type: none"> <li>Operate cost-effectively</li> <li>Implement the audit efficiency project</li> <li>Improve debt collection</li> </ul>
Strengthen human resources	15%	Have a motivated, high-performing and diverse workforce	% Occupancy levels	-	80%	85%	90%	<ul style="list-style-type: none"> <li>Reposition the recruitment process for strategic talent sourcing</li> <li>Recognition-and-reward strategy and plan</li> <li>Talent management strategy (grow talent from within)</li> <li>The AGSA as a learning organisation</li> <li>Professionalise Corporate Services by adhering to the required qualification framework</li> </ul>
Lead by example	10%	Adhere to standards of excellence in all our business processes	Achieve AGSA clean audit report	-	Clean audit report	Clean audit report	Clean audit report	<ul style="list-style-type: none"> <li>Implement the AGSA's enterprise-wide risk management framework</li> <li>Enhance the internal control environment through business process re-engineering</li> <li>Enhance management of information systems</li> </ul>

Goal		Objective	Performance measure		Target			Initiative
Description	Weight				2010-11	2011-12	2012-13	
		Maximise the AGSA's contribution to transformation	Achieve identified BBBEE rating level	-	4	4	4	<ul style="list-style-type: none"> <li>Develop and implement the broader transformation plan, focusing on economic development, poverty alleviation and employment</li> </ul>
		Continual improvement of the quality and timeliness of AGSA reports	% Adherence to all quality standards	Excellent performance	85%	86%	87%	<ul style="list-style-type: none"> <li>Adopt best practice methodologies (incorporating roles and responsibilities) in order to achieve timeliness and quality of AGSA reports</li> </ul>
			% Compliance with statutory and legislative deadlines	Regularity audits	90%	90%	90%	
				General reports, performance audits & special investigations	95%	96%	97%	
				Strategic plan & budget; Annual report	100%	100%	100%	

## Management structure

The AGSA's organisational structure, as depicted overleaf, includes the following executive and management aspects:

### Executive Committee

The Executive Committee (Exco) assists the Deputy Auditor-General (DAG) in performing the AGSA's work and consists of the following members:

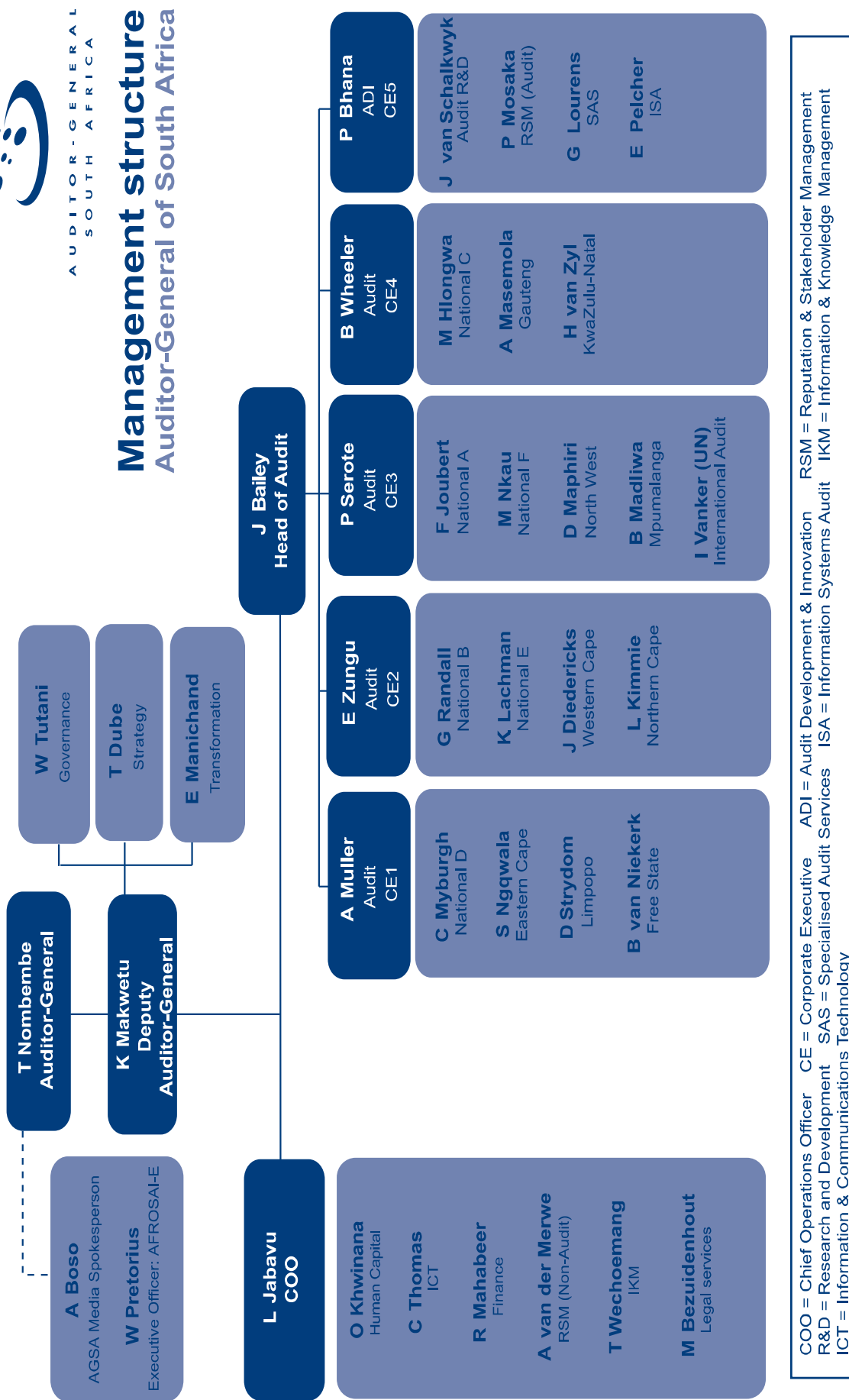
- Deputy Auditor-General
- Chief Operations Officer (COO)
- Head of Audit (HoA)
- Five corporate executives (CEs)

### Operations Committee

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

As shown in figure 1, media issues are handled at several levels within the organisation. Functional responsibilities for media rest with designated business units. The AGSA 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.



## Projected income statement

	Actual	Forecast	Budget	Forecast	Forecast
	31 March 2009	31 March 2010	31 March 2011	31 March 2012	31 March 2013
	Rm	Rm	Rm	Rm	Rm
<b>AUDIT INCOME</b>	<b>1,375.9</b>	<b>1,695.9</b>	<b>1,835.5</b>	<b>1,964.0</b>	<b>2,101.5</b>
Own hours	771.7	1,134.2	1,269.3	1,358.2	1,453.2
S&T recoverable	52.6	72.1	98.7	105.6	113.0
Contract work	551.6	489.6	467.5	500.2	535.3
<b>DIRECT AUDIT EXPENDITURE</b>	<b>1,069.6</b>	<b>1,120.8</b>	<b>1,204.6</b>	<b>1,288.9</b>	<b>1,379.2</b>
Personnel	464.6	559.1	638.4	683.1	730.9
S&T recoverable	53.4	72.1	98.7	105.6	113.0
Contract work	551.6	489.6	467.5	500.2	535.3
<i>CW % of audit income excl. S&amp;T</i>	<i>42%</i>	<i>30%</i>	<i>27%</i>	<i>27%</i>	<i>27%</i>
<b>Gross income</b>	<b>306.3</b>	<b>575.1</b>	<b>630.9</b>	<b>675.1</b>	<b>722.3</b>
<b>Own hrs gross profit</b>	<b>307.1</b>	<b>575.1</b>	<b>630.9</b>	<b>675.1</b>	<b>722.3</b>
<i>Gross margin % of audit income</i>	<i>22%</i>	<i>34%</i>	<i>34%</i>	<i>34%</i>	<i>34%</i>
<b>Other income</b>	<b>51.8</b>	<b>13.8</b>	<b>21.9</b>	<b>23.4</b>	<b>25.1</b>
<b>Gross profit plus other income</b>	<b>358.1</b>	<b>588.9</b>	<b>652.8</b>	<b>698.5</b>	<b>747.4</b>
<b>Overhead expenses</b>	<b>347.7</b>	<b>469.8</b>	<b>544.9</b>	<b>581.9</b>	<b>622.5</b>
<i>Overhead as % of audit income</i>	<i>25%</i>	<i>28%</i>	<i>30%</i>	<i>30%</i>	<i>30%</i>
Depreciation	17.5	33.8	38.8	41.5	44.4
<b>Net (deficit)/surplus before special events</b>	<b>(7.1)</b>	<b>85.3</b>	<b>69.1</b>	<b>75.1</b>	<b>80.5</b>
<i>Net surplus as % of audit income</i>	<i>-1%</i>	<i>5%</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>
<b>Special events</b>	<b>9.0</b>	<b>0.1</b>	<b>0.5</b>	<b>-</b>	<b>-</b>
<b>Net (deficit)/surplus after special events</b>	<b>(16.1)</b>	<b>85.2</b>	<b>68.6</b>	<b>75.1</b>	<b>80.5</b>





## Projected balance sheet

	Actual	Forecast	Budget	Forecast	Forecast
	31 March 2009	31 March 2010	31 March 2011	31 March 2012	31 March 2013
	Rm	Rm	Rm	Rm	Rm
<b>Capital employed</b>					
<b>Capital</b>	108.9	194.1	262.5	337.6	418.1
- Reserves	120.0	103.9	188.9	257.5	332.6
- Special audit services fund	5.0	5.0	5.0	5.0	5.0
- Net income for the year	(16.1)	85.2	68.6	75.1	80.5
<b>Long-term liabilities</b>	111.8	76.7	80.1	87.8	96.0
Interest-bearing borrowings	7.7	6.9	3.2	3.2	3.0
Deferred income	40.6	-	-	-	-
Medical aid liability	63.5	69.8	76.9	84.6	93.0
<b>Current liabilities</b>	334.7	336.3	353.3	334.9	317.2
Trade and other payables	276.2	248.8	300.5	275.6	254.5
Leave liability	31.1	37.3	44.8	53.3	58.7
Deferred income	15.9	40.6	-	-	-
Current portion of long-term loan	11.5	9.6	8.0	6.0	4.0
	555.4	607.1	695.9	760.3	831.3
<b>Employment of capital</b>					
Fixed assets	64.8	82.7	103.6	113.9	125.3
Cash investment	130.4	117.2	105.0	115.5	127.0
<b>Current assets</b>	360.2	407.2	487.3	530.9	579.0
Trade and other debtors	309.7	340.7	374.8	412.2	453.5
Bank and cash	50.5	66.5	112.5	118.7	125.5
	555.4	607.1	695.9	760.3	831.3

### 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:
  - 2009: 30 days for the national and provincial departments and 90 days for local authorities
  - 2010: 30 days for the national and provincial departments and 75 days for local authorities
  - 2011 to 2013: 30 days for the national and provincial departments and 70 days for local authorities



## 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	Forecast	Budget	Forecast	Forecast
31 March 2009	31 March 2010	31 March 2011	31 March 2012	31 March 2013
Rm				

### Part 1

#### Reserves and staff liabilities

Staff liabilities

- Post-retirement medical aid (PRMA)
- Leave liability

Office reserves

- Special audit services fund
- Performance bonus

94.6	107.1	121.7	137.9	151.7
63.5	69.8	76.9	84.6	93.0
31.1	37.3	44.8	53.3	58.7
6.1	5.0	25.0	27.0	29.2
5.0	5.0	5.0	5.0	5.0
1.1	-	20.0	22.0	24.2
100.7	112.1	146.7	164.9	180.9

### Part 2

#### Working capital

Current assets (excluding bank)

Current liabilities (excluding leave liability)

Net working capital

309.7	340.7	374.8	412.2	453.5
(303.6)	(299.0)	(308.5)	(281.6)	(258.5)
6.1	41.7	66.3	130.6	195.0

### Part 3

#### Capital expenditure

Interest-bearing borrowing payments

Fixed asset acquisitions

Capital requirement of the office

19.2	15.4	12.3	9.9	7.9
40.4	51.7	65.6	29.3	32.9
59.6	67.1	77.9	39.2	40.8

### Part 4

#### Prestigious events (AFROSAI/ INTOSAI / INCOSAI)

-	0.0	0.1	-	-
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### Part 5

#### Comparison to available cash reserves

Cash and cash equivalents

Office funding requirements (1+2+3+4)

Surplus/(Deficit) on funding of the office

180.9	183.7	217.5	234.2	252.5
166.4	220.9	291.0	334.7	416.7
14.5	(37.2)	(73.5)	(100.5)	(164.2)

