



## Integrated Annual Report Twenty 11–12

Leaving a legacy, 100 years on



AUDITOR-GENERAL  
SOUTH AFRICA

Auditing to build public confidence





# LETTER TO THE Speaker

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

August 2012

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 2012.

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.

For the first time the report also includes a sustainability performance review in accordance with the recommendations on integrated reporting by the King III Report on Governance for South Africa, as well as an independent assurance report on this information.

I respectfully draw your attention to section 41(5) of the Public Audit Act of 2004, requiring submission within six

months of the end of the financial year, and therefore request that this report be tabled in Parliament by 30 September 2012. 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**



# 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

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

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

## OUR VALUES

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



Launched a number of **legacy projects** such as the scholarship fund and the AGSA museum

Continued to **play a leading role** in INTOSAI Working Group on the Value and Benefits of SAIs



12 May 2011 marked **100 years** of the existence of the **AGSA**

Continued to issue both our **PFMA** and **MFMA** audit reports within legislated deadlines



AG continued to serve as the **chairperson** of the INTOSAI governing body

Occupational **health** and **safety** programme was launched

Debt collection from municipalities **continued** to deteriorate



We hosted the 2nd records and document management seminar with **650 delegates** from the public sector





# Highlights

Performed **above industry norm** in staff engagement, leadership and cultural activities



**Intensified** our leadership visibility through roadshows and door-to-door visits



Exceeded creditors days payment target to the **benefit** of our suppliers



Sustained good financial performance owing to our effective business model



AGSA was certified as a **level 3 contributor** (B-BBEE Act No. 53 of 2003)

We now have **360 chartered accountants** and **325 registered government auditors** on board



AUDITOR - GENERAL  
SOUTH AFRICA

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# Leaving a legacy, 100 years on



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The Auditor-General of South Africa (AGSA) is a chapter 9 institution that has a mandate to strengthen constitutional democracy in South Africa



# Section 1

REPORT OF THE AUDITOR-GENERAL  
REVIEW OF THE DEPUTY AUDITOR-GENERAL



The AGSA plays a critical role in providing assurance to stakeholders regarding the use of funds and assets by public entities in South Africa and in enhancing the level of such use



# REPORT OF THE Auditor-General

The leadership and staff of the Auditor-General of South Africa (AGSA) continue to be inspired by the incremental gains towards clean audits which are informed largely by the implementation of the visibility programme.

It is this programme that provides a platform for us to gather clear insights into root causes of the enablers and obstacles towards clean audits, thus making it possible for us to communicate the audit outcomes and root causes in a simple, clear and relevant manner in our audit reports. Such engagement and reporting present an excellent opportunity to those charged with governance to act responsively to known issues that will improve accountability, transparency and governance in all institutions of the South African government. Financial management, service delivery reporting and compliance with laws and regulations are the specific areas of audit coverage on which we place

greater emphasis in our engagement and reporting. Closer scrutiny of these areas revealed a need for government to strengthen the internal controls over and management of procurement, service delivery, human resources, information technology and accuracy of information in all government institutions. Details of these insights are covered extensively in the general reports that are tabled in the legislatures and are also accessible on the AGSA website.

The AGSA is among the public institutions in South Africa that are proud of consistently receiving clean audits from its independent auditors. This is a clear demonstration that the



### The AGSA is among the public institutions in South Africa that are proud of consistently receiving clean audits from its independent auditors

clean audit expectations we have of our auditees are possible if the basic internal controls are implemented and monitored with diligence by the leadership and if a professional workforce that observes the standards of accountability is in place. We are therefore proud to demonstrate that we indeed lead by example in practising what we preach to our auditees.

We invest generously in leadership development and professional development of all our staff. This is done in the full knowledge that this resource generates credible audit outcomes that provide independent insights to government and citizens on the state of accountability, transparency and good governance. This is the team who collectively carries the AGSA mission of fulfilling the constitutional mandate of strengthening the country's democracy and thus building the confidence of the South African public.

Our transformation and skills development pipeline is at the top of our agenda. This includes our investment in

rural schools which we adopt in the various provinces as the foundation of our skills pipeline; the bursary programme for students in tertiary institutions; the University of Fort Hare subvention fund to sustain the postgraduate accounting lecturing capacity; and the traineeship programme that grooms future professionals. These are people destined for absorption into the leadership ranks of our organisation and government institutions on completion of their traineeship at the AGSA. The work allocated to private audit firms is also performed with a clear purpose of expanding the avenues of training for accountants and auditors in the country. We are pleased that this investment not only contributes to sustainable skills development but also has a strong link to the realisation of the B-BBEE vision of the country.

We are satisfied with the AGSA business model which to a large extent gives rise to sustained good financial performance. The remaining challenge relating to the cost of audits and

Financial management, service delivery reporting and compliance with laws and regulations are the specific areas of audit coverage on which we place greater emphasis in our engagement and reporting

Our active participation in the activities of the International Organisation of Supreme Audit Institutions (INTOSAI) offers us immense opportunities to learn from the multiple good practices of our peers on the international front

debt collection from rural municipalities, which continues to deteriorate in some of the regions, is being given the right level of attention.

Our active participation in the activities of the International Organisation of Supreme Audit Institutions (INTOSAI) offers us immense opportunities to learn from the multiple good practices of our peers on the international front. Through this platform we also play a significant role in sharing a number of our own best practices with our peers throughout the world. We are particularly conscious of the recent development on the world stage where the United Nations (UN), through a lengthy process of collaboration with INTOSAI, adopted a profound resolution in December 2011 in support of the independence of Supreme Audit Institutions worldwide. We are proud of the fact that this resolution creates a platform for constructive dialogue between ourselves and those charged with governance in reflecting on our adherence to this noble development which is aimed at strengthening our democracy through independent auditing by institutions of substance, as envisaged in chapter 9 of our Constitution.

Given the significance of this UN resolution for audit independence, I have taken the liberty to quote an extract thereof in my report and on the AGSA website, thus facilitating extended access and awareness thereof among a broader audience ([page 13](#)).

I wish to express a word of sincere appreciation to the Deputy Auditor-General (DAG) for the sterling leadership he continues to provide to the AGSA, as demonstrated comprehensively in this annual report. The guidance we continue to receive from our parliamentary oversight body, the Standing Committee on the Auditor-General (SCoAG), and other advisory bodies such as the Audit Committee and Remuneration Committee, is worthy of specific applause for taking the AGSA to sustainable heights. I also wish to elevate the responsiveness of the leadership and staff in the office, and the cooperation we continue to enjoy from those charged with governance in the public service, both in the executive and oversight arms. The media and professional bodies with whom we have strengthened our relationship can also be added to the list of stakeholders that made it possible for us within the AGSA to realise our constitutional mandate of auditing and reporting.

This integrated annual report has accordingly for the first time been restructured in a manner that enhances and refines our story of institutional sustainability, as recommended by the King III Code. I enjoyed reflecting on our journey of the 2011-12 performance period and what it holds for South Africans going forward. I sincerely hope that you will have a similar experience in reading it.



# Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening Supreme Audit Institutions

### Text of the UN Resolution A/66/209 adopted by the General Assembly

*The General Assembly,*

*Recalling Economic and Social Council Resolution 2011/2 of 26 April 2011,*

*Recalling also its Resolutions 59/55 of 2 December 2004 and 60/34 of 30 November 2005 and its previous Resolutions on public administration and development,*

*Recalling further the United Nations Millennium Declaration,*

*Emphasizing the need to improve the efficiency, accountability, effectiveness and transparency of public administration,*

*Emphasizing also that efficient, accountable, effective and transparent public administration has a key role to play in the implementation of the internationally agreed development goals, including the Millennium Development Goals,*

*Stressing the need for capacity-building as a tool to promote development and welcoming the cooperation of the International Organization of Supreme Audit Institutions with the United Nations in this regard,*

1. *Recognizes that Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence;*
2. *Also recognizes the important role of Supreme Audit Institutions in promoting the efficiency, accountability, effectiveness and transparency of public administration, which is conducive to the achievement of national development objectives and priorities as well as the internationally agreed development goals, including the Millennium Development Goals;*
3. *Takes note with appreciation of the work of the International Organization of Supreme Audit Institutions in promoting greater efficiency, accountability, effectiveness, transparency and efficient and effective*

*receipt and use of public resources for the benefit of citizens;*

4. *Also takes note with appreciation of the Lima Declaration of Guidelines on Auditing Precepts of 1977 and the Mexico Declaration on Supreme Audit Institutions Independence of 2007, and encourages Member States to apply, in a manner consistent with their national institutional structures, the principles set out in those Declarations;*
5. *Encourages Member States and relevant United Nations institutions to continue and to intensify their cooperation, including in capacity-building, with the International Organization of Supreme Audit Institutions in order to promote good governance by ensuring efficiency, accountability, effectiveness and transparency through strengthened Supreme Audit Institutions.*

91st plenary meeting  
22 December 2011



# REVIEW OF THE Deputy Auditor-General

The Auditor-General of South Africa (AGSA) is a chapter 9 institution that has a mandate to strengthen constitutional democracy in South Africa. The AGSA is independent and accountable to the National Assembly. It is expected to exercise its powers and perform its functions without fear, favour or prejudice, and must report on its activities and the performance of its functions to the Assembly once a year.

The Deputy Auditor-General, Mr Thembekile Kimi 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). He is ultimately responsible for the overall performance of the organisation and directly accountable to the Auditor-General.

The use of and accounting for public funds and assets is a matter that is coming under increasing scrutiny not only from local stakeholders, but also from the international community. The AGSA plays a critical role in providing assurance to stakeholders regarding the use of funds and assets by public entities in South Africa and in enhancing the level of such use.

To fulfil its constitutional role, the AGSA has a strategy based on five pillars or strategic goals:

- **Goal 1:** Simplicity, clarity and relevance of messages in all communication with our internal and external stakeholders
- **Goal 2:** Visibility of our leadership to all internal and external stakeholders
- **Goal 3:** Strengthening our human resources to achieve a skilled, high-performing and diverse workforce
- **Goal 4:** Leading by example in all our internal processes
- **Goal 5:** Funding our operations in an economical, efficient and effective manner



### We exceeded the targets for our leadership, culture and staff engagement indices

Performance reported in this report is measured against the objectives and targets set in the *Strategic plan and budget 2011 - 2014*, which are linked directly to the above five strategic goals. Table 1 on [page 19](#) reflects a summary of actual performance against predetermined targets.

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

Communicating clear, actionable messages to government and the public at large on the outcome of our audits is critical to achieving our mission to enable oversight, accountability and governance in the public sector.

In the year under review, we continued to ensure simplicity, clarity and relevance of our audit messages, as well as our annual report and strategic plan. In order to achieve this, we implemented the *House style of the AGSA* on how to write documents that are simple, clear and relevant.

We strengthened our reporting on root causes and

recommendations in all our audit reports to create a better understanding of the audit outcomes, emerging risks and actions that should be taken. We continued to report on results against predetermined objectives of auditees, thereby enhancing awareness of the need to focus on service delivery. Furthermore, we made significant progress in reporting on compliance with laws and regulations by focusing on specific areas that affect governance and financial and performance management.

In addition to the regularity audits, our performance audits provide for strong messages on the economical, efficient and effective use of resources, as these are the issues that remain most relevant to citizens. The performance audit report on infrastructure at provincial departments of Health and Education was finalised and tabled in the past year. The performance audit of the oversight and governance systems of the Department of Public Enterprises at their state-owned entities was completed. A performance audit of the use of consultants by government departments is in its final stages and the report is expected to be tabled in 2012.

We have developed an audit checklist that incorporates elements of the National Archives and Records Services of South Africa Act and the International Public Sector Accounting Standards

For the second year we hosted a records and document management seminar that was attended by more than 650 delegates from all spheres of government. For the first time in the history of auditing in South Africa, we have developed an audit checklist that incorporates elements of the National Archives and Records Services of South Africa Act and the International Public Sector Accounting Standards, which will be included in the AGSA's quarterly review of key controls with auditees in the 2013 audit cycle.

### Visibility of the AGSA's leadership

We increased our high-quality, value-adding stakeholder interactions with all the relevant stakeholders in the governance and accountability structures of the public sector.

In respect of our internal stakeholders, vision achievement and organisational alignment workshops have been institutionalised. In addition, we initiated various interactions with all business units (BUs) in order to enhance and enrich the organisation's alignment.

Each quarter, we interact with our institutional stakeholders, who include executive authority and oversight structures in all three spheres of government. Interaction with executive authorities commenced with us presenting the PFMA and MFMA audit outcomes to the National Cabinet. Following up on their commitment made in the previous year, we conducted one-hour discussions with the executive authorities every 90 days, focusing on key control issues. During these meetings, firm commitments were obtained from the executives to address poor audit outcomes and ensure corrective actions were taken.

We had a number of strategic sessions with the Association of Public Accounts Committees (APAC), and also collaborated with APAC in capacity building for its members. The number of members trained increased to 270 (2010-11: 187). We held frequent media workshops to explain the auditing process and terminology, thereby reducing the risk of incorrect reporting.

Having completed his programme of door-to-door visits to seven provinces in prior years, the AG personally visited all 61 municipalities in KwaZulu-Natal during the year under review.

Our stakeholder interactions also included the National Treasury, Accounting Standards Board, Independent Regulatory Board for Auditors, Presidency, Department of Public Service and Administration, Department of Cooperative Governance, South African Institute of Chartered Accountants, Southern African Institute of Government Auditors, Information Systems Audit and Control Association, and our contracted private firms.

We have an active international engagement programme, including participation in the structures of the International Organisation of Supreme Audit Institutions (INTOSAI), where the AG has been the chairman of the Governing Board since 2010. We also participate in other international platforms, host international study tours and provide inputs to regional and international capacity building initiatives.

### Strengthening human resources

The AGSA's multifaceted strategy to build a motivated, high-performing and diverse workforce encompasses improvements to the trainee auditor scheme, a strong focus on leadership development, succession planning and performance management. It also entails innovative approaches towards sourcing, developing and retaining talent, and creating prospects for the long-term growth of our people.

Real time performance evaluation is becoming an important method of performance management in the organisation. The e-Performance Management tool that was implemented at executive level continues to be rolled out to include all levels of the organisation. In order to enhance talent management in the organisation a Talent Exco was established. We invested R58,8 million in study support (2010-11: R49,6 million). Our leadership and management development training programme has now been attended by more than half of all managers, with 331 remaining to be trained. Our trainee auditor scheme (TAS) remains one of our focus areas for the development of professionals. During the year under review 884 of our employees were accommodated under the TAS. The low pass rate of our TAs (11,76%) is cause for concern and focused efforts such as extensive study support and coaching and mentoring have been made to address this problem.

Through concerted and managed efforts in 2011-12 to develop our human resources, we:

- exceeded the targets for our leadership, culture and staff engagement indices

- sponsored 40 students at a total cost of R1,6 million through the Thuthuka Bursary Fund
- supported a total of 119 bursary holders
- achieved an occupancy level of 89% thereby exceeding our target of 80%
- achieved a 100% pass rate by our employees of the SAIGA board 1 examination
- assisted 778 employees under our employee assistance programme
- trained 179 managers in leadership and management development programmes
- saw 259 trainee auditors successfully completing their practical training.

