

# CENTENARY EDITION



**100** YEARS  
1911-2011

## ANNUAL REPORT 2010-11

*Auditing to build public confidence*



AUDITOR - GENERAL  
SOUTH AFRICA



The baobab tree with its deep roots and longevity symbolises the strength and reliability of the AGSA's 100-year legacy.

" As your institution is celebrating this historic moment in the public audit history in South Africa, we are encouraged by your institution's ongoing endeavours of enhancing public sector accountability. As a proudly South African institution, we are confident that you will continue to fly the South African flag and position your office to be amongst the best supreme audit institutions in the world. We wish you all the best and we are looking forward to another 100 years of the AGSA. "

Mr N.T. Godi, MP

Chairperson: Standing Committee on Public Accounts

# PREAMBLE TO THE CONSTITUTION

We, the people of South Africa,  
Recognise the injustices of our past;  
Honour those who suffered for justice and freedom in our land;  
Respect those who have worked to build and develop our country; and  
Believe that South Africa belongs to all who live in it, united in our diversity.  
We therefore, through our freely elected representatives, adopt this Constitution as the  
supreme law of the Republic so as to:

- Heal the divisions of the past and establish a society based on democratic values, social justice and fundamental human rights;
- Lay the foundations for a democratic and open society in which government is based on the will of the people and every citizen is equally protected by law;
- Improve the quality of life of all citizens and free the potential of each person; and
- Build a united and democratic South Africa able to take its rightful place as a sovereign state in the family of nations.

May God protect our people.

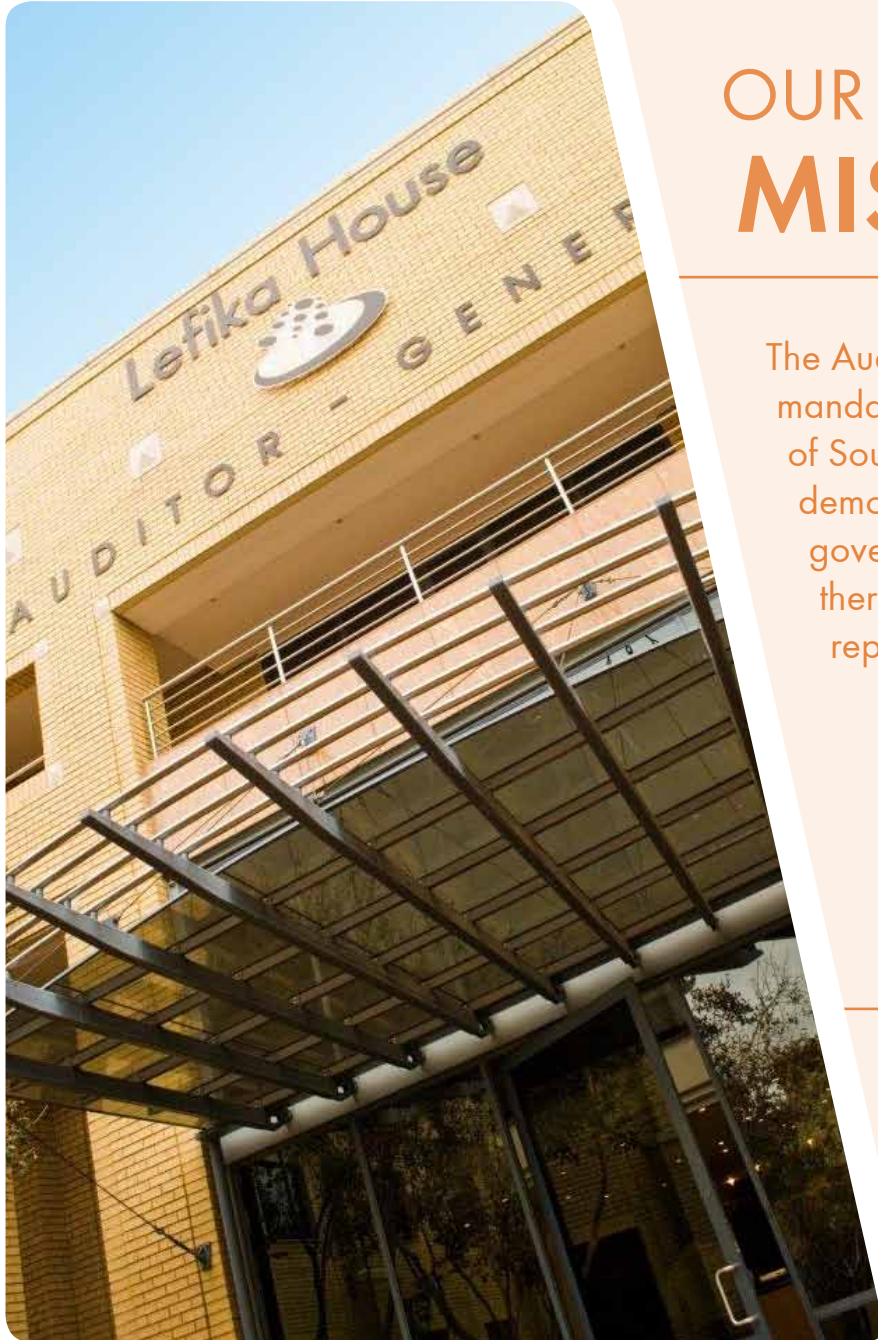
Nkosi Sikelel' iAfrika. Morena boloka setjhaba sa heso.

God seën Suid-Afrika. God bless South Africa.

Mudzimu fhatutshedza Afurika. Hosi katekisa Afrika.







## OUR MISSION

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

## OUR VISION

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

AGSA's **visibility intensified** through roadshows and door-to-door visits



AGSA a worthy recipient of the prestigious Jörg Kandutsch Award at XX<sup>th</sup> INCOSAI

Achieved an **above-average quality score** by independent reviewers

Met the legislated deadlines on both PFMA and MFMA audits and reports

*AGSA celebrates 100 years in 2011*

**Deepened stakeholders' understanding** of our reports

Achieved **89%** staff **occupancy level**

Number of **audit professionals** who **passed qualifying** examinations **increased by 73%**

*Launched a records and document centre in 2010*

**Sustained and exceeded** our net **surplus target**

First phase of firm-level review by IRBA confirmed AGSA complies with ISQC1

**AGSA** certified a **level 3** contributor (BBBEE Act No. 53 of 2003)

*Successful hosting of XX<sup>th</sup> INCOSAI in 2010 results in adoption of the Johannesburg Accords*



I walked through the glass door  
There you were greeting me, smiling at me, making me feel at home  
{We value, respect and recognise our people}

I asked and questioned, who you were and if I could take you with to  
meetings, down the corridors and in all the offices BUT  
I was told you were already there  
{We are performance driven}

The impact my colleagues have through you, with you  
{We value and own our reputation and independence}

It was true, you were already there  
I see you in my manager; you shine through in my teams  
I work with you every day and you understand your responsibility  
{Our accountability is clear and personal}

Thank you. You make us proud of who we are and where we are  
{We are proud to be South African}

A Marais

#### **Accountability in teams at the AGSA**

We strive to work efficiently to ensure we reach our dreams  
Knowing full well this can only be a reality if we work together in teams;  
Our constitutional function demands that the interests of the public we must protect  
We do so with courage and fortitude exercising much of our intellect;  
Our teams work endlessly day and night  
Producing many audit reports to the public's delight;  
Our country is becoming formidable on all the world stages  
Our diverse cultures offer warmth and comfort to people of all ages;  
Thousands of foreigners revel about our new generation  
Never failing to pay tribute to 'Madiba' the father of our nation;  
We serve our nation in a very special light  
Auditing the accounting records of our state to keep them tight;  
We must lead in all areas before we may qualify the conduct of others  
We remain indebted for the love and guidance provided to us by our mothers.

AK Pundit

# OUR VALUES



**We value,  
respect and  
recognise  
our people**

**We are proud to  
be South African**

**Our accountability  
is clear and personal**





**We value  
and own our  
reputation and  
independence**

**We are  
performance  
driven**

**We work  
effectively in teams**

### **The Auditor-General of South Africa...**

Each person here, counts for so much  
And that is why we know you all by name  
Your presence here is of great value

This is how we do it at the AGSA

We are responsible and accountable  
And it is clear  
That we love what we do

This is how we do it at the AGSA

Our work sure displays our attitude  
And we shall not stop until we achieve our goals

This is how we do it at the AGSA

We listen, we learn and we follow through  
The values we embrace do pull us through  
Our reputation confirms this to be true

This is how we do it at the AGSA

And for us team spirit is really team effort  
There is no "I"; there's only "we"  
There is no product without the team

This is how we do it at the AGSA

We're glad we get to play a role  
And while so doing, embrace our culture  
And while so doing, embrace our country

This is how we do it at the Auditor-General of South Africa

*AS Maqhutyana  
Trainee Auditor: Western Cape Office*

# LETTER TO THE SPEAKER

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Mr MV Sisulu  
Speaker of Parliament  
PO Box 15  
Cape Town  
8001

23 August 2011

Dear Mr Sisulu

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

In terms of the provisions of section 10(2) of the Public Audit Act of 2004, it is an honour to submit my annual report, including the audited financial statements, for the financial year ended 31 March 2011.

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

The report deals with the financial matters affecting the affairs of the Auditor-General of South Africa, as well as the performance review against predetermined objectives.

I respectfully draw your attention to section 41(5) of the Public Audit Act of 2004, requiring submission within six months, and therefore request that this report be tabled in Parliament by 30 September 2011. The act also requires me to simultaneously submit a copy of this report to the Standing Committee on the Auditor-General (SCoAG). It would therefore be appreciated if the report could be referred to this committee for its consideration.

Yours sincerely



Terence Nombembe  
Auditor-General

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Auditing to build public confidence has inspired us to stay focused and improve our business processes. Our actions are driven by an appetite to realise good governance and clean administration, not only for our benefit as auditors, but for the greater good of our country.



# REPORT OF THE AUDITOR-GENERAL

## Effective and proudly South African audit teams

### **Reporting with simplicity and communicating through visibility while striving for auditing and operational excellence**

As we support and uphold our young democracy, we strive to impact on public sector accountability. Although we have not yet reached our goal of clean administration and good governance, we are encouraged by a deepening understanding of this priority on the part of those charged with governance. Constant clarification of audit expectations and the root cause analysis to simplify audit outcomes<sup>1</sup> have resulted in focused action plans at the majority of our stakeholders. The visibility of the Auditor-General (AG) through his roadshows has proven to be an invaluable intervention to solicit enthusiasm and commitment by the leadership to assume ownership of internal controls in government.

At national oversight level, sessions are held with the presiding officers through the Speakers' Forum. The

process is extended when the AG engages with the oversight mechanism of both houses of Parliament through the committee of chairpersons to share insights that will enable enhanced oversight. The executive leadership is also kept abreast of these audit outcomes through the extended Cabinet sessions. The dialogue resembles the oversight process and enables executive authorities to guide the departments towards achieving their mandates and to monitor trends in good governance and shortcomings that might lead to undesirable audit outcomes.

At a provincial level this approach has been replicated with the premiers taking full responsibility for the audit outcomes and required corrective measures. With regard to the legislative arm of government, the AG shares audit insights with the speakers of the legislatures and chairpersons of relevant portfolio committees. These sessions have resulted in commitments by both executive and legislatures to improve audit outcomes through focused and structured monitoring and oversight.

The exciting and informative door-to-door visits to municipalities still continued, and this year additional visits were undertaken in North West, Free State and Northern Cape. The AG has now had an opportunity to visit seven provinces and engage personally with the leadership of up to 175 municipalities to date. The dialogue focused on key control tools aimed at empowering the leadership and management of municipalities. These interactions provide an opportunity for the Auditor-General to gain a deeper understanding and appreciation of governance issues at the respective entities. KwaZulu-Natal and the Eastern Cape are the only remaining provinces where the AG still has to personally pay visits to municipalities and these too should be completed by the end of the 2012 reporting period. These initiatives by the AG are aimed at strengthening the key controls by complementing the national and provincial audit teams' quarterly assessment of the status of key controls and the extent to which departments apply these controls consistently to establish a sound culture of internal control.

<sup>1</sup> This analysis identifies the underlying causes of unfavourable audit findings, making it easier for the auditee to take remedial action.



The AGSA received the Jörg Kandutsch Award at the XX<sup>th</sup> International Congress of Supreme Audit Institutions in November 2010.

## Unleashing the potential of our human capital

The engagement of external stakeholders is largely given impetus by the staff indaba. The interactions offer an opportunity for the AG to converse with staff of the AGSA at all levels. In this manner the AG spends quality time on strategic conversations with staff, thus complementing the efforts of the AGSA leadership towards vision alignment and organisational achievement of the AGSA mandate. The highlight of such dialogues is the active participation of all staff, particularly teams at the entry levels of the organisation. These are indeed exciting moments that demonstrate increased motivation of our staff in discovering and reaffirming the importance of their unique contribution, not only to the AGSA but also to the greater cause of upholding the democracy of South Africa. Such experience goes a long way to justify the investment directed by the organisation towards the professionalisation of our institution through the leadership development innovation and the extensive financial resources allocated to the strengthening of desired skills and the competency pipeline.

## INCOSAI successfully hosted

Taking the reins of the presidency of the International Organisation of Supreme Audit Institutions (INTOSAI), the AGSA successfully hosted the XX<sup>th</sup> International Congress of Supreme Audit Institutions (XX<sup>th</sup> INCOSAI) in Johannesburg in November 2010. The participants' level of satisfaction with the technical programme and the social interaction contributed immensely toward the promotion of the AGSA as a competent institution in matters of audit excellence, as well as South Africa as a preferred tourist destination that is socially hospitable. This truly exceeded our expectations based on past experiences at such events. The vibrant technical discussions resulted in the Johannesburg Accords that reaffirmed the value and benefits of Supreme Audit Institutions with a particular focus on improving the lives of citizens globally, the significance of environmental auditing and sustainable development, as well as the unanimous adoption of a uniform set of auditing standards that will be implemented by all INTOSAI jurisdictions going forward. This is a simple and clear demonstration of the contribution our organisation has been able to make towards enhancing public accountability. Our professional association with INTOSAI continues to inject credibility and enthusiasm

into the manner in which we carry out the AGSA's audit mandate.

The AG handed over the presidency of the African Organisation of Supreme Audit Institutions (AFROSAI) to Gabon in July 2011, and it should be mentioned that our tenure focused on the implementation of the AFROSAI strategy. This was facilitated by the general secretariat and the three language sub-group (LSG) secretariats within AFROSAI and donor support that funded capacity building measures at audit institutions in Africa as one of the cornerstones of independence and effectiveness. The greater synergy and cooperation among these LSG secretariats within AFROSAI have made it possible for AFROSAI to stabilise the foundation for future capacity building initiatives and cooperation with its key stakeholders.

## The exemplary nature of the AGSA

As we forge ahead in providing assurance to the citizens of South Africa on how public funds have been utilised, we closely examine our own actions in relation to quality assurance and good governance. Strict adherence to international auditing standards and close monitoring of the internal control culture



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AG's REPORT

In keeping with its legal mandate the AGSA's audit reports are tabled in Parliament annually.





have sustained our record of excellence in the quality of audit work, good governance and a clean audit opinion. These results are independently affirmed by the Independent Regulatory Board for Auditors (IRBA), the internal auditors and the external auditors respectively. We have kept our promises and overly achieved on transformation targets and skills development. This has enabled us to progress meaningfully in integrating employment equity and aligning our numerical goals with the demographics of our country. Our contribution to the transformation of society has included cooperation with a number of rural high schools in order to inspire young learners to join the audit profession.

## Financial stability

We appreciate the support of government in responding on time to our invoices. This contributed positively to our ability to carry out our mandate independently. We continue to work with the provincial leadership to resolve the local government debt collection challenges that still remain in some of the provinces. We remain committed to improving the

audit efficiencies by working closely with auditees in enhancing their internal control environment and supervising staff on our side. We have started measuring and monitoring the financial impact of these audit efficiency initiatives, with a view to formally engage with our auditees in this regard in the next reporting cycle.

## Conclusion

Auditing to build public confidence has inspired us to stay focused and improve our business processes. We develop highly motivated professionals who produce quality products that will ultimately impact on the lives of South African citizens. Our actions are driven by an appetite to realise good governance and clean administration, not only for our benefit as auditors, but for the greater good of our country. We will continue to aspire to greater heights in carrying out the AG's constitutional mandate. Our centenary milestone is yet another testimony to the capacity the AGSA has developed over the years to sustain its mission and constitutional mandate with renewed levels of excellence. These are notable contributions that

gave rise to the nomination of the AGSA as a worthy recipient of the prestigious Jörg Kandutsch Award at XX<sup>th</sup> INCOSAI in November 2010. INTOSAI presents this award to a Supreme Audit Institution (SAI) that distinguishes itself through significant achievements and contributions in the field of public auditing. The recipient must have a sound organisational structure and innovative working methods; adhere to INTOSAI's Strategic Plan; obtain positive results by introducing effective audit systems of public revenues and expenditures; and assist other INTOSAI member SAIs. We received this award in consideration of our active involvement in INTOSAI and notably for our decisive role in advancing external government auditing in AFROSAI. We are truly proud of such recognition by the international body of our peers on the eve of the centenary milestone of our organisation.



1911

Mr Walter E. Gurney – First Auditor-General

The Auditor-General was established on 31 May 1910 as a result of the South Africa Act of 1909. It became operational on 12 May 1911 with the commencement of the Exchequer and Audit Act, 1911 (Act No. 21 of 1911), under the management of Mr Walter E Gurney. The office opened its doors for the first time at Steyn's Building, Pretoria.

In 1993 the Amendment Act (Act No. 123 of 1992) granted the Auditor-General full independence from government, which gave the organisation the requisite autonomy to execute its mandate fully without favour or prejudice. Mr Henri Kluever was the first Auditor-General to head the fully independent office of the Auditor-General in 1993.

# LOOKING BACK

## THE AGSA OVER THE YEARS

Pretoria staff of the Controller and Auditor-General  
 Taken at 469 Market Street, 26 August 1932

1932



H.P. Smit  
 Controller and Auditor-General  
 November 1935 -  
 August 1946

1935



T.J. Canty  
 Controller and Auditor-General  
 August 1954 -  
 March 1957

1954





Conference of Commonwealth  
Auditors-General, 1954

1954



I.T. Meyer  
Controller and Auditor-General  
December 1962 -  
January 1968

1962



Provincial Audit Staff,  
Natal Provincial Administration  
30 June 1976

1976





# LOOKING BACK

## AGSA OVER THE YEARS

W.G. Schickerling  
Auditor-General  
July 1978 –  
January 1982

1978



R.P. Wronsley  
Auditor-General  
September 1989 –  
December 1992

1989



H. Kluever  
Auditor-General  
December 1992 –  
November 1999

1992



S. Fakie  
Auditor-General  
December 1999 –  
November 2006

1999





*The overall objective of independent audits is therefore to make a difference in the lives of citizens by contributing to trust, efficiency and effectiveness. An independent and effective SAI is accordingly a necessary precondition for democracy.*

**XX<sup>th</sup> INCOSAI  
Johannesburg Accords,  
November 2010**

# DEPUTY AUDITOR-GENERAL'S REVIEW

The Deputy Auditor-General, Mr Thembekile K Makwetu, is the head of administration of the institution, performing his duties in terms of sections 32 and 43 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA). Since his appointment in 2007, he has been ultimately responsible for the overall performance of the organisation and directly accountable to the Auditor-General.

The use of public funds and assets is a topic of great interest and often concern for the South African citizens, the authorities charged with governance, the media and members of the international community. The AGSA's long-term strategy aims to build an institution that is well equipped, both technically and structurally, to provide assurance on the financial status and stewardship of public organisations and entities and to promote accountability through the transparent reporting of audit outcomes. Our strategy is based on five pillars, or five strong commitments, i.e. **simplicity**

**of our audit messages, visibility of the AGSA's leadership, strengthening of the organisational human resources capacity, achieving financial stability and leading by example**, and is well aligned with the principles and recommendations of the Johannesburg Accords adopted at XX<sup>th</sup> INCOSAI. These principles strive to demonstrate the value and benefits that the SAs have for the lives of ordinary citizens and the AGSA is one of the leading institutions globally.

During the past year we continued to institutionalise the achievement of the strategy throughout the organisation and measure our performance against the goals and objectives set out in our *Strategic plan and budget 2010-13*.

## **Simplicity, clarity and relevance of our audit messages**

To build public confidence and assist in improving the way the national governmental systems work,

we must ensure that we deliver audit reports that clearly establish the status quo of the financial and performance management in the public institutions and entities and rightly diagnose the root causes that contribute to the audit results. Presenting the results in clear and understandable language aids the acceptance of those results by the general public and those charged with governance and where appropriate enables the authorities to pursue further actions.

In 2010-11, we continued to increase the relevance of our messages and the improvements in financial audit outcomes bear testimony to that elevated relevance. We included root causes in all our reports, to not only point out the departure from prescribed standards to which our auditees should adhere, but rather to influence improvements. The emphasis was placed on reporting against predetermined objectives which necessitated measuring the performance results and improving service delivery. As a result, there was increased awareness and a commitment to improving the quality of the planning processes within the

## DAG'S REVIEW

government. Moreover, we reported on the assessment of compliance with laws and regulations, focusing on supply chain management, procurement processes, weak controls management and irregular expenditure. We intend following through on these fundamental risks in the next cycle in line with the commitments made by the executive and oversight to effect sustainable change in the public sector environment.

To provide increased value, we improved the integration of the work of the specialised audit units with that of the regularity auditing teams. The identification of information technology (IT) risks and audit of controls in the IT environment were significantly increased. The impact of these measures was the successful transversal auditing of supply chain management and human resources utilisation in government departments. The focus of our Investigations unit was realigned to include fraud risk assessments in 2011 while the scope extended to the identification of high-risk control deficiencies. Positive results were achieved and included improvements in supply chain management processes, implementation of prevention and detection measures and charges being brought against those involved.

In addition, we enabled our stakeholders to understand our messages and act on them by using a variety of

methods to convey the audit results. These included the increased use of visual presentations in addition to the written reports, replacing narrative with graphs and tables, summarising key issues and using more attractive layout, colours and animations.

I am proud to report that we have been successful in fulfilling this commitment as we reached a sustainable level of complete clarity of messages on root causes in all our reports.

### Visibility of the AGSA's leadership

Our leadership is multi-directional and impacts on a variety of stakeholders, both internally and externally.

During the past year, we continued with the vision achievement and organisational alignment sessions with our staff providing regular opportunities for dialogue and understanding of our role in building public confidence. In addition, we conducted numerous informal staff engagements and executive conversations focused on leadership and culture. The AG engaged staff in all provinces through his roadshows on PFMA<sup>2</sup> and MFMA<sup>3</sup> audit outcomes.

We presented the PFMA and MFMA audit outcomes to the Cabinet, the National Assembly (NA) and

the National Council of Provinces (NCOP) where members of those forums undertook commitments to strengthen oversight and encourage clean administration. Meetings with government ministers centred around deficiencies in control, audit findings on predetermined objectives and lack of compliance with laws and regulations at auditees. These discussions enable an increase in positive audit outcomes.

Another important group of stakeholders that contribute to clean administration are the legislative authorities with whom we interacted tirelessly to ensure better understanding of audit outcomes. In this regard, we trained 202 portfolio committee members and 80 committee support staff on the AGSA's report format and usage. The AG continued his door-to-door municipal visits, having completed seven provinces with KwaZulu-Natal and Eastern Cape scheduled for visits in 2012.

The media are an important channel for propagating the results of our audits to ordinary citizens, civil societies and the wide global community. Through regular interactions we gave the journalists informed insights into the AGSA's PFMA and MFMA reports on audit outcomes. Planned sessions with local and foreign media on the XX<sup>th</sup> INCOSAI event resulted in



good media coverage for both the organisation and the event.

Our continued strategic relationships with contracted private audit firms and professional bodies, i.e. IRBA and the South African Institute of Chartered Accountants (SAICA), have borne fruit as shown in the improved outcomes of audits performed by contracted audit firms. Jointly with SAICA we also trained private sector auditors on the auditing of predetermined objectives.

In the year under review, we concluded international bilateral agreements and memoranda of understanding with several international SAIs, including Russia, Tunisia, China and Ghana, which cover exchange of expertise and joint projects. Memoranda of understanding with other chapter 9 institutions are also in place.

The AGSA is an active member of various INTOSAI working groups, committees and task teams. We chaired the INTOSAI Working Group on the Value and Benefits of SAIs which is responsible for developing the framework for this theme.

It is rewarding to realise that all our stakeholder interactions have yielded the desired results and to announce that we have successfully fulfilled our

commitment to provide leadership through high-quality stakeholder interactions.

## Strengthen human resources

The key goal of our human resources strategy is to build a skilled, motivated, high-performing and diverse workforce to enable us to deliver on our mandate. We continued to improve the trainee auditor scheme and to drive the leadership development and management programmes, succession planning and performance management. We sourced, developed and retained talent whilst creating prospects for the long-term growth of our people.

During 2010-11, we revised the AGSA's organisational structure to be in line with the desired high-performance culture. The Recruitment Centre of Excellence was refocused to effectively manage scarce human resources in the auditing environment. Talent management was integrated with other aspects of people management (i.e. performance management, learning and development, selection and retention). A total amount of R49.6 million was invested in continuous learning and professional development while an academic progress policy was implemented, allowing for further support to non-qualifying trainee auditors by repositioning them to an audit clerk position

where they can gain the required knowledge and experience.

Through concerted and managed effort in 2010-11 to develop our human resources, we:

- achieved an overall occupancy level of 89% (vs 87% in 2009-10) thereby exceeding the target of 80% by a large margin
- improved by 73% the number of professionals who passed their final qualifying examinations and completed their practical experience
- saw 168 (135 SAICA, 15 SAIGA and 18 CISA)<sup>4</sup> trainee auditors who successfully completed their learnerships
- retained 82% (138) of trainee auditors who completed their final year examinations
- implemented a talent management strategy to address retention of key talent in the organisation
- implemented performance management systems and pay differentiation for performance
- allocated responsibilities and functions to create an integrated team-based environment with clear and personal accountability.

## DAG'S REVIEW

**Lead by example**

One of the objectives of INTOSAI's Framework for Communicating and Promoting the Value and Benefits of SAIs is for all SAIs to be recognised as model institutions through the demonstration of their independence; transparency and accountability for all activities; adherence to a code of ethics; service excellence and quality considerations; effective communication; and good governance.

**XX<sup>th</sup> INCOSAI**

The exemplary hosting of the XX<sup>th</sup> Congress of the International Organisation of Supreme Audit Institutions in November 2010 confirmed the leading role of the AGSA in the international auditing community. The main objectives of the XX<sup>th</sup> INCOSAI project were to share experience and exchange ideas amongst the SAIs, deliberate and adopt resolutions on key issues of common and technical interest, and make decisions on issues of international cooperation among SAIs. While the details of the proceedings and the outcomes of the congress are discussed elsewhere in this report, my aim is to highlight the excellent project management of the event which resulted in approximately 20% savings against the initial budget.

The project team applied stringent project management principles and discipline to ensure that public money was spent wisely and substantial benefit was derived through the deliberations of the forum. An independent audit of the project has returned a clean report. In addition, an independent service provider assessed the feedback of the participants in the congress, where an overwhelming 96% of them viewed the event as good or excellent.

One of the special features of the event was the organised effort to minimise paper usage by optimally utilising technology. Go Green Guidelines were published on the INCOSAI website to inform delegates how to handle paperless presentations and submissions. Participants were also provided with memory sticks containing congress information to ensure they left any unneeded paper files for collection and recycling.

**Independent firm-level review**

To our knowledge, the AGSA is the only SAI that has voluntarily subjected itself to a review by an independent oversight body, that is, the Independent Regulatory Board for Auditors (IRBA). During this performance period, IRBA performed a firm-level review and the results demonstrated that the AGSA

complied with the requirements of the International Standard on Quality Control (ISQC1) for audit institutions and that our internal monitoring processes were effective. The next phase of the review focusing on the operational effectiveness of our system of quality control will start in 2012.

**Quality of audits performed**

Overall, the AGSA achieved 77% on the quality of our audit reports in the "excellent" category against a target of 85%; however, this achievement is still above the industry benchmark of 75%. We have put remedial measures in place to lift this achievement to the desired level of excellence. In the year under review, auditees experienced the first-time implementation of clarified International Standards on Auditing (ISAs) which required new working papers. In addition, municipalities implemented the full Generally Recognised Accounting Practice (GRAP) framework and moved closer to being audited on reporting against predetermined objectives.