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

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



## Annexure 1 - Detailed budget

Notes	Description	2009-10	2009-10	Variance	Variance %	2010-11	Variance	Variance %	2011-12	2012-13
		Budget (R)	Forecast (R)	(B-A) (R)	(B-A)/A (D)	Budget (R)	(E-B) (R)	(E-B)/B (G)	Forecast	Forecast
		(A)	(B)	(C)		(E)	(F)	(G)	(H)	(I)
<b>AUDIT INCOME</b>										
2		1,706,775,831	1,695,922,346	(10,853,485)	-1%	1,835,521,791	139,599,445	8%	1,964,008,316	2,101,488,898
2.1	Own hours	1,124,528,582	1,134,249,258	9,720,676	1%	1,269,305,811	135,056,552	12%	144,777,228	1,358,157,217
2.2	Contract work	507,432,442	489,551,877	(17,880,566)	-4%	467,512,246	(22,039,631)	-5%	(39,920,196)	500,238,103
2.3	S & T	64,982,396	62,536,678	(2,445,718)	-4%	85,596,175	23,059,497	37%	20,613,779	91,587,907
2.3	International S&T	9,832,410	9,584,532	(247,878)	-3%	13,107,559	3,523,026	37%	3,275,148	14,025,088
<b>DIRECT AUDIT COST</b>										
3.3.1	Staff remuneration – Audit business units	1,129,039,557	1,120,837,448	(8,202,109)	-1%	1,204,604,402	83,766,954	7%	1,288,926,703	1,379,151,572
2.2	Contract work – Recoverable	546,792,308	559,164,361	12,372,053	2%	638,388,415	79,224,054	14%	91,596,107	683,075,604
2.3	S&T: Recoverable	507,432,443	489,551,877	(17,880,566)	-4%	467,512,246	(22,039,631)	-5%	(39,920,197)	500,238,103
2.3	International S&T	64,982,396	62,536,678	(2,445,718)	-4%	85,596,183	23,059,505	37%	20,613,787	91,587,907
		9,832,410	9,584,532	(247,878)	-3%	13,107,559	3,523,026	37%	3,275,148	14,025,088
<b>GROSS PROFIT</b>										
	<b>GROSS PROFIT PERCENTAGE</b>	577,736,274	575,084,898	(2,651,376)	0%	630,917,388	55,832,491	10%	53,181,114	675,081,613
		34%	34%			34%			34%	34%
<b>OTHER INCOME</b>										
2.4	Interest received	10,283,848	13,807,926	3,524,079	34%	21,919,425	8,111,499	59%	11,635,577	23,453,785
	Interest received SCMB	8,297,848	11,393,142	3,095,294	37%	16,501,431	5,108,289	45%	8,203,583	17,656,531
	Africa Projects	-	2,020,279	2,020,279	100%	2,972,480	952,201	47%	2,972,480	3,180,554
		1,986,000	394,505	(1,591,495)	-80%	2,445,514	2,051,009	520%	459,514	2,616,700
<b>SURPLUS BEFORE OPERATING COST</b>										
		588,020,122	588,892,824	872,702	0%	652,836,813	63,943,990	11%	64,816,692	698,535,398
<b>OPERATING COST</b>										
		493,904,706	469,876,883	(24,027,823)	-5%	544,895,346	75,018,463	16%	50,990,640	581,947,143
3.3.2	Staff remuneration – Support business units	197,604,045	173,217,147	(24,386,898)	-12%	211,201,223	37,984,076	22%	13,597,178	222,840,585
3.3.2	Staff remuneration – Africa Projects	412,907	3,203,555	2,790,648	676%	2,938,994	(264,561)	-8%	2,526,086	3,144,723
<b>Other personnel expenditure</b>										
3.1	Leave pay provision	35,521,351	23,590,306	(11,931,045)	-34%	44,678,027	21,087,721	89%	9,156,677	49,920,736
		6,662,232	6,737,033	74,801	1%	6,662,232	(74,801)	-1%	-	7,444,006
3.2	Medical aid provision	7,469,288	7,469,287	(1)	0%	8,216,218	746,930	10%	746,930	9,180,343
3.4	Group life scheme	4,384,932	4,384,932	0	0%	4,757,651	372,719	8%	372,719	5,315,934
3.4	Long service awards & other	-	27,500	27,500	100%	-	(27,500)	-100%	-	-
3.6	Performance bonus	12,000,000	5,670	(11,994,330)	-100%	20,000,000	19,994,330	352634%	8,000,000	22,346,885
3.5	UIF: Employer contribution	2,955,524	2,966,376	10,852	0%	3,194,797	228,421	8%	239,273	3,569,688
3.5	Workmen's Compensation premiums	1,034,380	922,437	(111,943)	-11%	1,178,990	256,553	28%	144,611	1,317,338
3.4	BU recognition scheme	1,014,996	1,077,071	62,075	6%	668,140	(408,931)	-38%	(346,856)	746,542
<b>Contract work – Irrecoverable</b>										
4		18,119,878	26,180,936	8,061,058	44%	27,036,084	855,147	3%	8,916,206	28,928,609
<b>Subsistence &amp; travelling – Irrecoverable</b>										
5		12,788,156	12,213,615	(574,541)	-4%	14,398,787	2,185,172	18%	1,610,632	15,406,702
<b>Accommodation</b>										
6		47,970,123	47,786,105	(184,018)	0%	58,954,173	11,168,067	23%	10,984,050	63,117,851
6.1	Rental	32,465,253	31,599,978	(865,275)	-3%	36,798,472	5,198,494	16%	4,333,219	39,374,365
6.2	Operating costs	15,504,870	16,232,091	727,221	5%	22,190,174	5,958,083	37%	6,685,304	23,743,487

Notes	Description	2009-10		2009-10		2010-11		2011-12		2012-13	
		Budget (R)	Forecast (R)	(B-A) (R)	Variance %	Budget (R)	(E-B) (R)	Forecast (R)	(E-A) (R)	Forecast	Forecast
		(A)	(B)	(C)	(D)	(E)	(F)	(H)	(I)		
	<b>Liaison</b>										
7.1.1	Liaison	29,141,759	25,770,975	(3,370,784)	-12%	21,536,144	(4,234,831)	(7,605,615)	-26%	23,043,674	24,656,732
7.1.2	Internal stakeholder liaison	5,004,140	5,180,386	176,246	4%	2,888,111	(2,292,275)	(2,116,029)	-42%	3,090,279	3,306,598
7.1.3	External stakeholder liaison	7,375,842	7,104,141	(271,700)	-4%	6,752,125	(352,016)	(623,717)	-8%	7,224,774	7,730,508
	Constitutional liaison	2,741,492	2,301,089	(440,393)	-16%	2,306,735	5,635	(434,758)	-16%	2,468,206	2,640,981
	Non-constitutional liaison	573,083	533,787	(39,296)	-7%	568,240	34,453	(4,843)	-1%	608,017	650,578
	Regional congresses	470,000	470,000	-	0%	495,000	25,000	25,000	5%	529,650	566,726
7.2	Foreign visitors	9,157,698	8,387,767	(769,931)	-8%	5,961,011	(2,426,756)	(3,196,687)	-35%	6,378,282	6,824,762
7.3	Overseas travel	154,500	129,656	(24,844)	-16%	187,000	57,344	32,500	21%	200,090	214,096
7.4		3,665,004	1,664,138	(2,000,867)	-55%	2,377,922	713,785	(1,287,082)	-35%	2,544,377	2,722,483
8	<b>Control bodies</b>	<b>490,647</b>	<b>397,886</b>	<b>(92,761)</b>	<b>-19%</b>	<b>544,092</b>	<b>146,206</b>	<b>53,445</b>	<b>11%</b>	<b>646,378</b>	<b>691,625</b>
	Oversight bodies	490,647	397,886	(92,761)	-19%	544,092	146,206	53,445	11%	646,378	691,625
9	<b>Audit expenses</b>	<b>5,255,000</b>	<b>5,494,230</b>	<b>239,230</b>	<b>5%</b>	<b>6,028,750</b>	<b>534,521</b>	<b>773,750</b>	<b>15%</b>	<b>6,450,763</b>	<b>6,902,316</b>
9.1	Audit fees	2,250,000	2,489,238	239,238	11%	2,928,750	439,513	678,750	30%	3,133,763	3,353,126
9.2	Internal audit costs	3,005,000	3,004,992	(8)	0%	3,100,000	95,008	95,000	3%	3,317,000	3,549,190
	<b>Bank charges</b>	<b>246,650</b>	<b>258,382</b>	<b>11,732</b>	<b>5%</b>	<b>285,100</b>	<b>26,718</b>	<b>38,450</b>	<b>16%</b>	<b>305,057</b>	<b>326,411</b>
	Bank charges	241,850	253,032	11,182	5%	279,600	26,568	37,750	16%	299,172	320,114
	Foreign bank charges	4,800	5,350	550	11%	5,500	150	700	15%	5,885	6,297
10	<b>Finance charges</b>	<b>1,422,127</b>	<b>2,777,066</b>	<b>1,354,938</b>	<b>95%</b>	<b>2,321,220</b>	<b>(455,846)</b>	<b>899,093</b>	<b>63%</b>	<b>2,321,220</b>	<b>2,321,220</b>
	Finance charges	1,422,127	2,777,066	1,354,938	95%	2,321,220	(455,846)	899,093	63%	2,321,220	2,321,220
11	<b>Recruitment expenses</b>	<b>6,991,067</b>	<b>7,135,467</b>	<b>144,400</b>	<b>2%</b>	<b>7,931,232</b>	<b>795,765</b>	<b>940,165</b>	<b>13%</b>	<b>8,486,418</b>	<b>9,080,467</b>
	Advertising	830,780	821,280	(9,500)	-1%	1,000,000	178,720	169,220	20%	1,070,000	1,144,900
	Personnel agency fees	3,999,996	4,089,747	89,751	2%	4,500,000	410,253	500,000	13%	4,815,000	5,152,050
	Interviews	320,291	380,931	60,641	19%	407,232	26,300	86,941	27%	435,738	466,240
	Transfer & relocation expenses	1,840,000	1,843,509	3,509	0%	2,024,000	180,491	184,000	10%	2,165,680	2,317,278
12	<b>Professional assistance</b>	<b>79,736,617</b>	<b>79,720,220</b>	<b>(16,398)</b>	<b>0%</b>	<b>72,647,402</b>	<b>(7,072,817)</b>	<b>(7,089,215)</b>	<b>-9%</b>	<b>77,732,720</b>	<b>83,174,011</b>
12.1	Membership fees	6,998,579	6,878,689	(119,889)	-2%	7,576,735	698,045	578,106	8%	8,107,106	8,674,604
12.2.1	Internal training	4,471,600	4,975,947	504,347	11%	13,738,710	8,762,763	9,267,109	207%	14,700,420	15,729,449
12.2.2	External training	16,941,876	17,547,539	605,663	4%	4,282,785	(13,284,754)	(12,679,091)	-75%	4,561,180	4,880,463
	S&T: Training	8,402,633	8,699,544	296,910	4%	11,935,266	3,235,723	3,532,633	42%	12,770,735	13,664,686
12.3	Study assistance: Employees	16,137,397	14,229,335	(1,908,063)	-12%	14,378,459	149,124	(1,758,938)	-11%	15,384,951	16,461,898
12.4	I&L Development Projects	8,624,760	9,310,005	685,245	8%	2,200,000	(7,110,005)	(6,424,760)	-74%	2,354,000	2,518,780
12.5	Bursaries	11,210,000	11,218,478	8,478	0%	13,341,122	2,122,644	2,131,122	19%	14,275,001	15,274,251
	Skills development levy	7,001,572	7,039,050	37,478	1%	7,714,325	675,275	712,753	10%	8,254,328	8,832,131
	Skills dev. Levy - Recovered	(51,800)	(178,367)	(126,567)	244%	(2,500,000)	(2,321,633)	(2,448,200)	4726%	(2,675,000)	(2,862,250)
	<b>Employee Wellness Programmes (EWP fees to independent service provider)</b>	<b>1,745,552</b>	<b>4,245,725</b>	<b>2,500,173</b>	<b>143%</b>	<b>3,542,400</b>	<b>(703,325)</b>	<b>1,796,848</b>	<b>103%</b>	<b>3,790,368</b>	<b>4,055,694</b>
	Employee Wellness Programmes	934,572	3,434,569	2,499,997	268%	1,500,000	(1,934,569)	565,428	61%	1,605,000	1,717,350
	Employee social responsibility	141,500	141,500	-	0%	-	(141,500)	(141,500)	-100%	-	-
	AG social responsibility (General)	489,880	489,880	(0)	0%	585,000	95,120	95,120	19%	625,950	669,767
	Corporate social investment	179,600	179,775	176	0%	457,400	277,625	277,800	155%	489,418	523,677
13	<b>Technological services</b>	<b>32,616,107</b>	<b>27,559,372</b>	<b>(5,056,735)</b>	<b>-16%</b>	<b>38,212,805</b>	<b>10,653,433</b>	<b>5,596,699</b>	<b>17%</b>	<b>40,887,702</b>	<b>43,749,841</b>
13.1	Computer services	28,575,787	23,850,629	(4,725,157)	-17%	33,503,912	9,653,282	4,928,125	17%	35,849,185	38,358,628
13.2	Hiring of equipment - Rental	2,986,797	2,715,186	(271,612)	-9%	3,482,162	766,977	495,365	17%	3,725,914	3,986,728
	Hiring of equipment - Copy charges	1,053,522	993,557	(59,966)	-6%	1,226,731	233,174	173,209	16%	1,312,602	1,404,485
14	<b>Insurance &amp; legal fees</b>	<b>1,704,000</b>	<b>4,775,072</b>	<b>3,071,072</b>	<b>180%</b>	<b>2,450,000</b>	<b>(2,325,072)</b>	<b>746,000</b>	<b>44%</b>	<b>2,621,500</b>	<b>2,805,005</b>
	Insurance	660,000	1,126,100	466,100	71%	1,250,000	123,900	590,000	89%	1,337,500	1,431,125
	Legal costs	1,044,000	3,648,972	2,604,972	250%	1,200,000	(2,448,972)	156,000	15%	1,284,000	1,373,880