### Leading by example

We promised to continually improve the quality and timeliness of all our reports, adhere to standards of excellence for clean administration and maximise our contribution to transformation with emphasis on auditing methodology, quality control, risk management, the transformation agenda and B-BBEE plan.

The AGSA is one of only a few SAIs in the world that has fully implemented the clarified International Standards on Auditing (ISAs) in their regularity audits.

The focus in 2011-12 was to further improve the audit outcomes and key drivers facility of the audit stakeholder management information system (AS: MIS), which now enables the AS: MIS to produce all the information and analyses required for the

## Saw 259 trainee auditors successfully completing their practical training

[general report](#). A module was also developed and piloted to capture and track our interactions with our stakeholders and the commitments made by them. This module will be implemented in 2012-13.

The deterioration of audit quality results (70% [2010-11: 77%] against a target of 86%) is cause for concern. Corrective and preventative actions to improve the audit quality results to the desired level of excellence were implemented.

We have an active corporate social investment (CSI) programme, which incorporates our rural schools programme.

In the year under review we started an active programme to align our organisation and its processes with the King III report on corporate governance.

The highlight of the reporting period was the hosting of our Centenary celebrations which included a variety of events, both internally and externally orientated.

As a result of our strategy to lead by example, we:

- exceeded our target (90%) for complying with statutory and legislative deadlines in the completion of PFMA (96%) and MFMA (94%) cycle audit reports

- achieved 100% compliance with statutory deadlines for the completion of our performance reports, as well as our corporate reports
- achieved a B-BBEE level 3 contributor status
- allocated R369 million (or 63%) for outsourced work by small and medium companies
- increased our employment of members of designated groups from 86% to 92% over the past five years
- saw our CSI spend increase to R2 million (2010-11: R0,6 million)
- visited 167 schools adopted under our rural schools programme.

### Funding

We are committed to running our organisation economically, efficiently and effectively. In this way, we are able to contain our costs and therefore charge our auditees fees that are affordable. To this end we implemented our funding model in 2009 and have successfully applied the model since then.

Our percentage net surplus (4,79%) exceeded our target of 3,76%, mainly due to delays in the commencement of certain projects and higher interest income. Our actual income was R2,074 billion against a budget of R2,088 billion. Our direct and indirect overheads were in line with budget.

We strengthened our reporting on root causes and recommendations in all our audit reports to create a better understanding of the audit outcomes, emerging risks and actions that should be taken

Our biggest concern is the deteriorating situation regarding the total debts of auditees, which increased to R480 million (2010-11: R399 million). While local municipalities made up 30% of our income, they were responsible for 43% of outstanding debt. We have instituted a series of concerted efforts to improve this situation.

As a result of our application of our funding model, we:

- achieved a gross profit of 30% against a budget of 33%
- recorded a surplus of R99,30 million (2010-11: R133,12 million)
- paid our creditors on average within 31 days, thereby exceeding our target of 45 days
- ended the year with a quick ratio of 2.11 (2010-11: 1.94) against a target of 1.48.

### Sustainability performance

For the first time, the AGSA has produced an integrated annual report, in line with the recommendations of King III. In implementing the Global Reporting Initiative's (GRI) guidelines, we confirmed that many aspects of sustainability performance are already embedded in our strategy and processes. We recognise the direct and indirect economic, social and environmental impact of our activities.

In the year under review, we began to address environmental performance and occupational health and safety (OHS) in a structured way. This will be intensified during 2012-13, with the

development of performance targets and monitoring of actual performance.

Aspects to note include the following:

- Several energy efficiency initiatives were launched.
- Several water efficiency initiatives were launched.
- Paper recycling was introduced.
- Several initiatives were undertaken to reduce the need for business travel.
- An OHS gap analysis was conducted at our Head Office, Western Cape Business Unit and Parliamentary offices.
- The development of an OHS policy and strategy has commenced.

It is evident in our performance that we are committed to being a model organisation in all that we do. This is the standard we want to uphold and improve on continuously to ensure we contribute to the improvement of the lives of the citizens of South Africa.

### Appreciation

I would like to thank our staff and leadership teams for their dedication, hard work and professionalism. This has enabled the AGSA once again to show exemplary performance in the year under review. I would also like to thank the members of our oversight structures for their insights, support and commitment during this year.



# Section 1

## Review of the Deputy Auditor-General

Table 1: Summary of actual performance against predetermined targets

AGSA's commitment	Performance measure	Target 2011-12	Actual performance	Comments
Simplicity of our reports	Percentage 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	Culture index	Industry norm: 3.2	3.71	Exceeded
	Leadership index	Industry norm: 3.2	3.76	Exceeded
	Staff engagement index	Industry norm: 3.2	4.01	Exceeded
Funding	% net surplus	3,76%	4,79%	Exceeded
	% debt collected within 30 days (Nat. A to F, Gauteng & WC)	75-80%	67%	Partially achieved
	% debt collected within 30 days (Limpopo, KZN)	65-70%	45%	Partially achieved
	% debt collected within 30 days (NW, FS, NC, EC & MP)	55-60%	37%	Partially achieved
	Creditors payment terms	45 days	31 days	Exceeded
Lead by example	Achieve clean audit report on the AGSA	Clean audit report	Clean audit report	Achieved
	Achievement of identified B-BBEE	Level 4 rating	Level 3	Exceeded
	% adherence to quality standards	Regularity audits: 86%	70%	Partially achieved
		Non-audit: 3 rating	100%	Achieved
	% compliance with statutory and legislative deadlines	PFMA reports: 90%	94%	Exceeded
		MFMA reports: 90%	96%	Exceeded
		Annual report: 100%	100%	Achieved
		Strategic plan: 100%	100%	Achieved
		Investigation reports: 95%	66%	Partially achieved
	Performance audit reports: 95%	100%	Exceeded	

We conducted one-hour discussions with the executive authorities every 90 days



## Section 2

REPORT PROFILE  
ORGANISATIONAL OVERVIEW AND BUSINESS MODEL  
OPERATING CONTEXT

## Section 2



'In contributing to a culture of public sector accountability, we are mindful of our broad objectives as the country's SAI, namely to make a difference to the lives of citizens and to lead by example through being a model organisation.'

- Mr Thembekile Makwetu,  
DAG

First integrated report  
uses vast experience that  
the **AGSA** has built over the  
past years



## REPORT PROFILE

This first integrated report uses the vast reporting experience that the AGSA has built over the past years while reporting consistently on both its operational and financial performance. We have now further integrated elements of social and environmental sustainability to provide a unified view on the performance of the organisation. The report reflects on the commitments made to Parliament at the beginning of the reporting period and showcases the effort and the challenges in achieving those commitments.

# Section 2

## Report profile

### Reporting period

This report covers the period from 1 April 2011 to 31 March 2012.

### Process for defining content of this report

The content of this report is defined by a combination of the following:

- Legal requirements as specified in the Public Audit Act, Act 25 of 2004.
- The five strategic commitments which form the pillars of the AGSA's strategic plan (section 3).
- A start was made to identify material sustainability issues, in addition to those already covered in the five commitments, focusing on the risks and opportunities in the operating context of the AGSA (page 30). This was done by means of structured meetings and workshops with relevant senior management.
- The sustainability information reported in section 4 covers information that was deemed most relevant to the AGSA's operations.

A more integrated process to define material sustainability issues still needs to be implemented.