**Timeliness of PFMA and MFMA reports**

In the 2010-11 financial year, we finalised 96% of PFMA audits within two months of receiving the

financial statements and completed 97% of MFMA audit reports within three months of receiving the financial statements, exceeding the target of 90% for both cycles. These achievements indicate that our processes have reached a sustained level of maturity. This will also enable those charged with governance to sharpen their oversight, thereby advancing our goal of influencing the realisation of clean administration in all three tiers of public administration.

## Growth in transformation

We continued to support the transformational agenda of our country. In the financial year under review, we utilised the codes of good practice as guidelines, set targets and monitored and evaluated progress. Having been certified as a level 3 contributor by Empowerdex in terms of the Broad-based Black Economic Empowerment Act, 2003 (No. 53 of 2003) (BBBEE Act), we exceeded our target of level 4.

Keeping up with its developmental role in the auditing profession, the AGSA increased its actual spend on private firms by 7% to R543 million, of which about 57% was spent on the growth and development of small and medium accounting and auditing firms.

## Achieving an equitable workforce

Our organisation exceeded its workforce target ratio of 80% of employees being in the targeted group and achieved 93% compared to the previous year's ratio of 89%. Going forward, our plan is to attract and retain more women in senior positions and persons with disability across all levels of the organisation. In addition, we will ensure that equity is stabilised at all levels within the AGSA.

## Funding

During the year under review we continued to monitor the revised funding model implemented in 2009-10 to ensure that the organisation is run economically, efficiently and effectively in order to maintain financial stability. We closely monitored our margins, effectively managed our working capital, including debt collection, and optimised our contract work mix. For the past two years we have enjoyed a healthy cash flow position, able to meet our ongoing financial obligations and improve the payment of creditors.

Audit income for 2010-11 amounted to R1.850 billion against a budgeted R1.836 billion. We continue to review our funding model to ensure that our fees remain

affordable to the public sector. We exceeded our net surplus target of 4% by achieving 7.2%. A portion of these positive results can be attributed to the increasing efficiencies in our audit processes. Furthermore, we maintained the same level of margin of 30% (vs a budget of 32%) as the previous year.

## Collecting debt from auditees is still a challenge

Management of working capital and liquidity is crucial for honouring our financial obligations, with debt collection being a key element of working capital. The AGSA continued to experience a decline in the collection of audit fees from local government.

Local government debt increased from R140 million in the previous year to R159 million in the current year. At the same time debtors' days outstanding went up to 204 days (162 days in 2009-10) compared to a target of 90 days. This inability of some municipalities and entities to settle their accounts will require stringent action to ensure recovery of outstanding fees. During 2010, we instituted legal actions against some defaulting municipalities and we could collect R13 million. There is continuous engagement with the National Treasury, Department of Cooperative

## DAG'S REVIEW

Governance and Traditional Affairs (CoGTA) and provincial government officials to assist in collecting outstanding debt. Furthermore, during the quarterly visits to auditees, our leadership discusses and requests the outstanding payments from the municipalities.

### Keeping our commitment to creditors

We are committed to honouring creditor payment terms within 45 days of their invoices being authorised. In the year under review, our rate of compliance with creditors' payment terms was 75% (2009-10: 70%) with the time taken to pay creditors. Our creditors days improved from 43 days in the previous year to 34 days in the current year.

### Our international auditing involvement

Revenue generated is complemented by income derived from international assignments and audit income from the United Nations Board of Auditors (UNBOA). Although our international auditing services are valued and sought after, we limited those audits, thus ensuring that the UNBOA portfolio did not impact on our ability to conduct audits in South Africa. The

international audit income was R26 million compared to a budget of R35 million, which equates to 1.4% of total audit income. The AGSA continues to make its impact felt in the audits of the United Nations and related agencies as the technical expertise and up-to-date knowledge benefit the institutions in improving their accountability and financial management capabilities. Exposure to the workings of the global institutions has a direct impact on growing our own talent, as these audits are carried out by South African staff together with audit staff from the United Kingdom and China, with whom we partner in the UN Board of Auditors. When our term ends in 2012, the AGSA will benefit a great deal from integrating the knowledge gained over the past twelve years in further contributing to stronger oversight in our own public institutions.

### Conclusion

In conclusion, the AGSA continued to trade in a positive financial position with a 51% improvement in the closing cash balance of R352 million (2009-10: R233 million). In the next financial year we will focus on closely monitoring our margins and working capital, including debt collection, and optimising our contract work mix to ensure that gains achieved in

the previous years are sustained. In addition, 2011 marks our centenary year and we approach this significant milestone with much enthusiasm. A series of events have been planned in celebration of this milestone with the pinnacle event in November 2011 where all employees will participate joined by several stakeholders with whom we engage closely.

### Appreciation

Seen in total context, the AGSA's performance over the past year was exemplary. I take this opportunity to thank our staff and all leadership teams together with our partners in the auditing profession who have worked tirelessly and ensured that we stayed focused and committed to delivering on our constitutional mandate. I also wish to acknowledge and pay tribute to all the members of our oversight structures for the support, cooperation and guidance received during the financial year.

**Table 1: Summary of actual performance against predetermined objectives**

AGSA commitment	Performance measure	Target 2010-11	YTD actual performance	Comments
Simplicity of our reports	% clarity of message on root causes in all our reports	100%	100%	Achieved
Visibility of leadership	High-quality, value-adding stakeholder interactions are conducted and escalated, where necessary	100%	100%	Achieved
Strengthen human resources	% occupancy levels	80%	89%	Exceeded
Funding	% net surplus	4%	7.2%	Exceeded
	% debt collected within 30 days (Nationals A to F, Gauteng & Western Cape)	75-80%	65%	Partially achieved
	% debt collected within 30 days (Limpopo & KwaZulu-Natal)	65-70%	50%	Partially achieved
	% debt collected within 30 days (North West, Free State, Northern Cape, Eastern Cape & Mpumalanga)	55-60%	32%	Partially achieved
	Creditors payment terms	45 days	34 days	Exceeded
Lead by example	Achieve clean audit report on the AGSA	Clean audit report	Clean audit report	Achieved
	Achievement of identified BBBEE	Level 4 rating	Level 3 rating	Exceeded
	% adherence to quality standards	Regularity audits: 85%	77%	Not achieved
	% compliance with statutory and legislative deadlines	PFMA reports: 90%	96%	Exceeded
		MFMA reports: 90%	97%	Exceeded
		Performance audit reports: 95%	100%	Exceeded
		Investigations: 95%	50%	Not achieved
		Annual report: 100%	100%	Achieved
		Strategic plan: 100%	100%	Achieved



ORGANISATIONAL LEADERSHIP



# ORGANISATIONAL LEADERSHIP

## Leadership team:

*Top row (from left to right):*

Lourens van Vuuren, Kevish Lachman, Schalla van Schalkwyk, Frans Joubert, Graham Randall, George Lourens, Tumelo Tsotetsi, Dean Contell.

*Second row from top:*

Japie du Plessis, Herman van Zyl, Justin Diedericks, Meisie Nkau, Bryant Madliwa, Shereen Noble, Vanuja Naidoo, Wendy Mahuma, Musa Hlongwa, Thandeka Zondi.

*Third row from top:*

Mabatho Sidekela, Linda le Roux, Siyakhula Vilakazi, Odwa Duda, Vusi Msibi, Obadiah Khwinana, Singa Ngqwala, Corné Myburg, Les Africa, Raj Mahabeer, Jabulile Nkosi.

*Fourth row from top:*

Lesley Holland, Caroline Mampuru, Eshana Manichand, Paul Mosaka, Tsvetana Mateva, Jeanny Morulane, Indhren Perumal, Latief Kimmie, Mangaliso Fweta, Dirk Strydom, Fezeka Baliso.

*Front row:*

Paul Serote, Eugene Zungu, Barry Wheeler, Lindelwa Jabavu, Pramesh Bhana, Thembekile Makwetu, Alice Muller, Jan van Schalkwyk, Imran Vanker.







The corporate governance framework of the institution is defined by the Constitution of the Republic of South Africa, 1996 which establishes the AGSA as a chapter 9 state institution, outlines the manner in which the AG is appointed and defines the institution's principles and key functions.

# CORPORATE GOVERNANCE

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## Standing Committee on the Auditor-General

The oversight function of the Standing Committee on the Auditor-General (SCoAG) is entrenched in both the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and the Constitution of 1996. In terms of its legislative mandate SCoAG is required to:

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



## CORPORATE GOVERNANCE

**Table 2: Members of the National Assembly who served on SCoAG in 2010-11**

Political party	Representative
ANC	Adv. MT Masutha (Chairperson and leader of the delegation)
ANC	Prof. LBG Ndabandaba
ANC	Adv. M Nonkonyana*
ANC	Mr JM Matshoba*
ANC	Ms F Tlake*
ANC	Ms JE Sosibo*
ANC	Ms DM Nxumalo
ANC	Ms F Bikani**
ANC	Ms LE Yengeni**
ANC	Mr KA Moloto**
ANC	Dr AN Luthuli*
ANC	Ms SR Tsebe
DA	Mr MH Steele
DA	Dr GT George
COPE	Mr N Koornhof**
COPE	Ms LM Mashiane*
IFP	Mr N Singh
IFP	Ms PS Lebenya (alternate member)

\* Left SCoAG in January 2011

\*\* Joined SCoAG in February 2011

**Table 3: Dates and purpose of SCoAG meetings held in 2010-11 \***

Date of meeting	Purpose of meeting
30 and 31 March 2010	Workshop on the committee's 5-year strategic plan and budget
14 May 2010	<ul style="list-style-type: none"> <li>Finalisation and adoption of the 5-year strategic plan and budget</li> <li>Consideration of the letter from the Remuneration Committee (Remco) of the AGSA on remuneration of the AG</li> <li>Report-back by the chairperson on meetings/workshops attended</li> </ul>
19 May 2010	<ul style="list-style-type: none"> <li>Finalisation and adoption of 5-year strategic plan and budget</li> <li>Nomination of task team members to consider remuneration package for the AG</li> </ul>
22 July 2010	Discussion and consideration of recommendations on remuneration package for the AG
26 – 30 July 2010 (Mpumalanga) 2 – 6 August 2010 (Limpopo)	Joined the AG in conducting oversight visits to municipalities experiencing audit opinion challenges
1 September 2010	Discussion and consideration of recommendations by Remco to correct the remuneration package for the AG
3 September 2010	Presentation of the <i>Annual Report of the AGSA 2009-10</i>
10 September 2010	<ul style="list-style-type: none"> <li>Adoption of draft oversight reports</li> <li>Discussion on document of the SCoAG researcher on the <i>Annual Report of the AGSA 2010-11</i></li> </ul>
17 September 2010	<ul style="list-style-type: none"> <li>Adoption of draft oversight reports</li> <li>Further discussions with the AG on the <i>Annual Report of the AGSA 2010-11</i></li> </ul>

## Audit Committee

Section 40(6)(a) of the PAA establishes the Audit Committee of the AGSA as an oversight body and the committee does not have any management responsibilities. It assists the DAG in discharging his duties, as set out in section 43, with regard to:

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

The committee also assists the DAG in overseeing the following:

- Approval of the criteria and procedures to be followed in the selection and appointment of external auditors. The committee then refers its recommendation on the appointment of the auditors to SCoAG for approval.
- The approval and delivery against the external audit coverage plan.
- The appointment and approval of the AGSA's internal auditors, supervision of all internal audit activities and delivery on an agreed internal audit coverage plan.

Date of meeting	Purpose of meeting
21 October 2010	Briefing by Adv. F Jenkins (parliamentary legal advisor) on the legal advice he gave on the recommendations from Remco on the salary package of the AG
22 October 2010	Presentation of the AGSA's <i>Strategic plan and budget</i>
5 November 2010	<ul style="list-style-type: none"> <li>• Analysis by the researcher and deliberations by the committee on the <i>Strategic plan and budget 2011-14</i> of the AGSA</li> <li>• Discussion on the report of the Audit Committee on the appointment of the external auditor</li> </ul>
12 November 2010	<ul style="list-style-type: none"> <li>• Adoption of committee report on the <i>Strategic plan and budget 2011-2014</i> of the AGSA; draft oversight reports; salary structure of the AG</li> <li>• Update by the AGSA's Audit Committee on the appointment of the external auditor</li> </ul>
16 November 2010	Adoption of committee report on the <i>Strategic plan and budget 2011-14</i> of the AGSA; <i>Annual Report of the AGSA 2009-10</i> ; draft oversight reports and appointment of the external auditor
26 January 2011	Adoption of committee's 1st-term programme for 2011; <i>Annual report 2010</i> and update on AGSA Remco matters
30 and 31 March 2011	Oversight visit to the offices of the AGSA

\* Training seminars e.g. APAC excluded

## CORPORATE GOVERNANCE

- The examination and review of the preparations made to ensure accurate financial reporting.
- The review of reports from the internal and external auditors on the effectiveness of the risk management processes and procedures.

In terms of section 40(5)(a) of the PAA, the Audit Committee must comment in the annual report on the effectiveness of internal controls 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 AG, external auditors of the AGSA and SCoAG as the oversight mechanism.

The Audit Committee's terms of reference are reviewed every year to ensure they remain relevant and comply with applicable legislation.

The committee consists of four external independent members. Professor K Barac retired on 20 January 2011 when both Mr S Badat and Ms N Mthombeni joined the AGSA's Audit Committee as new external independent members. The new members were inducted by means of informal one-on-one sessions during February 2011 with the Corporate Secretariat and attendance of a formal induction session on 17 March 2011.

## Remuneration Committee

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

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

- General trends and practices regarding employment benefits, including the structuring of conditions of employment and remuneration packages.
- The framework or broad policy for the remuneration of executive and senior management.
- Targets and rules for any performance-related pay schemes, whether current or proposed.
- General salary increases.
- Any other human resource management issue which the AG may wish to table for discussion.

Remco also advises SCoAG on the AG's conditions of employment.

**Table 4: Attendance record of the Audit Committee in 2010-11**

Member	27 July 2010	20 January 2011	22 February 2011	17 March 2011 (Induction for two new members)
Mr MP Moyo (Chairperson)	√	√	√	√
Mr RJ Biesman Simons	√	√	√	√
Prof. K Barac	√	√		
Mr S Badat		√	√	√
Ms N Mthombeni		√	√	√

The committee consists of four external members and two management members. The AGSA's head of Human Capital is invited to all meetings in keeping with Remco's terms of reference.

In accordance with its terms of reference, the committee made recommendations on the following issues:

- Annual salary adjustments of AGSA employees for the 2010-11 financial year
- Performance bonuses for the 2010-11 performance period
- Its terms of reference and its annual work plan
- Any other human resource management related issues impacting on the remuneration which the AG may wish to table for discussion in the committee.

## Executive Committee

The PAA gives both the AG and the DAG the authority to delegate any power and duty assigned to them to any member of staff. The Executive Committee (Exco) was established to assist the DAG to manage the business and affairs of the organisation in terms of the delegation of authority as per the AGSA's management approval framework.

It is composed of the DAG (as chairperson) and the corporate executives, meets on average eight times during the year and holds special meetings at regular intervals. The committee focuses on reviewing and

directing the implementation of the AGSA's business and strategic plans throughout the year.

Exco has the power to establish subcommittees to assist it. Existing subcommittees are the Tender Committee and the Technical Committee:

- The Tender Committee promotes a fair tender culture by ensuring all procurement policies and procedures are correctly and consistently applied. The committee has an evaluation working group whose key function is to promote a transparent, fair and effective evaluation process.
- The Technical Committee gives effect to the requirements of section 13 of the PAA, which deals with confirmation of auditing standards and the development of related audit methodology. This committee also plays an oversight role in technical learning which is offered to all our stakeholders.

**Table 5: Attendance record of Remco in 2010-11**

Member	21 June 2010	16 February 2011
Dr M Bussin (Chairperson) *	√	√
Ms M Moloi *	Apology	√
Mr B Nkomo *	√	√
Mr N Samodien *	√	√
Mr K Makwetu (DAG)	√	√
Ms L Jabavu (COO)	√	√

\* External independent members

## Quality Control Assessment Committee

The Quality Control Assessment Committee (QCAC) is an oversight body that assists the AG and DAG to fulfil their responsibilities in implementing a system of quality control in the AGSA. This is mandated in the policy on monitoring of QC compliance to ensure adherence to



## CORPORATE GOVERNANCE

standards as per section 13(1)(a) of the PAA. These responsibilities include monitoring the elements of a system of quality control through the performance of quality control reviews at both institutional and engagement level which is also a requirement of the International Standards on Auditing (ISAs).

The quality control reviews are conducted by the AGSA's Quality Control unit. The review outcome is independently confirmed, on a sample basis, by IRBA. Thereafter, all review reports are submitted to the QCAC, which meets at least once a year.

The QCAC's main responsibilities are to:

- review and approve amendments to the policy on monitoring quality control compliance (of the AGSA)
- assess the quality control review reports of the engagement managers and allocate assessment ratings to each engagement manager
- consider the overall analysis and possible root causes of the quality control review results and sanction corrective actions
- give positive recognition to individuals for excellent quality control results
- consider the impact of findings on policies and processes in the AGSA
- approve the quality control review process to be followed the next year.

**Table 6: Attendance record of the QCAC for 2010-11**

Member	28 April 2011
Mr T Nombembe	√
Mr K Makwetu	Apology
Prof. K Barac	√
Mr I Vanker (alternate)**	√

\* External independent member

\*\* Became ex officio alternate member on 1 January 2011 and attended on behalf of Mr K. Makwetu

“ The Quality Control Assessment Committee (QCAC) is an oversight body that assists the AG and DAG to fulfil their responsibilities in implementing a system of quality control in the AGSA. ”



An age-old instrument to share messages.

A key focus of our audit and support processes is to communicate the root causes and recommendations in simple and clear language, and by highlighting their relevance, we deepen stakeholders' understanding of our reports.

# REPORTING WITH CLARITY AND SIMPLICITY

For the year under review, we committed ourselves to ensuring simplicity, clarity and relevance of the messages contained in all our reports, including identification of the root causes and recommendations, as promoted by fundamental requirement 4 of the INTOSAI framework for communicating and promoting the value and benefits of Supreme Audit Institutions.

*SAIs should report in a language that is understood by the stakeholders, allowing them to action these reports.*

**Fundamental requirement 4: Empowering the public to hold government accountable and responsive, through objective information, simplicity and clarity of the message, and convenient access to audit reports and messages in relevant languages**

**INTOSAI framework for communicating and promoting the value and benefits of SAIs<sup>5</sup>**

Communicating messages – on which auditees could take action – on the outcome of our audits and the insights we gain in the process are critical to achieving our mission to enable oversight, accountability and governance in the public sector.

*...Supreme Audit Institutions (SAIs) play a significant role in ensuring that public funds are spent in a manner that will improve the lives of ordinary people, as SAIs enable those charged with governance and oversight to fulfil their functions more effectively by providing information and insight. (...) Auditees, on the other hand, also need to play their part in putting systems and controls in place and ensuring constant oversight, so that the work of the SAI will not be in vain.*

**Minister of International Relations and Cooperation,  
Ms Maite Nkoana-Mashabane (Opening ceremony,  
XX<sup>th</sup> INCOSAI, Johannesburg, November 2010)**

### Achievements

- Our success is shown by commitments from different stakeholders, including legislative oversight, the executive, accounting officers/authorities and coordinating ministries, to address the root causes of audit outcomes.
- We placed a strong emphasis on integrating the work of the specialised audit units (Performance Auditing, Investigations and Information Systems Auditing) into regularity audits.

<sup>5</sup> This framework is an annexure to the Johannesburg Accords that were approved at XX<sup>th</sup> INCOSAI

**COMMITMENT**

ON SIMPLICITY, CLARITY AND RELEVANCE OF MESSAGE

If our messages are relevant and easy to understand, the recipients would be able to make decisions and take actions that will move us closer to clean administration across the whole of the public sector. Our objective in the past year has been to enhance our messages by also communicating our understanding of the reasons for audit outcomes (root causes) in a simple and clear manner in our reports and through our interactions with relevant stakeholders.

Our success in achieving this objective reflects in all our reports and roadshow presentations where clear root causes are shown. As a result, we have been able to request and track commitments from different stakeholders to address the root causes, including legislative oversight bodies, the executive, accounting officers/authorities and coordinating ministries such as the Department of Public Service and Administration, National Treasury and the Department of Cooperative Governance and Traditional Affairs. The successes

and impact of this process are further explored in the section on visibility.

*(Audit reports are a) credible source of independent and objective insight and guidance to facilitate foresight and continuous improvements in government.*

**Fundamental requirement 3**  
**INTOSAI framework for communicating and promoting the value and benefits of SAIs**

The successful achievement of this objective can be attributed to our focused efforts to increase the relevance of our messages, continuously refine the identification of root causes and improve the manner in which our messages are shared. This applies equally to the specialised audits such as performance audits, investigations and information systems audits.

## Increased relevance of our messages

Our audits in the past focused mainly on financial management and fair presentation of financial statements. Since 2004 we have phased in the audit of reporting against predetermined objectives (performance reports). These are essentially auditees' service delivery reports. We report on the usefulness and reliability of the reported information and its compliance with legislation across all levels of government. The impact of our reporting is seen in an increased awareness on the part of auditees of their responsibilities in terms of organisational performance management and reporting. Our audits have also highlighted the need for measuring results and enhancing service delivery. Moreover, the quality of government planning processes has significantly improved.

All activities that public sector entities undertake on behalf of the country's citizens are regulated by laws and regulations. These laws give effect to the entities' mandates, but also determine limits and restrictions on such activities. Our audits include assessments of compliance with these laws and regulations. In the past year we have made significant progress to improve the relevance of our messages in this regard. With our focus on the auditing of compliance with the legislation

**Table 7: Summary of actual performance against predetermined objective**

Performance measure	Target 2010-11	YTD actual performance	Comment
% clarity of messages on root causes in all our reports	100%	100%	Achieved



on supply chain management we could provide more and increasingly relevant messages in our reports and interactions on instances of conflicts of interest, unfair procurement processes, weak contract management and irregular expenditure. This enables us to take a strong stance and obtain commitments from role players at all levels to address these matters. A similar focus in recent years on areas like human resource management at government departments, along with the establishment and functioning of internal audit and audit committees, is also bearing fruit, since actions are being taken to improve compliance.

*The INTOSAI community re-affirms that it exists to improve the lives of citizens. The INTOSAI strategies, mechanisms and resources are geared towards fulfilling this ambition.*

#### **Foreword INTOSAI framework for communicating and promoting the value and benefits of SAIs**

Continuous improvements in financial audit outcomes are encouraging and a testament to the relevance of our messages. In the past year we have endeavoured to ensure these improvements are sustainable by increasing our reporting on the quality

of financial statements submitted for audit and the use of consultants. There have been specific efforts to influence the outcomes of auditees that received unqualified financial audit opinions with findings on predetermined objectives and compliance with legislation only, as these auditees should be able to reach the goal of clean administration with relative ease within the foreseeable future.

The identification of information technology (IT) risks and audit of controls in the IT environment were significantly increased, which enabled cross-cutting reporting on the weakness in this area and highlighted awareness of these issues.

We continued to include some auditing of service delivery in our audits of the education, health, public works, housing and social services sectors. Regarding specific programmes that we deemed relevant we reported on the way in which grants were being utilised. Such grants included the national school nutrition programme, the learner transport scheme and the hospital revitalisation and housing grants. By reporting the outcomes of the audits to different levels of government and oversight, we could continue to play a role in improving accountability and service delivery in these areas.

The audit outcomes of public sector entities that the AGSA had opted not to audit (in terms of section 4(3) of the PAA) were also included in the 2009-10 general reports. This represents a major milestone in our goal to report on administration across the entire public sector. By means of a directive, these entities' auditors were also required to audit and report in the same manner as the AGSA to ensure the messages were consistent and relevant in this sector.

### **Improved integration of the work of the specialised audit units into regularity auditing**

In the year under review strong emphasis was placed on improving the integration of the work done by specialised audit units into the regularity auditing (RA). The auditing standards require of the regularity auditor to consider both fraud risk and the impact of information systems on the audit process. This created an ideal platform for both the Information Systems Auditing and Investigations units to add value to the regularity process through the involvement of their specialists. Performance Auditing also played a major role to enhance key RA processes, through the incorporation of lessons learnt during its work,

**COMMITMENT**

ON SIMPLICITY, CLARITY AND RELEVANCE OF MESSAGE

specifically in the areas of supply chain management, conflict of interest and the audit of infrastructure grants.

*(SAls should focus on) ensuring that government is held accountable for using resources legally and responsibly, for the purposes intended, and economically and effectively.*

**Fundamental requirement 2**  
**INTOSAI framework for communicating and promoting the value and benefits of SAls**

## Scope of Information Systems Auditing growing

The Information Systems Auditing (ISA) Business Unit, established in May 1986 with a modest staff complement, has grown steadily over 25 years to its present staff of 74 members. Its core function is to provide information systems (IS) audit support to the RA business units, as part of the AGSA's integrated audit approach. Since its inception ISA has made gradual progress in increasing its contribution to the audits conducted and in the 2010-11 financial year great strides were made in increasing IS coverage. In the case of the PFMA coverage it achieved an increase

of 8.5%, whilst in the MFMA audits the increase amounted to a noteworthy 32%. Combined there were almost 400 ISA assignments in support of the regularity audits. The impact of this enabled RA to transversally audit supply chain management and human resources much more effectively. ISA has further been establishing a decentralised presence in four provinces, namely KwaZulu-Natal, Western Cape, Eastern Cape and Gauteng, which enables the business unit to strengthen integration at provincial level and provide immediate and direct support to the regularity auditors in the provinces.

## Performance audits send strong messages

In addition to continuously lifting the relevance of our messages in our regularity audits, performance audits provide for strong messages on the economical, efficient and effective use of resources as these are the issues that remain of the greatest relevance to citizens. In 2011, the AGSA celebrates the 25th anniversary of the first performance audit carried out in 1986 at the then Department of Education and Training. During the year under review expectations with regard to performance auditing changed considerably. Whereas the previous focus was on research of

possible performance audit themes, the width and depth of research have increased to the extent that the expectation now is that there should be sector specialists in all of government's 12 strategic outcomes in the Performance Auditing Business Unit.

The performance audit of infrastructure at provincial Departments of Health and Education has been finalised and the reports will be tabled in August 2011. We shared the outcomes of the performance audit with the management of the affected departments, as well as the national Departments of Basic Education, Health and Public Works, where the recommendations were well received. The outcomes were discussed constructively and management committed to immediate and drastic action to address the deficiencies in the report. The needs determination, planning, supply chain management and project management processes will be improved by training staff and the appointment of more technically qualified staff.

Performance audits on the use of consultants by government departments and on both basic and higher education are well under way. We conducted research on the oversight and governance systems of the Department of Public Enterprises over their state-owned

entities, as well as government's readiness to report on their performance.

## Increased investigations capacity and impactful investigations

During the year under review we appointed auditors with different skills sets to complement and strengthen regularity audits. This realignment of focus has enabled the unit to commence with its objective of proactively providing support to the RA units in conducting fraud risk assessments. This is an area expected to be the unit's core focus in the next financial year. Where appropriate, this is followed by the medium- to long-term deployment of specialised skills, where the unit assists regularity auditors with the identification of high-risk control deficiencies.

In partnership with the Information Systems Auditing unit, a preliminary analysis of payments at two provincial Departments of Education was conducted. The transversal risks identified in this process led directly to certain enhancements to the regularity audit process on government's supply chain management processes.

Regularity audit teams supported by the Investigations unit follow through to ensure that recommendations are

implemented and management commits to addressing the deficiencies identified in the report. This has yielded positive responses and departments immediately acted on recommendations. In this regard the investigation at the Department of Water Affairs resulted in charges being brought against involved staff members. Our investigation at the Commission for Conciliation, Mediation and Arbitration (CCMA) allowed them to improve their supply chain management processes, while appropriate fraud prevention and detection measures were put in place. The recommendations from our investigation into the Commission for Gender Equality (CGE) featured prominently in its turnaround strategy and in Parliament's deliberations on the future of this commission.

## Refinement of root causes

We have included root causes in all our reports, making them the focus of our interaction with stakeholders to not only point out the mistakes they have made, but rather to influence improvements. The root causes are analysed in the three broad areas of leadership, financial and performance management and governance. In the past year we have refined the analysis and the way it is being presented, defining key drivers in each of these areas for improved audit outcomes across the three dimensions. The key drivers

represent the objectives that the auditee's control systems should address. This enables us to focus our assessments on these key controls and obtain commitments from the executive and accounting officers/authorities to improve and monitor such controls. In this regard we provide information to these stakeholders with which they complement their own internal control monitoring processes. The section on visibility in this report provides additional context in terms of the key control process.