Notes	Description	2009-10	2009-10	Variance	Variance %	2010-11	Variance	Variance %	Variance	Variance %	2011-12	2012-13
		Budget ( R )	Forecast (R)		(B-A) ( R )	(B-A)/A		Budget ( R )		(E-B) ( R )	(E-B)/B	(E-A) ( R )
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)		
15	<b>Auxiliary services</b>	14,468,351	15,618,960	1,150,609	8%	18,753,735	3,134,775	20%	4,285,384	30%	20,066,497	21,471,152
	Cleaning: Contracts/services	1,155,745	1,498,778	343,033	30%	2,005,799	507,021	34%	850,054	74%	2,148,205	2,296,439
	Cleaning: Materials	184,311	234,790	50,479	27%	326,655	91,865	39%	142,344	77%	349,521	373,988
	Office improvements	1,613,890	1,141,215	(472,674)	-29%	726,050	(415,165)	-36%	(887,840)	-55%	776,873	831,254
	Refreshments	1,342,914	985,963	(356,952)	-27%	1,146,721	160,759	16%	(196,193)	-15%	1,226,991	1,312,881
	Publications	1,157,078	1,048,268	(108,809)	-9%	1,532,596	484,327	46%	375,518	32%	1,639,877	1,754,669
	R&M: Computer equipment & software	573,850	726,155	152,305	27%	680,600	(45,555)	-6%	106,750	19%	728,242	779,219
	R&M: Furniture and equipment	257,780	246,254	(11,526)	-4%	333,490	87,236	35%	75,710	29%	356,834	381,812
	R&M: Site and buildings	127,194	289,851	162,657	128%	841,942	552,091	190%	714,748	562%	963,939	900,878
	R&M: Office vehicles	346,975	371,570	24,594	7%	452,846	81,277	22%	105,871	31%	484,546	518,464
	Printing of audit reports	1,488,896	1,649,609	160,713	11%	1,970,920	321,311	19%	482,024	32%	2,108,884	2,256,506
	Stationery and printing	6,025,227	7,286,671	1,261,444	21%	8,269,027	982,356	13%	2,243,800	37%	8,847,209	9,467,859
	Artwork & design	100,000	50,000	(50,000)	-50%	80,000	30,000	60%	(20,000)	-20%	85,600	91,592
	Medical examinations	-	-	-	100%	220,000	220,000	100%	220,000	100%	235,400	251,878
	Freight and removal	94,492	89,836	(4,656)	-5%	167,090	77,254	86%	72,598	77%	178,786	191,301
	<b>Communication</b>	<b>7,670,369</b>	<b>6,931,865</b>	<b>(738,504)</b>	<b>-10%</b>	<b>8,435,177</b>	<b>1,503,312</b>	<b>22%</b>	<b>764,808</b>	<b>10%</b>	<b>9,025,639</b>	<b>9,657,434</b>
16	Cellphone charges	1,975,962	1,831,339	(144,623)	-7%	2,229,894	398,555	22%	253,932	13%	2,385,987	2,553,006
16.2	Postage & courier services	1,157,856	1,306,539	148,683	13%	1,498,551	192,012	15%	340,695	29%	1,603,450	1,715,691
16.1	Telephone charges	4,536,551	3,793,987	(742,564)	-16%	4,706,732	912,744	24%	170,180	4%	5,036,203	5,388,737
	<b>Other expenses</b>	<b>-</b>	<b>3,000,000</b>	<b>3,000,000</b>	<b>100%</b>	<b>3,000,000</b>	<b>-</b>	<b>0%</b>	<b>3,000,000</b>	<b>100%</b>	<b>3,210,000</b>	<b>3,434,700</b>
	Bad debts provision	-	3,000,000	3,000,000	100%	3,000,000	-	0%	3,000,000	100%	3,210,000	3,434,700
	<b>SURPLUS/(DEFICIT) BEFORE DEPRECIATION</b>	<b>94,115,415</b>	<b>119,015,941</b>	<b>24,900,525</b>	<b>26%</b>	<b>107,941,468</b>	<b>(11,074,473)</b>	<b>-9%</b>	<b>13,826,052</b>	<b>15%</b>	<b>116,588,255</b>	<b>124,911,918</b>
17	<b>Depreciation</b>	<b>28,130,915</b>	<b>33,755,833</b>	<b>5,624,917</b>	<b>20%</b>	<b>38,778,858</b>	<b>5,023,025</b>	<b>15%</b>	<b>10,647,943</b>	<b>38%</b>	<b>41,493,378</b>	<b>44,397,914</b>
	Depr. Motor vehicles	300,000	303,452	3,452	1%	526,193	222,741	73%	226,193	75%	563,027	602,439
	Depr. Furniture & equipment	2,400,000	3,208,977	808,977	34%	4,075,570	866,593	27%	1,675,570	70%	4,360,860	4,686,120
	Depr. Computer equipment	18,787,347	21,982,673	3,195,326	17%	27,240,528	5,257,855	24%	8,453,181	45%	29,147,365	31,187,681
	Depr. Computer software	5,203,568	4,723,262	(480,306)	-9%	3,459,509	(1,263,753)	-27%	(1,744,059)	-34%	3,701,675	3,960,792
	Depr. Leasehold improvements	1,440,000	3,537,469	2,097,469	146%	3,477,057	(60,411)	-2%	2,037,057	141%	3,720,451	3,980,883
	<b>NET SURPLUS/(DEFICIT)</b>	<b>65,984,500</b>	<b>85,260,108</b>	<b>19,275,608</b>	<b>29%</b>	<b>69,162,610</b>	<b>(16,097,498)</b>	<b>-19%</b>	<b>3,178,109</b>	<b>5%</b>	<b>75,094,877</b>	<b>80,514,003</b>
	<b>Net surplus ratio before special events and capital expenditure</b>	<b>4%</b>	<b>5%</b>	<b>(2,862,298)</b>	<b>-99%</b>	<b>513,337</b>	<b>493,409</b>	<b>2476%</b>	<b>(2,368,888)</b>	<b>-82%</b>	<b>3.82%</b>	<b>3.83%</b>
	<b>Special events</b>	<b>2,882,225</b>	<b>19,928</b>	<b>(2,862,298)</b>	<b>-99%</b>	<b>-</b>	<b>-</b>	<b>100%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	AFROSAI	-	-	-	100%	-	-	100%	-	100%	-	-
	Government Grant	(10,915,000)	(10,915,000)	-	0%	(40,568,000)	(29,653,000)	272%	(29,653,000)	272%	-	-
	INTOSAI	13,797,225	10,934,928	(2,862,298)	-21%	(10,934,928)	(10,934,928)	-100%	(13,797,225)	-100%	-	-
	INCOSAI	-	-	-	100%	41,081,337	41,081,337	100%	41,081,337	100%	-	-
	<b>NET SURPLUS/(DEFICIT) AFTER SPECIAL EVENTS</b>	<b>63,102,275</b>	<b>85,240,180</b>	<b>22,137,906</b>	<b>35%</b>	<b>68,649,273</b>	<b>(16,590,908)</b>	<b>-19%</b>	<b>5,546,998</b>	<b>5%</b>	<b>75,094,877</b>	<b>80,514,003</b>
18	<b>CAPITAL</b>	<b>57,537,637</b>	<b>51,681,715</b>	<b>(5,855,922)</b>	<b>-10%</b>	<b>65,552,226</b>	<b>13,870,511</b>	<b>27%</b>	<b>8,014,589</b>	<b>14%</b>	<b>29,293,662</b>	<b>32,948,972</b>
	Motor vehicles – Cost	1,180,450	930,450	(250,000)	-21%	1,544,380	613,930	66%	363,930	31%	508,398	559,238
	Furniture & Equipment	13,177,227	6,851,607	(6,325,620)	-48%	20,456,783	13,605,176	199%	7,279,556	55%	1,479,943	1,180,990
	Computer equipment – Cost	22,027,529	25,392,686	3,365,157	15%	19,766,600	(5,628,086)	-22%	(2,260,929)	-10%	22,931,721	26,397,794
	Computer software – Cost	9,928,143	8,987,883	(940,260)	-9%	3,988,100	(4,999,783)	-56%	(5,940,043)	-60%	4,373,600	4,810,960
18.3	Leasehold improvem.- Cost	11,224,288	9,519,090	(1,705,198)	-15%	19,796,364	10,277,274	108%	8,572,076	76%	-	-
	<b>CAPEX AS % OF TOTAL INCOME</b>	<b>3.4%</b>	<b>3.0%</b>	<b>(10,915,000)</b>	<b>-100%</b>	<b>3.6%</b>	<b>1.5%</b>	<b>1.6%</b>	<b>1.5%</b>	<b>1.6%</b>	<b>1.5%</b>	<b>1.6%</b>
	<b>TOTAL BUDGET</b>	<b>5,564,638</b>	<b>33,558,465</b>	<b>27,993,827</b>	<b>503%</b>	<b>3,097,047</b>	<b>(30,461,419)</b>	<b>-91%</b>	<b>(2,467,591)</b>	<b>-44%</b>	<b>45,801,215</b>	<b>47,565,031</b>

## Annexure 2: Notes on budget

2

### INCOME

Budget item	Ref.	2009-10 Budget		2009-10 Forecast		Variance		2010-11 Budget		Change	
		'000	(1)	'000	(2)	'000	(2)-(1)	'000	(3)	'000	(3)-(1)
Own hours	2.1	1,124,529		1,134,249		9,720	0.9%	1,269,306		144,777	12.9%
Contract work	2.2	507,432		489,552		(17,880)	-3.5%	467,512		(39,920)	-7.9%
Subsistence and travelling	2.3	64,982		62,537		(2,445)	-3.8%	85,596		20,614	31.7%
International subsistence and travelling	2.4	9,833		9,584		(249)	-2.5%	13,108		3,275	33.3%
<b>Total audit income</b>		<b>1,706,776</b>		<b>1,695,922</b>		<b>-10,854</b>	<b>-0.6%</b>	<b>1,835,522</b>		<b>128,746</b>	<b>7.5%</b>

### EFFECT OF THE ESTIMATES OF THE OFFICE FOR 2010-11 ON TOTAL STATE EXPENDITURE

The total estimated audit costs of R 1.84 billion for 2010-11 (2009-10: R 1.71 billion) when compared with the estimate of state expenditure for 2010-11 of approximately R792.3 billion (2009-10: R704.1 billion) amounts to only 0.23 percent (2009-10: 0.24 percent). The estimate of the office represent an 8% increase over 2009-10 budget and 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 2010-11 revenue budget has been compiled utilising the same tariff formula as for the 2009-10 budget.

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 budget preparation.

2.1.1

#### Number of staff

The staff numbers constitutes a critical variable and thus a logical starting point in the computation of audit revenue for the office.

Audit staff	2009-10 Budget		2010-11 Budget		Change		Comments
	Staff numbers	(1)	Staff numbers	(2)	Staff numbers	%	
Business executives		19		19	0	0%	
Operational leaders		3		7	4	133%	Additional heads due to new appointments in KwaZulu-Natal and Gauteng
Senior managers		130		141	11	8%	
Audit managers		338		400	62	18%	
Auditors		402		509	107	27%	
Trainee accountants		899		1,056	157	17%	
<b>Total audit staff</b>		<b>1,791</b>		<b>2,132</b>	<b>341</b>	<b>19%</b>	

#### 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, training, management and supervision. These are in line with the norms in the profession. For 2010-11 the targeted recovery ratios have been revised slightly downward.







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

Budget item	2009-10 Expected recovery ratio per band	2010-11 Expected recovery ratio per band	2009-10 Budget		2010-11 Budget		Change		Comments
			Hours	(1)	Hours	(2)	Hours	(2)-(1)	
<b>Audit staff</b>									
Business executives	40%	35%	14,399		13,386	(1,013)	-7.0%	The increase is mainly attributable to the increase in number of audit staff 2009-10 (1791) and 2010-11 (2132)	
Operational leaders	50%	45%	3,003		6,353	3,350	111.6%		
Senior managers	60%	60%	141,246		162,167	20,921	14.8%		
Audit managers	68%	66%	444,211		531,689	87,478	19.7%		
Auditors	70%	66%	571,777		660,261	88,484	15.5%		
Trainee accountants	70%	66%	1,301,697		1,477,218	175,521	13.5%		
<b>Total</b>			<b>2,476,333</b>		<b>2,851,074</b>	<b>374,741</b>	<b>15.1%</b>		

Refer 2.1.4 for calculation of total own hours income

#### 2.1.2 B Non-recoverable ratios (before flexing):

Budget item	2010-11 Ratios						Total
	Annual leave	Sick leave	Study & other	Training	Management & supervision		
Business executives	9%	4%	2%	6%	44%		65%
Operational leaders	9%	4%	2%	6%	34%		55%
Senior managers	9%	4%	2%	6%	19%		40%
Audit managers	9%	4%	6%	6%	9%		34%
Auditors	9%	4%	6%	6%	9%		34%
Trainee accountants	9%	4%	10%	10%	1%		34%

#### Note 1

The non-recovery ratios for all levels were revised based on the detailed work study that confirmed a need for additional administration, supervision and strategic initiatives. The reconsidered non-chargeable hours are in line with the norms in practice and actual achieved chargeable hours to be realistic.