### Reporting boundary

The current report reflects the performance, financial, social and environmental information for the entire organisation of the AGSA, including its head office in Pretoria, its provincial offices in Western Cape, Gauteng, Free State, Limpopo, Eastern Cape,

In accordance with the GRI guidelines this report is self-declared as a Level C+ report

Mpumalanga, KwaZulu-Natal, North West and Northern Cape, as well as our United Nations office in New York. No specific limitations were imposed on the scope and boundary of this report.

### Reporting policies, principles and procedures

The integrated reporting approach, in line with King III recommendations, helps ensure that all business units remain focused on the imperative of long-term sustainable value creation for our stakeholders. The Global Reporting Initiative's (GRI) Guidelines for Sustainability Reporting (version 3.1) have been followed in the compilation of this report. The financial information in the report is furthermore prepared in accordance with International Financial Reporting Standards (IFRS) and the Public Audit Act, 2004 (Act No. 25 of 2004) and is based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

### Application level

In accordance with the GRI guidelines this report is self-declared as a Level C+ report.

### Policy and practice relating to assurance on the report

The AGSA's key information relating to its sustainability

performance was assured by an independent external auditor that also conducted the audit of the financial statements and the organisation's performance information. The assurance was done in accordance with the International Standard on Assurance Engagements 3000 (Revised), issued by the International Auditing and Assurance Standards Board (ISAE 3000). The assurance statement can be found on page 118 of this report.

### Significant restatements from prior reports

This is the AGSA's first integrated report in this format and consequently there are no restatements from previous reports.

### Reference to other major reports of the organisation

In addition to the *Annual report*, the AGSA's *Strategic plan and budget* forms part of our main accountability instruments. It is tabled annually in the National Assembly and describes the short- to medium-term organisational goals and objectives as well as the associated activities and interventions planned to ensure effective and efficient delivery of the AGSA's organisational mandate. This report reflects performance against targets set in the strategic plan.



The AGSA is subject only to  
the Constitution and the law



## ORGANISATIONAL OVERVIEW AND BUSINESS MODEL

### **Constitutional and legislative mandate**

Chapter 9 of the Constitution of the Republic of South Africa, 1996 establishes the institution of the Auditor-General of South Africa (AGSA) as one of the state institutions supporting constitutional democracy. The Constitution recognises the importance of the organisation and guarantees its independence by stipulating that the AGSA is subject only to the Constitution and the law. The Constitution furthermore declares that the AGSA must be impartial and exercise its powers and perform its functions without fear, favour or prejudice <sup>1</sup>.

# Section 2

## Organisational overview and business model

The functions of the AGSA are described in section 188 of the Constitution and further regulated by the Public Audit Act, 2004<sup>2</sup> (PAA). Section 4 of the PAA further distinguishes between mandatory (regularity audits) and discretionary (investigations and performance audits) constitutional functions. The AGSA's audit reports must be made public and must be submitted to a relevant legislature and may be provided to any other legislature or organ of state.

### Accountability and reporting

The AGSA is accountable to the National Assembly in terms of section 181(5) of the Constitution read with section 3(d) of the PAA. Section 10(3) of the PAA requires the National Assembly to establish an oversight mechanism in accordance with section 55(2)(b)(ii) of the Constitution. The National Assembly has given effect to this requirement by establishing the Standing Committee on the Auditor-General (SCoAG).

Subsections 10(1) and (2) of the PAA require that the Auditor-General annually submits to the National Assembly

the following:

- a) A report on his or her activities and the performance of his or her functions
- b) A report on his or her overall control of the administration
- c) The annual report, financial statements and audit report on those statements

### The market, products and services

Each year, the AGSA produces audit reports on government departments, public entities, municipalities and other public institutions. In addition to these entity-specific reports, the AGSA analyses the audit outcomes in general reports that cover the cycles of both the Public Finance Management Act, 1999<sup>3</sup> (PFMA) and the Municipal Finance Management Act, 2003<sup>4</sup> (MFMA). The AGSA furthermore produces reports on discretionary audits, such as performance audits and other special audits. These reports are tabled in the bodies which have a direct interest in the particular audit, namely Parliament, the provincial legislatures or municipal councils. These bodies use the reports in accordance with their own rules and procedures for oversight.

The AGSA's audit reports must be made public and must be submitted to a relevant legislature and may be provided to any other legislature or organ of state

<sup>1</sup> Section 181(2) of the Constitution of the Republic of South Africa, 1996.

<sup>2</sup> Public Audit Act, 2004 (Act No. 25 of 2004).

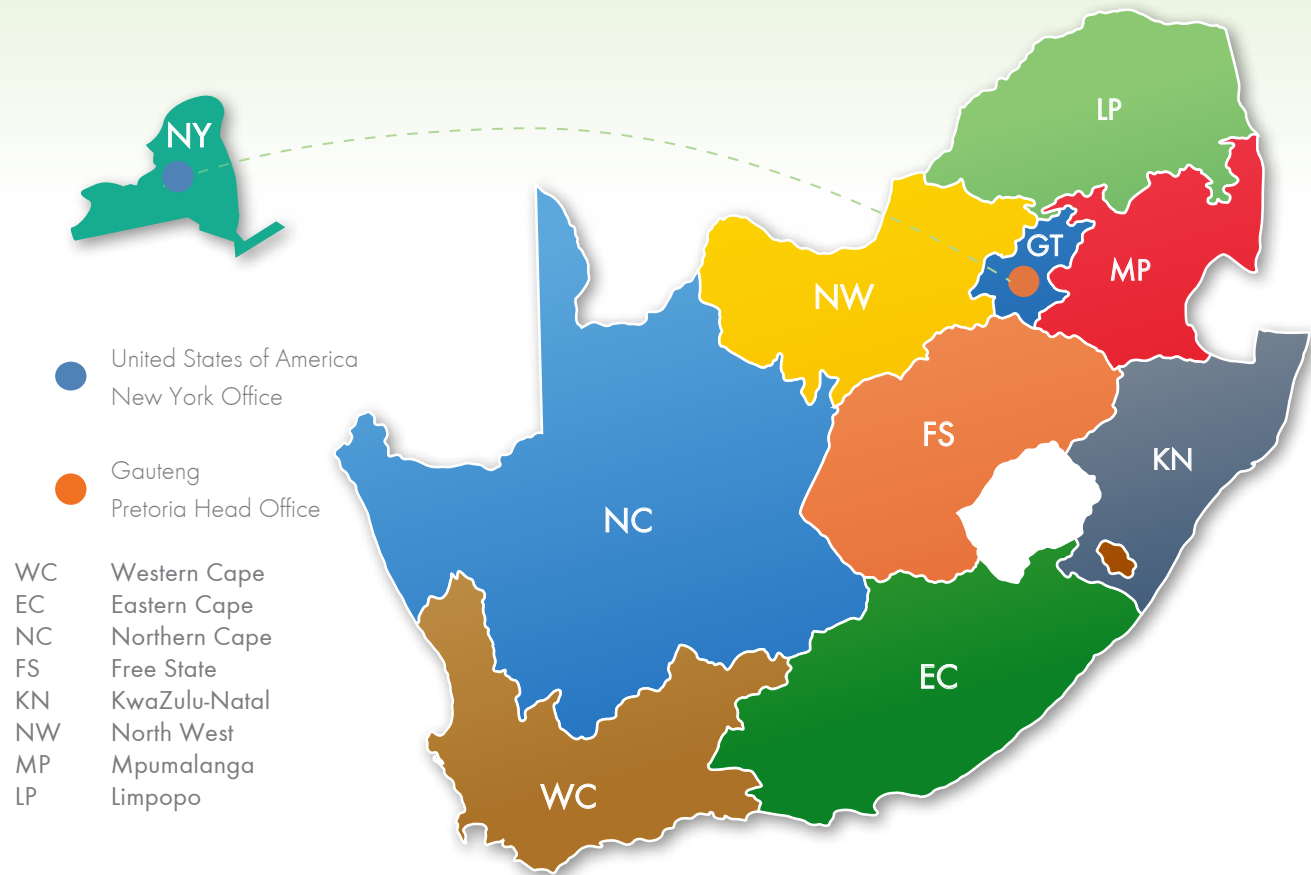
<sup>3</sup> Public Finance Management Act, 1999 (Act No. 1 of 1999).