The outcomes of the assessment of the key drivers are presented as a dashboard report that has proven very valuable in the interactions with our stakeholders and provides a strong visual message to indicate where public sector leaders should focus their efforts.

*(SAIs should focus on) enabling the legislature, one of its commissions, or those charged with governance to discharge their different responsibilities in responding to audit findings and recommendations and taking appropriate corrective action.*

**Fundamental requirement 5  
INTOSAI framework for communicating and promoting the value and benefits of SAIs**

## COMMITMENT

ON SIMPLICITY, CLARITY AND RELEVANCE OF MESSAGE

## Improved manner in which messages are shared

The nature of our messages is in most part technical, as it relates to accounting standards, financial management and laws and regulations. In contrast with private sector auditors, most of the recipients of our messages are not accountants or lawyers. We continue to find ways in which the same message can be given to different stakeholders in a manner that will enable them to understand and act on it. In the past year we increasingly used visual presentations in addition to the written word to convey our messages. The presentations have triggered many valuable discussions at all levels of government and enabled the executive and oversight to make clear commitments based on their greater understanding of the outcomes. Moreover, we have improved our management, audit and general reports and messages by:

- more attractive layout
- summarising key issues
- using simple language
- replacing narrative with graphs and tables, and adding colours and animations.

## Our international auditing involvement

### AG leadership at the United Nations Board of Auditors

We continued to exert influence in the international arena through our involvement in the United Nations Board of Auditors (UNBOA). Our engagement at the UNBOA entered its last phase of the second six-year term which will end in June 2012. The AG (then chair until December 2010) presided over the 64th Regular Session of the board in July 2010, which saw the finalisation and delivery of 18 reports to the General Assembly. The response of the General Assembly to the board's reports was captured in a GA resolution which stated that it:

*Commends the Board of Auditors for the superior quality of its reports, in particular with respect to its comments on the management of resources and improving the presentation of financial statements.*

In keeping with the commitment of visibility of leadership, in November 2010 the AG, in an unprecedented event, championed a visit to the United Nations headquarters to engage the board's

key stakeholders, including an address to the Fifth Committee of the General Assembly. The response of stakeholders to this visit and to the UNBOA approach is captured in the following statement:

*The European Union attaches great importance to the role of the Board of Auditors and we would like to commend the board on the high quality of its reports. We welcome the approach taken by the board to use a consistent format in the preparation of its report and appreciate the provision of a concise summary of the principal findings in document A//65/169.*


**- Statement on behalf of the European Union by Mr Jan de Preter, First Secretary at the Permanent Mission of Belgium to the United Nations on the financial reports and audited financial statements of the Board of Auditors at the 65th Session of the Fifth Committee of the General Assembly (15 October 2010)**

UNBOA membership now includes the Heads of the SAIs of China (current chair), the United Kingdom and South Africa. The AG has also continued his role as vice-chair of the Panel of External Auditors, an association of 10 SAIs which audit the United Nations system organisations and the specialised agencies.

## AG positioning in the future

While our role in the UNBOA is drawing to a close, our contribution to the United Nations system is directed to create a lasting contribution to the financial stewardship and accountability of the United Nations system organisations. Of nine entities that are scheduled to implement the International Public Sector Accounting Standards (IPSAS) by January 2012, five of the entities are under the South African portfolio in the UNBOA. The successful implementation of IPSAS is an important landmark in the reform agenda of the United Nations, helping to improve its transparency, governance and accountability.

The AG's revenue replacement strategy, with strategic support from the South African Department of International Relations and Cooperation, aims to identify new audits of international institutions of suitable size and strategic fit, and is well under way.



A baobab decoration symbolising a place of gathering and reflecting our commitment to international cooperation.





The Auditor-General increasingly engages with stakeholders.

Our leadership's intensive programme to increase their visibility to government, oversight authorities and our staff is designed to create a deeper understanding of audit messages, and has led to a positive effect on audit outcomes at departments and public entities.

# COMMUNICATING AUDITING THROUGH VISIBILITY

For the period under review, we promised to improve visibility of our leadership to our stakeholders through clear communication as supported by fundamental requirement 13.

*SAIs should strengthen communication with stakeholders for better understanding of the SAI's responsibilities, audit work and results.*

**Fundamental requirement 13: Effective communication**

**INTOSAI framework for communicating and promoting the value and benefits of SAIs**

*Responsiveness to changing environments and stakeholder expectations, without compromising independence.*

**Fundamental requirement 1**  
**INTOSAI framework for communicating and promoting the value and benefits of SAIs**

## Achievements

- During the annual PFMA and MFMA roadshows the AG shared with both the executive and legislative arms of government, as well as structures such as the Association of Public Accounts Committees, the South African Local Government Association and the Speakers' Forum, the audit outcomes of both the PFMA and MFMA audit cycles. The success of these interactions attested to the excellent quality of the AGSA's PFMA and MFMA General Reports.
- The simple, clear and relevant format of the General Reports enabled the AG to solicit clear and relevant commitments from government and leadership and those charged with oversight.
- The AGSA was awarded the prestigious Jörg Kandutsch Award during XX<sup>th</sup> INCOSAI in recognition of its exceptional implementation of INTOSAI goals within the member's regional working group and globally.

## COMMITMENT

## ON VISIBILITY OF LEADERSHIP

## Interaction with internal stakeholders

The importance we attach to our employees is clearly visible in continuous interaction during the past year. In addition to vision alignment and organisational achievement (VA/OA) sessions, we held informal staff engagements, executive conversations that focused on leadership, as well as culture sessions. The top leadership in the business units and the corporate executive responsible for the portfolio led these VA/OA sessions with all employees. The frequency of these sessions ensured an avenue of continued dialogue that also promoted an understanding of our role in building public confidence.

At a business unit (BU) level the senior leadership reiterates the messages from the VA/OA sessions at regular informal engagements. In addition, the AG meets all staff in each province and per portfolio at head office on the PFMA and MFMA audit outcomes.

This affords employees an opportunity to engage one-on-one with the AGSA top leadership in a relaxed yet constructive manner, which enhances their understanding of the AGSA's strategic objectives and the outcomes of its audit reports.

**Testimonials from staff during the roadshows:**

*The informal approach of the Auditor-General created a relaxed and comfortable platform for staff to engage openly. This created excitement in the session amongst the employees, from trainee auditors to leadership level.*

– Senior manager from Limpopo

*The experience for me was totally phenomenal, the level of interaction between the Auditor-General and staff made me realise the important role we play through our audits in building public confidence.*

– Senior manager from Mpumalanga

*Ensuring that government is held accountable for using resources legally and responsibly, for the purposes intended, and economically, efficiently and effectively.*

**Fundamental requirement 2**

**INTOSAI framework for communicating and promoting the value and benefits of SAIs**

## Sharing our findings with Cabinet

As part of the annual PFMA and MFMA roadshows the AG presented the audit outcomes of both the PFMA and MFMA audit cycles to the Cabinet (PFMA 13 October 2010 and MFMA 16 March 2011). There was a positive response to the increased user-friendliness of the information and the clear overall perspective on the consolidated outcomes shown in the presentations. Whilst acknowledging the need for a multi-departmental approach in responding to the outcomes, the Cabinet also requested further opportunities to discuss more detail, which justifies the AGSA leadership's interaction with executive authorities on a quarterly basis.

**Table 8: Summary of actual performance against predetermined objective**

Performance measure	Target 2010-11	YTD actual performance	Comment
High-quality, value-adding stakeholder interactions are conducted, and escalated where necessary	100%	100%	Achieved

## Executive authority and external audit-related interactions

During the past year the AGSA executive's meetings with government ministers stimulated dialogue around deficiencies in internal control, audit findings on predetermined objectives and the lack of compliance with laws and regulations at departments and public entities. These discussions had a positive effect on audit outcomes and included the focus areas of human resource and supply chain management and the key national initiatives for the health, education, human settlements, and social development and public works sectors. These had a positive effect on audit outcomes.

## Legislative authority interactions

As with executive authority interaction, accountability is improved through regular meetings with those charged with oversight. Through intensive and targeted discussions with committees and other legislative oversight mechanisms the AGSA has made great strides in assisting constitutional stakeholders to better understand audit outcomes. In doing so it improved their ability to make positive changes towards clean administration by monitoring government progress in addressing the issues raised in our reports.

During the past year approximately 202 portfolio committee members and 80 committee support staff were trained on the format of AGSA reports and their use in assessing departments and entities from both a financial and non-financial point of view.

The AG conducted PFMA and MFMA roadshow presentations to the National Assembly (NA) and National Council of Provinces (NCOP). Members and committee chairpersons committed to more robust oversight to ensure legislatures live up to their constitutional mandates of oversight and to encourage clean administration.

Figure 1: National stakeholder interactions

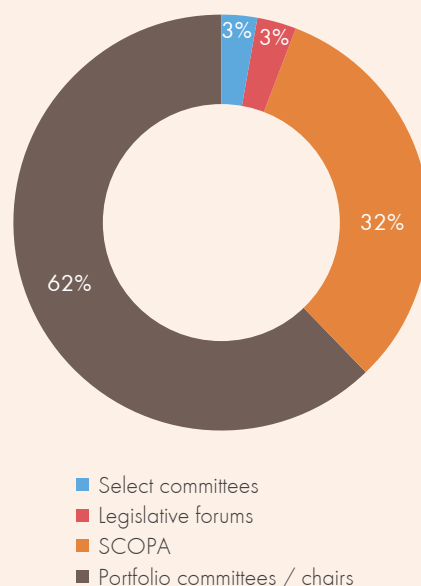
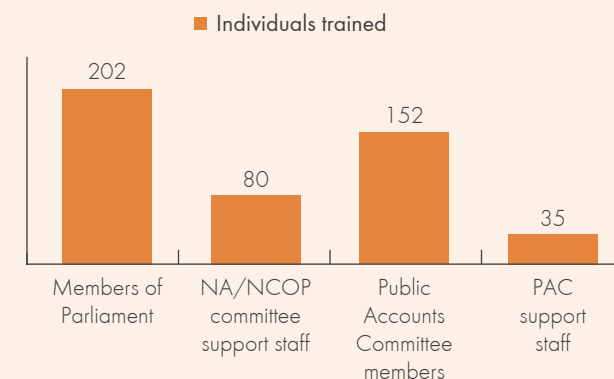


Figure 2: Training of legislative stakeholders



**Note:** The above figure refers to the training of provincial Public Accounts Committee (PAC) members, who include a large portion of Portfolio Committee (PC) members given their dual membership of the PAC/PC. There were also a number of members of Municipal Public Accounts Committees (MPACs) present at the PAC training. Therefore, the training covered PAC members of all three legislative spheres.

## COMMITMENT

ON VISIBILITY OF LEADERSHIP

**Testimonial from Mr NT Godi (SCOPA Chairman):**

*The Auditor-General of South Africa's value-add is not only on providing factual information but is on providing lasting credibility to the work of Parliament. – 24 May 2011*

**Testimonial from Mr RA Ainslie (Member of SCOPA):**

*The Auditor-General of South Africa is a pillar of our democracy and continues to play a vital role in ensuring accountable, transparent and responsive government.*

## Using available forums to bring the message across: Speakers' Forum

The AG once again interacted with the Speakers' Forum, a key strategic discussion mechanism for legislative oversight stakeholders. As the legislative sector has to set an example of clean administration, the opportunity to clarify the overall sector's audit outcomes at the Speakers' Forum was important. The AGSA also briefed the South African Legislatures' Secretaries Association as the implementing agent of the Speakers' Forum on two occasions during the year (on the legislative sector's audit outcomes and the processes followed in the audit of performance information).

## Association of Public Accounts Committees (APAC)

APAC is an important stakeholder for the AGSA and we therefore have a committed team providing services to it, ranging from secretariat support and facilitating the annual APAC training, to conference and strategic sessions. During the APAC conference, hosted by the KwaZulu-Natal legislature, APAC members committed to improving oversight, as seen in a resolution adopted on the importance of Municipal Public Accounts Committee structures. APAC also recognised the importance of collaboration between itself, chapter 9 institutions and law enforcement agencies to root out corruption and fraud in the public sector.

We facilitated a training session for 187 APAC members and staff during May 2010. A specific aim of the training was to improve members' understanding of auditing terminology and processes, as well as providing clarity on the concept of the auditing of performance information and strengthening members' oversight role.

## Provincial roadshows

As in previous years the AG embarked on countrywide PFMA and MFMA roadshows to meet directly with stakeholders. Given their positive results these sessions have become a fixture on the annual AGSA calendar. Roadshows provide stakeholders on local, provincial and national government levels an opportunity to discuss audit outcomes with our leadership. During these roadshows the AG interacted with the executive and legislative authorities within all three spheres of government in all nine provinces, and this includes the national Cabinet and the Speakers' Forum.

**Mr Alan Winde, Western Cape Minister for Finance, Economic Development and Tourism:** *We appreciate the Auditor-General's contribution to this achievement (to improve governance in the Western Cape).*

**The Mayor of Matlosana (North West Province):**

*I now have a much better understanding of my oversight role and what questions to ask where. I can really say that I am now empowered. Thank you for your efforts.*



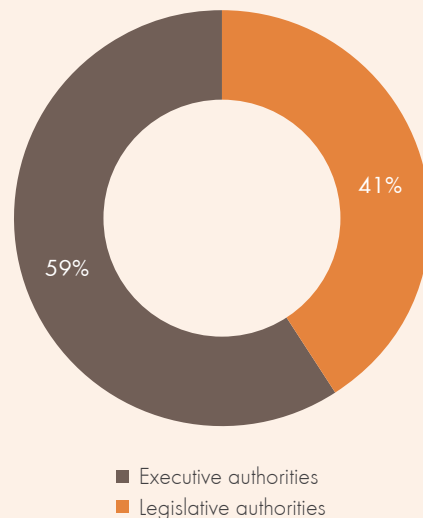
## Door-to-door visits to municipalities

In addition to the PFMA and MFMA roadshows the AG continued with his door-to-door campaign to municipalities around the country. The turnout of mayors and municipal staff during the Northern Cape campaign was good, where all 32 municipalities were visited and his messages very well received. As general follow-up, the Northern Cape BU will discuss

developments with the Premier and monitor progress at local level during quarterly visits to municipalities. Model municipalities that were able to move from disclaimers to unqualified audit opinions were held up as examples to the others.

To date, the AG has conducted municipal door-to-door visits in seven provinces. The remaining provinces, KwaZulu-Natal and Eastern Cape, will be visited during 2011 and 2012 respectively.

**Figure 3: Constitutional provincial stakeholder interactions**



*Travelling the vast province of the Northern Cape, visiting 32 municipalities together with the AG, CE and staff was an amazing experience. During these visits we observed first hand the challenges faced by municipalities but still a demonstration of commitment by the vast majority of municipalities to attain clean audit reports by the year 2014. – Latief Kimmie, BE: Northern Cape*

*SAIs should use the media appropriately to communicate effectively to the public.*

**Fundamental requirement 4: Guiding principle INTOSAI framework for communicating and promoting the value and benefits of SAIs**

## Interaction with the media

In order to show the AGSA's value and benefits to our country, it has to be recognised as making a difference to the lives of South African citizens. The media plays a crucial role in assisting the AGSA to be seen publicly as trustworthy, independent and objective in guiding continuous improvements in government. To this end, all strategic media interactions for the year under review have been focused on proactively providing journalists with informed insights to convey the AGSA's message. Media activities to profile and increase the visibility of the AGSA and its leadership included the following:

- Media briefing on the PFMA and MFMA audit outcomes, during which journalists had the opportunity to get explanations on key audit issues that could have had negative public impact if misreported.
- Joint briefing with the Department of Cooperative Governance and Traditional Affairs (CoGTA) on MFMA audit outcomes.
- Joint media briefing with the Government Communication and Information System (GCIS) on PFMA audit outcomes.
- Several planned interactions with local and foreign media on the occasion of XX<sup>th</sup> INCOSAI, resulting in very good publicity for the AGSA and its hosting of the event.

## COMMITMENT

ON VISIBILITY OF LEADERSHIP

**Contracted private firms**

Private audit firms working on our behalf are partners in achieving our mission, and are expected not only to audit in accordance with our standards, but also to share our values and commitment. Even though audits are contracted out, the responsibility for the audit is shared between the private audit firm and the AGSA. There is a requirement for private firms to maintain the AGSA leadership's visibility on the audits and with the auditees. We have fostered close relationships by including them in our training, roadshows and stakeholder interactions, and by providing them with all the requisite guidance and tools to meet AGSA commitments.

In the past year we have improved our relationship with the auditors of public sector entities that the AGSA opted not to audit. Not only do we regularly meet with these entities, but we also provide them with direction and assistance in performing their duties in accordance with the directive issued in terms of the PAA. Our collaboration with professional bodies also enhances our relationship with audit firms.

**Professional bodies**

We continued to strengthen the strategic relationship with IRBA and SAICA. This ensured that developments in auditing, accounting and training take the AGSA's public sector needs into consideration. The successful establishment of public sector committees at IRBA and SAICA provided a platform to deliberate public sector matters with these professional bodies, private audit firms, public sector regulators (e.g. the National Treasury and Accounting Standards Board) and various institutes. The IRBA committee, chaired by the AGSA, is developing guidelines on public sector auditing that will deepen private sector auditors' understanding in this regard and ensure a consistent approach to auditing in the public sector.

As member of IRBA's auditing standards (CFAS) and reporting solutions committees our greatest achievement in the past year has been the revision of a practice statement on financial reporting frameworks to also include public sector frameworks. The strong relationship between the AGSA and various professional bodies has greatly contributed to our

rapid development as a strong, independent and technically proficient SAI. Robust interactions with the private auditing and accounting sector have enabled the AGSA to strengthen its capacity as a professional SAI, as is evident from our rapid adoption and implementation of international public sector auditing standards. Internationally such collaboration between a professional body and a SAI is rare and we will continue to set the bar in this regard. In partnership with SAICA, we successfully trained private sector auditors on the audit of predetermined objectives in the past year and will continue in the following years. Our relationships with IRBA and SAICA in the past few years had positive impacts on the audits performed by our contracted private firms, thus further enhancing our reputation in the profession.

**Institutional cooperation**

Through dedicated efforts to increase cooperative agreements and partnerships with institutional partners, both domestic and international, the AGSA is increasingly able to influence global and local developments in public sector auditing.

International bilateral agreements and memoranda of understanding with several SAIs including Russia, Tunisia, India, China and Ghana, provide for the efficient exchange of expertise and information, as well as cooperation on conducting joint projects and capacity building initiatives.

Within South Africa we have several memoranda of understanding with other chapter 9 institutions, as well as others supporting democracy, like the Public Service Commission, to facilitate mutually beneficial cooperation.

As one of the most active SAIs within INTOSAI, the AGSA sits on several task teams, working groups and committees, each established with a specific goal in terms of INTOSAI's strategic plan. The AGSA's activities in promoting INTOSAI's aims have been duly recognised through the prestigious Jörg Kandutsch Award.

One of the core themes at XX<sup>th</sup> INCOSAI was the value and benefits of SAIs. The AGSA also chaired the INTOSAI Working Group on the Value and Benefits

of SAIs that was tasked with developing a framework for communicating and promoting this theme. INTOSAI approved further development on this theme, for which the AGSA will be responsible as chair until 2013. A second key theme, namely environmental auditing and sustainable development, highlighted the important role SAIs can play in auditing national and global environmental and sustainability governance through implementation of multilateral environmental agreements.

The endorsement of International Standards of Supreme Audit Institutions (ISSAIs) at the congress as a common frame of reference for public sector auditing further highlighted the AGSA's key role in developing global standards of auditing.

The AGSA aims to intensify its interactions with our institutional partners and stakeholders that have resulted in close relationships based on mutual trust, respect and integrity – a process that could contribute meaningfully to clean administration.

Grooming human  
potential for our future.



We align our performance management systems with a high-performance culture, and we remain committed to developing competent leaders who focus their efforts on developing effective teams and greater employee engagement across the organisation. We develop our staff through continuous training, including trainee auditor programmes, bursaries, mentoring and partnerships.

# UNLEASHING THE POTENTIAL OF OUR HUMAN CAPITAL

For the 2010-11 financial year, we promised to strengthen our human resource strategy, with particular focus on the comprehensive trainee auditor scheme in line with fundamental requirement 10.

*SAs' policies and procedures should set out that the SA will only undertake work that it is competent to perform, while managing the risks to quality.*

*SAs should ensure that they have appropriate resources to perform their work in accordance with relevant standards and other requirements.*

**Fundamental requirement 10: Service excellence and quality considerations**  
**INTOSAI framework for communicating and promoting the value and benefits of SAs**

As we celebrate 100 years of existence, our focus for the past year has been on continuous shaping of the organisation towards a high-performance culture.

### Achievements

- Significant progress has been made in streamlining executive performance management, as shown by the automation of the performance contracting and reviewing processes at executive leadership level during the past year.
- We have achieved an 89% occupancy level against a target of 80%, an improvement of 2% compared to 2009-2010 (87%), mainly attributed to the establishment of a Recruitment Centre of Excellence to deal with scarce skills in the auditing environment, a trainee auditor retention strategy and a comprehensive salary benchmarking in the market.
- We increased the numbers of audit professionals who passed their final qualifying examinations and completed their practical experience by 73% from the previous year. The growth in the number of professionals can be attributed to our bursary schemes, learnership programmes (trainee auditor scheme), study support and training.



## COMMITMENT

## ON STRENGTHENING HUMAN RESOURCES

This involved implementing innovative approaches in sourcing, developing and retaining talent, embarking on key strategic initiatives with emphasis on leadership development, succession planning and performance management. At the same time we improved the trainee auditor scheme and created prospects for the long-term growth of our people, thereby building on the proud legacy of our institution.

### The journey of our organisational culture change

The AGSA's culture journey was both robust and exciting during 2010-11. We brought our organisational structure in line with a high-performance culture, which allocated responsibilities for different functions and processes to specific leaders, business units and individuals. One of the major structural changes was the appointment of operational leaders in all provincial offices. The objective of this change was to enable the organisation to integrate talent management and succession planning that would fill executive positions with a pool of internal talent. A job-fit exercise was conducted for the support services to match a person's skills to the requirements of the job. The revised structure enabled staff to operate in a more

integrated team-based environment with clear and personal accountability.

We continuously reiterated organisational values at the quarterly cultural BU sessions. At each of these events employees who had been living the values in a passionate and exemplary manner were formally recognised by the senior BU leadership. Our employees express their appreciation of the values in everyday team exercises like role playing, poem compilations and value songs. Our journey towards a high-performance culture will continue to be innovative, fun-filled and exciting, with the AGSA's emphasis on people next year: *People constitute the agenda*.

### Committing to strategic organisational development and leadership

The AGSA operates within a continuously changing environment that requires leadership flexibility and adaptability to adequately respond to the needs of internal and external stakeholders. Strategic organisational development over the past year therefore focused on leadership development, succession planning and performance management.

This is in line with our commitment to developing competent leaders who champion the implementation of organisational and culture transformation. Whilst most of our leadership interventions are targeted at the executive level, the integrated approach also aims to cascade the required change throughout the organisation.

Leadership development pursued during the financial year is outlined below. These interventions prepared the AGSA for a greater emphasis on key people management strategies, notably the need for a change in leadership behaviour as well as streamlining processes and systems for organisational performance excellence. The results and key achievements emanating from these interventions will be realisable during the next few years.

### Executive coaching and mentoring

Coaching and mentoring initiatives started with the executive leadership, followed by a coaching skills programme for senior management teams. This had the aim to enhance the coaching and mentoring culture within the organisation.

## Leadership pipeline development and succession planning

With the emphasis on clean administration and the application of sound governance principles that contribute to greater public confidence, we have concentrated on building a strong leadership profile over the past year. The AGSA leadership are encouraged to keep on adapting their skills to meet changing requirements and ensure an appropriate leadership culture. As such, we emphasised a proactive approach in identifying, assessing and developing talent throughout the organisation.

Executive pipeline building initiatives that have the aim of ensuring business continuity at the AGSA, now put us in a better position to meet both long-term and short-term leadership needs at all levels.

## Building effective business unit teams

A high-performance work environment, characterised by an engaged, motivated and energised workforce, can only be achieved if leaders focus their efforts on developing effective teams. This calls for greater employee engagement across the organisation. Much time has been spent over the past year encouraging

leaders to create and maintain an environment that fosters individual and team performance. Towards this end, leaders are provided with the required tools to make this a reality within the AGSA. We have uniquely designed processes and programmes to empower leaders to build engaged teams by focusing on employee well-being and productivity.

## Executive performance management

Significant progress has been made in streamlining executive performance management processes. One of the accomplishments during the past year has been the automation of the performance contracting and reviewing processes at executive leadership level. By institutionalising the roles and responsibilities and competency framework of the various job levels within the AGSA we ensured that the leadership further cascade a common understanding of the performance objectives across the organisation. These efforts contribute significantly towards the shaping of a high-performance culture. Importantly the focus during

2010-11 ensured that our leadership successfully began their journey towards building an environment for high performance, greater recognition and retention of talent.

## Improving the occupancy level in the organisation

The occupancy target set by the organisation not only focuses on recruitment efforts, but is also an indication of our successful retention strategies.

As depicted in table 9 below we achieved an 89% occupancy level against a target of 80%, an improvement of 2% on the 2010 occupancy of 87%. This achievement is attributed to the following initiatives:

- A Recruitment Centre of Excellence was created in the Human Capital Business Unit to specifically deal with recruitment and the scarcity of human resources in the auditing profession. By ring-fencing recruitment in this manner we achieved the following results:

**Table 9: Summary of actual performance against predetermined objective**

Performance measure	Target 2010-11	YTD actual performance	Comments
% occupancy	80%	89%	Exceeded

**COMMITMENT**

## ON STRENGTHENING HUMAN RESOURCES

- o A total of 11 positions were filled at corporate executive, business executive and deputy business executive levels.
- o Vacancies were reduced by 2.3% - from 13.3% at the beginning of the year to 11% at year-end, which is significant given the organisation's growth from 2 453 to 3 066 due to new centres that were created.
- o Ninety-two per cent of the trainee auditor vacancies were filled by year-end: a 21% movement from 71% filled in the 2009-10 financial year.
- The development of trainee auditor retention guidelines to retain trainee auditors who had completed their articles in the AGSA.
- We retained all 80 employees (including registered government auditors (RGAs) and CAs in the trainee auditor scheme) who attained their professional qualifications during the past year.
- Comprehensive salary benchmarking was undertaken in the market that resulted in adjusting salaries for assistant managers and audit supervisors. It is at these levels that we face aggressive competition for human capital.

- The performance management system and differentiation in payment for performance implemented during the year created a motivation for high-performing employees.
- The introduction of our talent management strategy is beginning to yield results, which prompts us to intensify succession planning efforts.

### The integrated talent management strategy

In 2009 the AGSA introduced its talent management framework as one of our key strategic initiatives to address leadership and retention of key talent in the organisation. During the year under review the following structures were established:

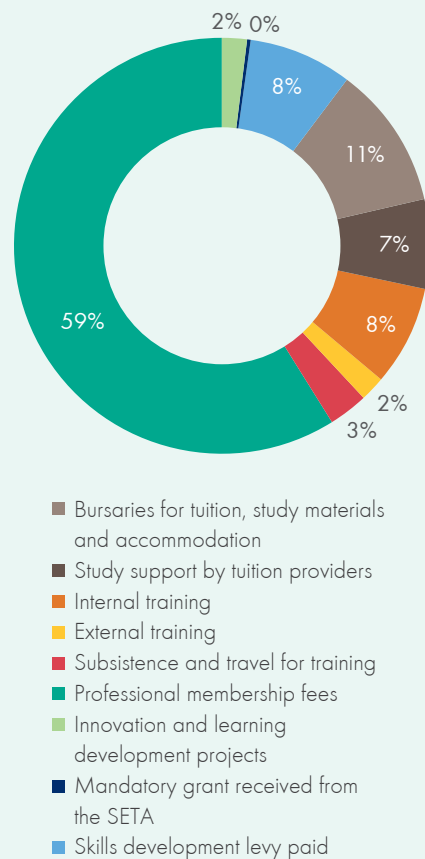
- Talent management governance, which included a BU talent management committee and talent board (represented by Exco), to enable effective monitoring and evaluation of the initiative
- Talent support to ensure continuous human resource support to BUs

In 2010-11 we integrated talent management with other people management initiatives, like performance management; learning and development; and recruitment, selection and retention. With talent management viewed as one of the contributors to the significant 89% occupancy in the organisation, we are looking at integrating a dual career path (that of a leader and a specialist), which will recognise employees in various functional streams.