#### 2.1.3 Recommended tariffs

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 budget preparation.

Budget item	2009-10 Budget		2010-11 Budget		Change		Comments
	Rand / hour	(1)	Rand / hour	(2)	Rand / hour	(2)-(1)	
						% (2)-(1)	
<b>Audit staff</b>							
Business executives	1,957		2,109		152	7.8%	The increase is due to staff movement in salary intervals
Operational leaders	1,417		1,480		63	4.5%	
Senior managers	1,210		1,228		18	1.5%	Increase due to senior managers appointed at a higher entry level
Audit managers	920		940		20	2.2%	
Auditors	436		451		15	3.5%	The increase is due to staff movement in salary intervals
Trainee accountants	202		168		(34)	-16.7%	
<b>Average</b>	<b>454</b>		<b>445</b>		<b>(9)</b>	<b>-1.9%</b>	Decrease due to change in mix of staff

Refer 2.1.4 for calculation of total own hours income. Refer also to annexure 3 for the detailed internal tariff schedule for 2010-11.

#### 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	2009-10 Budget (1)	2010-11 Budget (2)	Change	
			Hours (2)-(1)	% (2)-(1)
Recoverable hours	2,476,333	2,851,074	374,741	15.1%
Average tariff	454	445	(9)	-2.0%
<b>Total own hours income</b>	<b>1,124,529</b>	<b>1,269,306</b>	<b>144,777</b>	<b>12.9%</b>
<b>Own hours income (R'000)</b>	<b>1,124,529</b>	<b>1,269,306</b>	<b>144,777</b>	<b>12.9%</b>

**Note 2**

The increase in own hours income is due to additional recoverable hours resulting from increase in audit staff.

#### 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 a certain portion 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. The decrease in contract work is mainly due to the increase in number of own audit staff which is in line with the AG strategy of stabilising the margins (no mark-up in contract work).

Budget item	2009-10 Budget '000	2010-11 Budget '000	Comments
Contract work	363,681	355,958	This is in line with the AG practice of awarding work to private audit firms
Pre-issuance	33,492	38,441	This is an independent review of audit reports before presentation to the auditees
Vacancies	106,089	70,611	Provision for additional contract work to accommodate our vacancies
International	4,170	2,502	This includes pulling staff from other business units for international audit assignments
<b>Total</b>	<b>507,432</b>	<b>467,512</b>	

#### 2.3 Subsistence and travelling recoverable

Budget item	2009-10 Budget '000 (1)	2009-10 Forecast '000 (2)	Variance		2010-11 Budget '000 (3)	Change	
			'000 (2)-(1)	% (2)-(1)		'000 (3)-(1)	% (3)-(1)
Subsistence and travelling recoverable	64,982	62,537	(2,445)	-3.8%	85,596	20,614	31.7%
International S&T	9,833	9,584	(249)	-2.5%	13,108	3,275	33.3%
<b>Total</b>	<b>74,815</b>	<b>72,121</b>	<b>(2,694)</b>	<b>-3.6%</b>	<b>98,704</b>	<b>23,889</b>	<b>31.9%</b>

**Ref. 2.3.1**

**Ref. 2.3.2**

#### 2.3.1 Budget 2009-10 to budget 2010-11 change

From 2009-10 S&T is calculated as a percentage of recoverable hours based on historical trends. The increase from 2009-10 to 2010-11 is attributable to an increase in both recoverable hours and average S&T rate.







2.3.2 The increase in international S&T is based on the latest trends in travelling cost.

## 2.4 Other income

Budget item	Ref	2009-10 Budget	2009-10 Forecast	Variance		2010-11 Budget	Change	
		'000 (1)	'000 (2)	'000 (2)-(1)	% (2)-(1)	'000 (3)	'000 (3)-(1)	% (3)-(1)
Interest received	2.4.1	8,298	11,393	3,095	37.3%	16,501	8,203	98.9%
Interest received SCMB		-	2,020	2,020	100.0%	2,972	2,972	100.0%
Africa Projects		1,986	395	(1,591)	-80.1%	2,446	460	23.1%
<b>Total</b>		<b>10,284</b>	<b>13,808</b>	<b>3,524</b>	<b>34.3%</b>	<b>21,919</b>	<b>11,635</b>	<b>113.1%</b>

## 2.4.1 Interest received

The increase between budget 2009-10 and 2010-11 is due to the expected improvement in collections after the implementation of the debt collection strategy currently taking place. Interest received includes surplus on foreign contract of R3.5 million.

## 3 PERSONNEL EXPENDITURE

Budget item	Note	2009-10 Budget	2009-10 Forecast	Variance		2010-11 Budget	Change	
		'000 (1)	'000 (2)	'000 (2)-(1)	% (2)-(1)	'000 (3)	'000 (3)-(1)	% (3)-(1)
Leave pay provision	3.1	6,662	6,737	75	1.1%	6,662	-	0.0%
Medical aid provision	3.2	7,469	7,469	(0)	0.0%	8,216	747	10.0%
Normal salary and benefits ***	3.3	744,810	735,585	(9,225)	-1.2%	852,529	107,718	14.5%
Other incentives	3.4	5,400	5,490	90	1.7%	5,426	26	0.5%
UIF & WCA	3.5	3,990	3,889	(101)	-2.5%	4,374	384	9.6%
<b>Total</b>		<b>768,331</b>	<b>759,170</b>	<b>(9,161)</b>	<b>-1.2%</b>	<b>877,207</b>	<b>108,876</b>	<b>14.2%</b>
<b>% of total income</b>		<b>45.0%</b>	<b>44.8%</b>			<b>47.8%</b>		

\*\*\* A more detailed analysis is shown in the table 3.3.1 to 3.3.3 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.

## 3.2 Post-retirement medical aid provision

The PRMA estimates were based on actuarial projections for the 2009-10 forecast. The 2010-11 budget follows the trend of 2009-10.

### 3.3 Normal salary

#### 3.3.1 Audit staff

Employee group	2010-11 Total		Average salary per band	Positioning against benchmark - range	Comments
	No.	'000			
Business executives	19	22,705	1,195	995-1291	
Operational leaders	7	6,647	950	683-976	New employee group
Senior managers	141	109,347	776	605-907	In line with benchmark range
Managers	400	255,055	638	362-783	
Auditors	509	143,206	281	203-500	
Trainee accountants	1,056	101,428	96	75-240	
<b>Total</b>	<b>2,132</b>	<b>638,388</b>			

Note: The total audit staff includes overtime and contracted staff.

#### 3.3.2 Support staff

Employee group	2010-11 Total		Average salary per band '000	Positioning against benchmark - range '000	Comments
	No.	'000			
Corporate executive group	9	16,313	1,813		Includes salaries of the AG and DAG
Business executives	13	15,840	1,218	990-1284	
Senior managers	49	40,216	821	546-907	In line with the benchmark range
Managers	167	85,598	511	277-693	
Specialists and practitioners	187	43,046	230	138-349	
Admin staff	100	13,127	131	124 - 276	
<b>Total Support Staff</b>	<b>525</b>	<b>214,140</b>			

#### 3.3.3 Total staff

Business focus areas	2009-10 Total		2010-11 Total		Comments
	No.	R'000	No.	R'000	
Total audit staff	1,791	546,793	2,132	638,388	The increase is influenced by salary increase rate of 7% and additional staff
Total Support staff	505	198,017	525	214,140	
<b>Total</b>	<b>2,296</b>	<b>744,810</b>	<b>2,657</b>	<b>852,528</b>	

From the above analysis it is clear that the average salary levels are in line with the industry norm that was established in the previous year, hence the rate increase of 7% is in line with budget.



### 3.4

#### Other incentives

Budget item	2009-10 Budget	2009-10 Forecast	Variance		2010-11 Budget	Change		Comments
	'000 (1)	'000 (2)	'000 (2)-(1)	% (2)-(1)	'000 (3)	'000 (3)-(1)	% (3)-(1)	
Group life scheme	4,385	4,385	0	0.0%	4,758	373	8.5%	The increase is in line with salary increase and the increase in number of staff.
Long service awards	0	28	28	100.0%	-	-	0.0%	This is based on the number of entitlements as per the Human Capital database.
Business unit recognition scheme	1,015	1,077	62	6.1%	668	(347)	-34.2%	This is used for team excellence recognition initiatives and is driven by the number of staff. Average cost per head has been reduced as part of cost saving initiatives.
<b>Total</b>	<b>5,400</b>	<b>5,490</b>	<b>90</b>	<b>106.1%</b>	<b>5,426</b>	<b>26</b>	<b>-25.7%</b>	

### 3.5

#### UIF & WCA

Budget item	2009-10 Budget	2010-11 Budget	Change		Comments
	'000 (1)	'000 (2)	'000 (2)-(1)	% (2)-(1)	
UIF employer's contribution	2,956	3,195	239	8.1%	Increase is due to increase in number of staff as well as salary increases.
Workmen's compensation premiums	1,034	1,179	145	14.0%	
<b>Total</b>	<b>3,990</b>	<b>4,374</b>	<b>384</b>	<b>9.6%</b>	

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.

### 3.6

#### PERFORMANCE BONUS

Performance bonus budget R20 million for 2010-11 (2009-10: R12 million) - Performance bonuses are paid when the AGSA has achieved and realised its required financial stretch targets as established in the balanced scorecard after the recommendation by Exco.

### 4

#### CONTRACT WORK - IRRECOVERABLE

Budget item	2009-10 Budget	2009-10 Forecast	Variance		2010-11 Budget	Change	
	'000 (1)	'000 (2)	'000 (2)-(1)	% (2)-(1)	'000 (3)	'000 (3)-(1)	% (3)-(1)
- Ongoing	8,054	11,637	3,583	44.5%	19,225	11,172	138.7%
- One-off	10,066	14,544	4,478	44.5%	7,811	(2,255)	-22.4%
<b>Total</b>	<b>18,120</b>	<b>26,181</b>	<b>8,061</b>	<b>44.5%</b>	<b>27,036</b>	<b>8,917</b>	<b>49.2%</b>
<b>% of total income</b>	<b>1.1%</b>	<b>1.5%</b>			<b>1.5%</b>		

The analysis below reflects details of the nature of expenditure.

Budget item	2009-10 Budget			2010-11 Budget			Comments
	Ongoing '000	Once-off '000	Total '000	Ongoing '000	Once-off '000	Total '000	
QC	1,068	2,037	3,105	1,834	1,730	3,564	External firm level review by Independent Regulatory Board of Auditors (IRBA). Annual mandatory quality control reviews by IRBA. Experts for mandatory quality control e.g. ISA audit. Experts for firm level reviews performed by internal QC component. Assistance with risk assessment for Occupational Health and IT related risks.
Legal	208	-	208	208	-	208	Internal investigations. Amendments and regulations to PAA.
CS	135	6	141	-	-	-	
IRP5					54	54	Income tax reconciliation and certification
Risk	300	-	300	-	-	-	
Corporate Secretariat	-	-	-	50	-	50	Contracting in of report writer to assist with the annual report and strategic plan and budget.
Independent stakeholder survey	800	-	800	-	-	-	
Branding	344	-	344	392	-	392	Visual and content audit to be done by independent brand specialist.
Reporting	275	-	275	248	-	248	Researcher/writer to work on AG history book for centenary year in 2011.
Relevance index	-	-	-	160	-	160	To determine the baseline of the relevance of the AG reports in conjunction with Research and Development.
ICT development	1,894	1,993	3,887	6,142	-	6,142	Specialist support and development of ICT technical services and products.
Tracking system			-	748	-	748	Audit services MIS – ExcelExperts (new systems development and systems maintenance)
EE forum	-	200	200	-	-	-	
Technical development	2,079	1,078	3,157	716	634	1,350	External technical partner review. AoPI and PAM update
Research and Development			-		720	720	Skills required to perform research and development on performance audit.
Other	500	998	1,498	-	-	-	
Records management		283	283	200	90	290	Electronic content management (Internet portal project): Media management (Meltwater News and MSA)
Tender valuations			-		606	606	
Alexandra Forbes			-	27		27	
Human Capital projects	451	917	1,368	8,500	3,500	12,000	Competency assessments, leadership and management development for senior managers, managers and assistant managers and executive coaching soft skill courses for all staff.
Budgeting tool					477	477	Customisation of PeopleSoft budgeting module
BPR		1,853	1,853		-	-	
Systems development		701	701		-	-	
<b>Total</b>	<b>8,054</b>	<b>10,066</b>	<b>18,120</b>	<b>19,225</b>	<b>7,811</b>	<b>27,036</b>	

One-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	2009-10	2009-10	Variance		2010-11	Change	
	Budget	Forecast	'000	%	Budget	'000	%
	(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
S&T irrecoverable	12,788	12,214	(574)	-4.5%	14,399	1,611	12.6%
<b>Total</b>	<b>12,788</b>	<b>12,214</b>	<b>(574)</b>	<b>-4.5%</b>	<b>14,399</b>	<b>1,611</b>	<b>12.6%</b>
<b>% of total income</b>	<b>1%</b>	<b>0.7%</b>			<b>0.8%</b>		

6

#### ACCOMMODATION

6.1

##### Rentals

The increase of 3 226 square meters has been budgeted for due to the budget increase in heads of 323.

