

# STRATEGIC GOAL 3: VIABILITY (V3)

## FINANCIAL PERFORMANCE

### Viability objective 1: Maintain financial viability

#### PERFORMANCE MEASURE

Net surplus as % of audit income

#### 2020-21 TARGETS

0,8% – 1%

#### 2020-21 ACTUAL

**-8,6%**

The 2020-21 financial year was very challenging. Given the fundamental business and operational changes in response to the pandemic, the budget had to be revised and our revised forecast had to consider the current realities. In addition, we had to make a lot of calculated sacrifices to reduce our deficit.

The impact is clear in the R293 million deficit at the end of the year, compared to the surplus of R190 million reported in 2019-20. This deficit would have been worse without the additional income of R58 million from our investments, and the National Treasury allocation of R44 million to assist with funding our enhanced mandate.

#### Audit income

The audit income of R3 395 million (R3 784 million in 2019-20) is 2% below our revised forecast. The audit revenue comprises own hours' income of R2 669 million, which is 1% above forecast. Contracted audit firms, together with subsistence and travel income, of R725 million is 11% (R94 million) below forecast. These revenue streams have a zero mark-up and do not have any impact on our margins (gross profit and surplus/deficit).

Direct expenses are 2% below forecast, resulting in a gross profit of R1 054 million that is aligned to the forecast of R1 051 million. Gross profit includes the revenue generated from resource pooling (R146 million) and the real-time audits (R67 million). Both these amounts are included in our own hours' income.

The benefits derived from our revenue enhancement tactics created the opportunity for us to maintain the level of audit work allocated to contracted audit firms at 19%.

## Optimising our operational costs

Efficiently managing overhead expenses and cost containment is still crucial given the state of the country's economy, its impact and the immense pressure put on our revenue due to the pandemic. During 2020-21, controlling costs and rationalising expenditure, which included our choice to not award salary increases or performance bonuses on 1 August 2020, played a major role in containing our costs.

The actual overhead expenses of R1 449 million are 7% above our revised forecast, as staff used additional data to work remotely, but R115 million below the budget.

We managed to derive some savings to narrow our deficit from R318 million in the first quarter of the financial year to R293 million for the year ended 31 March 2021.

## Debtors

The debtors' book closed at an all-time high of R1,1 billion compared to R931 million in 2019-20. The year-on-year increase of the debt book by 17% and revenue reduction of 10% confirms that the 2020-21 financial year was difficult to navigate. A major contributor to this high increase in the debt book is the local government debt, which is R722 million compared to R425 million in 2019-20.

The increase in local government debt was influenced by the legislated date for local government financial statements being moved from August to October 2020 to allow auditees to recover time that was lost during the hard lockdown. To accommodate this, we delayed our audit and reporting until the end of February 2021. Where under normal circumstances the organisation would have had four months (November to March, excluding December) to collect the local government debt, in the 2020-21 financial year we only had two months to collect i.e. February and March 2021.

### DEBTORS BALANCE AS AT 31 MARCH 2021 BY CATEGORY

	2018-19 R million	2019-20 R million	2020-21 R million
National government	69	75	62
Provincial government	140	163	35
Local government	321	425	722
Statutory debtors	42	71	57
Other debtors	172	197	209
<b>Total debt</b>	<b>744</b>	<b>931</b>	<b>1 085</b>

Local government debt is exacerbated by the increase in municipalities that are financially distressed. Most of these municipalities are located in impoverished areas, have low revenue generation capacity and rely on the National Treasury or provincial government to pay salaries and other essential basic needs, with some even defaulting on statutory payments such as medical aid and PAYE.

The debt owed by some SOEs increased from R197 million to R209 million. SOEs subject to business rescue or liquidation are major contributors to the increased debt as settling audit fees is not a priority for them.

### Debt collection measures

While auditees are encouraged to settle their debt using normal payment methods, those with long outstanding debt are afforded opportunities to reduce or settle their debt.