### Continuous learning and professional development

We are committed to the development of our staff through continuous training by different methods, namely study bursaries, formal workshops (both internal and external), attendance of classes at institutions, providing study support, on-the-job coaching and mentoring, and e-learning. Our total expenditure on learning and growth initiatives amounted to R49.6 million for the year, comprising the following:

**Figure 4: Categories of study support, learning and growth**



## Trainee auditor scheme

### Qualified audit professionals

Persons with the requisite qualifications, experience and skills required to perform external audits are in great demand across the economy. With an eye on building a skilled and diverse workforce, we remain committed to growing the numbers of such professionals. This will also sustain a pipeline of inspired auditing leaders.

**Figure 5: Number of qualified professionals**



### Increase in number of qualified audit professionals

As a learning organisation we take pride in producing professionals for both our own office and the public sector. These accountants, financial managers and internal auditors will in turn employ their acquired skills elsewhere to improve public financial management and to implement clean administration.

Figure 5 illustrates the 73% increase in numbers from the previous year of audit professionals who passed their final qualifying examinations and completed their practical experience. A further ten CAs, eight RGAs and two CISA trainee auditors passed the final qualifying examinations, but still needed to complete their practical experience before being accepted by the professional bodies. In 2011-12 at least 80 auditors who have progressed sufficiently in their studies and learnerships will sit their qualifying examinations and we expect this positive trend to continue. The growth in the number of professionals can be attributed to the AGSA's bursary schemes, learnership programmes (trainee auditor scheme), study support and training and the efforts of our learners. In 2011, we employed a total number of 773 professionals (CAs: 375; RGAs: 339; CISAs: 43; ACCAs: 16) compared to 739 professionals in the previous year.

## COMMITMENT

## ON STRENGTHENING HUMAN RESOURCES

**Pipeline development and capacity building**

Our key initiative is to provide bursaries to talented young people for study towards a qualification that would make them eligible for our learnership programmes. Stringent requirements apply in the selection process to ensure we allocate bursaries to the best candidates. Bursaries are awarded to matriculants for study from their first year onwards and to students who have progressed in their studies to their Certificate in the Theory of Accounting (CTA) year.

In 2010-11 we awarded 19 new bursaries to deserving students, whilst honouring commitments to 90 existing bursary holders. Our total investment amounted to R11.9 million. Besides financial support we also mentor and counsel our students by assisting with other problems they might face. Our achievement is best illustrated by the selection of four of our bursary holders for academic articles at the Universities of Johannesburg, Pretoria and Limpopo respectively.

The AGSA also partners with other organisations to support students in their studies:

- We are one of the largest donors to the Thuthuka Bursary Fund of SAICA who assists previously disadvantaged individuals to obtain the CA

qualification. In this manner 40 students were sponsored at a total cost of R1.4 million per year.

- We contributed R3.6 million towards the salaries of accounting department lecturers at the Fort Hare University in the current year.
- We also sponsored the prize to the top accounting student in the second year at the University of Pretoria.

In the past year, the administration of external bursaries was streamlined and we significantly increased our visibility at universities in order to attract the best and brightest for our bursary scheme.

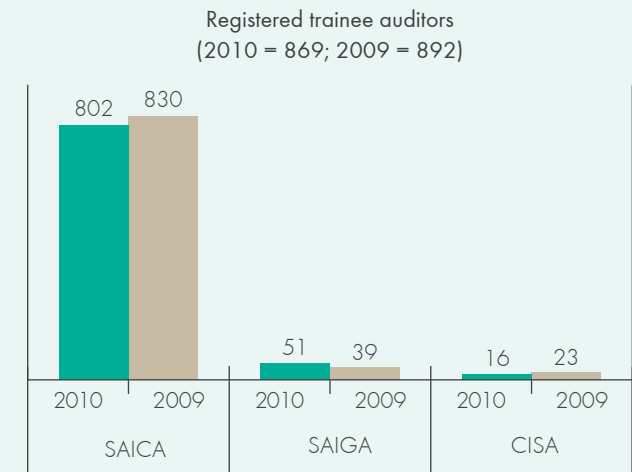
**AGSA learnership programmes**

We recruit graduates, who include our bursary holders, as trainee auditors to participate in our three-year learnership programmes. Due to difficulties in recruiting graduates in Mpumalanga, Limpopo and the Northern Cape we have also appointed undergraduates who are registered for a five-year programme.

Figure 6 shows the different types of learnership programmes and the number of trainee auditors registered for each programme in 2009 and 2010.

Professional bodies, notably SAICA, the Southern African Institute of Government Auditors (SAIGA) and the Information Systems Audit and Control Association (ISACA), prescribe the requisite skills and experience for trainee auditors to be accepted. We are proud to report that 135 SAICA, 15 SAIGA and 18 CISA trainee auditors completed their learnerships during the calendar year January to December 2010. Of the trainee auditors who had completed their final year, 82% (138) were retained, which favourably impacted our occupancy rate. For the trainees who were not

**Figure 6: Registered trainee auditors**





retained, reasons ranged from positions not being available, to resignations and a history of inadequate work performance and/or poor study results.

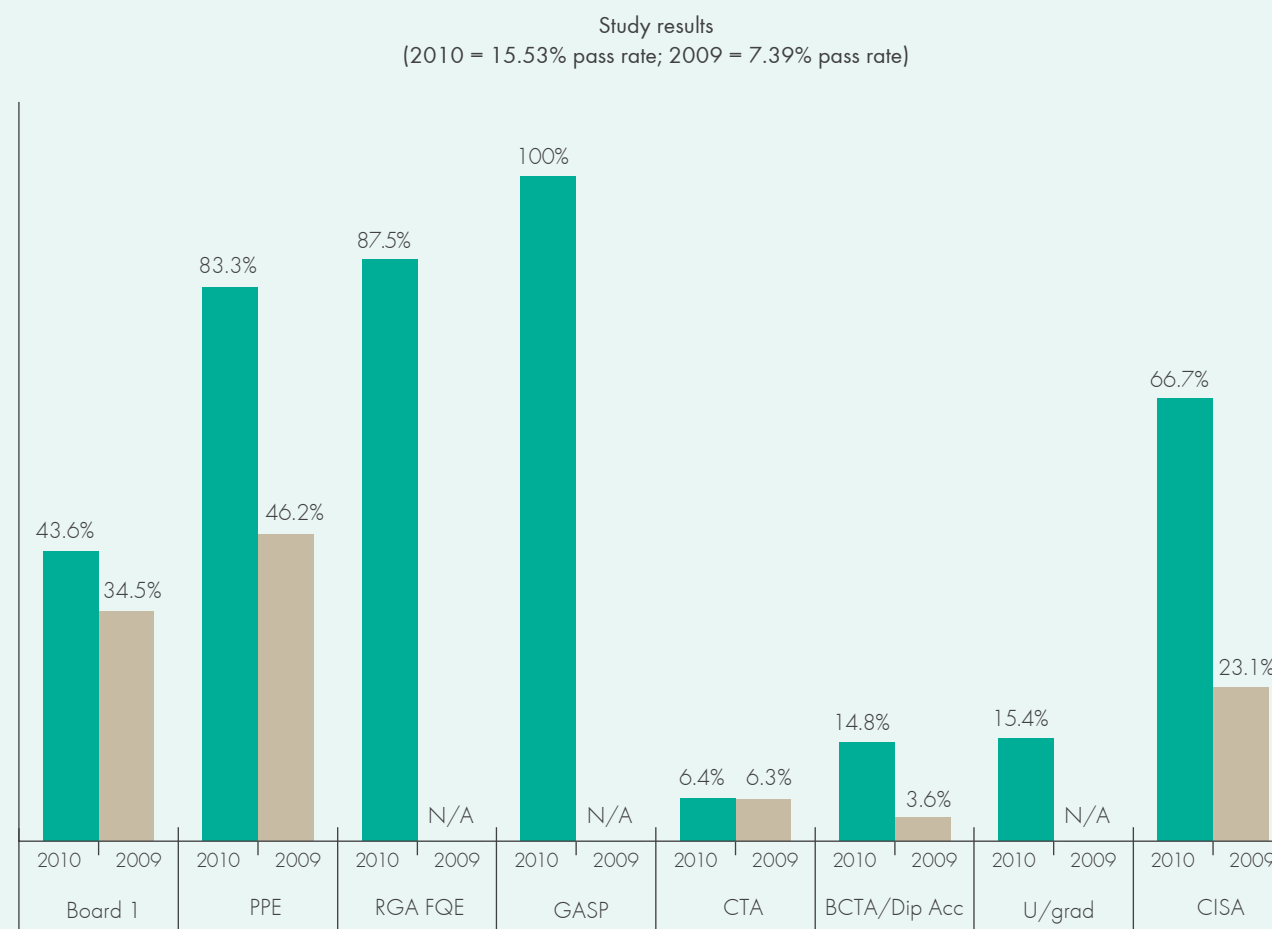
The success of the learnership programmes can be attributed to the following:

- The commitment of the trainee auditor unit, training officers and line managers who ensured all requirements of the professional bodies were monitored and complied with
- Maintenance of good relationships with the professional bodies
- A structured and comprehensive training programme
- Strong governance processes through policies and procedures
- A disciplined approach towards trainee auditor assessments, which were monitored electronically, at both business unit level and centrally, every two months to determine whether trainee auditors were developing the skills they require.

### Academic performance

Although the trainee auditor pass rate has been a concern for a number of years, we are starting to note an improvement, as reflected in figure 7.

**Figure 7: Pass rates summary results**



## COMMITMENT

## ON STRENGTHENING HUMAN RESOURCES

Whilst acknowledging the difficulty of part-time study, we also realised that more stringent policies were needed to improve study results. In the past year our financial assistance to trainee auditors consisted of 70% bursaries for first attempts and 100% interest-free loans for further attempts in respect of the full study costs, i.e. registration, tuition, books and study support fees. We provided a centralised study support programme to those studying for the Bridging Certificate in the Theory of Accounting (BCTA)/ Diploma in Accounting (Dip Acc) and CTA, along with generous study leave to those trainee auditors who complied with the study leave requirements.

This is what some of the Eastern Cape trainee auditors had to say:

*Your consistent encouragement is always appreciated, Gabriel (Gabriel Tenene, mentor to the trainee auditors), it's always an honour to have people of your calibre around us, thanks my brother. – Nomaphelo Nduku*

*I would like to thank you (AGSA staff responsible for the trainee auditor scheme) for going the extra mile, for the constant feedback given when requested. I admit I was stressing and worried, but I'm very relieved now that I am registered. – Simphiwe Banana*

The academic progress policy was also strictly implemented, which required that trainee auditors who were not making academic progress were removed from the trainee auditor programme and repositioned to an audit clerk position. As an audit clerk they could continue their studies at own expense and rejoin the trainee auditors' programme after catching up on their academic work. Having shown improvement in the study results in 2010 the study support programmes and stricter policies are expected to produce yet more improved study results in future.

### Deloitte management secondment bridging the gap

The Deloitte management secondment programme (DMS), a joint venture with the AGSA, aims to partner with various countries in strengthening the profession globally by developing trainees in respect of technical and soft skills. Chartered accountants from India were seconded to various provinces as part of this pilot programme.

During 2010-11, DMS managers voluntarily initiated a study support programme over weekends, giving trainee auditors the opportunity to be assisted in their studies. Many of our trainees are from the rural areas

and often lacked access to a computer during their schooling. The managers worked with the trainees to compensate for their limited computer skills, especially to use Microsoft Office programmes such as Excel and Word. Besides helping with knowledge of fundamental international accounting principles and auditing concepts, the managers offered communication, etiquette and interpersonal skills that would be invaluable in the professional working environment. On the back of the success of the secondment programme the focus for the coming performance year would be on strengthening the methods used with the trainee auditors in a structured programme.

*It was a nice experience to work with the AGSA Nelspruit office and I received all your respect, support and love and worked as a family. – Keshav Varshney (Nelspruit)*

*Thanks to all trainees who worked with me for all their support throughout my work tenure and senior management for giving me opportunities to deliver and believing in me for my abilities which gave me a lot of confidence going forward. – Manish Agrawal (DMS: KZN)*

A vibrant and colourful celebration of our human capital.





Our peers recognise and acknowledge  
the AGSA's excellence.



We are one of a few  
SAIs worldwide to fully  
implement the clarified  
International Standards  
on Auditing (ISAs). We  
ensure our people and  
processes deliver audit  
products of a consistently  
high standard. Our  
strategies ensure fair and  
equal representation in  
all positions across all  
levels and bands.

# THE EXEMPLARY NATURE OF THE AGSA

We committed ourselves to lead by example on matters of risk management, internal controls, transformation and quality and timeliness of our products as advocated by fundamental requirement 11.

*In keeping with the principle of 'leading by example', SAls need to adhere to the same, appropriate rules and philosophy that SAls expect from auditees as a minimum.*

**Fundamental requirement 11: Good governance  
INTOSAI framework for communicating and  
promoting the value and benefits of SAls**

## Successful hosting of XX<sup>th</sup> INCOSAI

In November 2010 the AGSA successfully hosted the 20<sup>th</sup> Congress of the International Organisation of Supreme Audit Institutions at the Sandton International Convention Centre in Johannesburg. The event, known as XX<sup>th</sup> INCOSAI, was managed in a cost-effective and environmentally friendly manner within the expectations

## Achievements

- It is to the AGSA's credit that it contributed substantially to developing guidelines through INTOSAI that form part of the International Standards of Supreme Audit Institutions, public sector specific application guidance on performance audits and the auditing of financial statements, internal control and legislative compliance.
- In a first of its kind review the AGSA as a SAI subjected itself to a firm (office)-level review by a private sector regulator namely, the Independent Regulatory Board for Auditors. It complies with the requirements of the International Standard on Quality Control 1 for audit institutions.
- The AGSA completed its work within the legislated deadlines for both the PFMA and MFMA audit cycles, consistently exceeding our internal targets every year, whilst taking care not to achieve timely submission at the expense of our people and internal quality processes.
- Our measures to track audit findings ensured that all corrective actions to mitigate risk were implemented timeously, thus significantly reducing the rate of repeat findings from internal and external auditors. We are proud that all the above initiatives not only proactively managed and reduced the AGSA's risk exposure; they also enabled us yet again to meet our strategic objective to achieve a clean audit report.



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of the INTOSAI Governing Board, the INTOSAI General Secretariat and Auditor-General. Our vision for XX<sup>th</sup> INCOSAI was to ensure high quality standards in terms of technical content, not only as an INTOSAI requirement, but also to make the Johannesburg Accords a highlight within the INTOSAI community after 2010, whilst:

- exposing the delegates to our varied culture and history through a proudly South African experience, thus promoting our country as a tourist destination of choice
- demonstrating cost-efficiency and cost-effectiveness in view of the current economic climate
- considering that public money was utilised to fund the project
- hosting a secure and safe event.

The congress was attended by approximately 600 delegates, observers and accompanying persons from 152 countries worldwide, the largest in terms of numbers of participants in INCOSAI history. The main objective was to promote the exchange of ideas and experiences between SAIs in the field of government auditing and financial management. XX<sup>th</sup> INCOSAI adopted resolutions on matters of mutual and technical interest and made recommendations on issues relating to international cooperation between SAIs. Translation and interpreting services in all five official INTOSAI

languages ensured optimal delegate participation and thorough understanding of the congress content.

The following key themes and topics were discussed:

- INTOSAI's Strategic Plan for 2010-2016
- Theme I (The Value and Benefits of Supreme Audit Institutions)
- Theme II (Environmental Auditing and Sustainable Development)
- The South African Declaration on the International Standards of Supreme Audit Institutions (ISSAIs).

This led to the acceptance of the Johannesburg Accords, which will be of great assistance to SAIs around the world in ensuring their work benefits the citizens of their respective countries.

Important highlights of XX<sup>th</sup> INCOSAI included the following:

- The launch of the *Report on the Coordinated International Audit on Climate Change*, which was managed by Estonia, and reflected the requirements of both developed and developing countries
- The AGSA's acceptance of the chairmanship of INTOSAI for the next three years

The successful hosting of XX<sup>th</sup> INCOSAI enabled the AGSA to position itself within the global INTOSAI

community and especially in Africa and South Africa as a SAI that vigorously implements its constitutional mandate. We showed that the AGSA delivers on its promise to help strengthen democracy by enabling oversight, accountability and governance in the public sector, thereby building public confidence. XX<sup>th</sup> INCOSAI was a resounding success, as reiterated by the following testimonials:

*I really do not know where to start to thank you all and really every member of your great Team. You did such tremendous and outstanding work and we are all full of enormous gratitude and appreciation. Without any exaggeration it was my best INTOSAI Congress ever (and it was my 5th!).*

*Please accept once again our deepest thanks and please convey them also to your team. I am not going to mention them name by name. There were just too many outstanding, always smiling and helpful colleagues taking care of all INTOSAI members.*

**– Monika Gonzalez-Koss of the INTOSAI General Secretariat in Austria**

## Audit standards and methodology

In accordance with the PAA the AGSA determines the standards and methodology to be applied in audits,

taking account of international and local best auditing practice. In the past audit cycle the AGSA was one of a small number of SAs worldwide to fully implement the clarified International Standards on Auditing (ISAs). With the adoption over the past two years of the revised standards our methodology, working papers and templates are sound and in adherence with these standards, as confirmed by the recently completed external firm-level review by IRBA.

The International Standards of Supreme Audit Institutions (ISSAIs) provide public sector specific application guidance on performance audits and the auditing of financial statements, internal control and legislative compliance. It is to the AGSA's credit that it contributed substantially to developing these guidelines through INTOSAI. Following the formal adoption of the ISSAIs at XX<sup>th</sup> INCOSAI held in South Africa in November 2010 we implemented several of the standards and are well on the way to incorporating them all into our AGSA methodology.

We are progressing well towards expressing an opinion on the reporting on predetermined objectives (reporting on service delivery), compliance with legislation and internal control. This places us at the forefront of developments in the INTOSAI community, particularly in the audit of predetermined objectives,

where we have received international recognition for our methodology.

We utilise internally developed guidelines which are aligned to the audit standards referred to above and also receive ongoing training to ensure consistent implementation of the standards and methodology. With a view to finding more effective and efficient ways to perform the audits and report consistently, we have focused in the past year on horizontal and sector approaches. These allow for standardisation of audit processes and reporting on processes which are common to a number of our auditees.

## Quality of audits performed

We ensure our people and processes deliver audit products of a consistently high standard. To this end we use a dedicated monitoring control process to establish whether audits meet the policies and procedures of the AGSA and ISAs on engagement performance. By aligning this to our performance management

system we make sure the process is sustained. The monitoring and review process, as performed by our internal Quality Control unit, covers both our own audits and those undertaken by contracted firms. The credibility of this quality control process is enhanced by the involvement of a regulatory entity, namely IRBA, which assesses the adequacy of the internal monitoring function and the appropriateness of the monitoring results.

During the year we undertook several strategies to maintain the excellent quality of audits achieved in prior years and to comply with changes in the clarified ISAs and the requirements of the public audit environment. The most significant of these was a total revision of our engagement performance policies, procedures and working papers. This was supported by the technical learning curriculum that involved an extensive roll-out of the revised methodologies and related guidance.

Auditors faced some challenges with the first-time implementation of the clarified ISAs with new working

**Table 10: Annual quality control results**

Target 2010- 11	Performance 2010- 11	Performance 2009- 10
Excellent performance: 85%	Excellent performance: 77%	Excellent performance: 86%

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 ON LEADING BY EXAMPLE

papers, notably with municipalities implementing the full Generally Recognised Accounting Practice (GRAP) framework and the requirement to audit predetermined objectives. This is likely to improve as role players become familiar with the clarified ISAs. It is apparent that the impact of new auditing and accounting developments was not fully taken into account when targets for performance excellence were set for the year under review. Although we fell below the ambitious target of 85% (actual: 77%), our results in the "excellent" category continued to outperform the industry benchmark of 75%. Corrective actions to revert to the desired level of excellence include initiatives at

**Figure 8: Quality results summary for trend analysis during the period 2006-2011**



staff engagement level, training and development, and possible disciplinary action, where appropriate. The adequacy of these remedial processes is monitored on an ongoing basis to ensure improvement in audit quality.

Figure 8 below shows trend results from 2006 to 2011.

### Outcome of the independent firm-level review

As committed in the AGSA's *Strategic plan and budget for 2010-2013* IRBA performed an external firm-level review at the end of the 2010-11 performance year. This was the first of a kind where a SAI subjected itself to a firm (office)-level review by a private sector regulator.

The review, which provided an indication of the AGSA's compliance with the requirements of the International Standard on Quality Control (ISQC) 1 for audit institutions, was performed in two phases.

Phase I focused on the adequacy of a quality control system on policies and procedures relating to leadership, ethical requirements, acceptance and continuation of client relationships, human resources, engagement performance and monitoring. Moreover,

IRBA also examined the implementation and operational effectiveness of the monitoring function as discharged by the internal Quality Control unit.

The results of phase I were released in April 2011 and the AGSA is extremely proud that the assessment indicated a satisfactory level of compliance on a policy and procedure level, as well as on the functioning of our internal monitoring processes.

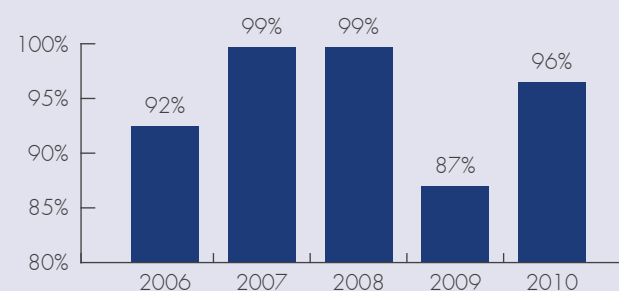
Phase II of the firm-level review, expected to be performed at the beginning of 2012, will focus on the operational effectiveness of our system of quality control in the AGSA. This second phase of the review is equally significant and the AGSA leadership has already embarked on initiatives to ensure we are ready for such a review.

### Timeliness of audit reports

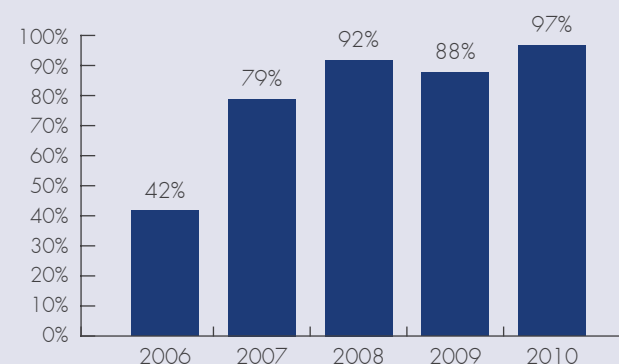
We continue to complete our work within the legislated deadlines for both the PFMA and MFMA audit cycles. As is clear from the figure below, we consistently exceed our internal targets every year, whilst taking care not to achieve timely submission at the expense of our people and internal quality processes. The results demonstrate that our processes to complete audits within the legislated deadlines have reached a sustained level of maturity.

## Timeliness of PFMA and MFMA reports

**Figure 9: PFMA timeliness trend analysis: 2006-2010**



**Figure 10: MFMA timeliness trend analysis: 2006-2010**



**Table 11: Performance of the AGSA in meeting PFMA reporting timelines**

Entity's name	Total population of PFMA entities	Submission of financial statements as prescribed by the PFMA as % of total audits performed		Completion of the audit by the AGSA within the statutory deadlines where financial statements were submitted in accordance with PFMA requirements	
PFMA organisations <sup>6</sup>	483	94%	452	97%	437
Other PFMA organisations <sup>7</sup>	123	37%	45	80%	36
<b>Aggregate</b>	<b>606</b>	<b>82%</b>	<b>497</b>	<b>96%</b>	<b>473</b>

**Table 12: Performance of the AGSA in meeting MFMA reporting timelines**

Entity's name	Total population of MFMA entities	Submission of financial statements as prescribed by the MFMA as % of total audits performed		Completion of the audit by the AGSA within the statutory deadlines where financial statements were submitted in accordance with MFMA requirements	
Municipalities	283	76%	213	96%	203
Municipal entities	55	86%	47	100%	47
<b>Aggregate</b>	<b>338</b>	<b>77%</b>	<b>260</b>	<b>97%</b>	<b>250</b>

<sup>6</sup> Includes national and provincial departments and listed public entities

<sup>7</sup> Includes Circular 1 entities, constitutional institutions, other entities, statutory bodies, trading entities and unlisted entities

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**Timeliness of performance audit reports and investigations**

To meet our internal deadline, performance audit reports needed to be submitted to the CE within six weeks of receipt of comments from the executive authority. All 19 reports met the internal deadline.

Two special investigations reports, of a total of four, were tabled according to internal deadlines. These include reports on the Commission for Gender Equality and the Department of Water Affairs.

The Investigations BU was established as a new, separate unit from 1 November 2009. Prior to

its establishment investigations formed part of the Specialised Audit Services portfolio, which conducted both performance audits and investigations. With an initial staff complement of four, the Investigations BU faced a challenge in complying with internal deadlines, a situation which would be avoided with its current complement of 14 staff members.

**Table 13: Timeliness of the AGSA in meeting performance and investigation report timelines**

Performance measure	Target 2010-11	YTD actual performance	Comment
% compliance with deadlines	Performance audit reports: 95%	100%	Exceeded
	Investigations: 95%	50%	Not achieved

**Table 14: Timeliness of the AGSA in meeting corporate report timelines**

Performance measure	Target 2010-11	YTD actual performance	Comment
% compliance with statutory deadlines	Strategic plan and budget: 100%	100%	Achieved
	Annual report: 100%	100%	Achieved

**Table 15: Achieving required BBBEE rating level**

Performance measure	Target 2010- 11	Performance 2010- 11	Comment
Achieve identified BBBEE rating level	Achieved level 4 BBBEE rating	Level 3 rating	Exceeded

**Timeliness of corporate reports****Strategic plan and budget**

The AGSA complied with the legislative requirement for the annual submission of its strategic plan to SCoAG where it was discussed on 15 October 2010. The strategic plan and budget is a 3-year view of how the AGSA intends to fulfil its mandate using resources at its disposal. Following SCoAG's acceptance of our plan, it was submitted to Parliament.

The strategic thrust from the previous year continued on the basis of the commitments to simplicity of our messages and for our leadership to be more visible. These were supported by the commitments to leading by example, strengthening our human resources, and ensuring financial sustainability.



## Annual report 2009-10

The Auditor-General's annual report for 2009-10 was tabled in Parliament on 31 August 2010 and then presented to SCoAG on 7 October 2010 as prescribed in section 4(5) of the PAA. The committee expressed satisfaction with the AGSA's overall performance improvement in the reporting period and commended the organisation for its improved financial results.

**Table 16: Allocation criteria and weighting for CWC allocation**

Allocation criteria	Weighting %
Quality control results (as reviewed by IRBA)	30%
BEE ( as defined in the AGSA external guide)	70%

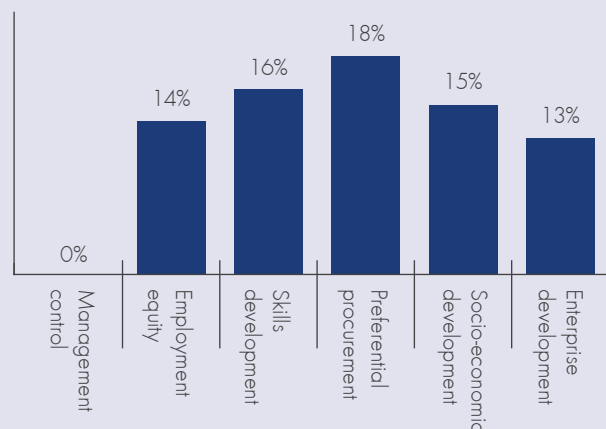
**Table 17: Allocation of audit work to private firms for 2010-11**

Size of firm	% of budget total	Budget R million	Actual R million	% of actual total
Big & Large	45%	R 210 380 510.70	R 233 020 725.31	42.91%
Medium	35%	R 163 629 286.10	R 236 387 605.99	43.53%
Small	20%	R 93 502 449.20	R 73 636 938.60	13.56%
Total	100%	R 467 512 246.00	R 543 045 269.90	100.00%

## Growth in transformation

As a chapter 9 institution we are committed to the transformational development of the country. During the 2010-11 performance year, the AGSA utilised

**Figure 11: Achievement per code of good practice**



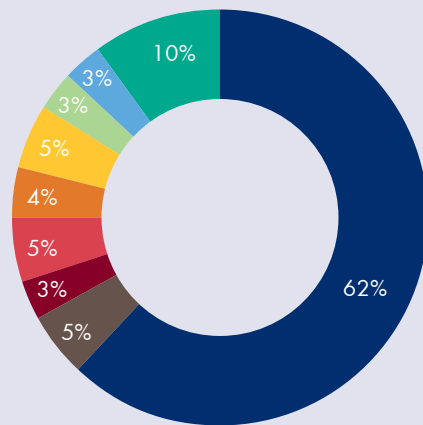
the codes of good practice as a guideline in setting requisite targets and monitoring progress. We exceeded the targeted level 4 by being certified a level 3 contributor by independent economic rating agency Empowerdex in terms of the Broad-Based Black Economic Empowerment (BBBEE) Act, 2003 (Act No. 53 of 2003).