<sup>4</sup> Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

### Geographical operations and organisational structure

The AGSA is represented by offices in all nine provinces of South Africa and has a small office in New York at the United Nations for its international work. Operations in this office will be terminated by September 2012.

Figure 1: Geographical representation of the AGSA

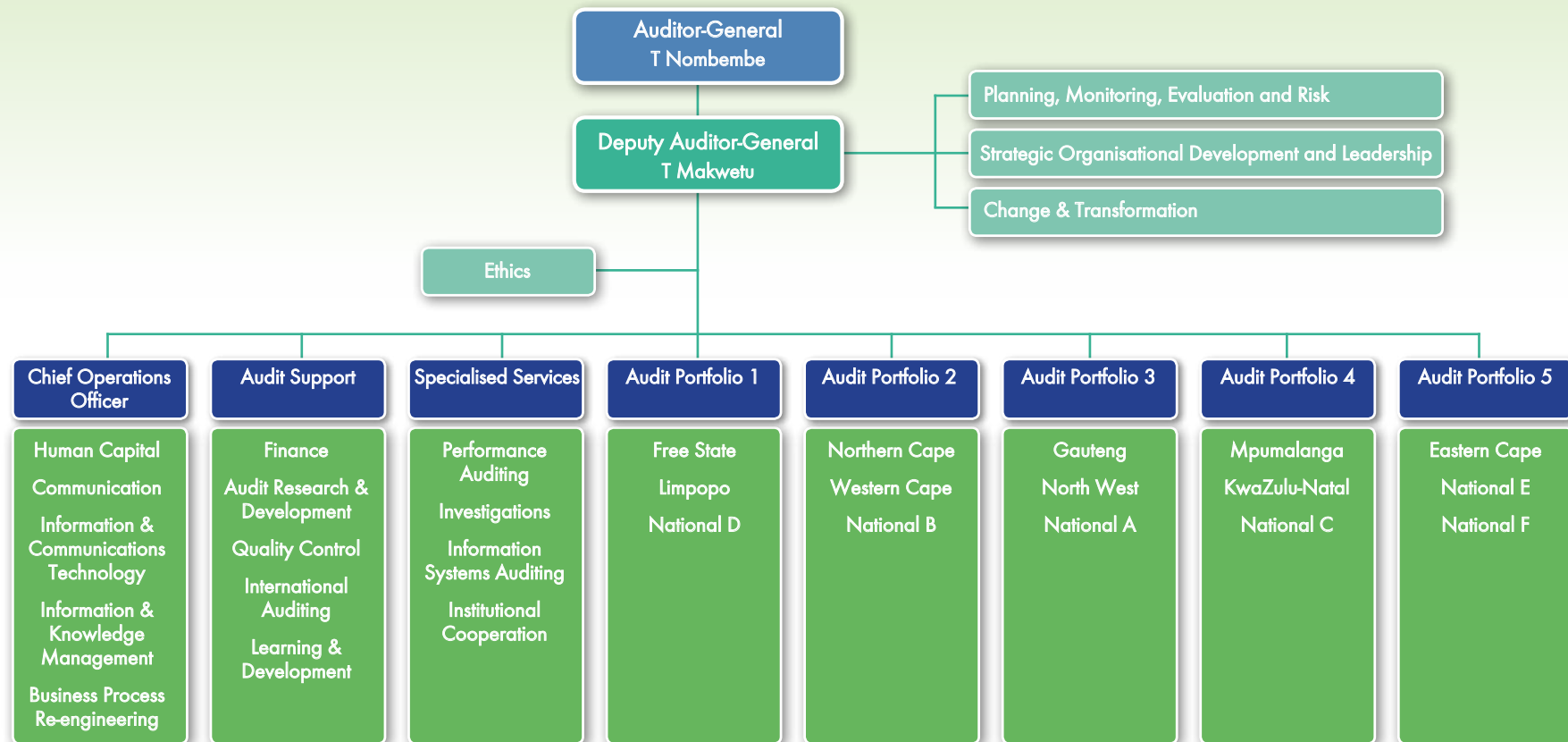


# Section 2

## Organisational overview and business model

There were no significant changes to the organisation during the reporting period. Below is the organisational structure of the AGSA during the reporting period.

Figure 2: Organisational structure



### Business model

The AGSA is a self-funding organisation that bills its auditees (clients) based on time worked at published tariffs. This business model allows us to pay for our indirect expenditure and achieve a minimal surplus of 4% to finance our human capital resources and capital expenditure.

Leadership team:





# Section 2

## Organisational overview and business model

### Organisational leadership

#### Leadership team:

*Top row: (from left to right)*

Rushdi Solomons, Bryant Madliwa, Kagiso Kgosiemang,  
Kevish Lachman, Prakash Narismulu, Herman van Zyl,  
Martha Nkau, Liaquath Ally.

*Second row from top: (from left to right)*

Vusi Msibi, Odwa Duda, Vanuja Naidoo,  
Sibongile Lubambo, Mabatho Sedikela,  
Thandeka Zondi, Les Africa, Eshana Manichand,  
Corné Myburgh, Edward Pelcher.

*Third row from top: (from left to right)*

Tsvetana Mateva, Mangaliso Fweta, Musa Hlongwa,  
Singa Ngqwala, Caroline Mampuru, Wendy Mahuma,  
Fezeka Baliso, Tshimangadzo Mulaudzi.

*Front row: (from left to right)*

Eugene Zungu, Barry Wheeler, Alice Muller,  
Terence Nombembe (AG), Lindelwa Jabavu,  
Thembekile Makwetu (DAG), Jan van Schalkwyk,  
Raj Mahabeer, Paul Serote.

The AGSA has  
a strong focus  
on leadership  
development,  
succession  
planning and  
performance  
management

In line with its goal to lead by example, the AGSA supports the principles of good citizenship



## OPERATING CONTEXT

The AGSA functions in a broader context including the external environment, over which it has little or no control, and its internal environment, over which it has various levels of control. The external environment includes political, economic, social, technological, environmental, legal and other factors. The internal environment includes aspects such as financial/human resources, processes and systems. It is important for the AGSA to take all relevant factors and their impact on the AGSA into consideration in order to function effectively. This section summarises the key issues with which the organisation is faced and which help shape our strategy.

# Section 2

## Operating context

### Political context

Key material issues related to the political context:

#### 1. Understanding the overall governmental goals and objectives for the country

The South African government's goals for the country will determine the priorities for the future auditing of the public sector. The AGSA continuously needs to develop and adapt the necessary skills and capabilities to conduct audits focusing on these goals and objectives.

### Economic context

Key material issues related to the economic context:

#### 2. Understanding the implications of the new public infrastructure drive

The public infrastructure drive will entail significant additional spending by diverse government institutions. Similarly, the AGSA will need to have the skills and capabilities required to audit this new programme.

#### 3. Continued application of the AGSA funding model

In order for the AGSA to maintain its independence, including its financial independence, it is important to ensure strict application of its business model.