Location	Monthly cost per square metre: 2009-10	Square metres occupied	Total staff establishment	Annual cost 2010-11	AG - square metres per staff member	Industry benchmark square metres per staff member	Monthly cost per square metre: 2010-11	Industry benchmark monthly cost per square metre	Comments
Western Cape	67	1,437	192	1,299,914	7.5	15.6	75	122	
Eastern Cape	119	2,430	246	4,019,487	9.9	15.6	138	90	
Mpumalanga	80	1,010	94	1,032,099	10.7	15.6	85	99	
KwaZulu-Natal	80	2,245	206	2,245,918	10.9	15.6	83	90	
North West	85	1,352	99	1,557,953	13.7	15.6	96	99	
Limpopo	81	1,414	119	1,947,798	11.9	15.6	115	112	
Northern Cape	60	1,022	115	797,680	8.9	15.6	65	75	
Johannesburg	76	2,671	173	2,651,355	15.4	15.6	83	122	
Free State	61	1,528	147	1,335,000	10.4	15.6	73	83	
Pretoria	106	17,240	1,266	19,911,268	13.6	15.6	96	122	
<b>Total</b>	<b>93</b>	<b>32,349</b>	<b>2,657</b>	<b>36,798,472</b>	<b>12.2</b>	<b>15.6</b>	<b>95</b>	<b>101</b>	
<b>% of total income</b>				<b>2.0%</b>					
<b>2010-11 budget</b>				<b>1.9%</b>					
<b>2009-10 budget</b>									

## 6.2 Operating costs

When comparing the 2009-10 budget to the 2010-11 budget, the increase of 43% is based on service agreements, most of which are linked to the rental agreements.

### 7 LIAISON

Budget item	Ref.	2009-10 Budget		2009-10 Forecast		Variance		2010-11 Budget		Change	
		'000	(1)	'000	(2)	'000	(2)-(1)	'000	(3)	'000	%
Liaison	7.1.1	5,004		5,181		177		2,888		(2,116)	-42.3%
Internal stakeholder	7.1.2	7,376		7,104		(272)		6,752		(624)	-8.5%
External stakeholder	7.1.3	2,741		2,301		(440)		2,307		(434)	-15.8%
<b>Total</b>		<b>15,121</b>		<b>14,586</b>		<b>(535)</b>		<b>11,947</b>		<b>(3,174)</b>	<b>-21.0%</b>
<b>% of total income</b>		<b>0.9%</b>		<b>0.9%</b>		<b>(535)</b>		<b>11,947</b>		<b>(3,174)</b>	
										<b>0.7%</b>	

### 7.1 STAKEHOLDER RELATIONSHIP

#### 7.1.1 Liaison

Contained in liaison are employee communication, media management, events management and brand & visibility. The decrease is as a result of cost effective budgeting.

#### 7.1.2 Internal stakeholder

Budget item	2009-10 Budget			2010-11 Budget			Variance		Comments
	No	Amount	Total	No	Amount	Total	Rate	Volume	
			'000			'000			
	(1)	(2)	(1)×(2)	(3)	(4)	(3)×(4)			
BU team interventions/CE-led strategic alignment interventions	2,334	1,700	3,968	2,657	2,541	6,752	1,963	821	These are activities that occur every year and are integrated into the CE's strategic alignment in order to achieve maximum impact and cost effectiveness. A maximum of R3000 per employee for all activities is allowed.
CE-led strategic alignment interventions			3,408				(3,408)	-	
Total			7,376			6,752	(1,445)	821	



### 7.1.3 External stakeholder

Budget item	2009-10 Budget			2010-11 Budget			Variance
	No	Allowance '000	Total '000	No	Allowance '000	Total '000	
	(1)	(2)	(3)	(4)	(5)	(6)	
BE – National	19	24	456	23	12	276	(180)
BE – Provincial	9	24	216	9	12	108	(108)
SM	176	7	1,267	197	4	690	(577)
Exco	9	89	802	9	137	1,233	431
<b>Total</b>	<b>213</b>	<b>144</b>	<b>2,741</b>	<b>238</b>	<b>165</b>	<b>2,307</b>	<b>(434)</b>

The cost relates to improvement of relationship and communication with all stakeholders.

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

Budget item	2009-10 Budget			2010-11 Budget			Variance	Comments
	No	Amount R	Total '000	No	Amount R	Total '000		
	(1)	(2)	(3)	(4)	(5)	(6)		
BU / CE workshop	2,334	2,956	6,899	2,657	1,261	3,351	(3,548)	The cost has reduced due to reclassification to internal stakeholder management.
Senior Management Workshop	176	12,833	2,259	238	10,965	2,610	351	The cost per person has slightly increased due to additional number in senior management.
<b>Total</b>	<b>2,510</b>	<b>15,789</b>	<b>9,158</b>	<b>2,895</b>	<b>12,226</b>	<b>5,961</b>	<b>(3,197)</b>	

### 7.3 Foreign visitors

Budget item	2009-10 Budget		2009-10 Forecast		Variance		2010-11 Budget		Change	
	'000	(1)	'000	(2)	'000	%	'000	(3)	'000	%
					(2)-(1)	(2)-(1)			(3)-(1)	(3)-(1)
Foreign visitors	155	155	130	130	(25)	-16.1%	187	187	33	21.0%
<b>Total</b>	<b>155</b>	<b>155</b>	<b>130</b>	<b>130</b>	<b>(25)</b>	<b>-16.1%</b>	<b>187</b>	<b>187</b>	<b>33</b>	<b>21.0%</b>

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.	2009-10 Budget '000	2009-10 Forecast '000	Variance		2010-11 Budget '000	Change		Comments
		(1)	(2)	'000	%	(3)	'000	%	
Auditor-General & DAG	7.4.1	985	456	(529)	(53.7%)	855	(130)	(13.2%)	Planned trips for the AG's and DAG's participation in the Commonwealth and INTOSAI forums.
Research & Development and other	7.4.2	2,680	1,208	(1,472)	(54.9%)	1,523	(1,157)	(43.2%)	This is in respect of Corporate Services trips abroad for training, conferences and research. These are however subject to approval by the DAG.
<b>Total</b>		<b>3,665</b>	<b>1,664</b>	<b>(2,001)</b>	<b>(54.6%)</b>	<b>2,378</b>	<b>(1,287)</b>	<b>(35.1%)</b>	

## 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, regional, 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	2009-10 Budget '000	2009-10 Forecast '000	Variance		2010-11 Budget '000	Change		Comments
		(2)	'000	%	(3)	'000	%	
Parliamentary Oversight Mechanism	-	-	-	0.00%	100	100	0.00%	
Labour & staff relations (union and consultative forum meetings)	302	-	(302)	(100.0%)	-	(302)	(100.0%)	
Corporate Governance Boards (AG Advisory Board, audit committee and quality control assessment committee)	189	398	209	110.9%	444	255	135.4%	Separate classification of the parliamentary oversight mechanism and increase in number of meetings in line with the governance review study.
Parliamentary liaison	-	-	-	0.0%	-	-	0.0%	The budget has been reclassified to Liaison budget item.
<b>Total</b>	<b>491</b>	<b>398</b>	<b>(93)</b>	<b>(18.9%)</b>	<b>544</b>	<b>53</b>	<b>10.9%</b>	
<b>% of total income</b>	<b>0%</b>	<b>0.02%</b>			<b>0.03%</b>			







## 9 AUDIT FEES

### 9.1 External audit fees

Budget item	2009-10 Budget '000	2009-10 Forecast '000	Variance		2010-11 Budget '000	Change		Comments
	(1)	(2)	'000 (2)-(1)	% (2)-(1)	(3)	'000 (3)-(1)	% (3)-(1)	
Financial audit	1,000	1,000	-	0.0%	1,737	737	73.7%	The audit costs are based on the estimates provided by auditors and this covers planning, interim, BU visits and review. The increase is due to reclassification from performance to financial audit.
Performance information audit (balanced scorecard)	1,000	1,000	-	0.0%	752	(248)	-24.8%	The costs are based on the time estimated to conduct the balanced scorecard audit.
Salary review and other	250	489	239	95.6%	440	190	76.0%	The increase is due to more time required to conduct the audit due to increase in staff numbers and scope.
<b>Total</b>	<b>2,250</b>	<b>2,489</b>	<b>239</b>	<b>10.6%</b>	<b>2,929</b>	<b>679</b>	<b>30.2%</b>	
<b>% of total income</b>	<b>0.1%</b>	<b>0.1%</b>			<b>0.2%</b>			

### 9.2 Internal audit fees

Budget item	2009-10 Budget '000	2009-10 Forecast '000	2010-11 Budget '000	Change	
	(1)	(2)	(3)	'000 (3)-(1)	% (3)-(1)
Routine financial audits	500	500	645	145	29.0%
Routine human capital related audits	200	200	220	20	10.0%
Routine internal controls audits	500	500	625	125	25.0%
Business unit visits	1,080	1,080	375	(705)	-65.3%
Ad hoc assignments and system queries (CAATS application)	150	150	310	160	106.7%
Project management and attendance of Audit Committee meetings	300	300	589	289	100.0%
Risk management meetings and strategic risk assessment	200	200	260	60	30.0%
Disbursements	75	75	76	1	1.3%
<b>Total</b>	<b>3,005</b>	<b>3,005</b>	<b>3,100</b>	<b>95</b>	<b>3.2%</b>
<b>% of total income</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.2%</b>		

The forecast 2009-10 and budget 2010-11 are a reflection of the internal audit costs based on the audit coverage plan.

10

## FINANCE CHARGES

Budget item	2009-10 Budget	2009-10 Forecast	Variance		2010-11 Budget	Change	
	'000 (1)	'000 (2)	'000 (2)-(1)	% (2)-(1)	'000 (3)	'000 (3)-(1)	% (3)-(1)
Finance charge	1,422	2,777	1,355	95.3%	2,321	899	63.2%
<b>Total</b>	<b>1,422</b>	<b>2,777</b>	<b>1,355</b>	<b>95.3%</b>	<b>2,321</b>	<b>899</b>	<b>63.2%</b>
<b>% of total income</b>	<b>0.1%</b>	<b>0.2%</b>			<b>0.1%</b>		

Forecast is more than budget due to increase (from average of 12% to 13.5%) in interest rate and notebooks bought not budgeted for.  
The budgeted costs of notebooks is R11 million compared to R8 million in the previous budget period hence the increase in finance charges.

11

## RECRUITMENT EXPENSES

Budget item	2009-10 Budget	2009-10 Forecast	Variance		2010-11 Budget	Change		COMMENTS
	'000 (1)	'000 (2)	'000 (2)-(1)	% (2)-(1)	'000 (3)	'000 (3)-(1)	% (3)-(1)	
Advertisements	831	821	(10)	-1.1%	1,000	169	20.4%	The increase is based on the number of vacancies to be filled.
Personnel agency fees	4,000	4,090	90	2.2%	4,500	500	12.5%	The increase is due to the use of agencies for recruitment of scarce resources.
Interviews	320	381	61	18.9%	407	87	27.1%	The cost is in line with the recruitment strategy of involving business units in the recruitment process.
Transfer and relocation expenses	1,840	1,843	3	0.1%	2,024	184	10.0%	The increase is due to the number of vacancies to be filled.
<b>Total</b>	<b>6,991</b>	<b>7,135</b>	<b>144</b>	<b>2.1%</b>	<b>7,931</b>	<b>940</b>	<b>13.4%</b>	
<b>% of total income</b>	<b>0.4%</b>	<b>0.4%</b>			<b>0.4%</b>			

## 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.	2009-10	2009-10	Variance		2010-11	Change	
		Budget	Forecast			Budget		
		'000	'000	'000	%	'000	'000	%
		(1)	(2)	(2)-(1)	(2)-(1)	(3)	(3)-(1)	(3)-(1)
Membership fees	12.1	6,999	6,879	(120)	-1.7%	7,577	578	8.3%
Internal training	12.2.1	4,471	4,976	505	11.3%	13,739	9,268	207.3%
External training	12.2.2	16,942	17,547	605	3.6%	4,263	(12,679)	-74.8%
S&T: training		8,403	8,700	297	3.5%	11,935	3,532	42.0%
Study assistance: employees	12.3	16,137	14,229	(1,908)	-11.8%	14,378	(1,759)	-10.9%
I&L development projects	12.4	8,625	9,310	685	7.9%	2,200	(6,425)	-74.5%
Bursaries	12.5	11,210	11,218	8	0.1%	13,341	2,131	19.0%
Skills development levy		7,002	7,039	37	0.5%	7,714	712	10.2%
Skills dev. levy – recovered		(52)	(178)	(126)	242.4%	(2,500)	(2,448)	4726.3%
Total		79,737	79,720	(17)	0.0%	72,647	(7,090)	-8.9%
% of total income		4.7%	4.7%			4.0%		