The various committees that control the day-to-day operations of the AGSA reflect our commitment to fair and equal representation, including representation of black employees at all levels of the organisation. We achieved 61% black representation among executive and non-executive committees. The results achieved per code are shown on the left.

Throughout the year we created opportunities for service providers who are qualifying small enterprises and exempt micro enterprises, especially black-owned and women-owned. Although progress has been lacking somewhat on enterprise development, our focus for the 2011 financial year will be on developing black representative firms within the profession. The table below outlines our total spend on private firms.

The actual allocation to private firms increased by 7% from R508 million in the previous year to R543 million in the year under review.

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**Figure 12: CSI schools distribution per province**


■ Gauteng  
 ■ Mpumalanga  
 ■ North West  
 ■ Limpopo  
 ■ Free State  
 ■ Eastern Cape  
 ■ Western Cape  
 ■ Northern Cape  
 ■ KwaZulu-Natal

### From grass roots to the classroom and beyond

Corporate social investment (CSI) is an integral part of our contribution towards transformation of our country. The AGSA views it as its duty to help address some of the social needs of disadvantaged communities through support of projects that contribute to the upliftment of these communities. Our CSI programme focused on the development of learners through the schools poverty eradication programme and community upliftment. CSI activities are managed at BU level and centred on rural schools and communities, notably the previously disadvantaged. The objective of the schools programme was to motivate and inspire learners by providing personal and career guidance and setting realistic and achievable goals. We visited a total of 107 schools in all nine provinces during 2010-11.

*I really enjoyed today's programme because I learned a lot of things, especially the part of the life tools.*  
**– Kotoame Mahlomola (Refihletse combined school)**

With our focus on growing the profession we intended the schools programme to create greater awareness of a career in accounting and auditing. Learners were motivated to improve their Mathematics and English results through ongoing coaching and mentoring. The BUs expanded their initiatives beyond the schools programme to improve the lives of community members through projects like the building of two houses at the Orange Farm informal settlement. We painted various schools, old age homes and orphanages, in an effort to improve the lives of the vulnerable, elderly and children.

By forming a partnership with the Department of Agriculture to maximise the impact of our CSI initiatives, we established some vegetable gardens to provide a sustainable income for the community. The project is being piloted in three regions, namely East London, Port Elizabeth and Kimberley.

### Achieving an equitable workforce

Our focus was on the identification and elimination of barriers to employment equity in the workplace by ensuring equal representation of previously disadvantaged employees at all levels in the organisation and thus creating a harmonised workforce. We reviewed the AGSA's policies

**Table 18: Employment equity profile: Economically active population targets per ethnic group and gender**

	2010-11				2009-10	
Race	Economically active population – male	Economically active population – female	Male	Female	Male	Female
African	39.2%	34.2%	31%	33%	29%	32%
Coloured	6.1%	5.2%	3%	9%	3%	3%
Indian	1.9%	1.1%	6%	4%	6%	4%
White	6.7%	5.5%	9%	10%	11%	12%
Disabled	0%	0%	0.4%	0.2%	0.18%	0.04%

**Table 19: Achievement of EE targets including trainee auditors**

Level	2010-11				2009-10			
	Target: Designated group	Actual: Designated group	Target: Non-designated group	Actual: Non-designated group	Target: Designated group	Actual: Designated group	Target: Non-designated group	Actual: Non-designated group
Band B	80%	90%	20%	10%	80%	89%	20%	11%
Band C	80%	68%	20%	31%	80%	68%	20%	32%
Band D	80%	78%	20%	21%	80%	75%	20%	25%
Bands E & F	80%	100%	20%	0%	80%	100%	20%	0%
Band G	90%	99%	10%	1%	90%	98%	10%	2%

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 ON LEADING BY EXAMPLE

and processes with the emphasis on fairness and equitability, and also our employment contract terms to attract and retain critical and skilled staff.

By utilising statistics on the economically active population (EAP) we ensured a fair representation of the country's demographics, with the EAP as a baseline set as a 5-year goal.

The AGSA has achieved all the set milestones for fair and equal representation through continuous consultation with our stakeholders. Quarterly meetings of the Employment Equity (EE) Forum ensured our EE plan was monitored, while employee concerns on employment equity could be deliberated in a productive manner.

Given that diversity management is an intrinsic aspect of the AGSA's EE principles, we developed a specific relevant tool to guide staff on the issue of diversity. Taking account of the dynamics at a BU level it culminated in a diversity plan for 2011-12 that focuses on specific BU challenges.

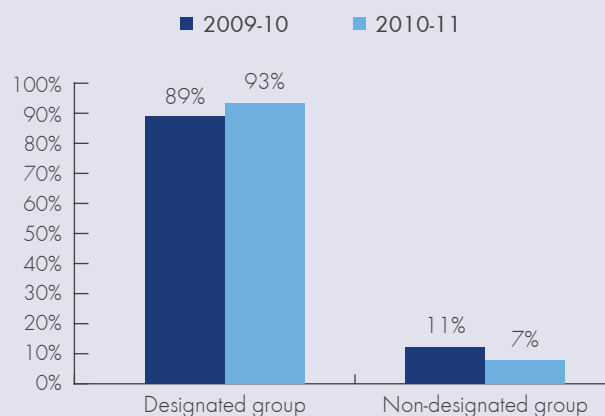
While the AGSA's trainee auditor scheme provides newly qualified graduates with the practical technical and relevant interpersonal skills to become CAs and progress in the profession, we also establish targets

for new entrants to the scheme to ensure equal representation of previously disadvantaged people.

By growing the representation of black people at all levels in the AGSA, we contribute to their growth in the profession. Our equity profile, monitored on a monthly basis, reflects progress made in achieving affirmative action targets and ensures the progress is maintained.

Since gender and disability are an integral part of employment equity, our focus for 2011 will be to attract and retain females in senior management positions and persons with disability on all levels of the organisation.

**Figure 13: Workforce profile analysis:  
2009-10 vs 2010-11**



## Risk management and compliance

In line with the AGSA's organisational risk management framework we performed a planned annual strategic risk assessment to evaluate potential risks to achieving our strategic goals. The assessment enabled us to identify the following risks:

- Loss of confidence by relevant stakeholders
- Fraud and unethical behaviour that negatively impact reputation
- Qualified audit opinion on the AGSA
- AGSA failing as a brand
- AGSA culture and transformation objectives not achieved

We identified root causes and developed mitigation plans to not only get a clear understanding of the factors that could contribute to the realisation of the risks, but also show us the potential impact on the organisation. We therefore proactively implemented measures to reduce the risk exposures and conducted a number of risk assessments at key BUs following the same principles.

In addition, non-compliance with legislation and regulations is considered a key risk factor for the AGSA; as a result, the compliance function is prioritised

as part of the risk management principles. We continue to manage our compliance risk through development and review of policies and procedures, ensuring that they are in line with applicable laws and regulations.

A strong control environment results from good controls design and sustainable controls that work as intended. For the AGSA to have proactive monitoring on the effectiveness of its controls and thus its risk management, we performed monthly internal control self-assessments. These enabled us to identify, escalate and remedy control failures immediately. We analysed trends of these identified control failures, highlighted dependencies where relevant and monitored the timeliness of our remedies of those failures.

To complement our risk management initiatives to provide an independent assurance on our risk management measures, internal and external auditors reviewed the adequacy and effectiveness of our

processes, policies and controls. Our measures to track audit findings ensured that all corrective actions were implemented timeously, thus significantly reducing the rate of repeat findings from internal and external auditors.

We are proud that all the above initiatives not only proactively managed and reduced the AGSA's risk exposure; they also enabled us to yet again meet our strategic objective of a clean audit report.

## Operational excellence

Developing and maintaining the ability to perform key IT processes are important aspects of achieving IT governance. The financial management capability model (FMCM) was initially used to assess financial management maturity as part of the audit planning phase. However, from 2007 the AGSA decided to use the same measurement framework to ascertain

the maturity levels of its own business processes and risks, thus extending the FMCM to be an integrated capability maturity model (CMM) that not only covers financial management, but also looks holistically at the AGSA processes.

In keeping with our commitment to operational excellence through improved processes we prioritised the Human Resource and Finance processes for improvement according to the CMM. Although we aimed for a full (100%) level 3 for both processes, we achieved 3.0 for Finance and 2.91 for Human Resources, slightly below the target for HR; because not all reviewed policies and processes were approved for the reporting period.

## Information and communications technology

Information and communications technology (ICT) capability is pervasive within the AGSA. We undertook several solution projects during the year to improve the infrastructure capabilities provided by the systems in use to satisfy strategic business objectives. Some of the projects implemented during the year are as follows:

**Table 20: Summary of actual performance against predetermined objectives**

Performance measure	Target 2010-11	YTD actual performance	Comment
Achieve clean audit report on the AGSA	Clean audit report	Clean audit report	Achieved



## COMMITMENT

ON LEADING BY EXAMPLE

- **Enterprise resource planning (ERP) Human Capital renewal / upgrade**

As the Human Capital system needed to be renewed to the latest version, we successfully upgraded it, going live on 1 March 2011. The upgrade eliminated the risk of outdated technology for which there was no longer support by the vendor while also creating a platform that enabled integration with other line systems.

- **Expansion of information communication lanes**

The need for electronic communication between AGSA offices has increased dramatically in the last two years and the limited network infrastructure that supports this led to constraints in optimising some of the AGSA business processes. To resolve this we expanded the network communication lanes to increase the volume of information between the regional and head office and allowed for a much improved information flow between the offices. The comparative cost of implementing additional fixed lines would have been approximately R2.5 million per year more than the new solution currently implemented.

## Enhancement of audit management information system (MIS)

We introduced an audit management information system (MIS) in 2009 with the purpose of providing management with key information from the audits conducted countrywide. The AGSA performed 945 financial audits in the 2009-10 audit cycle and monitored a further 158 audits that the AGSA opted not to perform. An MIS was considered critical to enable effective leadership.

The system was developed in-house and started off as a simple database of auditees and audits with basic information on the status of the audits. In 2010-11 we made major enhancements so that currently the system provides for the following:

- Tracking of audit progress, which allows for timeous management interventions and information on achievement of deadlines.

- Capturing and analysis of audit outcomes. This functionality significantly improved the processes for production of the general report and roadshow presentations. The 2009-10 PFMA audit outcomes across all auditees could be shared with key role players within six weeks after completion of the audit.
- Capturing of risks identified during the audit process, which allows for analyses in order to identify transversal risks, enable consistency in the audit process and provide for timeous escalation.
- Assessment of the key drivers of audit outcomes per auditees to enable quarterly reporting to accounting officers and the executive authority with feedback to oversight bodies.
- A partly automated delegation process.

The MIS also included the ability to capture stakeholder interventions, although the facility fell short of the AGSA's needs and expectations. A redesign is planned for the 2011-12 financial year, which will provide for a more comprehensive stakeholder management system and the ability to capture and track commitments made by key stakeholders.

## Information and knowledge management

Effective records management is a critical area for any business. The ability to locate records timeously and extract them from files is an important aspect of information and knowledge sharing, legislative compliance, transparency and good governance. The AGSA is committed to lead by example in the area of information and knowledge management.

During 2010-11 the AGSA launched the records and document centre, a web-based library solution, and implemented electronic tracking for all PAIA requests in terms of the Promotion of Access to Information Act, 2000 (Act No. 2 of 2000, as amended). Importantly we managed to preserve institutional memory by creating a database of all our audit reports, which

also included stakeholder information. Another priority was to partner with the National Archives of South Africa and the Presidency on matters of information and knowledge management.

The highlight for the Information and Knowledge Management (IKM) unit was the successful hosting of a document management seminar, aimed at sharing our experiences, research and legislative imperatives with our primary stakeholders, which will contribute meaningfully to clean administration in government.



Committed to sound  
financial management.

Our main measure of financial sustainability for the AGSA is the percentage net surplus we achieve.

The effective management of working capital is crucial to meeting our ongoing financial obligations.

A healthy cash flow and strict adherence to payment terms have improved the creditors' payment days.

# FINANCIAL STABILITY

We are committed to running our organisation economically, efficiently and effectively. In this way we are able to ensure our financial sustainability. Our current funding model, introduced in April 2009, has proven to be successful.

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

**Fundamental requirement 8:  
Transparency and accountability  
INTOSAI framework for communicating and  
promoting the value and benefits of SAs**

The financial results are discussed in the sections below on audit income, efficiency gains (net surplus), debt collection and creditors' payments.

## Audit income

In the year under review our actual audit income was R1.824 billion (2009-10: R1.613 billion) against a budgeted audit income of R1.801 billion (2009-10: R1.682 billion) which excluded international audit income.

The audit income is the total audit fee charged to all three spheres of government, namely national, provincial and local.

Our financial results were positively influenced by the following factors:

- Management of direct costs against indirect costs
- Managing working capital, including improving debt collection
- Measures taken to increase efficiencies in our audit processes
- A below market-related audit fee structure without compromising quality

## Achievements

- The actual net surplus achieved for the year was R133 million (or 7.2% of revenue) against a budget of R68.6 million (or 3.7% of budgeted revenue).
- Actual audit income was R1.850 billion (2009-10 : R1.645 billion) against a budgeted audit income of R1.836 billion.
- Free cash flow was R119 million on 31/03/2011 (R58 million on 31/03/2010).

**COMMITMENT**  
 ON FUNDING

Audit income includes revenue generated by ourselves, revenue generated by private audit firms to whom we contracted out part of our audit work, subsistence and travel charged, income from international assignments and audit income in the portfolio of the United Nations Board of Auditors (UNBOA). Revenue generated by ourselves was in line with budget (actual R1.270 billion: budget R1.269 billion). However, there was an increase in contract work of R76 million (actual R543 million: budget R467 million). This was due to changes in audit scope and the restructuring of government departments that resulted in the creation of new departments which we had to audit but were not budgeted for.

Throughout the 2010-11 financial year we took care to ensure that committing resources to the UNBOA portfolio did not impact our ability to effectively carry out our audits in South Africa. The aim was to limit the resources committed to our international audits to 5% or less of total audit income. The actual amount of international audit income was R26 million compared to a budget of R35 million, which represents 1.4% of total audit income. The difference was due mainly to the stronger rand/dollar exchange rate (actual average rate of exchange for the period was R7.00 against a budgeted average rate of exchange of R10.50).

**Table 21: Gross profit percentage results**

	Budget 2010-11	Actual 2010-11	Actual 2009-10	Actual 2008-09
Gross profit percentages	32%	30%	30%	22%

**Table 22: Gross profit analysis based on budget 2010-11, actual 2010-11 and actual 2009-10**

	Budget 2010-11		Actual 2010-11		Actual 2009-10	
	Rm	%	Rm	%	Rm	%
National departments	455	25%	341	18%	321	19%
Provincial departments	441	24%	485	26%	428	26%
Local government	498	27%	577	31%	502	31%
Listed and other entities	407	22%	421	23%	362	22%
<b>Total government entity audit income</b>	<b>1 801</b>	<b>98%</b>	<b>1 824</b>	<b>99%</b>	<b>1 613</b>	<b>98%</b>
International audits	35	2%	26	1%	32	2%
<b>Total audit income</b>	<b>1 836</b>	<b>100%</b>	<b>1 850</b>	<b>100%</b>	<b>1 645</b>	<b>100%</b>
Audit staff expenses	677	37%	689	37%	591	36%
Contract work – audit related	468	25%	537	29%	502	30%
Audit-related subsistence and travel costs	99	5%	72	4%	62	4%
<b>Direct expenditure</b>	<b>1 244</b>	<b>68%</b>	<b>1 298</b>	<b>70%</b>	<b>1 155</b>	<b>70%</b>
Gross contribution to fixed and operational costs	592	32%	552	30%	490	30%



## Gross profit

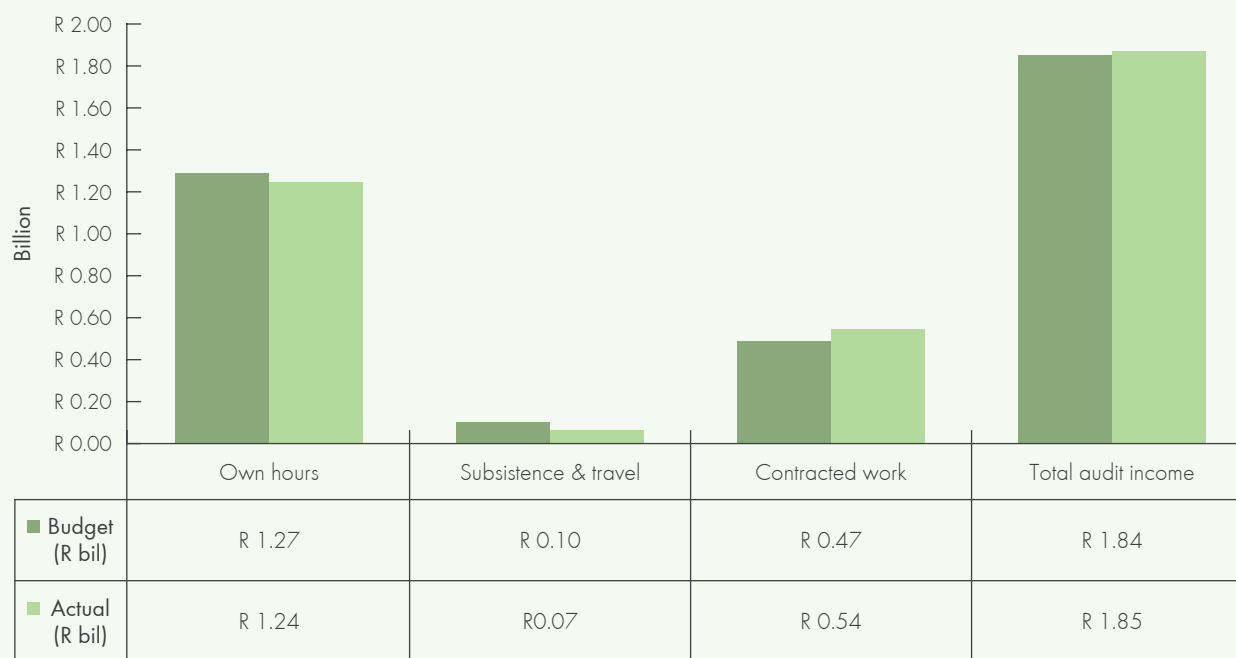
In the year under review our gross profit remained at the 2009-10 level of 30% against the budget of 32% (Actual R552.2 million: Budget R591.9). The under-achievement of gross profit is attributable to audit fees earned being more than budget by R14.9 million and direct audit costs being above budget by R54.6 million.

## Improved efficiency gains (net surplus)

Our main measure of financial sustainability is the percentage net surplus achieved. The net surplus target for 2010-11 was set at 4% (R69 million), with the actual surplus achieved amounting to 7.2% (R133 million) compared to 6% in 2009-10 (R99 million). The positive variation in the surplus was driven mainly by an under-spending on indirect costs and an increase in other income.

Included in other income of R101 million is a once-off non-refundable grant of R40.5 million that was part of the R90 million grant received from the National Treasury for hosting of XX<sup>th</sup> INCOSAI in 2010. The other major item included is interest of R56 million (budget R19 million).

**Figure 14: Total audit income compared to budget**



**Table 23: An overview of the actual and budgeted net surplus**

Performance measure	Budget 2009-10	Actual 2010-11	Actual 2009-10	Actual 2008-09
Net surplus	4%	7.2%	6%	-1%

**COMMITMENT**  
 ON FUNDING

Under-spending on indirect costs was as a result of several planned projects and interventions such as information technology, training and development, leasehold improvements and compensation progression (which are incentives paid to employees

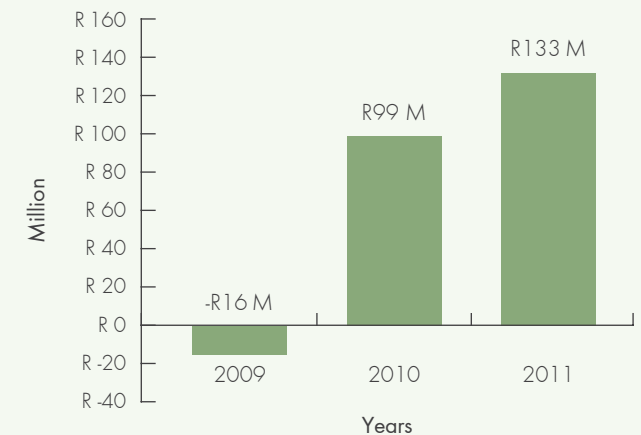
with outstanding performance) that were postponed to the 2011-12 financial year. In addition savings were realised in technical training due to the introduction of e-learning, increased use of internal presenters and lower cost of training by service providers.

**Table 24: Summary of financial performance compared to period ended 31 March 2010**

	Budget 2010-11		Actual 2010-11		Actual 2009-10	
	Rm	%	Rm	%	Rm	%
Audit income	1 836	99%	1 850	95%	1 645	96%
Direct expenditure	1 244	67%	1 298	67%	1 155	72%
Gross contribution to fixed and operational costs	592	32%	552	30%	490	30%
Other income	21	1%	101	5%	62	4%
Support staff expenses	220	12%	233	13%	145	9%
Other expenditure	324	18%	287	16%	308	19%
<b>Total overheads</b>	<b>544</b>	<b>30%</b>	<b>520</b>	<b>28%</b>	<b>453</b>	<b>28%</b>
<b>Total income (audit income and other income)</b>	<b>1 857</b>	<b>100%</b>	<b>1 951</b>	<b>100%</b>	<b>1 707</b>	<b>100%</b>
<b>Total expenditure (direct expenditure and overheads)</b>	<b>1 788</b>	<b>96%</b>	<b>1 818</b>	<b>98%</b>	<b>1 608</b>	<b>98%</b>
<b>Net surplus</b>	69		133		99	

### Collecting debt still a challenge

The effective management of working capital is crucial to meeting our ongoing financial obligations. As at 31 March 2011 the total outstanding debt was R399 million (versus R370 million as at 31 March 2010), which amounted to 21% and 22% of total revenue respectively.

**Figure 15: Net surplus/deficit**


Local government debt increased from R140 million in the previous year to R159 million as at 31 March 2011. This debt made up 40% of the total debtors' book (38% as at 31 March 2010) – before provision for bad debt. Local government debtors' days outstanding deteriorated significantly from 162 days in the previous year to 204 days. The ability of some local government municipalities and entities to settle their accounts on time continues to be a concern.

The following factors impacted on the collection of local government debt for the year:

- Debt in low capacity municipalities (1% debtors) identified for the year 2010-11 amounted to R83 million. However, the National Treasury was only able to pay R21 million due to its budget constraints. Therefore, this has negatively impacted on the collection of 1% debtors. 1% debtors are those municipalities whose total audit fee exceeds 1% of their expenditure budget.

- In an attempt to recover long outstanding debt we have since November 2010 started taking legal action against certain defaulting municipalities in the North West, Northern Cape and Free State provinces. Sheriff's letters have been served on these defaulting municipalities as a first step in the legal process, with the hope of spurring them into paying and thus avoid further legal action. We collected a total of R13 million from an initial targeted collection of R58 million. The targeted collection amounts are based on debt exceeding 120 days in the target provinces mentioned above. Therefore, we expect a positive impact on long outstanding debt in the target provinces.

**Table 25: Major categories of debtors excluding accruals**

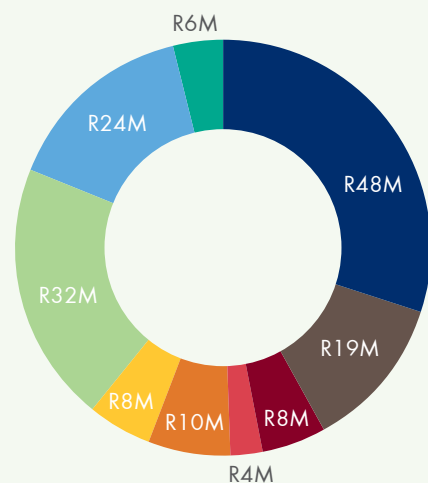
	31 March 2011		31 March 2010		31 March 2009	
	Rm	Days outstanding	Rm	Days outstanding	Rm	Days outstanding
National departments	<b>44</b>	<b>13</b>	51	19	61	18
Provincial departments	<b>94</b>	<b>27</b>	86	59	76	37
Local departments	<b>159</b>	<b>204</b>	134	162	98	104
Statutory bodies	<b>47</b>	<b>91</b>	42	94	37	38
<b>Total amount</b>	<b>344</b>		<b>313</b>		<b>272</b>	

Other initiatives that are being introduced to improve debt collection include:

- We will engage SCoAG to effect the requirements of the PAA with regard to the surplus achieved.
- Continuing engagement with the National Treasury, CoGTA, provincial leadership and non-paying auditees in a bid to improve debt collection.
- Quarterly visits to auditees by audit business unit leadership which includes, amongst other things, persuading non-paying auditees to make payments.

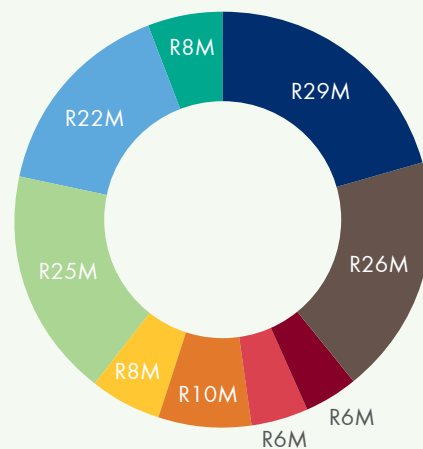
**COMMITMENT**  
 ON FUNDING

**Figure 16: Local government debtors as at 31 March 2011**

 Local government debtors as at 31 March 2011  
 R159 million


■ Eastern Cape  
 ■ Free State  
 ■ Gauteng  
 ■ KwaZulu-Natal  
 ■ Limpopo  
 ■ Mpumalanga  
 ■ Northern Cape  
 ■ North West  
 ■ Western Cape

**Figure 17: Local government debtors as at 31 March 2010**

 Local government debtors as at 31 March 2010  
 R140 million


■ Eastern Cape  
 ■ Free State  
 ■ Gauteng  
 ■ KwaZulu-Natal  
 ■ Limpopo  
 ■ Mpumalanga  
 ■ Northern Cape  
 ■ North West  
 ■ Western Cape

**Keeping our commitment to creditors**

Our target is to pay creditors within 45 days from the date on which the invoice is authorised for payment on our creditors system. In the year under review creditors were paid on average 34 days from the invoice authorisation date. A healthy cash flow and strict adherence to payment terms have improved the creditors' payment days. As at 31 March 2011, 75% of all creditors outstanding were within 30 days (2009-10: 70%)

We continue to trade in a healthy financial position. The closing cash balance improved from R233 million in March 2010 to R352 million as at 31 March 2011, an increase of 51% attributable mainly to the surpluses generated. However, debt collection from local municipalities remains a challenge. We are hopeful that the interventions mentioned in the debt collection section elsewhere in this report will produce positive results by reducing long outstanding debtors on a sustainable basis.

|| We continue to trade in a healthy financial position. The closing cash balance improved from R233 million in March 2010 to R352 million as at 31 March 2011, an increase of 51% attributable mainly to the surpluses generated. ||





This report is provided by the Audit Committee for the financial year ended 31 March 2011 in compliance with the Public Audit Act (Act No. 25 of 2004) (PAA), section 40 (6) requirements. The committee's responsibilities, operations and activities are guided by its terms of reference that are informed by the act and in line with best practice.