#### 4. Improved collection of municipal debts

The increasing debt of local governments may cause cash flow problems for the AGSA and hence requires continuous attention.

#### 5. Effective retention strategies and competitive remuneration packages

Competition for scarce auditing skills may affect availability to

the AGSA of skilled human resources to fulfil the ever-increasing audit responsibilities.

#### 6. Continued focus on fruitless and wasteful expenditure in South Africa

The AGSA as the Supreme Audit Institution (SAI) plays an important role in diagnosing and highlighting these issues in the public sector. We need to focus on a detailed audit of revenue funds to enable us to comment on the fiscal health of each province.

#### 7. Continued implementation of the trainee auditor scheme

The trainee auditor scheme is an important mechanism for recruiting and developing new staff. In addition, the scheme contributes significantly to the development of the skills pools in the auditing profession in South Africa.

### Social context

Key material issues related to the social context:

#### 8. Continued application of B-BBEE initiatives

By meeting the legislated B-BBEE requirements focusing on enterprise development, corporate social investment, employment equity and skills development, the AGSA contributes to the strengthening of our profession.

#### 9. Continued display of good citizenship and support to the auditing profession

In line with its goal to lead by example, the AGSA supports the principles of good citizenship and continues to encourage growth and transformation within the entire auditing profession. Furthermore, the organisation invests in its auditees by providing a

breeding ground for scores of young auditors, who find a place in the public sector and contribute to improved audit outcomes for our auditees.

#### 10. Understanding the social context of our external and internal stakeholders

This will enable us to communicate more efficiently within the national, provincial and local spheres. Our knowledge of the social aspects and cross-cultural communication, as well as levels of education, is vital in big or small gatherings, and in one-on-one meetings. This will equip us to understand our stakeholders and their needs better and respond accordingly.

#### 11. Effective engagements and environmental scanning of both the internal and external environment

The AGSA needs to be aware of the key national challenges, as this affects service delivery priorities among auditees.

### Environmental context

Key material issues related to the environmental context:

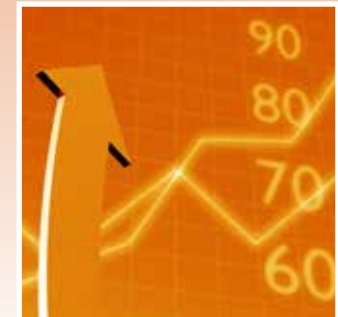
#### 12. Further development of skills for environmental auditing

There is an increasing need to include environmental and other sustainability issues in the scope of audits of public entities due to legislation, public pressure and best practice influence.

#### 13. Reduction of the environmental footprint of the AGSA

Good corporate governance includes reducing the organisation's negative impact on the physical and social environment. As an organisation committed to leading by example, the AGSA is addressing its impact.

In order to achieve our overall objective, we have set five strategic goals that guide all our actions



## Section 3

### PERFORMANCE REVIEW FOR 2011-12



Hon. Themba Godi:  
'As the AGSA marches  
towards its 2nd century  
of existence, its value will  
continue to strengthen  
the foundations of our  
democracy, one of which  
is oversight.'

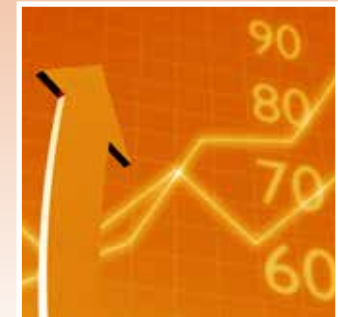
In order to achieve our overall objective, we have set five strategic goals that guide all our actions.

- **Goal 1:** Simplicity, clarity and relevance of messages in all communication with our internal and external stakeholders
- **Goal 2:** Visibility of our leadership to all internal and external stakeholders
- **Goal 3:** Strengthening human resources to achieve a skilled, high-performing and diverse workforce
- **Goal 4:** Leading by example in all our internal processes
- **Goal 5:** Funding our operations in an economical, efficient and effective manner

This chapter reports on our performance relating to these goals.



We focused on promoting  
clean administration  
and steps to improve audit  
outcomes



## SIMPLICITY, CLARITY AND RELEVANCE OF MESSAGES

### **Communicating our messages with clarity and relevance**

Communicating actionable messages to government and the public at large on the outcome of our audits together with the insights we gain in the process, is critical to achieving our mission to enable oversight, accountability and governance in the public sector.

For the year under review, we remained committed to ensuring simplicity, clarity and relevance of our audit messages as promoted by fundamental requirement 4 of the *INTOSAI framework for communicating and promoting the value and benefits of supreme audit institutions*. We also extended this commitment to our corporate reports, including the **annual report** and the strategic plan, with a view to soliciting ownership and accountability within the AGSA. The *House style of the AGSA* on how to write documents that are simple, clear and relevant was implemented to empower citizens by providing objective, relevant, timely, simple and clear information.

Our objective in the past year has been to enhance the quality of our audit messages further by communicating our understanding of the reasons for audit outcomes (root causes), evaluating key internal controls and making recommendations that can be actioned and contribute to clean administration.

The successful achievement of this objective can be attributed to our focused efforts to increase the relevance of

### Implemented the AGSA's house style to promote clear writing

our messages through our annual and performance audits, continuously refine the identification of root causes, interact with leaders in government and oversight structures and improve the manner in which our messages are shared. The specialised skills of performance auditors, investigators and information systems auditors contributed significantly to our success through the integration of their audits into the regularity audits.

We also extended our messages to the public through the media and our own publications. These messages focused on promoting clean administration and the steps that can be taken to improve audit outcomes.

#### Increased relevance of the messages from our annual audits

In accordance with our mandate, we should not only annually audit the financial statements of auditees but also those matters

that are of great relevance to oversight and the public, namely reporting against predetermined objectives (service delivery reports) and compliance with laws and regulations.

Since 2004 we have phased in audits of predetermined objectives and reported on the usefulness and reliability of the annual performance reports of auditees. In the past year we continued to raise awareness of the need for measuring results and enhancing service delivery through our reporting and interactions with stakeholders and advocated an alignment with the 12 focus areas adopted by government<sup>5</sup>. We continue to report on weaknesses in organisational performance management and reporting, and also work with relevant role players in government to address the root causes thereof. The impact of our messages is seen in an increased awareness on the part of auditees of their responsibilities and a continued improvement in the quality of service delivery reporting across all levels of government.

<sup>5</sup> During a Cabinet Lekgotla held in January 2010 Cabinet adopted the following 12 strategic outcomes for South Africa:

- |  |   |   |
|--|---|---|
| <ol style="list-style-type: none"> <li>1. Improved quality of education</li> <li>2. A long and healthy life for all South Africans</li> <li>3. All people in South Africa are and feel safe</li> <li>4. Decent employment through inclusive economic growth</li> <li>5. A skilled and capable workforce to support an inclusive growth plan</li> </ol> | <ol style="list-style-type: none"> <li>6. An efficient, competitive and responsive economic infrastructure network</li> <li>7. Vibrant, equitable and sustainable rural communities with food security for all</li> <li>8. Sustainable human settlements and improved quality of household life</li> <li>9. A responsive, accountable, effective and efficient local government system</li> </ol> | <ol style="list-style-type: none"> <li>10. Environmental assets and natural resources that are well protected and continually enhanced</li> <li>11. Create a better South Africa and contribute to a better and safer Africa and World</li> <li>12. An efficient, effective and development-oriented public service and an empowered, fair and inclusive citizenship</li> </ol> |
|--|---|---|

## Refined our reporting approach to allow for consistency in presenting information

In the past year we have made significant progress in improving the relevance of our messages on compliance with laws and regulations by focusing on specific areas that affect governance and financial and performance management. Our approach has been further refined to allow for consistency in our reporting; thereby ensuring that we can take a strong stance on non-compliance and obtain commitments from role players at all levels to address non-compliance. With regard to our audit of compliance with the legislation on supply chain management, we continue to provide more and increasingly relevant messages on instances of conflict of interest, unfair procurement processes, weak contract management and irregular expenditure. A similar focus on legislation pertaining to human resource management, internal audit, audit committees, expenditure, revenue, assets and grant management, annual reporting, strategic planning, budgeting and financial misconduct is also bearing fruit since actions are being taken to improve compliance.