## 12.1

### Membership fees

The increase of 8% from R6,999(2009-10) to R7,577( 2010-11: ) 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	2009-10 Budget		2009-10 Forecast		Variance		2010-11 Budget		Change	
	'000		'000		'000		'000		'000	
	(1)	(2)	(2)	(2)	(2)-(1)	(2)-(1)	(3)	(3)	(3)-(1)	(3)-(1)
Internal	ref. 12.2.1	4,471	4,976	505	11.3%	13,739	9,268	207.3%		
External	ref. 12.2.2	16,942	17,547	605	3.6%	4,263	(12,679)	-74.8%		
<b>Total</b>		<b>21,413</b>	<b>22,523</b>	<b>1,110</b>	<b>14.9%</b>	<b>18,002</b>	<b>(3,411)</b>	<b>-15.9%</b>		

## 12.2.1

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

Type of expense	2009-10 Budget		2010-11 Budget		Change		Comments
	% breakdown	'000	% breakdown	'000	'000	%	
Meals	30.2%	1,350	24.7%	3,396	2,045	151.5%	Increase is mainly due to emphasis on technical training and the growth in the number of staff to be trained.
Internal presenters – S&T cost to region	20.9%	934	8.7%	1,193	259	27.7%	
Venue costs	15.6%	697	12.1%	1,668	970	139.1%	
S&T	33.3%	1,488	54.5%	7,482	5,995	402.9%	
<b>total internal training</b>	<b>100.0%</b>	<b>4,471</b>	<b>100.0%</b>	<b>13,739</b>	<b>9,269</b>	<b>207.3%</b>	

### 12.2.2 External training

Type of expense	2009-10 Budget '000	2009-10 Forecast '000	Variance		2010-11 Budget '000	Change		COMMENTS
	(1)	(2)	'000	%	(3)	'000	%	
Non-audit related	2,232	2,311	79	(2)-(1)	562	(3)-(1)	(3)-(1)	The decrease in external training is largely attributable to the centralisation of the process under Research and Development.
Audit related	8,707	9,018	311	(2)-(1)	2,191	(3)-(1)	(3)-(1)	
Audit study support (ATCOR courses for trainee accountants)	3,398	3,520	122	(2)-(1)	855	(3)-(1)	(3)-(1)	
S&T	2,605	2,698	93	(2)-(1)	655	(3)-(1)	(3)-(1)	
<b>Total</b>	<b>16,942</b>	<b>17,547</b>	<b>605</b>	<b>3.6%</b>	<b>4,263</b>	<b>(12,679)</b>	<b>-74.8%</b>	

In addition to the ATCOR courses for trainee accountants, there is an increased emphasis on external training to provide

- continuing professional development (CPD) programmes for an extended number of employees in both audit and non-audit disciplines
- 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	2009-10 Budget '000	2010-11 Budget '000	Comments
Diploma	223	203	In line with the AG's preference to focus on graduate students. Bulk of the amount budgeted relate to trainee auditors (1056 in total)
Degree	3,540	3,213	
CTA / Honours	5,962	5,410	
FOE support courses	4,613	4,186	
Other	587	533	
MBA	141	128	
Post-graduate	777	705	
Registered Government Auditor - examination and tuition fees	294	-	
Train the Trainer	0	-	
<b>Total</b>	<b>16,137</b>	<b>14,378</b>	

### 12.4 I&L development projects

Type of project	2009-10 Budget '000	2010-11 Budget '000	Comments
Development of technical courses	2,738	1,166	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	4,100	823	
Competency development	1,787	211	
<b>Total</b>	<b>8,625</b>	<b>2,200</b>	





## 12.5

### External student bursaries

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

	Budget 2009-10 '000	Forecast 2009-10 '000	Budget 2010-11 '000
Fort Hare	3,852	3,400	3,850
Thuthuka	1,338	1,300	1,431
External Bursaries	5,520	5,178	6,560
NSOA Process management		980	1,500
ROPLO	500	360	0
<b>TOTAL</b>	<b>11,210</b>	<b>11,218</b>	<b>13,341</b>

### Fort Hare

This amount is per the signed agreement. It relates to the lecturer support and material cost that the AGSA is assisting Fort Hare with.

### Thuthuka

This amount is per the signed agreement. It relates to +/- 25 students that are sponsored on the Thuthuka programme.

### External bursaries

This refers to the cost of our +/- 150 external bursary holders that the office has a commitment with.

### NSOA process management

This is the cost relating to the academic support for +/- 500 CTA(Certificate in Theory of Accounting) and BCTA ( Bridging Certificate in Theory of Accounting) students  
- in order to assist with the monitoring of assignments and tests.

### Participating universities in addition to NSOA and University of Forte Hare

Name of University	No.of Students
Johannesburg	23
Wits	9
Pretoria	15
UNISA	14
Free State	7
KwaZulu-Natal	5
Cape Town	4
Stellenbosch	3
Nelson Mandela Metro	5
North West	3
Fort Hare	37
Rhodes	1
<b>Total</b>	<b>126</b>

## 13

### TECHNOLOGICAL SERVICES

Budget item	Ref.	2009-10 Budget '000	2009-10 Forecast '000	Variance		2010-11 Budget '000	Change	
		(1)	(2)	'000	%	(3)	'000	%
Computer services	13.1	28,576	23,851	(4,725)	(2)-(1)	33,504	4,928	(3)-(1)
Hiring of equipment – rental	13.2	2,987	2,715	(272)	(2)-(1)	3,482	495	(3)-(1)
Hiring of equipment – copy charges		1,053	993	(60)	(2)-(1)	1,227	174	(3)-(1)
<b>Total</b>		<b>32,616</b>	<b>27,559</b>	<b>(5,057)</b>	<b>-15.5%</b>	<b>38,213</b>	<b>5,597</b>	<b>17.2%</b>
<b>% of total income</b>		<b>1.9%</b>	<b>1.6%</b>			<b>2.1%</b>		

## 13.1 COMPUTER SERVICES

Budget item	2009-10 Budget '000 (1)	2009-10 Forecast '000 (2)	Variance		2010-11 Budget '000 (3)	Change		Comments
			'000 (2)-(1)	% (2)-(1)		'000 (3)-(1)	% (3)-(1)	
IT maintenance and support	17,448	12,723	(4,725)	-27.1%	18,226	778	4.5%	The bulk of these expenses are made up of licences and WAN operating cost which have remained virtually unchanged.
Networks	7,757	7,757	-	0.0%	11,863	4,106	52.9%	
Security	2,450	2,450	-	0.0%	2,616	166	6.8%	
Telecommunications	921	921	-	0.0%	799	(122)	-13.2%	
<b>% of total income</b>	<b>28,576</b> <b>1.7%</b>	<b>23,851</b> <b>1.4%</b>	<b>(4,725)</b>	<b>-16.5%</b>	<b>33,504</b> <b>1.8%</b>	<b>4,928</b> <b>17.2%</b>	<b>0.0%</b>	

## 13.2 Hiring of equipment – rental

The increase of 17% from R2,987 (2009-10) to R3,482 (2010-11) in budget is due to an increase in the number of multi-functional devices.

## 14 INSURANCE AND LEGAL FEES

Budget item	2009-10 Budget '000 (1)	2009-10 Forecast '000 (2)	Variance		2010-11 Budget '000 (3)	Change		Comments
			'000 (2)-(1)	% (2)-(1)		'000 (3)-(1)	% (3)-(1)	
Insurance premiums	660	1,126	466	70.6%	1,250	590	89.4%	Increase is due to the self insurance funding of laptops.
Legal fees and contingency	1,044	3,649	2,605	249.5%	1,200	156	14.9%	The increase in the forecast is a result of investigations taking place.
<b>Total</b>	<b>1,704</b> <b>0.1%</b>	<b>4,775</b> <b>0.3%</b>	<b>3,071</b> <b>180.2%</b>		<b>2,450</b> <b>0.1%</b>	<b>746</b> <b>43.8%</b>		

## 15 AUXILIARY SERVICES

Budget item	2009-10 Budget '000 (1)	2009-10 Forecast '000 (2)	Variance		2010-11 Budget '000 (3)	Change	
			'000 (2)-(1)	% (2)-(1)		'000 (3)-(1)	% (3)-(1)
Auxiliary services	14,468	15,619	1,151	8.0%	18,754	4,286	29.6%
<b>Total</b>	<b>14,468</b> <b>0.8%</b>	<b>15,619</b> <b>0.9%</b>	<b>1,151</b> <b>8.0%</b>		<b>18,754</b> <b>1.0%</b>	<b>4,286</b> <b>29.6%</b>	

The increase of 29% in auxiliary services is mainly due to planned repairs and maintenance.





16

## COMMUNICATION

Budget item	Ref.	2009-10 Budget '000	2009-10 Forecast '000	Variance		2010-11 Budget '000	Change	
		(1)	(2)	'000	%	(3)	'000	%
Telephone charges	16.1	4,536	3,794	(742)	(16.4%)	4,707	171	3.8%
Cellphone charges	16.2	1,976	1,831	(145)	(7.3%)	2,230	254	12.9%
Postage and courier services		1,158	1,307	149	12.8%	1,498	340	29.3%
<b>Total</b>		<b>7,669</b>	<b>6,932</b>	<b>(738)</b>	<b>-9.6%</b>	<b>8,434</b>	<b>765</b>	<b>10.0%</b>
<b>% of total income</b>		<b>0.5%</b>	<b>0.4%</b>			<b>0.5%</b>		

16.1

### Telephone charges

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

16.2

### Cellphone charges

The increase is due to the growth in the number of users, with allowance being kept at a maximum of R700 per month.

17

## DEPRECIATION

Budget item	2009-10 Budget '000	2009-10 Forecast '000	Variance		2010-11 Budget '000	Change	
		(1)	(2)	(2)-(1)	(3)	(3)-(1)	%
Motor vehicles	300	303	3	1.2%	526	226	75.4%
Furniture & equipment	2,400	3,209	809	33.7%	4,076	1,676	69.8%
Computer equipment	18,787	21,983	3,196	17.0%	27,241	8,454	45.0%
Computer software	5,204	4,723	(481)	-9.2%	3,459	(1,745)	-33.5%
Leasehold improvements	1,440	3,538	2,098	145.7%	3,477	2,037	141.5%
<b>Total</b>	<b>28,131</b>	<b>33,756</b>	<b>5,625</b>	<b>20.0%</b>	<b>38,779</b>	<b>10,648</b>	<b>37.9%</b>
<b>% of total income</b>		<b>1.6%</b>	<b>2.0%</b>		<b>2.1%</b>		

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.

18 CAPITAL EXPENDITURE BUDGET

18.1 Motor vehicles

Description	2009-10 Forecast	Acquisitions	Depreciation	2010-11 Budget
	NCV '000			NCV '000
Motor vehicles	1,827	1,544	526	2,845
<b>Total</b>	<b>1,827</b>	<b>1,544</b>	<b>526</b>	<b>2,845</b>

Location	2009-10 Budget	2009-10 Forecast	2010-11 Budget
	'000	'000	'000
Replacement of AG's car and pool cars for Eastern Cape, Africa Projects, Northern Cape & North West	1,180	930	1,544
<b>Total</b>	<b>1,180</b>	<b>930</b>	<b>1,544</b>

18.2 Office furniture and equipment

Description	2009-10 Forecast	Acquisitions	Depreciation	2010-11 Budget
	NCV '000			NCV '000
Furniture and equipment	21,992	20,457	4,076	38,373
<b>Total</b>	<b>21,992</b>	<b>20,457</b>	<b>4,076</b>	<b>38,373</b>

Location	2009-10 Budget	2009-10 Forecast	2010-11 Budget	Comments
	'000	'000	'000	
KwaZulu-Natal	1,563	5	-	New furniture acquisition is budgeted centrally in Pretoria
Eastern Cape	1,073	-	-	
North West	691	594	-	
Western Cape	110	204	-	
Limpopo	4,000	198	-	
Mpumalanga	-	-	-	
Northern Cape	99	231	-	
Free State	344	-	-	
Pretoria	4,363	5,446	20,353	
Gauteng	934	174	104	
<b>Total</b>	<b>13,177</b>	<b>6,852</b>	<b>20,457</b>	Hanging filing cabinet for storeroom





### 18.3 Leasehold improvements

Description	2009-10	Acquisitions	Depreciation	2010-11
	Forecast			
	NCV			
	'000	'000	'000	'000
Leasehold improvements	17,156	19,796	3,477	33,475
<b>Total</b>	<b>17,156</b>	<b>19,796</b>	<b>3,477</b>	<b>33,475</b>

Location	2009-10	2009-10	2010-11	Comments
	Budget	Forecast	Budget	
	'000	'000	'000	
Eastern Cape	350	-	-	New leasehold improvements are budgeted for centrally in Pretoria
North West	30	30	-	
Gauteng	-	-	-	
Limpopo	2,000	-	-	
Mpumalanga	-	-	-	
KwaZulu-Natal	20	-	-	
Pretoria	8,824	9,489	19,796	
<b>Total</b>	<b>11,224</b>	<b>9,519</b>	<b>19,796</b>	

### 18.4 Computer hardware

Description	2009-10	Acquisitions	Depreciation	2010-11
	Forecast			
	NCV			
	'000	'000	'000	'000
Computer hardware	28,059	19,767	27,241	20,585
<b>Total</b>	<b>28,059</b>	<b>19,767</b>	<b>27,241</b>	<b>20,585</b>