# REPORT OF THE AUDIT COMMITTEE

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## Committee membership

The audit committee consists of four independent, non-executive members. In the course of the year, one committee member's term came to an end, and two new members were appointed in line with the requirements of the act. The skills of the committee members are complementary to the execution of their duties, such that they adequately cover business, financial and risk management matters.

The committee met four (4) times during the period under review as per its terms of reference.

The committee comprised the following members during the year and to the date of this report, except where noted otherwise:

- MP Moyo (chairperson)
- S Badat (appointed January 2011)
- RJ Biesman-Simons
- N Mthombeni (appointed January 2011)
- K Barac (retired January 2011)

The Deputy Auditor-General, Chief Operations Officer, Corporate Executive: Audit Support, Chief Financial Officer, Business Executive: Planning, Monitoring and Risk, Senior Manager: Risk and Compliance and representatives of the external and internal auditors are invited to attend the committee meetings.

## Overview of activities

The committee has executed its duties and responsibilities during the financial year in accordance with terms of reference as they relate to the AGSA's accounting, internal auditing, internal control and financial reporting practices.

During the year under review:

- In respect of the external auditor and the external audit, the committee amongst other matters:
  - nominated Kwinana and Associates as the external auditor to the Standing Committee on the Auditor-General (SCoAG), the Parliamentary oversight mechanism, for appointment as auditor for the financial year ended 31 March 2011;
  - ensured that the appointment complied with all applicable legal and regulatory requirements for the appointment of an auditor;

## REPORT OF THE AUDIT COMMITTEE

- approved the external audit engagement letter, the plan and the budgeted audit fees payable to the external auditor;
  - obtained an annual written statement from the auditor that their independence was not impaired;
  - obtained assurances from the external auditor that adequate accounting records were being maintained;
  - considered whether any reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act, 2005, and determined that there were none; and
  - met with SCoAG to discuss the annual financial statements and the appointment of the external auditors, amongst other matters.
- In respect of the financial statements, the committee amongst other matters:
    - considered whether the annual financial statements fairly present the financial position of the organisation as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which the organisation was determined to be a going concern;
    - reviewed the external auditor's audit report;
    - reviewed the management representation letter relating to the financial statements which was signed by the AGSA's management;
    - reviewed the summary of uncorrected misstatements, which were immaterial; and
    - met separately with management, external audit and internal audit.
  - In respect of internal control and internal audit, the committee amongst other matters:
    - considered the reports of the internal auditor and external auditor on the systems of internal controls and the effectiveness thereof;
    - received assurance that proper and adequate accounting records were maintained and that the internal control systems safeguarded the assets against unauthorised use or disposal thereof; and
    - reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to significant audit findings.
  - In respect of risk management, the committee, insofar as it is relevant to its functions:
    - reviewed the strategic risk profile, including risks as they pertain to the strategic direction of the AGSA; and
    - received a written assessment of the effectiveness of the AGSA's system of internal controls and risk management from Deloitte, as the appointed internal auditors for the period under review.

**Effectiveness of internal controls**

In line with the committee's activities and based on internal and external audit reports, the combined assurance framework and management initiatives, the committee formed the opinion that the controls within the AGSA are adequate and effective to manage material identified risks.

Furthermore the committee commends management on the initiatives introduced to proactively manage risks and control gaps in a sustainable manner. This is evidenced through the significant reduction of repeat findings over the past years.

## REPORT OF THE AUDIT COMMITTEE

### Evaluation of the annual financial statements

Following the review by the Audit Committee of the annual financial statements of the AGSA for the year ended 31 March 2011, the committee is of the view that in all material respects they comply with the relevant provisions of the PAA and fairly present the financial position, state of affairs, financial results and operations at that date.

The committee recommended to the Deputy Auditor-General that he may sign the annual financial statements.

### Internal auditors

Internal audit is an independent assurance function, outsourced to Deloitte for the period under review. Deloitte's term ended at the end of the financial year, and Gobodo Inc., as appointed in the financial year 2009-10 commenced with the new 3-year contract as of 1 April 2011.

The internal auditors have a functional reporting line to the Audit Committee and an administrative reporting line to the Deputy Auditor-General.

### External auditor's appointment and independence

The audit committee is satisfied that Kwinana and Associates is independent of the AGSA after taking the following factors into account:

- representations made by Kwinana and Associates to the audit committee;
- the auditor does not, except as external auditor or in rendering permitted non-audit services, receive any remuneration or other benefit from the organisation;
- the auditor's independence was not impaired by any consultancy, advisory or other work undertaken by the auditor;
- the auditor's independence was not prejudiced as a result of any previous appointment as auditor; and
- the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies.

### Appreciation

On behalf of the Audit Committee, I would like to thank the Auditor-General, the Deputy Auditor-General, and their management team for their dedication and support in improving the AGSA's internal control environment. We would also like to extend our gratitude to SCoAG for their continued support and guidance in discharging our duties.



**Mthandazo Peter Moyo**  
Chairperson of the Audit Committee



# FINANCIAL STATEMENTS

## AUDITOR-GENERAL

### Annual financial statements for the year ended 31 March 2011

#### Contents

**The reports and statements set out below comprise the annual financial statements:**

- 84 Deputy Auditor-General's responsibilities and approval
- 85 Report of the independent auditor
- 88 Statement of financial position
- 89 Statement of comprehensive income
- 90 Statement of changes in equity
- 91 Statement of cash flows
- 92 Accounting policies
- 110 Notes to the annual financial statements

**The following supplementary schedules do not form part of the annual financial statements and are unaudited:**

- 155 Comparison of actual results with the approved budget
- 158 Explanation of material differences in actual results compared with the approved budget



## FINANCIAL STATEMENTS

## DEPUTY AUDITOR-GENERAL'S RESPONSIBILITIES AND APPROVAL

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

The annual financial statements are prepared in accordance with International Financial Reporting Standards and the Public Audit Act, 2004 (Act No. 25 of 2004) and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The Deputy Auditor-General acknowledges that he is ultimately responsible for the system of internal financial control established by the Auditor-General and places considerable importance on maintaining a strong control environment. To enable the Deputy Auditor-General to

meet these responsibilities, the Auditor-General, after consultation with the parliamentary oversight committee, sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Auditor-General and all employees are required to maintain the highest ethical standards in ensuring the Auditor-General's business is conducted in a manner that in all reasonable circumstances is above reproach.

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

The Deputy Auditor-General is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on

for the preparation of the annual financial statements. However, any system of internal control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Deputy Auditor-General has reviewed the Auditor-General's cash flow forecast for the year to 31 March 2012 and, in the light of this review and the current financial position, he is satisfied that the Auditor-General has or has access to adequate resources to continue in operational existence for the foreseeable future.

The Deputy Auditor-General is not aware of any matter or circumstance arising since the end of the financial year that will materially affect these annual financial statements.

The annual financial statements set out on pages 88 to 154, which have been prepared on the going concern basis, were approved and signed by the Deputy Auditor-General on 28 July 2011 on behalf of the Auditor-General:



**Thembekile Makwetu**  
DEPUTY AUDITOR-GENERAL

## REPORT OF THE INDEPENDENT AUDITOR

## FINANCIAL STATEMENTS

### Report of the independent auditor to the Auditor-General on the financial statements and performance information of the Auditor-General of South Africa for the year ended 31 March 2011

#### Report on financial statements

#### Introduction

We have audited the accompanying financial statements of the Auditor-General of South Africa, which comprise the statement of financial position as at 31 March 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 88 to 154.

#### Deputy Auditor-General's responsibility for the financial statements

The Deputy Auditor-General is responsible for the preparation and fair presentation of these financial

statements in accordance with International Financial Reporting Standards and in the manner required by section 41(1)(a) of the Public Audit Act, 2004 (Act No. 25 of 2004) of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the

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

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

#### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Auditor-General of South Africa as at 31 March 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial

Reporting Standards, and in the manner required by the Public Audit Act, 2004 (Act No. 25 of 2004).

### Supplementary information

Without qualifying our opinion, we draw attention to the fact that supplementary information set out on pages 155 to 161 does not form part of the financial statements and is presented as additional information. We have not audited this information and accordingly do not express an opinion thereon.

### Report on other legal and regulatory requirements

### Report on performance against predetermined objectives

### Introduction

We have audited the report on performance against predetermined objectives of the Auditor-General of South Africa for the year ended 31 March 2011.

### Deputy Auditor-General's responsibility for performance information

The Deputy Auditor-General is responsible for the preparation and fair presentation of the report on performance against predetermined objectives as required by section 41(1)(a) of the Public Audit Act, 2004 (Act No. 25 of 2004).

### Auditor's responsibility

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

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

- Usefulness of information:  
Measurability: Indicators are well-defined and verifiable, and targets are specific, measurable and time-bound.  
Relevance: A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets.

Consistency: Objectives, indicators and targets are consistent between planning and reporting documents.

- Reliability of information:  
Validity: Actual reported performance has occurred and pertains to the entity.  
Accuracy: Amounts, numbers, and other data relating to reported actual performance have been recorded and reported appropriately.  
Completeness: All actual results and events that should have been recorded have been included in the annual performance report.

An audit involves performing procedures to obtain audit evidence about the reporting of performance against predetermined objectives. The procedures selected depend on the auditor's judgement, and include the following:

Understanding and testing the internal policies, procedures and controls relating to the management of and reporting on performance information.  
Evaluating and testing processes, systems, controls and review of documentation in place at a detail level in the audited entity to support the generation, collation,

## REPORT OF THE INDEPENDENT AUDITOR

## FINANCIAL STATEMENTS

aggregation, monitoring and reporting of the selected performance indicators and targets.

Evaluating, testing and confirmation of the existence and consistency of planned and reported performance information as well as the presentation and disclosure thereof in accordance with applicable requirements and guidance.

Conducting detailed audit testing and obtaining sufficient appropriate audit evidence to verify the validity, accuracy and completeness of reported indicators and targets.

### Inherent limitations

Non-financial performance information is often subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods adopted for the definition and gathering of information.

Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgements.

### Assurance work performed

We conducted our audit in accordance with the International Standard on Assurance Engagements 3000 (Revised) – “Assurance engagements other than audits or reviews of historical information” issued by the International Auditing and Assurance Standards Board (“ISAE 3000”).

The standard requires that we plan and execute procedures in order to obtain reasonable assurance on the fair presentation of the report on performance against predetermined objectives.

The audit involved performing procedures to obtain audit evidence about the fair presentation of the report on performance against predetermined objectives. The procedures selected depended on the auditor’s judgement.

We believe that our procedures provide us with an appropriate basis to conclude with a reasonable level of assurance on the fair presentation of the report on performance against predetermined objectives.

### Conclusion

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

*Kwinana & Associates*

Kwinana and Associates (Gauteng) Incorporated  
Registered Accountants and Auditors  
Tendai Mapenda  
28 July 2011  
Midrand

## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## STATEMENT OF FINANCIAL POSITION

	Notes	2011 R'000	2010 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>		76 362	63 678
Property, plant and equipment	2	67 320	56 537
Intangible assets	3	9 042	7 141
<b>Current assets</b>		717 033	577 167
Trade and other receivables	4	365 049	343 723
Cash and cash equivalents	5	351 984	233 444
<b>Total assets</b>		<b>793 395</b>	<b>640 845</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>		341 143	208 026
General reserve	6	103 897	103 897
Special audit services reserve	7	4 964	4 964
Retained earnings	8	232 282	99 165
<b>Liabilities</b>			
<b>Non-current liabilities</b>		82 254	74 377
Finance lease obligation	9	18 409	15 751
Retirement benefit obligations	10	63 845	58 626
<b>Current liabilities</b>		369 998	358 442
Trade and other payables	11	348 463	301 728
Provisions	12	5 346	3 784
Deferred income	11.1	-	40 568
Finance lease obligation	9	16 189	12 362
<b>Total equity and liabilities</b>		<b>793 395</b>	<b>640 845</b>

## AUDITOR-GENERAL

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## FINANCIAL STATEMENTS

### STATEMENT OF COMPREHENSIVE INCOME

		2011	2010
	Notes	R'000	R'000
<b>Revenue</b>	<b>13</b>	1 850 432	1 644 647
Local services rendered		1 824 847	1 612 592
International services rendered		25 585	32 055
<b>Direct audit cost</b>		(1 298 188)	(1 155 124)
Recoverable staff cost	<b>14</b>	(688 944)	(591 185)
Contract work	<b>15</b>	(537 202)	(502 154)
Subsistence and travel		(72 042)	(61 785)
<b>Gross profit</b>		552 244	489 523
Other income	<b>13.1</b>	3 177	4 358
Grant income - National Treasury	<b>13.2</b>	40 568	15 915
Defined benefit (expense) / income	<b>10</b>	(7 288)	2 849
Foreign exchange gain / (loss)	<b>26.4</b>	281	(2 618)
<b>Contribution to overheads</b>		588 982	510 027
Non-recoverable staff cost	<b>14</b>	(290 870)	(260 375)
Depreciation expense	<b>16</b>	(21 214)	(22 687)
Amortisation expense	<b>17</b>	(3 518)	(3 634)
Other operational expenditure	<b>18</b>	(170 166)	(151 124)
Hosting of International conferences	<b>18.1</b>	(17 026)	(6 498)
<b>Surplus from operations</b>		86 188	65 709
Interest income	<b>21</b>	56 541	41 776
Interest expense	<b>21</b>	(9 612)	(8 320)
<b>Net surplus for the year</b>		<b>133 117</b>	<b>99 165</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>133 117</b>	<b>99 165</b>



## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## STATEMENT OF CHANGES IN EQUITY

	General reserve R'000	Special audit services reserve R'000	Retained earnings / (Accumulated loss) R'000	Total R'000
Opening balance at 1 April 2009	129 412	4 964	(25 515)	108 861
Transfer of accumulated loss to reserves	(25 515)	-	25 515	-
Total comprehensive income for the year	-	-	99 165	99 165
<b>Balance at 31 March 2010</b>	<b>103 897</b>	<b>4 964</b>	<b>99 165</b>	<b>208 026</b>
Total comprehensive income for the year	-	-	133 117	133 117
<b>Balance at 31 March 2011</b>	<b>103 897</b>	<b>4 964</b>	<b>232 282</b>	<b>341 143</b>
Notes	6	7	8	

## AUDITOR-GENERAL

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## FINANCIAL STATEMENTS

### STATEMENT OF CASH FLOWS

	Notes	2011 R'000	2010 R'000
<b>Cash flow from operating activities</b>			
Total revenue from auditees	26.1	1 821 571	1 597 991
Total direct audit cost payments	26.2	(1 297 036)	(1 095 186)
Operating expenditure payments	26.3	(422 615)	(465 445)
Interest received		56 541	41 776
Interest expense		(9 612)	(8 320)
Realised foreign exchange gain	26.4	459	2 961
<b>Net cash inflow from operating activities</b>		<b>149 308</b>	<b>73 777</b>
<b>Cash flow from investing activities</b>			
Additions to property, plant and equipment	26.5	(32 518)	(26 111)
Additions to intangible assets	26.6	(5 419)	(1 352)
Proceeds from sale of property, plant and equipment	2	862	2 997
<b>Net cash outflow from investing activities</b>		<b>(37 075)</b>	<b>(24 466)</b>
<b>Cash flow from financing activities</b>			
Payment on obligations under finance lease		(13 943)	(13 032)
Increase in instalment sale agreement borrowings		20 428	21 906
<b>Net cash inflow from financing activities</b>		<b>6 485</b>	<b>8 874</b>
<b>Net increase in cash and cash equivalents</b>		<b>118 718</b>	<b>58 185</b>
Cash and cash equivalents at beginning of the year		233 444	180 838
Exchange differences in cash and cash equivalents	26.4	(178)	(5 579)
<b>Cash and cash equivalents at end of the year</b>	26.7	<b>351 984</b>	<b>233 444</b>

**AUDITOR-GENERAL****ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011****ACCOUNTING POLICIES****1. Presentation of annual financial statements**

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

a) Amendments to published standards effective in 2011:

Relevant to the operations of the Auditor-General:

Standard / Interpretation	Effective	Details
IAS17 – Leases	01-Jan-10	This amendment deals with the classification of leases of land and buildings

Not relevant to the operations of the Auditor-General:

Standard / Interpretation	Effective	Details
IFRS 1 – First-time adoption of International Financial Reporting Standards	01-Jul-09	This amendment deals with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting IFRS for the first time
IFRS 1 – First-time adoption of International Financial Reporting Standards	01-Jan-10	This amendment deals with oil and gas assets and determining whether an arrangement contains a lease

## AUDITOR-GENERAL

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## FINANCIAL STATEMENTS

Standard / Interpretation	Effective	Details
IFRS 2 - Share Based Payment	01-Jul-09	This amendment clarifies the scope of IFRS 2 and IFRS 3 revised
IFRS 2 - Share Based Payment	01-Jan-10	This amendment deals with accounting for group cash - settled share-based payment transactions - clarity of the definition of the term "Group"
IFRS 3 - Business Combinations	01-Jul-09	This amendment deals with the accounting of business combinations
IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations	01-Jul-09	This amendment deals with: <ul style="list-style-type: none"> <li>distributions to owners (IFRIC 17 amendments)</li> <li>plans to sell the controlling interest in a subsidiary</li> </ul>
IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations	01-Jan-10	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations
IFRS 8 - Operating Segments	01-Jan-10	This amendment requires disclosure of information about segment assets
IAS 1 - Presentation of Financial Statements	01-Jan-10	This amendment deals with current / non-current classification of convertible instruments
IAS 7 - Statement of Cash Flows	01-Jan-10	This amendment deals with the classification of expenditures on unrecognised assets
IAS 10 - Events after the Reporting Period	01-Jul-09	This amendment is a result of issuing IFRIC 17
IAS 21 - The Effects of Changes in Foreign Exchange Rates	01-Jul-09	This amendment deals with consequential amendments from changes to business combinations
IAS 27 - Consolidated and Separate Financial Statements	01-Jul-09	This amendment deals with consequential amendments from changes to business combinations

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## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

Standard / Interpretation	Effective	Details
IAS 28 – Investments in Associates	01-Jul-09	This amendment deals with consequential amendments from changes to business combinations
IAS 31 – Interests in Joint Ventures	01-Jul-09	This amendment deals with consequential amendments from changes to business combinations
IAS 32 – Financial Instruments: Presentation	01-Feb-10	This amendment deals with accounting for rights issues (including rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer
IAS 36 – Impairment of Assets	01-Jan-10	This amendment deals with the unit of accounting for the goodwill impairment test
IAS 38 – Intangible Assets	01-Jul-09	This amendment deals with: <ul style="list-style-type: none"> <li>• additional consequential amendments arising from revised IFRS 3</li> <li>• measuring the fair value of an intangible asset acquired in a business combination</li> </ul>
IAS 39 – Financial Instruments: Recognition and Measurement	30-Jun-09	This amendment clarifies two hedge accounting issues: <ul style="list-style-type: none"> <li>• Inflation in a financial hedged item</li> <li>• A one-sided risk in a hedge item</li> </ul>
IAS 39 – Financial Instruments: Recognitions and Measurement	Annual periods ending on or after 30-Jun-09	This amendment deals with embedded derivatives when reclassifying financial instruments
IAS 39 – Financial Instruments: Recognitions and Measurement	01-Jan-10	This amendment deals with: <ul style="list-style-type: none"> <li>• treating loan prepayment penalties as closely related embedding derivatives</li> <li>• scope exemption for business combination contracts cash flow hedge accounting</li> </ul>
IFRIC 9 (amended) – Reassessment of Embedded Derivatives	01-Jul-09	This amendment deals with the scope of IFRIC 9 and revised IFRS 3

## AUDITOR-GENERAL

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## FINANCIAL STATEMENTS

Standard / Interpretation	Effective	Details
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation	01-Jul-09	This amendment deals with the restriction on the entity that can hold hedging instruments
IFRIC 17 - Distribution of Non-cash Assets to Owners	01-Jul-09	Applies to the entity making the distribution, not to the recipient. It applies when non-cash assets are distributed to owners or when the owner is given a choice of taking cash in lieu of the non-cash assets
IFRIC 18 - Transfers of Assets for Customers	01-Jul-09	Agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water)



## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

b) Standards, amendments and interpretations not yet effective

The following standards, amendments and interpretations are mandatory for future accounting periods:

Standard / Interpretation	Effective	Details
IFRS 1 – First-time adoption of International Financial Reporting Standards	01-Jul-10	This amendment relieves first-time adopters of IFRS from providing the additional disclosures introduced through Amendments to IFRS 7 in March 2009
IFRS 1 – First-time adoption of International Financial Reporting Standards	01-Jan-11	This amendment clarifies that changes in accounting policies in the year of adoption fall outside of the scope of IAS 8
IFRS 1 – First-time adoption of International Financial Reporting Standards	01-Jan-11	This amendment permits the use of revaluation carried out after the date of transition as a basis for deemed cost
IFRS 1 – First-time adoption of International Financial Reporting Standards	01-Jan-11	This amendment permits the use of carrying amount under previous GAAP as deemed cost for operations subject to rate regulation
IFRS 1 – First-time adoption of International Financial Reporting Standards	01-Jul-11	Standard amended to provide guidance for entities emerging from severe hyperinflation and resuming presentation of IFRS compliant financial statements, or presenting IFRS compliant financial statements for the first time
IFRS 1 – First-time adoption of International Financial Reporting Standards	01-Jul-11	Standard amended to remove the fixed date of 1 January 2004 relating to the retrospective application of the derecognition requirements of IAS 39, and relief for first-time adopters from calculating day 1 gains on transactions that occurred before the date of adoption

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### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

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Standard / Interpretation	Effective	Details
IFRS 3 – Business Combinations	01-Jan-11	Amendments to transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS
IFRS 3 – Business Combinations	01-Jan-11	Clarification on the measurement of non-controlling interests
IFRS 3 – Business Combinations	01-Jan-11	Additional guidance provided on unreplaced and voluntarily replaced share-based payment awards
IFRS 7 – Financial Instruments: Disclosures	01-Jan-11	Amendment clarifies the intended interaction between qualitative and quantitative disclosures of the nature and extent of risks arising from financial instruments and removed some disclosure items which were seen to be superfluous or misleading
IFRS 7 – Financial Instruments: Disclosures	01-Jul-11	Amendments require additional disclosure on transfer transactions of financial assets, including the possible effects of any residual risks that the transferring entity retains. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period
IFRS 9 – Financial Instruments	01-Jan-13	New standard that forms the first part of a three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement
IAS 1 – Presentation of Financial Statements	01-Jan-11	This amendment deals with the clarification of statement of changes in equity
IAS 12 – Income Taxes	01-Jan-12	This amendment deals with the rebuttable presumption introduced that an investment property will be recovered in its entirety through sale

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## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

Standard / Interpretation	Effective	Details
IAS 21 - The Effects of Changes in Foreign Exchange Rates	01-Jul-10	This amendment deals with consequential amendments from changes to IAS 27 Consolidated and Separate Financial Statements (Clarification on the transition rules in respect of the disposal or partial disposal of an interest in a foreign operation)
IAS 24 - Related Party Disclosures	01-Jan-11	This amendment deals with: <ul style="list-style-type: none"> <li>• simplification of the disclosure requirements for government-related entities</li> <li>• clarification of the definition of a related party</li> </ul>
IAS 27 - Consolidated and Separate Financial Statements	01-Jul-10	This amendment deals with transition requirements for amendments arising as a result of IAS 27 Consolidated and Separate Financial Statements
IAS 28 - Investments in Associates	01-Jul-10	This amendment deals with consequential amendments from changes to IAS 27 Consolidated and Separate Financial Statements (Clarification on the transition rules in respect of the disposal or partial disposal of an interest in a foreign operation)

## AUDITOR-GENERAL

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## FINANCIAL STATEMENTS

Standard / Interpretation	Effective	Details
IAS 31 – Interests in Joint Ventures	01-Jul-10	This amendment deals with consequential amendments from changes to IAS 27 Consolidated and Separate Financial Statements (Clarification on the transition rules in respect of the disposal or partial disposal of an interest in a foreign operation)
IAS 34 – Interim Financial Reporting	01-Jan-11	This amendment deals with the clarification of disclosure requirements around significant events and transactions including financial instruments
IFRIC 13 – Customer Loyalty Programmes	01-Jan-11	Clarification on the intended meaning of the term “fair value” in respect of award credits
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	01-Jul-10	Addresses only the accounting by the entity that issues equity instruments in order to settle, in full or in part, a financial liability. It does not address the accounting by the creditor (lender)

Management anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Auditor-General other than requiring additional disclosure.

**AUDITOR-GENERAL****ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011****1.1 Significant judgments and accounting estimates**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. In addition, management is required to exercise its judgment in the process of applying the Auditor-General's accounting policies. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgments include:

**Revenue recognition**

In order to recognise revenue relating to long-term contracts, management estimates the percentage of completion of these contracts based on estimated total audit hours and completed audit hours excluding budget overruns.

**Post-employment medical care benefits**

The costs and liabilities of the post-employment medical care benefits are determined using methods relying on actuarial estimates and assumptions. Details of the key assumptions are set out in note 10. Advice is taken from the independent actuaries relating to the appropriateness of the assumptions. Changes in the assumptions used may have a significant effect on the statement of comprehensive income and statement of financial position.

**Provision for impairment of receivables**

A provision for impairment of trade receivables is established when there is objective evidence that the Auditor-General will not be able to collect all amounts due according to the original terms of receivables. The calculation of the amount to be provided for impairment of receivables requires the use of estimates and judgments (refer to note 4).

**Annual evaluation of property, plant and equipment and intangibles**

In order to review property, plant and equipment and intangibles for possible impairment, changes in useful life and changes in residual values at the end of each financial year in accordance with notes 2 and 3, reference is made to historical information and intended use of assets.

## AUDITOR-GENERAL

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## FINANCIAL STATEMENTS

### Government grant

Grants are recognised in the statement of comprehensive income on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants receivable as a compensation for costs already incurred or for immediate financial support with no future related costs are recognised as income in the period in which they are receivable.

### 1.2 Property, plant and equipment

Property, plant and equipment (owned and leased) is stated at historical cost less accumulated depreciation and adjustment for any impairments. Costs include costs incurred initially to acquire an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it if it is probable that future economic benefits associated with the replacement will flow to the Auditor-General and the cost can be measured reliably. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. Estimates are mainly based on historical information relating to use of the asset. Depreciation is calculated on the straight-line method to write off the cost, less residual value, of each asset over their estimated useful lives as follows:

Item	Useful life	
	2011	2010
Computer equipment	3 to 6 years	3 to 6 years
Notebooks	3 years	3 years
Motor vehicles	5 years	5 years
Furniture and fittings	6 to 15 years	6 to 15 years
Office equipment	3 years	3 years
Leasehold improvements	Over the period of the lease	Over the period of the lease

The depreciation charge for each period is recognised in the statement of comprehensive income.



**AUDITOR-GENERAL****ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011**

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the statement of comprehensive income when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

**1.3 Intangible assets****Computer software**

Acquired computer software licences are carried at cost less any accumulated amortisation and any impairment losses. Estimates are mainly based on historical information relating to use of the asset and all residual values are nil. Amortisation on these costs is provided to write down the intangible assets, on a straight line basis, over their useful lives as follows:

Item	Useful life	
	2011	2010
Enterprise resource management system - PeopleSoft	14 years	14 years
Other software	3 years	3 years

Expenditure on research is recognised as an expense when it is incurred. Development cost is capitalised when all the conditions for capitalisation have been met.

## AUDITOR-GENERAL

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## FINANCIAL STATEMENTS

#### 1.4 Impairment of non-financial assets

Assets are assessed at the end of each reporting period for any indication that they may be impaired. If indications exist, the recoverable amount of the asset is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The Auditor-General assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the statement of comprehensive income.

#### 1.5 Financial instruments

Financial instruments carried in the statement of financial position include cash and bank balances, trade and other receivables, trade and other payables and borrowings. These instruments (excluding cash and bank) are carried at their amortised cost.

##### Financial assets

The Auditor-General classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Auditor-General has not classified any of its financial assets as held to maturity, fair value through profit and loss or available for sale.

The accounting policy for each category is as follows:

**AUDITOR-GENERAL****ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011****Loans and receivables**

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Auditor-General will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows discounted at the original effective interest rate associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within operational expenditure in the statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision. The loans and receivables comprise trade and other receivables at reporting date.