As a last resort, and in line with the PAA, litigation is used to collect from auditees that do not make payments. The debt collection interventions have resulted in the following:

- We now collect debt by distressed 1% auditees directly from the National Revenue Fund (NRF). Of the R132 million billed, we received R70 million. This is considered an improvement as, in the past, the collection for these auditees was an average of R45 million. In preparation for the 2021-22 financial year, we requested R133 million from the NRF, of which only R71 million was allocated to the 2021-22 NRF budget approved in February 2021.
- Since we began ring-fencing debt in 2013, we collected R418 million (92%) of the R452 million in ring-fenced debt. We collected R31 million of this amount in 2020-21, which reduced some long-outstanding debt.

#### ACCUMULATED RING-FENCING AGREEMENT COLLECTIONS

	2018-19	2019-20	2020-21
Ring-fencing agreements	114	128	136
Ring-fenced amount	R358 million	R407 million	R452 million
Amount collected	R338 million	R387 million	R418 million

The approach to enforcing debt payments through litigation also contributed positively to recovering long-outstanding debt. We collected R23 million compared to R59 million in the same period last year.

Our legal costs for litigation are contained by using our internal legal team for most of the litigation.

#### ACCUMULATED COLLECTIONS FROM LITIGATION

	2018-19	2019-20	2020-21
No. of auditees	93	104	140
Litigated amount	R436 million	R486 million	R692 million
Amount collected	R404 million	R463 million	R486 million

**Provision for impairment of debtors**

Our provision for impairment of debtors increased from R160 million in 2019-20 to R198 million. The provision represents 18% of all outstanding debt that we may not be able to collect. Contributors to this increase included local government and SOE debt that may not be settled. The provision is concentrated mainly in four provinces (Eastern Cape, Free State, North West and Northern Cape), and includes SOEs that are struggling financially.

**Cash flow**

The 2020-21 year-end cash balance suffered negatively from the effects of the pandemic. We ended the year with a R576 million cash balance, which was lower than the previous year’s balance of R674 million. This cash balance translates to a cash reserve of 1,8 months, which is less than the target of 3,0 months. We closed our books for the 2020-21 financial year under very difficult conditions. The results demonstrate our sustained resilience, commitment and collaborative teamwork.

During the year, we lost revenue and surplus due to legislated delays in starting audits. The reporting deadlines for national, provincial and local government had to be adjusted to allow the auditees to complete their work before our audit process could begin. In addition, we heeded a call by the president for real-time audits covering covid-19

transactions. In the process, our revenue lines declined because of unbilled hours, especially during the local government audits, and lower collections from auditees, a situation that compromised our cash margin of safety.

Despite these challenges, we continue to take pride in the talent, work ethic, knowledge, competencies, skills and professionalism of our staff. The strong legislative framework and funding model ensures that we remain a viable and sustainable business. We implemented our mandate economically, efficiently and effectively, focusing on providing value-for-money audits to the public sector.

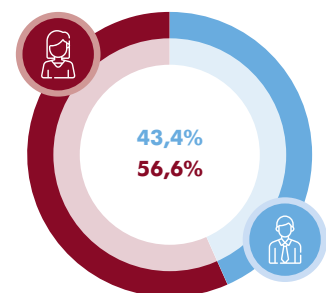
**PEOPLE VIABILITY**

**AGSA workforce**

On 31 March 2021, we had 3 703 staff (3 667 in 2019-20), including trainee auditors and short-term contract employees. This was an increase of 36 (0,98%) employees from last year. We continued our moratorium on hiring except in cases where specialist skills were required to fulfil our mandate. Most of these positions were fixed-term contracts to manage our long-term remuneration obligation under uncertain economic conditions. During the performance year, 88,8% of positions in the organisation were filled, which was 1,2% below our targeted rate of 90%.

**AGSA WORKFORCE PROFILE**

	2018-19	2019-20	2020-21
<b>Occupancy rate</b>	93,7%	93,9%	88,8%
<b>Number of positions</b>	3 796	3 904	4 171
<b>Number of employees</b>	3 556	3 667	3 703
<b>Vacancies</b>	240	237	468



Against an economically active population (EAP) target of 44,8%, 56,6% of our workforce are women, which is an increase from 55,4% in 2019-20. Males make up 43,4% of our workforce; a decrease from 44,6% and against the EAP target of 55,2%.

Our diverse and inclusive workforce reflects the demographics of South Africa. The race profile shows that the African group has the highest overall representation at 78,5%, against an EAP target of 77,9%.