Budget item	Ref.	2009-10	2009-10	Variance		2010-11	Change	
		Budget	Forecast	'000	%	Budget	'000	%
		'000	'000	(1)	(2)	'000	(3)	(4)
Regional equipment	18.4.1	9,384	8,818	(566)	-6.0%	5,897	(3,487)	-37.2%
Networks	18.4.2	3,024	1,049	(1,975)	-65.3%	1,483	(1,541)	-50.9%
Security		2,255	3,366	1,111	49.3%	1,101	(1,154)	-51.2%
Notebooks	18.4.3	7,365	12,160	4,795	65.1%	11,286	3,921	53.2%
<b>Total</b>		<b>22,028</b>	<b>25,393</b>	<b>3,365</b>	<b>15.3%</b>	<b>19,767</b>	<b>(2,261)</b>	<b>-10.3%</b>

### 18.4.1 Regional equipment

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

#### 18.4.2 Networks

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

#### 18.4.3 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.

#### 18.5 Computer software

Description	2009-10		Acquisitions	Depreciation	2010-11	
	Forecast				Budget	
		NCV			NCV	
		'000	'000	'000		'000
Computer software		13,687	3,988	3,459		14,216
<b>Total</b>		<b>13,687</b>	<b>3,988</b>	<b>3,459</b>		<b>14,216</b>

Budget item	Ref.	2009-10 Budget		2009-10 Forecast		Variance		2010-11 Budget		Change	
		'000	'000	'000	'000	'000	%	'000	'000	'000	%
		(1)	(2)	(2)	(2)	(2)-(1)	(2)-(1)	(3)	(3)	(3)-(1)	(3)-(1)
Regional systems	18.5.1	2,716	11	11	(2,705)		-99.6%	1,822	(894)	(894)	-32.9%
Systems	18.5.2	5,621	8,977	8,977	3,356		59.7%	2,166	(3,455)	(3,455)	-61.5%
Security		1,591	-	-	(1,591)		-100.0%	-	(1,591)	(1,591)	-100.0%
<b>Total</b>		<b>9,928</b>	<b>8,988</b>	<b>8,988</b>	<b>(940)</b>		<b>-9.5%</b>	<b>3,988</b>	<b>(5,940)</b>	<b>(5,940)</b>	<b>-59.8%</b>



#### 18.5.1 Regional systems

Budget item	2009-10 Budget '000	2009-10 Forecast '000	2010-11 Budget '000
Scheduling and process software	-	11	-
Various software upgrades	1,158		777
Desktop publishing software	278		187
Monitoring software (event logs)	167		112
Network monitoring (HP)	1,113		746
<b>Total</b>	<b>2,716</b>	<b>11</b>	<b>1,821</b>

#### 18.5.2 Systems

Budget item	2009-10 Budget '000	2009-10 Forecast '000	2010-11 Budget '000
ADOBE Acrobat Reader	28	44	11
E-Learning Software	1,391	2,222	536
FrontPage upgrade	28	44	11
Ghost Software	2,783	4,444	1,072
Purchase of PS budget module if feasibility study is successful	1,391	2,223	536
<b>Total</b>	<b>5,621</b>	<b>8,977</b>	<b>2,166</b>

### Annexure 3: Proposed internal rates

CATEGORIES	SALARY INTERVAL		TARIFF
	LOWER	UPPER	
			Budget 2010-11
<b>Business executives</b>	1,070,000	1,391,000	2,109
<b>Operational leaders</b>	984,400	1,005,800	1,537
	963,000	984,400	1,504
	941,600	963,000	1,471
	920,200	941,600	1,438
	898,800	920,200	1,405
<b>Senior managers</b>	963,000	984,400	1,517
	941,600	963,000	1,484
	920,200	941,600	1,451
	898,800	920,200	1,417
	877,400	898,800	1,384
	856,000	877,400	1,351
	834,600	856,000	1,317
	813,200	834,600	1,284
	791,800	813,200	1,251
	770,400	791,800	1,217
	749,000	770,400	1,184
	727,600	749,000	1,151
	706,200	727,600	1,117
	684,800	706,200	1,084
	663,400	684,800	1,050
	642,000	663,400	1,017
	620,600	642,000	984
	599,200	620,600	950
	577,800	599,200	917
	556,400	577,800	884
<b>Audit managers</b>	716,900	738,300	1,202
	695,500	716,900	1,166
	674,100	695,500	1,131
	652,700	674,100	1,096
	631,300	652,700	1,060
	609,900	631,300	1,025
	588,500	609,900	990
	567,100	588,500	954
	545,700	567,100	919
	524,300	545,700	884
	502,900	524,300	848
	481,500	502,900	813
	460,100	481,500	778
	438,700	460,100	742
	417,300	438,700	707
	395,900	417,300	672
	374,500	395,900	636
	353,100	374,500	601



CATEGORIES	SALARY INTERVAL		TARIFF
	LOWER	UPPER	
			Budget 2010-11
<b>Auditors</b>	460,100	481,500	767
	438,700	460,100	732
	417,300	438,700	697
	395,900	417,300	662
	374,500	395,900	627
	353,100	374,500	593
	331,700	353,100	558
	310,300	331,700	523
	288,900	310,300	488
	267,500	288,900	453
	246,100	267,500	418
	224,700	246,100	383
	203,300	224,700	349
	181,900	203,300	314
	160,500	181,900	279
	139,100	160,500	244
	117,700	139,100	209
	107,000	117,700	183
	96,300	107,000	166
	85,600	96,300	148
<b>Trainee accountants</b>	353,100	363,800	676
	342,400	353,100	656
	331,700	342,400	636
	321,000	331,700	616
	310,300	321,000	595
	299,600	310,300	575
	288,900	299,600	555
	278,200	288,900	535
	267,500	278,200	515
	256,800	267,500	495
	246,100	256,800	474
	235,400	246,100	454
	224,700	235,400	434
	214,000	224,700	414
	203,300	214,000	394
	192,600	203,300	373
	181,900	192,600	353
	171,200	181,900	333
	160,500	171,200	313
	149,800	160,500	293
	139,100	149,800	272
	128,400	139,100	252
	117,700	128,400	232
	107,000	117,700	212
	96,300	107,000	192
	85,600	96,300	172
	74,900	85,600	151
	64,200	74,900	131
	53,500	64,200	111

#### **Annexure 4: Horizontal auditing approach**

The concept of a horizontal approach to the auditing of areas that are common to a number of auditees was first introduced by the Auditor-General at the 2007 senior management workshop in Bloemfontein.

The objective of such a horizontal approach is to:

- increase audit efficiency – decreasing the audit time while still meeting professional standards
- improve the quality of audit procedures
- improve consistency between audits, which promotes consistent reporting
- increase service delivery aspects in audits.

The theme chosen for the 2008-09 horizontal audit pilot project was human resource (HR) management and employee compensation at government departments (national and provincial). Based on the results from the pilot project, minor modifications were made to the approach to ensure that the objectives are achieved.

The HR management and compensation theme will be continued for 2009-10 with a focus on further increasing efficiencies after the baseline has been set as part of the pilot project.

An additional theme of procurement across all spheres of government will be introduced, which will specifically focus on the risks relating to the supply chain management process.

## **Annexure 5: Performance auditing initiatives for 2010-11**

The performance audit advisory committee, under chairmanship of the AG, approved the following performance audit themes for the 2010-11 financial year:

1. Poverty reduction, with specific emphasis on the services provided by the education sector: Current research is focused on three main categories within the Departments of Education, namely those which:
  - cut across many educational activities and are used for data gathering, analysis and monitoring - 10th School Day survey, Education Management Information System and the Integrated Quality Management System.
  - are directed at basic education, such as early childhood development, no-fee schools and the nutrition programmes.
  - are directed at higher education and training, such as Further Education and Training, Adult Basic Education and Training, the Kha Ri Gude initiative and the National Student Financial Aid Scheme.

A performance audit will be conducted on the economy, efficiency and effectiveness of these initiatives. The AGSA is in the process of finalising research on these aspects.

2. A performance audit on the economy, efficiency and effectiveness of the oversight and governance systems used by shareholding departments in respect of SOEs. The focus areas of this performance audit are as follows:
  - Is a department's oversight role to ensure good governance properly defined?
  - Does an environment of accountability and transparency exist?
  - Are business activities relating to this carried out economically, effectively and efficiently?

Emphasis will be placed on determining whether departments' level of oversight is empowered and equipped to:

- influence strategic direction at SOEs
  - monitor implementation thereof
  - identify associated risks
  - implement corrective actions
  - ensure transparency and accountability.
3. The AGSA is also conducting a transversal performance audit at national and provincial departments on the use of consultants by government departments. The final report will be tabled during the 2010-11 financial year.

## Annexure 6: Auditing of performance information

### A phasing-in approach

1. In terms of section 13 of the PAA, the AGSA has followed a phasing-in approach since 2004 to adhere to sections 20 and 28 of the PAA.
2. 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.
  - Since the AGSA is committed to playing a constructive and, where appropriate, 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.
3. The objective of an audit of performance information is to enable the auditor to conclude on whether the reported performance against predetermined objectives is reliable, accurate and complete in all material respects, based on predetermined criteria.
4. The AGSA recognises the following sources as criteria against which the subject matter will be evaluated as a basis for the audit conclusions:
  - All relevant laws and regulations
  - *Framework for the managing of programme performance information*, issued by the National Treasury
  - Relevant frameworks, circulars and guidance issued by the National Treasury and the Presidency regarding the planning, management, monitoring and reporting of performance information.
5. The phasing-in approach to the auditing of performance information constitutes a review of the policies, systems, processes and procedures for managing and reporting on performance against predetermined objectives.
6. For all entities, it has been decided that no separate opinion on performance against predetermined objectives should be included in the auditor's reports. Reporting in this regard will form part of the regularity auditing process. Reporting will be in relation to material shortcomings in the process, systems and procedures of reporting against predetermined objectives which may come to the attention of the auditor during the audit and may impact on the public interest. Such reporting will appear in the other legal and regulatory responsibilities section of the auditor's report.
7. However, for the categories of audited entities mentioned below insofar as the 2009-10 audit cycle is concerned, an audit opinion will be issued as an annexure to the management report as part of the readiness assessment, but will not be made public.
  - National and provincial departments, constitutional institutions and trading entities



- National and provincial public entities
  - Municipal metropolitan councils and the related municipal entities
8. Audit conclusions in this regard will be reached as part of the financial auditing process in terms of the International Standards on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical financial information*.

## **Annexure 7: Firm-level reviews and quality control in the IRBA process**

In line with ISQC1, the AGSA 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 AGSA's *Quality control manual*, as rolled out in 2009. The implementation of the manual is characterised by ongoing maintenance and revisions by dedicated personnel as overseen by the Quality Control Assessment Committee.

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

### **A. Review of compliance at institutional level**

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

- Annual review of the AGSA'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 AGSA'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 extends over three years.

### **C. Results of the monitoring process**

The AGSA is currently in the process of preparing for the external firm-level review by IRBA towards the end of 2010. After 2010, the AGSA's monitoring team will conduct the institutional reviews which will be an annual occurrence. The review results will initially be used for the AGSA as a whole for corrective action and also to recognise good performance from 2011 onwards. Appropriate recognition criteria and performance measures will be compiled subsequent to the IRBA review.

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

## **Annexure 8: Corporate governance**

The Constitution of the Republic of South Africa, 1996 establishes the Auditor-General of South Africa as a state institution, outlines the manner in which the Auditor-General is appointed and defines the institution's principles and key functions. As such, the Constitution provides the corporate governance framework with which the institution must comply.

Corporate governance is furthermore defined in the Public Audit Act (PAA). The PAA facilitates the establishment and defines the functions of the parliamentary oversight mechanism, the Standing Committee on the Auditor-General. The PAA also establishes and defines other key governance structures of the AGSA. These structures are the Audit Committee, the Remuneration Committee, the Executive Committee and the Quality Control Assessment Committee.

Collectively, the AGSA's corporate governance arrangements and structures are formalised in the Corporate Governance Framework, which has been in place since October 2007 and is reviewed annually to ensure its relevance.

### **Standing Committee on the Auditor-General (SCoAG)**

The National Assembly established SCoAG in June 2006 to maintain oversight over the AGSA as required by the PAA. The committee is tasked with assisting and protecting the AGSA to ensure its independence, impartiality, dignity and effectiveness. SCoAG also advises Parliament on a range of matters relating to the AGSA.

### **Audit Committee**

The Audit Committee of the AGSA was established in terms of section 40(6)(a) of the PAA. The committee exercises independent oversight and does not fulfil or assume any management responsibilities in discharging its duties. These duties, set out in section 43, are to maintain effective, efficient and transparent systems of financial management, risk management and internal control, and to maintain an effective internal audit function.

In addition, the Audit Committee assists the DAG in overseeing the following:

- Approval of the criteria and procedures to be followed in the selection and appointment of external auditors, after which the committee makes its recommendation on the appointment of the auditors to SCoAG for approval.
- Approval of the appointment of internal auditors and all activities relating to the internal audit function.
- Examination and review of the preparations made to ensure accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.
- Review of reports from both internal and external auditors on the effectiveness of the risk management processes and procedures and adherence to prescribed internal controls.

In terms of section 40(5)(a) of the PAA, the Audit Committee must comment in the annual report on the effectiveness of internal control and on its evaluation of the AGSA's financial statements.