**Financial liabilities**

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Trade payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

## AUDITOR-GENERAL ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

### FINANCIAL STATEMENTS

#### **Gains and losses**

Gains or losses arising from changes in financial assets or financial liabilities carried at amortised cost are recognised in the statement of comprehensive income when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

#### **1.6 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents includes cash on hand and deposits held at call.

#### **1.7 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership to the lessee.

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

**AUDITOR-GENERAL****ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011**

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease liability. This liability is not discounted. Any contingent rents are expensed in the period in which they are incurred.

**1.8 Employee benefits****Pension plan - Defined contribution plan**

Contributions to a pension plan, of the employee's choice, in respect of service in a particular period are included in the employees' total cost of employment and are charged to statement of comprehensive income in the year to which they relate as part of the cost of employment. Certain employees on the Staff rules terms and conditions, who transitioned under the Audit Arrangements Act, 1992 (Act No. 122 of 1992) chose to retain membership of the Government Employees Pension Fund (GEPF). The Auditor-General has no legal or constructive obligation in respect of normal retirements to pay further contributions if the GEPF does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. In respect of early retirements the Auditor-General is required to incur the cost of early retirement penalties.

## AUDITOR-GENERAL ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

### FINANCIAL STATEMENTS

#### **Post-employment medical care benefits - Defined benefit plan**

The Auditor-General provides post-retirement medical care benefits to certain employees and their legally recognised spouse (and/or dependants) at time of death. The entitlement to post-retirement medical benefits is based on the employee being on the Staff rules terms and conditions, remaining in service up to retirement age of 65 (or when reaching 50 in the case of early retirement) and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using the projected unit credit method. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to the statement of comprehensive income in the period in which it occurs. Valuations of these obligations are carried out annually by independent qualified actuaries.

#### **1.9 Provisions**

Provisions are recognised when the Auditor-General has a present obligation (legal or constructive) as a result of past events, if it is probable (more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditure taking risks and uncertainties into account. Provisions are discounted where the time value of money is material using a rate that reflects current market assessments of the time value of money.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligations, the provision will be reversed.



**AUDITOR-GENERAL****ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011****1.10 Revenue**

Revenue is measured at the fair value of the consideration received or receivable. Revenue arising from rendering of audit services consists of the invoiced value charged net of value-added tax. Revenue arising from fixed sum contract audits where the outcome can be estimated reliably is recognised by reference to the stage of completion of the contract activity at reporting date. The stage of completion is determined with reference to the budgeted and actual hours excluding budget overruns. Revenue arising from fixed sum contract audits where the outcome cannot be estimated reliably, is recognised to the extent of costs incurred.

**1.11 Interest income**

Interest is recognised based on the effective interest rate which takes into account the effective yield on the asset over the period it is expected to be held.

**1.12 Foreign currencies**

Transactions in foreign currencies are accounted for at the rates of exchange ruling on the date of the transactions. Gains and losses arising from the settlement of such transactions are recognised in the statement of comprehensive income.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the reporting date.

## AUDITOR-GENERAL

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## FINANCIAL STATEMENTS

#### 1.13 Irregular or fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of the Public Audit Act, 2004 (Act No. 25 of 2004). Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised. All irregular, fruitless and wasteful expenditure is charged against the statement of comprehensive income in the period it was incurred.

#### 1.14 Government grants

Government grants are accounted for through the statement of financial position and statement of comprehensive income. The grants received in relation to compensation for expenses or losses already incurred are recognised through the statement of comprehensive income in the period in which they become receivable. Grants related to future obligations are presented as deferred income in the statement of financial position. This will be amortised as and when the expenses are incurred.

#### 1.15 Losses through criminal conduct

Losses through criminal conduct, and any amounts recovered, are disclosed separately.

## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## 2 Property, plant and equipment

	Cost	Accumulated depreciation	Carrying amount
2011	R'000	R'000	R'000
Computer equipment	112 030	(75 582)	36 448
Motor vehicles	4 151	(2 552)	1 599
Office equipment	3 465	(2 581)	884
Furniture and fittings	33 288	(14 745)	18 543
Leasehold improvements	24 177	(14 331)	9 846
	<b>177 111</b>	<b>(109 791)</b>	<b>67 320</b>
<i>Assets under finance lease agreements included above comprise:</i>			
Computer equipment (refer to note 9)	<b>76 974</b>	<b>(50 678)</b>	<b>26 296</b>

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The carrying amounts can be reconciled as follows:	Opening carrying amount R'000	Additions R'000	Disposals R'000	Depreciation charge R'000	Closing carrying amount R'000
Computer equipment	31 128	22 219	(460)	(16 439)	36 448
Motor vehicles	836	1 394	-	(631)	1 599
Office equipment	678	487	(7)	(274)	884
Furniture and fittings	16 757	4 337	(54)	(2 497)	18 543
Leasehold improvements	7 138	4 081	-	(1 373)	9 846
	<b>56 537</b>	<b>32 518</b>	<b>(521)</b>	<b>(21 214)</b>	<b>67 320</b>
<i>Assets under finance lease agreements included above comprise:</i>					
Computer equipment (refer to note 9)	<b>22 155</b>	<b>17 978</b>	<b>(457)</b>	<b>(13 380)</b>	<b>26 296</b>
					<b>2011 R'000</b>
Proceeds on disposal of property, plant and equipment					<b>862</b>

## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

2010	Cost R'000	Accumulated depreciation R'000	Carrying amount R'000
Computer equipment	93 384	(62 256)	31 128
Motor vehicles	2 881	(2 045)	836
Office equipment	2 994	(2 316)	678
Furniture and fittings	29 473	(12 716)	16 757
Leasehold improvements	20 095	(12 957)	7 138
	<b>148 827</b>	<b>(92 290)</b>	<b>56 537</b>
<i>Assets under finance lease agreements included above comprise:</i>			
Computer equipment (refer to note 9)	<b>62 557</b>	<b>(40 402)</b>	<b>22 155</b>

# AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

The carrying amounts can be reconciled as follows:	Opening carrying amount R'000	Additions R'000	Disposals R'000	Depreciation charge R'000	Closing carrying amount R'000
Computer equipment	24 649	21 205	(347)	(14 379)	31 128
Motor vehicles	1 200	-	(138)	(226)	836
Office equipment	1 031	101	(409)	(45)	678
Furniture and fittings	17 319	3 032	(1 365)	(2 229)	16 757
Leasehold improvements	11 174	1 773	(1)	(5 808)	7 138
	<b>55 373</b>	<b>26 111</b>	<b>(2 260)</b>	<b>(22 687)</b>	<b>56 537</b>
<i>Assets under finance lease agreements included above comprise:</i>					
Computer equipment (refer to note 9)	<b>13 797</b>	<b>19 282</b>	<b>(452)</b>	<b>(10 472)</b>	<b>22 155</b>

	2010 R'000
Proceeds on disposal of property, plant and equipment	<b>2 997</b>

The Auditor-General has operating leases for all of the premises occupied by its head office and regionally based staff in the major centres of the country (refer to note 22.1)

## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

## 3 Intangible assets

2011	Cost	Accumulated amortisation	Carrying amount
Computer software - purchased	R'000	R'000	R'000
Enterprise resource management system - PeopleSoft	18 950	(14 590)	4 360
Other software	20 653	(15 971)	4 682
	<b>39 603</b>	<b>(30 561)</b>	<b>9 042</b>

The carrying amounts can be reconciled as follows:	Opening carrying amount	Additions	Disposals	Amortisation charge	Closing carrying amount
Computer software - purchased	R'000	R'000	R'000	R'000	R'000
Enterprise resource management system - PeopleSoft	5 207	953	-	(1 800)	4 360
Other software	1 934	4 466	-	(1 718)	4 682
	<b>7 141</b>	<b>5 419</b>	<b>-</b>	<b>(3 518)</b>	<b>9 042</b>



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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED**

2010	Cost	Accumulated amortisation	Carrying amount
Computer software - purchased	R'000	R'000	R'000
Enterprise resource management system - PeopleSoft	17 997	(12 790)	5 207
Other software	16 187	(14 253)	1 934
	<b>34 184</b>	<b>(27 043)</b>	<b>7 141</b>

The carrying amounts can be reconciled as follows:	Opening carrying amount	Additions	Disposals	Amortisation charge	Closing carrying amount
Computer software - purchased	R'000	R'000	R'000	R'000	R'000
Enterprise resource management system - PeopleSoft	7 880	-	-	(2 673)	5 207
Other software	1 543	1 352	-	(961)	1 934
	<b>9 423</b>	<b>1 352</b>	<b>-</b>	<b>(3 634)</b>	<b>7 141</b>

## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011 R'000	2010 R'000
<b>4 Trade and other receivables</b>		
Trade receivables	398 822	369 961
Provision for impairment of receivables [1]	(45 851)	(37 500)
Present value of trade receivables adjustment (refer to note 21)	(6 770)	(6 715)
Net trade receivables	346 201	325 746
Staff debtors	11 712	10 987
Prepayments	6 910	6 546
Other debtors	226	444
	<b>365 049</b>	<b>343 723</b>
 [1] Provision for impairment of receivables		
Opening balance	(37 500)	(25 000)
Utilised during the year	143	-
Additional provision for impairment of receivables	(8 494)	(12 500)
Closing balance	<b>(45 851)</b>	<b>(37 500)</b>

## AUDITOR-GENERAL

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## FINANCIAL STATEMENTS

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011 R'000	2010 R'000
<b>5 Cash and cash equivalents</b>		
Call account at Public Investment Corporation (PIC)	102 288	124 574
Investment reserved for specific liabilities (PIC 1) [2]	85 364	80 428
Investment to fund working capital requirements (PIC 2)	16 924	44 146
Current bank account	246 505	91 074
Foreign bank account (USD)	3 191	17 796
	<b>351 984</b>	<b>233 444</b>
 [2] Investment reserved for specific liabilities		
The liabilities covered by this investment include the following:		
Post-retirement benefits: medical care contributions (refer to note 10)	63 845	58 626
13th cheque accrual (refer to note 11)	5 461	4 830
Leave pay accrual (refer to note 11) [3]	43 340	39 092
The National Treasury for salary over-payments in the former TBVC states	3 585	3 564
Advances from the National Treasury for assistance on the local authority debtors	6 363	6 363
Payments made by staff in terms of the Auditor-General's notebook ownership policy	968	932
	<b>123 562</b>	<b>113 407</b>

The future service liability for post-retirement benefit: medical care contributions totalling R11 196 000 (2010: R10 685 000) is not included in the investment reserved for specific liabilities. Future service costs are recognised when the services are delivered by the employees during the employment terms.

## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011 R'000	2010 R'000
[3] Only R15,3 million (2010: R14,7 million) of the leave pay accrual is provided for as cash for leave days that can be accrued. The rest of the leave days must be taken as leave within a specified period or else it will be forfeited.		
<b>6 General reserve</b>		
Opening balance	103 897	129 412
Transfer of retained deficit to reserves	-	(25 515)
Closing balance	<b>103 897</b>	<b>103 897</b>
<b>7 Special audit services reserve</b>		
Opening and closing balance	<b>4 964</b>	<b>4 964</b>
A fund set aside to finance special investigations or audits for which the Auditor-General may not be able to recover the cost from a specific auditee. The former Audit Commission instructed that the reserve should not be increased before further guidance is provided by the Standing Committee on the Auditor-General established in terms of section 55(2)(b)(ii) of the Constitution.		
<b>8 Retained earnings</b>		
Opening balance	99 165	(25 515)
Transfer of retained deficit to reserves	-	25 515
Total comprehensive income for the year [4]	133 117	99 165
Closing balance	<b>232 282</b>	<b>99 165</b>

## AUDITOR-GENERAL

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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011 R'000	2010 R'000
[4] Retained income is available to fund the Auditor-General's ongoing activities after consultation with the National Treasury and by agreement with the Standing Committee on the Auditor-General (in terms of section 38(4) of the Public Audit Act, 2004 (Act No. 25 of 2004)). Management will engage the Standing Committee on the Auditor-General to give effect to the requirements of the Public Audit Act with regards to the retention of surplus.		
<b>9 Finance lease obligation</b>		
Finance lease obligation in respect of computer equipment	34 598	28 113
Less: Current portion	(16 189)	(12 362)
	<b>18 409</b>	<b>15 751</b>

Liabilities under finance lease obligations payable over periods from 1-3 years in instalments of R442 320 (2010: R479 611) at an effective interest rate of between 7.0% and 13.5% (2010: 8.5% and 13.5%). Secured by computer equipment with a carrying value of R26 296 000 (2010: R22 155 000) (refer to note 2).

## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	Up to 1 year R'000	1 to 5 years R'000	More than 5 years R'000	Total R'000
<b>2011</b>				
Minimum lease payments	18 141	19 398	-	37 539
Finance cost	(1 952)	(989)	-	(2 941)
Present value	<b>16 189</b>	<b>18 409</b>	<b>-</b>	<b>34 598</b>
<b>2010</b>				
Minimum lease payments	14 388	16 936	-	31 324
Finance cost	(2 026)	(1 185)	-	(3 211)
Present value	<b>12 362</b>	<b>15 751</b>	<b>-</b>	<b>28 113</b>

**AUDITOR-GENERAL**  
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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED**

	2011 R'000	2010 R'000
<b>10 Retirement benefit obligations</b>		
Post-retirement benefits: medical care contribution	<b>63 845</b>	<b>58 626</b>
<b>The liability can be reconciled as follows:</b>		
Opening balance	58 626	63 532
Current year provision	7 288	(2 849)
Current service cost	1 054	1 295
Actuarial loss / (gain)	1 299	(9 666)
Interest adjustment	4 935	5 522
<u>Less: Payments made</u>	<u>(2 069)</u>	<u>(2 057)</u>
Closing balance (refer to note 5)	<b>63 845</b>	<b>58 626</b>
 The amounts recognised in the statement of comprehensive income are as follows:		
Current service cost	1 054	1 295
Actuarial loss / (gain)	1 299	(9 666)
Interest cost	4 935	5 522
Total post-retirement benefit adjustment recognised in the statement of comprehensive income	<b>7 288</b>	<b>(2 849)</b>



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## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011 R'000	2010 R'000
The obligation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was performed on 31 March 2011 by Alexander Forbes using the Projected Unit Credit Method.		
The valuation is based on the following principal actuarial assumptions:		
The discount rate reflects the timing of benefit payments and is based on market bond yields.	9.0%	9.0%
Subsidy increase rate	5.8%	5.3%
Expected retirement age	63	63
Number of continuation members	182	172
Number of in-service members	245	264
No explicit assumption was made about the mortality and health care cost due to HIV/AIDS		

**Sensitivity analysis**

The value of the liability could be overstated or understated, depending on the extent to which actual experience differs from the assumptions adopted.

Below is the recalculated liability showing the effect of:

- A one percentage point decrease or increase in the discount rate
- A one percentage point decrease or increase in the subsidy increase rate
- A one year decrease or increase in the expected retirement age

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	2011		
	Assumption	Discount rate	
	9.00%	-1%	+1%
Accrued liability 31 March 2011 (R'000)	63 845	74 768	55 224
% Change	-	17.1%	-13.5%

	Subsidy increase rate		
	Assumption	Subsidy increase rate	
	5.75%	-1%	+1%
Accrued liability 31 March 2011 (R'000)	63 845	55 021	74 885
% Change	-	-13.8%	17.3%

	Expected retirement age		
	Assumption	1 year younger	1 year older
	63 years		
Accrued liability 31 March 2011 (R'000)	63 845	65 601	62 158
% Change	-	2.8%	-2.6%

The future service liability for post-retirement benefit: medical care contributions amounts to R11 196 000 (2010: R10 685 000). Future service costs are recognised when the services are delivered by the employees during the employment terms.

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## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2010 Discount rate		
	Assumption 9.00%	-1%	+1%
Accrued liability 31 March 2010 (R'000)	58 626	68 421	50 872
% Change	-	16.7%	-13.2%
	Subsidy increase rate		
	Assumption 5.25%	-1%	+1%
Accrued liability 31 March 2010 (R'000)	58 626	50 658	68 575
% Change	-	-13.6%	17.0%
	Expected retirement age		
	Assumption 63 years	1 year younger	1 year older
Accrued liability 31 March 2010 (R'000)	58 626	60 332	57 039
% Change	-	2.9%	-2.7%

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED**

	2011 R'000	2010 R'000
<b>11 Trade and other payables</b>		
Trade payables	134 463	127 121
Present value of trade payables adjustment (refer to note 21)	(845)	(963)
Net trade payables	133 618	126 158
Accruals	57 083	51 062
13th cheque accrual	5 461	4 830
Accrued leave pay	43 340	39 092
Performance bonus accrual	66 048	43 945
United Nations contract - prepaid income	11 563	12 723
Staff creditors	10 039	8 162
Value-added tax	14 948	9 393
Advance on local authority debtors	6 363	6 363
	<b>348 463</b>	<b>301 728</b>

## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

## Ageing of trade payables:

	Total	Current	30 - 120	120+
	R'000	R'000	R'000	R'000
<b>2011</b>				
Trade payables	93 736	69 974	22 755	1 007
Straightlining of operating leases	40 727	607	6 673	33 447
	<b>134 463</b>	<b>70 581</b>	<b>29 428</b>	<b>34 454</b>

**2010**

Trade payables	93 674	65 279	25 928	2 467
Straightlining of operating leases	33 447	1 569	4 400	27 478
	<b>127 121</b>	<b>66 848</b>	<b>30 328</b>	<b>29 945</b>

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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011 R'000	2010 R'000
<b>11.1 Deferred income</b>		
Government grants received to be recognised in future accounting periods	40 568	56 483
Less deferred income to be recognised in the current year	(40 568)	(15 915)
	<b>-</b>	<b>40 568</b>
<b>12 Provisions</b>		
<b>Government Employees Pension Fund</b>		
Opening balance	3 784	3 784
Additional provision [5]	1 562	-
Closing balance	<b>5 346</b>	<b>3 784</b>

- [5] In the event of early retirement, the Auditor-General will be liable for early retirement penalties. All applications for early retirement must be approved by the Deputy Auditor-General. A provision has been made for penalties, relating to early retirements, payable to the Government Employees Pension Fund.

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011 R'000	2010 R'000
<b>13 Revenue</b>		
Local services rendered	1 824 847	1 612 592
Own hours	1 248 871	1 082 928
Contract work	543 317	508 247
Subsistence and travel	66 813	55 040
Present value of revenue adjustment (refer to note 21)	(34 154)	(33 623)
International services rendered	25 585	32 055
Own hours	20 864	25 886
Subsistence and travel	5 229	6 745
Present value of revenue adjustment (refer to note 21)	(508)	(576)
	<b>1 850 432</b>	<b>1 644 647</b>
<b>13.1 Other income</b>		
Sundry income	2 913	4 055
Telephone charges recovered	264	303
	<b>3 177</b>	<b>4 358</b>



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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011	2010
	R'000	R'000
<b>13.2 Other income - Government grant [6]</b>	<b>40 568</b>	<b>15 915</b>

<b>[6] Analysis of grant received</b>	<b>R'000</b>
Total grant received (January 2009)	90 000
Recognised (2008/2009)	(33 517)
Working capital	(33 517)
Recognised (2009/2010)	(15 915)
Capital expenditure	(5 000)
INTOSAI Governing Board meeting	(5 749)
INCOSAI conference	(760)
Balance to revenue	(4 406)
Recognised (2010/2011)	(40 568)
INTOSAI Governing Board meeting	51
INCOSAI conference	(17 077)
Balance to revenue	(23 542)
	-

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## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011 R'000	2010 R'000
<b>14 Staff cost</b>		
Management salaries	19 328	17 719
Other non-recoverable staff salaries	138 015	117 870
Other staff expenditure	73 735	52 814
Performance bonus	62 199	41 425
Group life scheme	6 723	6 167
Other employer contributions (UIF, workmen's compensation, long service awards, early retirement penalties - Government Employees Pension Fund, etc.)	4 813	5 222
Course fees and study assistance	49 665	58 350
Accrued leave pay provision	10 127	13 622
<b>Total non-recoverable staff cost</b>	<b>290 870</b>	<b>260 375</b>
Recoverable staff salaries	688 944	591 185
<b>Total staff cost</b>	<b>979 814</b>	<b>851 560</b>
 Average number of staff	 <b>2 612</b>	 <b>2 370</b>

## AUDITOR-GENERAL

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## FINANCIAL STATEMENTS

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

**Total short-term, long-term and termination benefits paid to management.**

Position	Name	Appoint- ment date	Termination date	Gross remunera- tion R'000	2011 Perform- ance bonus R'000	Total remuneration R'000
Auditor-General	TM Nombembe	1 Dec 2006		2 758	-	2 758
Deputy Auditor-General	T Makwetu	1 Jul 2007		2 348	479	2 827
Chief Operating Officer	L Jabavu	1 Aug 2007		1 593	324	1 917
Corporate Executive	P Bhana	1 Oct 2006		1 674	341	2 015
Corporate Executive	AH Muller	1 Mar 2008		1 558	318	1 876
Corporate Executive	BR Wheeler	1 Mar 2008		1 558	318	1 876
Corporate Executive	PKK Serote	1 Apr 2008		1 639	334	1 973
Corporate Executive	J Bailey	1 Dec 2008	31 Jul 2010	572	-	572
Corporate Executive	EM Zungu	1 Feb 2009		1 653	335	1 988
Corporate Executive	JH v Schalkwyk	1 Nov 2010		613	294	907
Corporate Executive	I Vanker	1 Jan 2011		354	265	619
				<b>16 320</b>	<b>3 008</b>	<b>19 328</b>

[7]

## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

Position	Name	Appoint- ment date	Gross remunera- tion R'000	2010 Perform- ance bonus R'000	Total remuneration R'000
Auditor-General	TM Nombembe	1 Dec 2006	2 444	-	2 444
Deputy Auditor-General	T Makwetu	1 Jul 2007	2 164	441	2 605
Chief Operating Officer	L Jabavu	1 Aug 2007	1 489	304	1 793
Corporate Executive	P Bhana	1 Oct 2006	1 542	315	1 857
Corporate Executive	AH Muller	1 Mar 2008	1 436	293	1 729
Corporate Executive	BR Wheeler	1 Mar 2008	1 436	293	1 729
Corporate Executive	PKK Serote	1 Apr 2008	1 511	308	1 819
Corporate Executive	J Bailey	1 Dec 2008	1 649	336	1 985
Corporate Executive	EM Zungu	01 Feb 2009	1 522	236	1 758
			<b>15 193</b>	<b>2 526</b>	<b>17 719</b>

[7]

[7] This includes all remuneration paid to management.

	2011 R'000	2010 R'000
Compensation to management is summarised as follows:		
Short-term employee benefits	19 077	17 497
Long-term benefits	251	222
	<b>19 328</b>	<b>17 719</b>

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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011 R'000	2010 R'000
<b>15 Contract work recoverable</b>		
Contract work recoverable (refer to note 13)	543 317	508 247
Present value of expenditure adjustment (refer to note 21)	(6 115)	(6 093)
	<b>537 202</b>	<b>502 154</b>
This represents work done by external audit firms on behalf of the Auditor-General. This revenue does not have any mark-up that the Auditor-General benefits from. Refer to note 13.		
<b>16 Depreciation</b>		
Computer equipment	16 439	14 379
Motor vehicles	631	226
Office equipment	274	45
Furniture and fittings	2 497	2 229
Leasehold improvements	1 373	5 808
	<b>21 214</b>	<b>22 687</b>
<b>17 Amortisation</b>		
Computer software		
Enterprise resource management system - PeopleSoft	1 800	2 673
Other software	1 718	961
	<b>3 518</b>	<b>3 634</b>

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## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011 R'000	2010 R'000
<b>18 Other operational expenditure</b>		
Auditor's remuneration		
Statutory audit services	2 137	1 978
Other audit services	28	67
Contract work irrecoverable	15 516	10 177
Fruitless and wasteful expenditure (refer to note 19)	21	1 028
Governance costs	604	304
ICT services	22 248	18 411
Internal audit fees	4 420	1 731
Legal costs	1 010	1 390
Other operational expenses (excluding staff cost)	6 416	5 089
Operating leases - land and buildings	58 491	55 957
Operating leases - equipment	3 723	2 858
Provision for impairment of receivables	8 351	12 500
Receivables written off as uncollectable	143	-
Recruitment costs	8 319	8 075
Stakeholder relations	13 909	10 108
Stationery and printing	4 888	5 845
Subsistence and travelling irrecoverable	13 735	9 892
Telephone and postage	7 201	6 842
Present value of expenditure adjustment (refer to note 21)	(994)	(1 128)
	<b>170 166</b>	<b>151 124</b>

## AUDITOR-GENERAL ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## FINANCIAL STATEMENTS

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011 R'000	2010 R'000
<b>18.1 Hosting of international conferences</b>		
INCOSAI conference (net of reimbursements)	17 077	760
INTOSAI Governing Board meeting	(51)	5 749
AFROSAI conference	-	(11)
	<b>17 026</b>	<b>6 498</b>

XX INCOSAI, hosted from 15 to 28 November 2010, was attended by approximately 600 delegates, observers and accompanying persons from 152 countries. The congress therefore had one of the largest numbers of participants in the history of INCOSAI. The Auditor-General of South Africa was appointed chairperson of INTOSAI until the next INCOSAI in 2013.

The INTOSAI Governing Board held its 59th meeting in Cape Town on 15-19 November 2009. The assembly was hosted by the Auditor-General and was attended by 77 delegates from 32 countries.

AFROSAI held its 11th General Assembly in Pretoria on 13 October 2008. The assembly was hosted by the Auditor-General and was attended by delegates from 51 countries.

### 19 Fruitless and wasteful expenditure

Reperformance of audit work [8]	-	1 027
Other	21	1
	<b>21</b>	<b>1 028</b>



## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

		2011 R'000	2010 R'000
[8]	<p>Reperformance of audit work - 2009/2010 Limpopo</p> <p>An audit firm was appointed at the cost of the Auditor-General to perform an independent review of an audit file after a concern was raised regarding the correctness of the audit opinion expressed. Unfortunately the engagement manager on the audit allowed the firm to continue beyond the scope of the initial agreement and an additional amount of R518k was paid to the audit firm. A disciplinary process is currently being conducted regarding this matter.</p> <p>Western Cape:</p> <p>Overtime and administration cost not agreed with 4 auditees had to be written back resulting in R509k being incurred which was not recoverable from the auditees.</p>		
<b>20</b>	<b>Notebook losses</b>		
	50 (2010: 50) notebook computers stolen and written off at the carrying amount [9]	<b>(338)</b>	<b>(284)</b>
[9]	<p>No amounts have been recovered as the Auditor-General self-insures notebook computers. Stolen notebooks are reported to the police for investigation.</p>		

**AUDITOR-GENERAL**  
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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED**

	2011 R'000	2010 R'000
<b>21 Net interest cost</b>		
<b>Interest income</b>		
Interest income on investments	21 934	14 292
Present value of revenue and trade receivables adjustment	34 607	27 484
Present value of revenue adjustment (refer to note 13)	34 662	34 199
Increase in present value of trade receivables adjustment (refer to note 4)	(55)	(6 715)
	<b>56 541</b>	<b>41 776</b>
<b>Interest expense</b>		
Interest on obligation under finance lease agreements	(2 385)	(2 062)
Present value of expenditure and trade payables adjustment	(7 227)	(6 258)
Present value of expenditure adjustment (refer to notes 15 and 18)	(7 109)	(7 221)
Decrease in present value of trade payables adjustment (refer to note 11)	(118)	963
	<b>(9 612)</b>	<b>(8 320)</b>

## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011 R'000	2010 R'000
<b>22 Commitments</b>		
<b>22.1 Operating lease commitments</b>		
The future minimum commitments are as follows:		
<b>Due within one year</b>	<b>45 683</b>	<b>38 921</b>
Accommodation	39 838	34 545
Communication equipment	3 271	2 640
Office equipment	2 574	1 736
<b>Between one and five years</b>	<b>217 082</b>	<b>334 758</b>
Accommodation	212 248	328 647
Communication equipment	3 271	2 640
Office equipment	1 563	3 471
<b>More than five years</b>	<b>114 734</b>	<b>455 551</b>
Accommodation	114 734	455 551
	<b>377 499</b>	<b>829 230</b>

The office premises are leased for periods between two and thirteen years. The average lease payments are R3 075 588 (2010: R2 776 012) per month. The leases escalate between 6.5% and 10% annually. The lease agreements are renewable between one month and ten years at the end of the lease term and the Auditor-General does not have the option to acquire the buildings.