Improvements in financial audit outcomes over the past five years are encouraging and a testament to the relevance of our messages. In the past year we focused on the sustainability of these improvements by increasing our reporting on the quality of financial statements submitted for audit, the use of consultants and the role of internal audit and audit committees.

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 increase our focus on the areas of majority spending in the government budget, i.e. on the education, health, public works, housing and social services sectors, which enabled us to report meaningfully on the root causes of the often poor audit outcomes in these sectors. We also audited and reported on additional matters that are linked to service delivery by these sectors, for example 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 specifically on the sectors to the different levels of government and oversight, we continue to play a role in improving accountability and service delivery in these areas.

The auditors of public sector entities which the AGSA had opted not to audit (in terms of section 4(3) of the PAA) were also required, by means of a directive, to audit and report in the same manner as the AGSA to ensure that the messages from their audits were consistent and relevant. The audit outcomes of these entities were also included in the general reports, which allowed us to report on administration across the entire public sector.

### **Performance audits send strong messages**

In addition to the annual audits, our performance audits provide for strong messages on the economical, efficient and effective use of resources, as these are the issues that remain of greatest relevance to citizens.

# Section 3

## Performance review

The performance audit report on infrastructure at provincial departments of Health and Education was finalised and tabled in the past year. In addition to identifying major deficiencies in the implementation of the infrastructure projects, the report included an analysis of the root causes and recommendations for urgent corrective action relating to the processes of needs determination, planning, procurement and project management. The constructive manner in which the outcomes of the performance audit were shared and discussed with leadership in the applicable national and provincial departments resulted in commitments by them to take drastic action to address the deficiencies.

The performance audit of the oversight and governance systems of the Department of Public Enterprises at their state-owned entities was completed. Based on the findings communicated in the report, the Department of Public Enterprises undertook to develop talent management, take other actions to improve the availability of human resources, improve communication with state-owned entities and improve their processes relating to information and documentation management.

The material shortcomings identified by the annual audits of the organisational performance management processes and the annual performance reports are of concern. In an effort to determine the transversal root causes of these shortcomings, we commenced in the past year with a performance audit of government's readiness to report on their performance. This audit focuses on how government institutions were assisted

to report on their performance, as well as the systems and processes that they have put in place. It is envisaged that the report will be tabled in 2012-13. A performance audit of the use of consultants by government departments is in its final stages and the report is expected to be tabled in 2012.

### **Improving on the identification of root causes and making of recommendations**

We have included an analysis of the root causes of the key challenges in all our reports, making them the focus of our interaction with stakeholders - not merely to point out the mistakes they had made, but also to influence improvements. The root causes are classified under the three broad areas of leadership, financial and performance management and governance, with key drivers in each of these areas for improved audit outcomes. The key drivers represent the objectives that the auditee's internal control systems should address.

This enables us to focus our assessments on these key drivers and obtain commitments from oversight, the executive, accounting officers/authorities and governance structures, such as the audit committees, to improve and monitor controls. 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. In the past year we communicated the need for accounting officers and the executive to take ownership of key controls, implement

Finalised and tabled  
performance audit report  
on provincial health and  
education infrastructure

In the past year we also implemented training and knowledge-sharing initiatives for improving the audit staff's understanding of government and public sector developments

their own quarterly assessment processes and interact on a regular basis with the audit committee.

We also implemented training and knowledge-sharing initiatives for improving the audit staff's understanding of government and public sector developments to enable them to assess risks appropriately, identify the correct root causes and make recommendations that are actionable and relevant to our auditees.

### **Improving the manner in which messages are shared**

Our messages are sometimes very technical, as they relate to accounting and auditing standards, financial management and laws and regulations. We continue to find ways in which the same message can be conveyed to different stakeholders in a manner that will enable them to understand and act on it.

In the past year we continued our drive to improve our management, audit and general reports by using simple language, summarising key issues, replacing narrative with graphs and tables and improving the design and layout.

We increased our efforts in the past year to supplement the written word with personal interactions. For these interactions

we used visual presentations to convey our messages, which 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.

The design and layout of our annual report and strategic plan have been significantly improved in the past year to make the reports more inviting to the reader. This was confirmed by a content audit commissioned in the past year, which also found the language to be simple and clear. The annual report in particular was found to be visually appealing and easy to navigate. The result of the audit will be used to incorporate areas of improvement identified to ensure enhanced products year on year.

### **Improved integration of the work of 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 annual audits. The auditing standards require of an 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 (ISA) and Investigations units to add value to

Increased integration of the work of specialised audit units into regularity auditing



# Section 3

## Performance review

the annual audit process through the involvement of their specialists.

Performance Auditing also played a major role in enhancing key audit processes, through the incorporation of lessons learnt during its work, specifically in the areas of supply chain management, conflict of interest and the audit of infrastructure grants. Expectations with regard to performance auditing are ever increasing and the first steps have been taken on the journey to develop performance auditors into specialists on all of government's 12 strategic outcomes.

### Scope of information systems auditing growing

To enhance the simplicity and clarity of ISA messages, we intensified integration of ISA with the regularity, performance and investigations auditing in the year under review. A capacity building and skills transfer initiative was implemented, where regularity auditing performed information systems audits at the low-risk and less complex auditees during the MFMA and PFMA audit cycles. This was done with the guidance and supervision of ISA specialists. Dedicated ISA resources were also incorporated into the regularity audit teams in high-risk and highly complex audits (metros) throughout the MFMA audit cycle. These initiatives have enabled the increase in ISA coverage for both the MFMA and PFMA audit cycles.

The data analysis done by ISA specialists has allowed regularity auditors to transversally audit supply chain management and

human resources much more effectively, while the performance and investigations teams have improved our ability to identify potential high-risk areas to ensure that resources have been procured economically and are used efficiently and effectively towards achieving the desired outcomes, and to minimise the impact of potential losses arising from misappropriation, fraud, theft and corruption.

The decentralised ISA presence in the KwaZulu-Natal, Western Cape, Eastern Cape and Gauteng provinces has enabled the organisation to strengthen integration at provincial level and provide immediate and direct support to the regularity auditors in the provinces, as well as responding in good time to the auditees' needs and requirements.

### Investigations: realignment and integration with regularity audit

The AGSA is repositioning its focus on conducting fewer reactive investigations and channelling its investigative resources towards partnering with ISA to proactively identify high-risk areas in the audit environment.

Integration of investigative capacity during regularity audits also allows for broader coverage of institutions and will empower regularity auditing to identify potential high-risk areas of fraud and irregularities, thereby ensuring that those charged with governance and oversight can take timely action. To this end, the AGSA has launched a project to develop and implement a fraud risk assessment programme throughout the audit units. Where appropriate, we deploy specialised investigative skills

Continued to develop performance auditors into specialists in 12 strategic government goals

## Decentralised the Information Systems Auditing unit to KZN, WC, EC and Gauteng provinces for timely response to auditees' requirements

in the units to assist with the identification of high-risk control deficiencies.