The Audit Committee may, in terms of section 40(6)(b), communicate any concerns it may have to the AGSA, the external auditors of the AGSA and SCoAG.

The Audit Committee reviews its approved terms of reference annually to ensure that they remain relevant and are in compliance with applicable legislation.

### Composition of the Audit Committee

The Audit Committee that was in place during 2008-09 consisted of four independent non-executive members and was in the third year of its three-year term. On completing its term, which coincided with the resignation of one member, it was decided that the Audit Committee should consist of three members with at least one additional member being rotated annually. With this in mind, the three remaining members of the Audit Committee were reappointed for a second term.

### Remuneration Committee

In terms of section 34(3) of the PAA, the AG is responsible for setting the terms and conditions of employment of all employees in the organisation. The Remuneration Committee was established to provide the AG with specialised advice on remuneration and related issues. The committee plays a professional advisory role and the final decision-making power rests with the AG.

In fulfilling its advisory role, the Remuneration Committee reviews and makes recommendations on the following matters:

- General trends and practices regarding employment benefits, including the structuring of conditions of employment and remuneration packages.
- The framework or broad policy for the remuneration of executive and senior management.
- Within the terms of the agreed policy, the total individual remuneration package of each executive member of management, including, where appropriate, bonuses and incentive payments.
- Targets and rules for any performance-related pay schemes, whether already in operation or yet to be instituted.
- General salary increases and mandates for negotiations, where applicable.
- Any other human resource management issue which the AGSA may wish to table for discussion.

### Composition of the Remuneration Committee

The Remuneration Committee has three independent non-executive members and three executive members, and is chaired by an independent non-executive member. The executive members are the DAG, the COO and HoA.

### Quality Control Assessment Committee

The AGSA has established the Quality Control Assessment Committee as an oversight body to assist the AG and the DAG in fulfilling their responsibilities for the implementation of the quality control system. These responsibilities include performing quality control reviews in accordance with International Standards on Auditing (ISA).

The committee is made up of an external member, the AG and the DAG. The HoA serves as the alternative member for the AG and DAG.

Quality control reviews are conducted by the Practice Review Department of the Independent Regulatory Board for Auditors (IRBA), together with the AGSA Quality Control

Unit. All review reports are submitted to the Quality Control Assessment Committee, which is professionally assisted by the IRBA and is responsible for the following:

- Approving the AGSA's Quality Control Strategy
- Setting quality control review criteria
- Determining the outcome of individual review findings
- Communicating overall review results to Exco
- Setting criteria for positive recognition and a framework for addressing non-compliance with professional standards
- Considering the consistency and quality of review reports and recommendations
- Providing guidance when problems and difficulties are encountered during quality control reviews

Should any disputes arise regarding the findings of quality control reviews, such cases are referred to the Difference of Opinion Committee. The Difference of Opinion Committee decides on the outcome of each case by considering the validity and preliminary risk rating of the finding, along with the written responses received regarding the case.

The Difference of Opinion Committee has been reconstituted to include external members of the accounting professional bodies, with the aim of strengthening the independence, objectivity and credibility of its adjudication. The reconstituted committee consists of the HoA of the AGSA and two external members, one from the IRBA and one from SAICA. The committee is chaired by one of the external members.

### **Executive Committee**

The PAA authorises both the AG and the DAG to delegate any power and duty assigned to them to any member of staff. In terms of the delegation of authority contained in the AGSA's Management Approval Framework, an Executive Committee assists the DAG in managing the business and affairs of the organisation.

#### **Composition of the Executive Committee and its meetings**

The Executive Committee, known as Exco, is chaired by the DAG and consists of the HoA, COO and all five CEs.

Exco has the power to establish sub-committees to assist it in carrying out its obligations. During the year under review, Exco established the Vacancy Committee to manage the filling of vacancies within the AGSA. This brings to three the number of Exco sub-committees in operation. The two existing sub-committees are the Technical Committee and the Tender Committee. All three sub-committees have clearly defined terms of reference and are chaired by an Exco member.

Exco meets monthly and holds special meetings when necessary. Exco meetings focus on reviewing and directing the implementation of the AGSA's business and strategic plans throughout the year.

### **Tender Committee**

The Tender Committee is a sub-committee of Exco. Its main focus is to ensure fair and consistent application of all procurement policies and procedures, thereby promoting a transparent tender culture.

The Tender Committee consists of two executive members and five staff members and is chaired by an executive member. The committee has an evaluation working group, whose key function is to promote a transparent, fair and effective evaluation process.

The committee meets regularly to ensure that all tenders issued and transactions undertaken reflect the organisation's strategic intent to support BEE-compliant businesses and are in line with all policies.

### **Vacancy Management Committee**

Exco approved the formation of the Vacancy Management Committee in November 2008 to oversee the filling of vacant support positions needed for business continuity within the AGSA. The committee evaluates motivations from non-audit business units submitting requests to fill vacancies.

The Committee meeting is chaired by the COO. The other members are the HoA, two CEs and the Business Executive: Human Capital. The latter communicates the outcomes of the evaluations to the relevant business units for further action.

### **Technical Committee**

The Technical Committee functions as a sub-committee of Exco. It was established in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) to give effect to the requirements of section 13 of the PAA.

The role and functions of the committee are as follows:

- Consider developments in auditing standards and best practices and make recommendations to Exco.
- Consider developments in applicable accounting standards and make recommendations to Exco.
- Consider the relevance of audit reporting by the AGSA and recommend to Exco the most appropriate product mix, nature and scope of audits.
- Guide the work schedule of Audit Research and Development.
- Consider the processes underpinning the finalisation of all technical development.
- Consider at a process level the audit outcomes of audit quality assurance processes.
- Guide the technical learning curricula for auditing staff.

The committee is chaired by an Exco member and comprises three members from the audit business units and one each from Special Audit Services, Audit Research and Development, Information Systems Auditing, Organisational Learning, Quality Control and the Independent Regulatory Board for Auditors.

## **Risk management**

Section 43 of the PAA requires the AGSA to establish and maintain a system of risk management and internal control, including an effective internal audit function. In the year under review, the AGSA continued to follow a multi-faceted approach to risk management:

- Significant risks are identified against the organisation's strategic goals and objectives.
- Annual risk assessments are conducted and the results are incorporated into the internal and external audit coverage plans.
- Risks identified during the auditing process are added to the organisational risk profile.
- The individual business units and the organisation monitor compliance with key controls designed to mitigate identified risks.
- The internal auditors regularly provide independent assurance to management and the Audit Committee on the management of key risks.

## **Annexure 9: Principles of good practice**

The AGSA adheres to ISSAI 21, namely the principles of transparency and accountability standardised by INTOSAI. ISSAI 21 advances nine major principles of transparency and accountability in order to assist SAIs to lead by example in their own governance and practices.

### **Principle 1**

**SAIs perform their duties under a legal framework that provides for accountability and transparency:**

- The AGSA's function is enshrined in the South African Constitution.
- Detailed functioning of the South African SAI is described in the PAA.
- The detailed approach to audits per cycle is contained in a directive published in terms of the PAA.

### **Principle 2**

**SAIs make public their mandate, responsibilities, mission and strategy:**

- The AGSA has compiled documents explicitly setting out these aspects. All these are public documents and are available on the AGSA's website at [www.agsa.co.za](http://www.agsa.co.za).
- The organisation's strategy is tabled in Parliament.
- All documentation originating from the AGSA contains key references to these aspects in the form of the reputation promise and pay-off line.

### **Principle 3**

**SAIs adopt audit standards, processes and methods that are objective and transparent:**

- These standards, processes and methods are confirmed in a directive published in terms of the PAA.
- The AGSA has adopted all IFAC auditing pronouncements and mention is also made of the context created by the current ISSAI developments.
- Specialist functions are handled in terms of either the IFAC or the ISSAI standards.
- Methodology processes and methods are defined and described in the Public Audit Manual (PAM). This is updated for each audit cycle through appropriate technical development governance processes, supported by in-depth technical learning processes.

### **Principle 4**

**SAIs apply high standards of integrity and ethics for staff at all levels:**

- The AGSA's adoption of the IFAC auditing pronouncements implies a commitment to integrity and ethics as outlined in these standards.
- In addition, the South African SAI subscribes in full to the guidance of INTOSAI in this regard.



- The AGSA has revised its entire quality control manual to emphasise guidance on ethics and integrity.
- All training curricula include ethics training as a basic requirement.
- The AGSA completed a round of ethics-specific training for all audit staff during the 2008-09 financial year.

#### **Principle 5**

**SAIs ensure that these accountability and transparency principles are not compromised through outsourcing activities:**

- The AGSA outsources its work through an independent tendering process that takes cognisance of issues such as quality and requirements for rotation.
- The AGSA remains responsible for signing off all audit reports that are contracted out.
- All contract firms are expected to meet to a stringent set of requirements that focus, among others, on the key elements of the auditing standards, including accountability and transparency.
- All reports of outsourced audits are made public through the AGSA's standard processes.

#### **Principle 6**

**SAIs manage their operations economically, efficiently, effectively and in accordance with laws and regulations and report publicly on these matters:**

- The AGSA's strategy and balanced scorecard results are tabled in Parliament through SCoAG.
- The strategy contains specific references to the economy, efficiency and effectiveness of the AGSA's operations, as well as its compliance with laws and regulations.
- The AGSA's performance against its strategy and balanced scorecard is reported in its annual report.

#### **Principle 7**

**SAIs report publicly on the results of their audits and on their conclusions regarding government activities:**

- All the AGSA's reports are made public through a process of tabling in Parliament or relevant legislatures.

#### **Principle 8**

**SAIs communicate timeously and widely on their activities and audit results through the media, websites and by other means:**

- The AGSA presents the annual audit outcomes on the PFMA and MFMA to all stakeholders in the legislatures, as well as to AGSA staff, the National and Provincial Treasury and members of the media.

- PFMA and MFMA consolidated general reports are published and tabled in the respective legislatures. These reports contain a synopsis of the audit reports, along with summaries of financial reporting results, performance reporting results and issues driving audit results.
- Audit outcome presentations and tabled general reports are also published on the AGSA's website.
- The AGSA conducts annual roadshows to inform the media about the audit outcomes, thus enhancing public awareness and understanding of the AGSA's mandate and vision.

## **Principle 9**

### **SAls make use of external and independent advice to enhance the quality and credibility of their work:**

- The IFAC and ISSAI standards (as above) that the AGSA has adopted go hand in hand with adherence to this principle.
- Specific technical quality management and governance processes have been instituted to ensure comprehensive consultation with all appropriate role players, internally and externally. Independent auditing advice is provided by the IRBA, while consultation on accounting matters takes place with the ASB, the National Treasury and, where applicable, SAICA. All these relationships are maintained through formal structures and processes.
- Formal policies on consultation and differences of opinion are an integral part of the audit methodology.

## Annexure 10: BBBEE rating

<b>BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE) Level Contributor</b>		
<b>BEE Status</b>	<b>Qualification</b>	<b>BEE procurement recognition level</b>
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%

### Annexure 11: BBBEE Plan for the AGSA 2010-2013

BBBEE components	Strategic objective	Key performance indicators	Performance targets			
			2010	2011	2012	2013
Ownership	Not applicable to the AGSA					
Management control	Encourage proper representation of black people on company boards in an executive and non-executive capacity	Guiding and providing assistance to the Governance BU in respect of representation targets for governance structures and top management	50%	60%	65%	70%
Employment equity	Strive towards an equitable workforce	Setting of numerical goals that are aligned with the EAP				
		Black disabled employees as a percentage of all employees	2%	3%	4%	5%
		Black employees in senior management as a percentage of all employees using the adjusted recognition for gender	43%	50%	67%	70%
		Black employees in middle management as a percentage of all employees using the ARG	63%	67%	71%	75%
		Black employees in junior management as a percentage of all employees using the ARG	70%	75%	80%	85%
Preferential procurement	Promote use of preferential (including targeted) procurement schemes to achieve BBBEE within the overall procurement spend. % reserved for all the black audit firms that are willing to consolidate	Achieve a BEE procurement spend on all suppliers based on the BEE procurement recognition levels as a percentage of the total procurement spend	60%	63%	67%	70%
		Ensure BEE expenditure as % of total auditing contract work expenditure	60%	63%	67%	70%
		Ensure BEE expenditure as % of total provisioning (non-core) expenditure	60%	63%	67%	70%
Skills development	Promote a diverse and skilled workforce which is representative of national demographics	Skills development expenditure on learning programmes for black employees as a percentage of leviable amount	3%	3,5%	4%	5%

BBEE components	Strategic objective	Key performance indicators	Performance targets			
			2010	2011	2012	2013
	Skills development expenditure on learning programmes	Adjusted skills development expenditure on learning programmes for black people with disabilities as a percentage of leviable amount	0.3%	1%	2%	3%
	Learning programmes	Adjusted number of black employees participating in learning programmes as a percentage of total employees	50%	57%	65%	70%
Enterprise development	Support and implement initiatives to assist black audit firms to grow and develop	Percentage of black audit firms that will be developed to capacitate a larger amount of audit work	5%	6%	8%	10%
Socio-economic development Corporate Social Investment	The objective is to ensure that beneficiaries have sustainable access to the economy – Add value via schools poverty eradication programme.	Implementation and facilitation of support for the schools poverty eradication programme	5%	6%	8%	10%