## AUDITOR-GENERAL

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## FINANCIAL STATEMENTS

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011 R'000	2010 R'000
<p>Certain items of communication equipment are leased for a period of two years. The average lease payments are R272 581 (2010: R220 000) per month. The lease agreements are renewable for two years at the end of the lease term and the Auditor-General does not have the option to acquire the communication equipment.</p>		
<p>Certain items of office equipment are leased for a period of three years. The average lease payments are R214 533 (2010: R144 638) per month. The lease agreements are renewable at the end of the lease term and the Auditor-General does not have the option to acquire the communication equipment.</p>		
<b>23 Contingent liability</b>		
<b>Guarantees</b>	<b>137</b>	<b>187</b>
<p>Guarantees provided by the Auditor-General to various financial institutions for portions of home loans granted to five staff (2010: seven staff). This policy has been discontinued since 1993.</p>		
<b>24 Financial instruments</b>		
<b>24.1 Foreign exchange risk</b>		
<p>The Auditor-General delivers a small portion of its audit services based on fixed sum contracts in foreign currencies.</p>		

**AUDITOR-GENERAL****ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011****NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED**

Trade accounts receivable include receivables of Euro 21 161 (2010: Euro 0) in respect of services delivered in foreign currencies not hedged by forward exchange contracts. These balances have been translated at the year-end exchange rate of Euro 1 = R9.5286 (2010: Euro 1 = R9.8329).

Included in the bank balances at 31 March 2011 is an amount of 471 249 USD (2010: 2 429 484 USD). These balances have been translated at the year-end exchange rate of 1 USD = R6.7713 (2010: 1 USD = R7.3249).

It is the policy of the Auditor-General not to take out forward cover on foreign exchange transactions.

**24.2 Credit risk**

Financial assets which potentially subject the Auditor-General to concentrations of credit risk consist principally of cash and short-term deposits which are placed with a financial institution with a short-term bank deposit credit rating of F-2 as well as with the Public Investment Corporation. The Public Investment Corporation is wholly owned by the South African Government and invests funds on behalf of public sector entities based on investment mandates set by each client and approved by the Financial Services Board. Trade receivables are presented net of the allowance for doubtful receivables. Credit risk with respect to trade receivables is limited to some degree due to the constitutionally ensconced audit mandate of the Auditor-General. However, the Auditor-General has a significant concentration of credit risk with local government.

## AUDITOR-GENERAL ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

### FINANCIAL STATEMENTS

#### NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

All financial assets are unsecured. The carrying amount of financial assets included in the statement of financial position represents the Auditor-General's exposure to credit risk in relation to these assets. Investment in the Public Investment Corporation is governed by the Auditor-General's investment strategy which requires 95% of funds to be invested in conservative money market instruments where the initial capital investment is guaranteed and the balance in cash.

An analysis of the ageing of debtors that are 30 days and over (2011:2010) is as follows;  
R165 558 000 (2010: R155 003 000) of debtors, comprising 42.4% (2010: 41.9%) of total debtors, is in arrears. Local government arrears comprise R123 953 000 (2010: R98 405 000) or 74.9% (2010: 63.5%) of total arrears.

A breakdown of the concentration of credit risk that arises from the Auditor-General's receivables in relation to the type of auditees is as follows:

## AUDITOR-GENERAL

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

2011 Debtor type	Total R'000	Current R'000	30 - 120 R'000	120+ R'000
National	50 252	48 272	1 205	775
Provincial	107 102	87 920	15 895	3 287
Local	167 022	43 069	55 863	68 090
Statutory	47 776	34 306	4 760	8 710
Other (including unallocated deposits) [10]	18 751	11 778	3 485	3 488
	<b>390 903</b>	<b>225 345</b>	<b>81 208</b>	<b>84 350</b>

[10] Other debtor types include unlisted public entities, staff debtors, municipal entities, utility agency corporations and certain auditees that are defined as "1% auditees" and funded as such by the National Treasury.

2010 Debtor type	Total R'000	Current R'000	30 - 120 R'000	120+ R'000
National	67 397	60 162	6 426	809
Provincial	105 772	78 005	18 472	9 295
Local	139 798	41 393	45 323	53 082
Statutory	43 936	30 551	6 191	7 194
Other (including unallocated deposits)	13 058	4 847	(264)	8 475
	<b>369 961</b>	<b>214 958</b>	<b>76 148</b>	<b>78 855</b>

## AUDITOR-GENERAL

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## FINANCIAL STATEMENTS

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

#### 24.3 Interest rate risk

The Auditor-General's exposure to interest rate risk and the effective interest rates on financial instruments at reporting date is as follows:

2011	Effective fluctuating interest rate %	1 year or less R'000	1 to 5 years R'000	Total R'000
<b>Assets</b>				
Trade and other receivables	0.00%	365 049	-	365 049
Cash				
Local				
- Current account	4.00%	246 505	-	246 505
- Call account - PIC	5.50%	102 288	-	102 288
Foreign	0.00%	3 191	-	3 191
Total financial assets		<b>717 033</b>	<b>-</b>	<b>717 033</b>
<b>Liabilities</b>				
Interest bearing borrowings	7.00% - 13.50%	16 189	18 409	34 598
Trade and other payables	0.00%	348 463	-	348 463
Total financial liabilities		<b>364 652</b>	<b>18 409</b>	<b>383 061</b>
<i>Net financial assets / (liabilities)</i>		<b>352 381</b>	<b>(18 409)</b>	<b>333 972</b>



## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

2010	Effective fluctuating interest rate %	1 year or less R'000	1 to 5 years R'000	Total R'000
<b>Assets</b>				
Trade and other receivables	0.0%	343 723	-	343 723
Cash				
<i>Local</i>				
- Current account	5.25%	91 074	-	91 074
- Call account - PIC	6.00%	124 574	-	124 574
Foreign	0.00%	17 796	-	17 796
Total financial assets		<b>577 167</b>	<b>-</b>	<b>577 167</b>
<b>Liabilities</b>				
Interest bearing borrowings	8.50% - 13.00%	12 362	15 751	28 113
Trade and other payables	0.00%	301 728	-	301 728
Total financial liabilities		<b>314 090</b>	<b>15 751</b>	<b>329 841</b>
Net financial assets / (liabilities)		<b>263 077</b>	<b>(15 751)</b>	<b>247 326</b>

## AUDITOR-GENERAL

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

#### 24.4 Liquidity risk

The Auditor-General has substantial cash balances at its disposal and minimum long-term debt which limits liquidity risk. Nevertheless, budgets are prepared on an annual basis to ensure liquidity risks are monitored.

#### 24.5 Additional information in relation to financial instruments

Line items presented in the statement of financial position summarised per category of financial instrument	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	R'000	R'000	R'000	R'000
<b>Financial assets</b>				
<i>Loans and receivables</i>				
Cash and cash equivalents (refer to note 5)	351 984	351 984	233 444	233 444
Trade and other receivables (refer to note 4)	365 049	365 049	343 723	343 723
	<b>717 033</b>	<b>717 033</b>	<b>577 167</b>	<b>577 167</b>
<b>Financial liabilities</b>				
<i>Financial liabilities measured at amortised cost</i>				
Finance lease agreements (refer to note 9)	34 598	34 598	28 113	28 113
Trade and other payables (refer to note 11)	348 463	348 463	301 728	301 728
	<b>383 061</b>	<b>383 061</b>	<b>329 841</b>	<b>329 841</b>

## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011	2010
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The table above provides information that permits the comparison of the fair values of financial instruments with their carrying amounts. In the case of the financial instruments concerned the carrying amount in each instance is a reasonable approximation of fair value based on the estimation using the discounted cash flow method. The fair values in the "fair value"-column have been determined for disclosure purposes only. The following assumptions were applied:

Average days outstanding - receivables	113	110
Average days outstanding - payables	34	43

**Sensitivity analysis**

Below is the recalculated financial assets and liabilities showing the effect of:

- A one percentage point decrease or increase in the current account interest rate.
- A one percentage point decrease or increase in the call account interest rate.
- A one Rand decrease or increase in the USD and Euro exchange rate.
- A one percentage point decrease or increase in the finance lease agreement interest rate.

	2011		
	Current & call account interest rate		
	Current balance	+1%	-1%
Net surplus (R'000)	133 117	136 015	130 255
% Change	-	2.2%	-2.1%
Current bank and call account balances (R'000)	348 793	351 701	345 940
% Change	-	0.8%	-0.8%

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED**

**Sensitivity analysis (continued)**

	USD and Euro exchange rate		
	Current balance	+R1	-R1
Net surplus (R'000)	133 117	136 707	128 702
% Change	-	2.7%	-3.3%
Foreign bank account balance (R'000)	3 191	3 662	2 720
% Change	-	14.8%	-14.8%
International debtor balance (R'000)	202	181	216
% Change	-	0.0%	0.0%
	Finance lease agreement interest rate		
	Current balance	+1%	-1%
Net surplus (R'000)	133 117	133 370	132 865
% Change	-	0.2%	-0.2%
Finance lease agreements balance (R'000)	34 598	34 842	34 356
% Change	-	0.7%	-0.7%

## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

## Sensitivity analysis (continued)

	2010		
	Current & call account interest rate		
	Current balance	+1%	-1%
Net surplus (R'000)	99 165	101 397	96 952
% Change	-	2.3%	-2.2%
Current bank and call account balances (R'000)	215 648	217 070	212 626
% Change	-	0.7%	-1.4%
	USD and Euro exchange rate		
	Current balance	+R1	-R1
Net surplus (R'000)	99 165	103 084	96 550
% Change	-	4.0%	-2.6%
Foreign bank account balance (R'000)	17 796	18 448	17 144
% Change	-	3.7%	-3.7%
International debtor balance (R'000)	-	-	-
% Change	-	0.0%	0.0%
	Finance lease agreement interest rate		
	Current balance	+1%	-1%
Net surplus (R'000)	99 165	99 303	99 027
% Change	-	0.1%	-0.1%
Finance lease agreements balance (R'000)	28 113	28 064	28 161
% Change	-	-0.2%	0.2%

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED**

	2011 R'000	2010 R'000
<b>25 Capital commitments</b>		
Approved but not yet contracted for	<u>74 369</u>	<u>65 552</u>
Source of funding		
Internal financing	59 650	54 266
Borrowings	14 719	11 286
	<u>74 369</u>	<u>65 552</u>
This relates to property, plant and equipment approved in the 2011/2012 budget.		
<b>26 Notes to the cash flow statement</b>		
<b>26.1 Revenue collectable from auditees</b>		
Revenue	1 850 432	1 644 647
Net increase in trade receivables	(28 861)	(46 656)
	<u>1 821 571</u>	<u>1 597 991</u>
<b>26.2 Direct audit cost payables</b>		
Direct audit cost	(1 298 188)	(1 155 124)
Net increase in trade payables	1 152	59 938
	<u>(1 297 036)</u>	<u>(1 095 186)</u>

## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011 R'000	2010 R'000
<b>26.3 Operational expenditure payments</b>		
Operational expenditure	(459 695)	(406 273)
Adjusted for:		
Straightlining of leases	7 280	9 269
Interest income	(56 541)	(41 776)
Interest expense	9 612	8 320
Foreign exchange (loss) / gain	(281)	2 618
Depreciation	21 214	22 687
Amortisation	3 518	3 634
Increase in provision for impairment of receivables	8 351	12 500
Increase / (decrease) in provision for post-retirement medical aid benefits	5 219	(4 906)
(Profit) / loss on the disposal of property, plant and equipment and intangible assets	(341)	(737)
Increase in provisions	1 562	-
	(460 102)	(394 664)
Other working capital changes	37 487	(70 781)
(Increase) / decrease in other receivables	(816)	2 594
Increase / (decrease) in other payables	38 303	(73 375)
	<b>(422 615)</b>	<b>(465 445)</b>

## AUDITOR-GENERAL

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## FINANCIAL STATEMENTS

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011 R'000	2010 R'000
<b>26.4 Foreign exchange (loss) / gain</b>		
Realised foreign exchange gain	459	2 961
Unrealised foreign exchange differences [11]	(178)	(5 579)
Foreign exchange (loss) / gain	<b>281</b>	<b>(2 618)</b>
[11] The difference between the closing and opening exchange rate applied to the foreign bank balance and international debtor balance at year-end.		
<b>26.5 Acquisition of property, plant and equipment</b>		
Computer equipment	(22 219)	(21 205)
Motor vehicles	(1 394)	-
Office equipment	(487)	(101)
Furniture and fittings	(4 337)	(3 032)
Leasehold improvements	(4 081)	(1 773)
	<b>(32 518)</b>	<b>(26 111)</b>
<b>26.6 Acquisition of intangible assets</b>		
Enterprise resource management system - PeopleSoft	(953)	-
Other software	(4 466)	(1 352)
	<b>(5 419)</b>	<b>(1 352)</b>



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## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

	2011 R'000	2010 R'000
<b>26.7 Cash and cash equivalents</b>		
Call account at Public Investment Corporation	102 288	124 574
Investment to fund working capital requirements	16 924	44 146
Investment reserved for specific liabilities	85 364	80 428
Current bank account	246 505	91 074
Foreign bank account	3 191	17 796
	<b>351 984</b>	<b>233 444</b>

**27 Taxation**

No provision is made for income tax as the Auditor-General is exempt in terms of section 10(1)(cA)(i) of the Income Tax Act, 1962 (Act No. 58 of 1962).

**28 Professional indemnity insurance**

It is not the policy of the Auditor-General to take professional indemnity insurance cover.

**29 Events after the reporting period**

No matters or circumstances arose after the end of the financial year that will materially affect these annual financial statements.

## AUDITOR-GENERAL

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

#### 30 Comparative information

The classification of certain balance sheet items were restated in order to obtain better presentation. The effect of the reclassification in the prior year was as follows:

	2010	
	Restated	Originally disclosed
<b>Effect in the balance sheet</b>		
<b>Current assets</b>		
Trade and other receivables	343 723	341 289
<b>Current liabilities</b>		
Trade and other payables	(301 728)	(299 294)
	<b>41 995</b>	<b>41 995</b>
<b>Effect in the notes</b>		
<b>Note 4 - Trade and other receivables</b>		
Staff debtors	10 987	8 553
	<b>10 987</b>	<b>8 553</b>
<b>Note 11 - Trade and other payables</b>		
Trade payables	127 121	139 844
Staff creditors	8 162	5 728
United Nations contract - prepaid income	12 723	-
	<b>20 885</b>	<b>5 728</b>

## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

## Ageing of trade payables:

	Total	Current	30 - 120	120+
	R'000	R'000	R'000	R'000
<b>2010 - Restated</b>				
Trade payables	93 674	65 279	25 928	2 467
Straightlining of operating leases	33 447	1 569	4 400	27 478
	<b>127 121</b>	<b>66 848</b>	<b>30 328</b>	<b>29 945</b>

	Total	Current	30 - 120	120+
	R'000	R'000	R'000	R'000
<b>2010 - Originally disclosed</b>				
Trade payables	93 674	65 279	25 928	2 467
Straightlining of operating leases	33 447	1 569	4 400	27 478
United Nations contract - prepaid income	12 723	12 723	-	-
	<b>139 844</b>	<b>79 571</b>	<b>30 328</b>	<b>29 945</b>

## AUDITOR-GENERAL

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## FINANCIAL STATEMENTS

### SUPPLEMENTARY INFORMATION

#### Comparison of actual results with the approved budget

	Notes	Actual R'000	Budget R'000	Variance R'000
<b>Revenue</b>				
Audit fees earned	1	1 850 432	1 835 522	14 910
Own hours		1 269 735	1 269 306	429
Contract work	1.1	543 317	467 512	75 805
Subsistence and travel	1.2	72 042	98 704	(26 662)
Present value of revenue adjustment	2.1	(34 662)	-	(34 662)
Direct audit cost		(1 298 188)	(1 243 604)	(54 584)
Recoverable staff cost (refer to note 14 per AFS)	3	(688 944)	(677 388)	(11 556)
Contract work recoverable		(537 202)	(467 512)	(69 690)
Contract work recoverable	1.1	(543 317)	(467 512)	(75 805)
Present value of expenditure adjustment	2.2	6 115	-	6 115
Subsistence and travel recoverable	1.2	(72 042)	(98 704)	26 662
Gross profit		552 244	591 918	(39 674)
Other income		43 745	43 013	732
Increase in post-retirement medical aid benefit provision	4	(7 288)	(8 216)	928
Foreign exchange (loss) / gain		281	-	281
Contribution to overheads		588 982	626 715	(37 733)

## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## SUPPLEMENTARY INFORMATION CONTINUED

	Notes	Actual R'000	Budget R'000	Variance R'000
<b>Expenditure</b>		(502 794)	(575 219)	72 425
Amortisation expense		(3 518)	(3 460)	(58)
Auditor's remuneration				
Statutory audit services		(2 137)	(2 929)	792
Other audit services		(28)	-	(28)
Hosting of International conferences		-	-	-
Bad debts written off		(143)	-	(143)
Contract work irrecoverable	5	(15 516)	(27 036)	11 520
Course fees and study assistance (refer to note 14 per AFS)	6	(49 665)	(78 608)	28 943
Depreciation expense	7	(21 214)	(35 319)	14 105
Fruitless and wasteful expenditure		(21)	-	(21)
Governance costs		(604)	(544)	(60)
ICT services	8	(22 248)	(33 504)	11 256
Internal audit fees		(4 420)	(3 100)	(1 320)
Legal costs		(1 010)	(1 200)	190
Operating leases - equipment	9	(3 723)	(4 709)	986
Operating leases - land and buildings		(58 491)	(58 954)	463
Other expenses	10	(6 416)	(9 803)	3 387
Provision for accumulated leave benefits	11	(10 127)	(6 662)	(3 465)
Provision for impairment of receivables	12	(8 351)	(3 000)	(5 351)
Recruitment costs	13	(8 319)	(11 474)	3 155

## AUDITOR-GENERAL

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## FINANCIAL STATEMENTS

### SUPPLEMENTARY INFORMATION CONTINUED

	Notes	Actual R'000	Budget R'000	Variance R'000
Special expense: performance bonus (refer to note 14 per AFS)	14	(65 207)	(20 000)	(45 207)
Stakeholder relations / conference cost	15	(30 935)	(56 656)	25 721
Staff expenses (normal staff exp) (refer to note 14 per AFS)	16	(165 871)	(184 940)	19 069
Stationery and printing	17	(4 888)	(10 320)	5 432
Subsistence and travelling irrecoverable		(13 735)	(14 399)	664
Telephone and postage	18	(7 201)	(8 602)	1 401
Present value of expenditure adjustment	2.2	994	-	994
Profit from operations		86 188	51 496	34 692
Interest income	19	21 934	19 474	2 460
Present value of revenue and trade receivables adjustment	2.1	34 607	-	34 607
Interest expense		(2 385)	(2 321)	(64)
Present value of expenditure and trade payables adjustment	2.2	(7 227)	-	(7 227)
<b>Net profit for the year</b>		<b>133 117</b>	<b>68 649</b>	<b>64 468</b>

The budget was submitted for approval, in terms of section 38 of the Public Audit Act, 2004 (Act No. 25 of 2004), to the Standing Committee on the Auditor-General on 7 October 2009 and tabled in Parliament on 25 January 2010 in terms of the same section.

## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## SUPPLEMENTARY INFORMATION CONTINUED

## Explanation of material differences in actual results compared with the approved budget

## 1 Audit fees earned

## 1.1 Contract work recoverable

The variance in contract work recoverable income of R76 million is a result of additional audit work being awarded to private audit firms due to changes in audit scope, the restructuring of functions between government departments and the establishment of new government departments.

## 1.2 Subsistence and travelling recoverable

The saving of R27 million is mainly due to better negotiated rates for air travel and hotel accommodation as well as consolidation of audits, resulting in less travelling.

## 2 Present value of revenue and expenditure adjustment

In terms of Circular 9 of 2006, which explains the implementation of IAS 18 in greater detail, trade receivables, trade payables, revenue and expenditure must be disclosed at fair value at year-end. This resulted in the following accounting adjustments:

2.1	Present value of revenue and trade receivables adjustment	R'000
	Present value of revenue adjustment (refer to note 2.1 per comparative income statement)	34 662
	Increase in present value of trade receivables adjustment (refer to note 4 per AFS)	(55)
		<u>34 607</u>
2.2	Present value of expenditure and trade payables adjustment	
	Present value of expenses adjustment (refer to note 2.2 per comparative income statement)	(7 109)
	Decrease in present value of trade payables adjustment (refer to note 11 per AFS)	(118)
		<u>(7 227)</u>

## AUDITOR-GENERAL ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## FINANCIAL STATEMENTS

### SUPPLEMENTARY INFORMATION CONTINUED

#### 3 Recoverable staff cost

The unfavourable variance of R11 million is due to limited duration contract (LDC) staff coming in at higher cost than budgeted.

#### 4 Post-retirement medical aid benefit provision

The favourable variance of R1 million is due to an actuarial valuation performed for the year ending 31 March 2011. The valuation was influenced by a decrease in the number of in service employees who will be eligible for the benefit post retirement.

#### 5 Contract work irrecoverable (consultant fees)

The favourable variance of R11 million is due to planned projects by ICT and Human Capital not having been rolled out.

#### 6 Course fees and study assistance

Professional services are associated with all the training requirements of the Auditor-General. The areas contributing to the underspend of R29 million are study assistance and technical training. The underspending in study assistance is due to the study policy that requires an employee to pass in the previous year before a new bursary is awarded. The pass rate has been lower than expected. Savings in technical training are due to the introduction of e-learning, increased use of internal presenters and lower cost of training by service providers.

#### 7 Depreciation

The favourable variance of R14 million is due to lower Capex acquisition than originally planned. Planned leasehold improvements and furniture acquisition for Pretoria and Bloemfontein offices respectively will now take place in 2011-12.

#### 8 ICT services

The favourable variance of R11 million is due to ICT projects that were not rolled out and actual licence fee costs being lower than budget by R4 million.

#### 9 Operating leases – equipment

The favourable variance of R1 million is mainly due to multifunctional equipment leases being extended for the next three years at negotiated lower rates.

#### 10 Other expenses

The main reason for the saving of R3 million is due to the prudent management of expenditure on refreshments, office improvement and cleaning contract services by business units.



## AUDITOR-GENERAL

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## SUPPLEMENTARY INFORMATION CONTINUED

**11 Provision for accumulated leave benefits**

The unfavourable variance of R3 million is due to increase in leave days accrued at a higher salary rate (due to the annual salary increase effected in July 2010, which was an average of 8.5%).

**12 Impairment of receivables**

The negative variance of R5 million in provision for bad debts is mainly due to low debt collection in low capacity municipalities (1% debtors). National Treasury was only able to pay R21 million due to its budget constraints against our request of R83 million. Therefore, this has negatively impacted on the collection of 1% debtors.

**13 Recruitment**

The underspend of R3 million is mainly due to changes in the recruitment process approach from the primary use of agents previously to the primary current practice of on-line recruitment. The vacancies not filled also contributed to the savings. The average staff vacancy rate for the year was 11.2% or equivalent to 312 positions.

**14 Special expense: performance bonus**

The Auditor-General has a performance management system and process that commit the organisation to recognise and reward employees when they have achieved the agreed work performance results. The system combines individual performance with the overall Auditor-General performance to identify employees who are eligible for a bonus. A number of employees have achieved performance results as set out in their yearly performance agreements. The payment of the performance bonus honours the Auditor-General's commitment to recognise and reward those employees who have excelled in their performance. The higher-than-budgeted bonus payment is also due to an increase in headcount and trainee auditors entering the performance bonus scheme for the first time.

**15 Stakeholder relationships / conference cost**

The favourable variance of R26 million is mainly due to the cost of INCOSAI conference being significantly below budget by R24 million (actual: R17 million, budget: R41 million).

**AUDITOR-GENERAL**  
**ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011**

**FINANCIAL STATEMENTS**

**SUPPLEMENTARY INFORMATION CONTINUED**

**16 Staff expenses (normal staff expenses)**

The favourable variance of R19 million is mainly due to a staff retention programme (compensation progression) of R15 million which was not implemented. The balance of R4 million is due to vacancies not filled.

**17 Stationery and printing**

The main reason for the saving of R5 million was the reduced consumption of stationery by business units due to our "GO GREEN" initiatives. Further cost savings were due to the use of multifunctional devices for printing.

**18 Telephone and postage**

The favourable variance of R1.4 million is attributable to stricter control of telephone usage through the telephone monitoring system by business units. Further cost savings were due to the ongoing implementation of a voice-over internet protocol (voice calls from the regions are routed over the office data network structure that reduces the cost of telephone calls).

**19 Interest received**

The favourable variance of R2 million is primarily due to the actual current account balance being higher than budgeted.

# THE FUTURE

## OUR LEGACY

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As an organisation, we have experienced many highlights during our existence and as part of planning for the future and strengthening our rich legacy, our main focus falls on contributing to the alleviation of the country's skills shortage. We actively participate in and support the upliftment of the accounting and auditing profession among previously disadvantaged individuals. This includes our trainee auditor scheme, where we train and capacitate young and emerging auditing and accounting professionals. We also focus on capacitating and developing high-school learners from various parts of the country in the field of accounting and auditing.



2011

# GLOSSARY OF TERMS

<b>A</b>					
AC	Audit Committee	CFAS	Committee for Auditing Standards	<b>G</b>	
AFROSAI	African Organisation of Supreme Audit Institutions	CFO	Chief Financial Officer	GCIS	Government Communication and Information System
AG	Auditor-General	CGE	Commission on Gender Equality	GP	Gross margin
AGSA	Auditor-General of South Africa	CISA	Certified Information Systems Auditor	GRAP	Generally Recognised Accounting Practice
ANC	African National Congress	CMM	Capability Maturity Model		
APAC	Association of Public Accounts Committees	CoGTA	Department of Cooperative Governance and Traditional Affairs	<b>H</b>	
ASB	Accounting Standards Board	COPE	Congress of the People	<b>I</b>	
<b>B</b>		CSI	Corporate social investment	IRBA	Independent Regulatory Board for Auditors
BBBEE	Broad-Based Black Economic Empowerment	CTA	Certificate in the Theory of Accounting	ICT	Information and Communications Technology
BCTA	Bridging Certificate in the Theory of Accounting	<b>D</b>		IFP	Inkatha Freedom Party
BU	Business Unit	DA	Democratic Alliance	INCOSAI	International Congress of Supreme Audit Institutions
<b>C</b>		DAG	Deputy Auditor-General	INTOSAI	International Organisation of Supreme Audit Institutions
CA	Chartered Accountant	Dip Acc	Diploma in Accounting	ISA	International Standards on Auditing
CCMA	Commission for Conciliation, Mediation and Arbitration	DMS	Deloitte management secondment	ISACA	Information Systems Audit and Control Association
		<b>E</b>			
		EE	Employment equity		
		ERP	Enterprise Resource Planning		
		Exco	Executive Committee		
		<b>F</b>			

## GLOSSARY OF TERMS

ISSAIs	International Standards of Supreme Audit Institutions	PAC	Public Accounts Committee	SCOPA	Standing Committee on Public Accounts
ISQC 1	International Standard on Quality Control	PCF	Premiers Coordinating Forum	SETA	Sector Education and Training Authority
<b>J</b>		PFMA	Public Finance Management Act	SMW	Senior Management Workshop
<b>K</b>		<b>Q</b>		<b>T</b>	
KZN	KwaZulu-Natal	QC	Quality Control	TA	Trainee auditors
<b>L</b>		QCAC	Quality Control Assessment Committee	<b>U</b>	
LSG	Language sub-group	<b>R</b>		UNBOA	United Nations Board of Auditors
<b>M</b>		Remco	Remuneration Committee	UN	United Nations
MFMA	Municipal Finance Management Act	RGA	Registered Government Auditor	<b>V</b>	
MPAC	Municipal Public Accounts Committee	<b>S</b>		VA/OA	Vision alignment and organisational achievement
<b>N</b>		SABC	South African Broadcasting Corporation	<b>W</b>	
NCOP	National Council of Provinces	SAHRC	South African Human Rights Commission	<b>X</b>	
NT	National Treasury	SAICA	South African Institute of Chartered Accountants	XX <sup>th</sup>	20 <sup>th</sup>
<b>O</b>		SAIGA	Southern African Institute of Government Auditors	<b>Y</b>	
OAG	Office of the Accountant-General			<b>Z</b>	
<b>P</b>		SAI	Supreme Audit Institution		
PAIA	Promotion of Access to Information Act	SCoAG	Standing Committee on the Auditor-General		
PAA	Public Audit Act				

CONTACT DETAILS

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