### **AGSA's leadership at the United Nations Board of Auditors**

We continued to exert influence in the international arena through our role as a member of the United Nations Board of Auditors (UNBOA) and the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. Our engagement at the UNBOA is in its last phase of the second six-year term which will end in September 2012. The AG attended the 65th Regular Session of the board in July 2011, which saw the finalisation and delivery of seven reports to the General Assembly. The response of the General Assembly to the board's reports was captured in a GA resolution A/RES/66/232 which stated that it:

*Commends the Board of Auditors for the continued high quality of its report and the streamlined format thereof; also commends the Board of Auditors for its identification of common reasons for the lack of full implementation of the recommendations, as well as for good practices in relation to the implementation and follow-up of its reports.*

UNBOA membership now includes the Heads of the SAIs of China (current chair), the United Kingdom of Great Britain and Northern Ireland, and South Africa (until September 2012). In November 2011, the General Assembly unanimously voted for the nomination of the Comptroller and Auditor-General of Tanzania National Audit Office (TNAO) to replace South

Africa on the board. We are working with TNAO to ensure a smooth handover of our activities at the board.

The AG has also continued his participation in the Panel of External Auditors, an association of 10 SAIs which audit the United Nations system organisations and the specialised agencies.

### **AGSA's international 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 have a lasting impact on the financial stewardship and accountability of the United Nations system organisations. Five entities which are under the South African portfolio in the UNBOA have started with the International Public Sector Accounting Standards (IPSAS) since January 2012, and the respective audits of IPSAS-based accounts will occur in 2013. 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 next step will be to assess the assimilation of the principles of IPSAS in the business processes of these entities.

Looking to the future, with support from the South African Department of International Relations and Cooperation, the AGSA aims to identify new audits of international institutions of suitable size and strategic fit. Such audits allow for invaluable international audit exposure to key AGSA staff.

For the second consecutive year the AGSA hosted a successful seminar attended by more than 650 delegates from the public sector

### Records and document management seminar

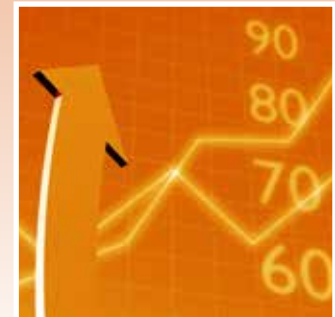
During the previous financial year, we held the first records and document management seminar among chief financial officers and records professionals across all spheres of government and as a result we have seen records management forums supported and encouraged and new ones established nationwide. For the second consecutive year the AGSA hosted a successful seminar attended by more than 650 delegates from the public sector. Various commitments and recommendations aimed at improving records management practices were made by delegates. For the first time in the history of auditing in South Africa, we have developed an audit checklist that incorporates elements of the National Archives and Records Services of South Africa Act, 1996 (Act No. 43 of 1996) and the International Public Sector Accounting Standards, which will be included in the AGSA's quarterly review of key controls with auditees.



Delegates attending the records and document management seminar

‘We have to continue to observe the value of honesty as the centre of everything we do and say – this is also true for our stakeholder interactions.’

– Mr Terence Nombembe, AG



## VISIBILITY OF LEADERSHIP

During the year under review, we increased our high-quality, value-adding interactions with all the relevant stakeholders in the governance and accountability structures of the public sector. None of the key role players was left out in our engagements with stakeholder forums and individual role players in order to encourage clean administration in all three spheres of government. This enabled us, during our centenary year, to make an impact on various levels: the public sector in South Africa, the African continent, and within the broader global community of the International Organisation of Supreme Audit Institutions (INTOSAI).

# Section 3

## Performance review

### Ongoing engagement with internal role players

Our leadership visibility starts with the AGSA team, thus internal stakeholder consultation is ongoing so that we can all share a deeper understanding of public sector auditing. The AGSA leadership have institutionalised vision achievement and organisational alignment (VA/OA) workshops held throughout the organisation. These strategic conversations are a regular occurrence to ensure continuous alignment to the strategic direction of the organisation and to allow employees to provide inputs to AGSA management.

Over and above the leadership programmes for senior management, the Deputy Auditor-General (DAG) held a series of in-depth discussions with the management of all business units in order to enhance and enrich the organisation's alignment. The interventions identified during these sessions were integrated into the organisational performance management processes.

### Constitutional stakeholders

Interactions with the political authority and oversight mechanism in all three spheres of government have been heightened and institutionalised to quarterly intervals. We used those planned quarterly meetings, not only to highlight the appropriate corrective action required to address obstacles to clean administration, but also to obtain commitments to implement such actions.

We engaged consistently with the executive authorities following on their commitment in the prior year to make themselves available for one hour in every 90 days for key control discussions. These

stakeholders' understanding of their core challenges has now reached a level at which they can assume full ownership of internal control diagnosis and the driving of sustainable clean administration.

With those charged with oversight we interacted through the public accounts committees (PAC) at the national and provincial legislatures, as well as the existing municipal public accounts committees (MPAC). We look forward to establishing similar relationships with all newly created MPACs.

Although there has been a commendable increase of work with the portfolio committees since structured interaction commenced two years ago, there is a need to regularise those engagements. An incremental approach through quarterly sessions is envisaged when all the committees will have been established.

### Cabinet

The AG commenced his sharing of the PFMA and MFMA audit outcomes with the executive by presenting the outcomes to the national Cabinet. During these interactions, specific corrective actions that needed to be taken were highlighted and the national leadership's commitments to these actions were obtained. The levels of engagement and awareness demonstrated the leadership's keenness to ensure greater improvement in financial and performance management in the South African public sector. The Cabinet members reaffirmed their commitment to providing opportunities for regular interaction with the AGSA by making structured time slots available in order to be apprised of



The AG conducting strategic conversations with internal stakeholders during VA/OA sessions

Hon. AF Mahlalela: 'APAC appreciates the insights we received from the AGSA. We know that we should strengthen our oversight by paying particular attention to issues of financial and performance management, governance, and the role of leadership.'

the control environments within their portfolios and discuss the required monitoring and corrective actions.

### **Executive authorities**

A core element of our leadership visibility drive is to move beyond engagements with the collective stakeholder forums to meetings with the individual executive authorities. In the year under review, the frequency of the interactions was increased and in many cases reached an optimal level. This is especially encouraging given that the executive authority is best positioned to monitor and impact on the internal control deficiencies within the whole of the portfolio under her or his authority.

### **Audit committees**

We have successfully strengthened relationships with audit committees at a forum level resulting in the establishment of the Public Sector Audit Committee Forum. The maturity of our relationship with this important governance mechanism provides us with the confidence that public sector departments and entities should now take full ownership of monitoring and assessing their internal control environments.

### **Speakers' Forum**

The AG again extended his interactions with those charged with oversight by engaging with the Speakers' Forum, a critical oversight structure that drives the priorities of the legislative sector. Through this forum, the AG amplified the importance of an exemplary legislative sector in setting the right tone for clean administration in the entire public sector. The forum committed itself to develop a sector-specific programme that will address

all issues raised by the AG in respect of the PFMA and MFMA audit outcomes.

### **NA / NCOP interactions**

During the presentation of the PFMA and MFMA audit outcomes to the National Assembly and the National Council of Provinces, chairpersons from both Houses committed to devising structured oversight mechanisms in response to the need for greater oversight in areas of procurement, information technology governance, adequate reporting on performance information and on human resource management in government.

Provincial oversight authorities were included in the interactions that the AG had during his provincial roadshows. Key role players such as the speakers, the chairpersons of relevant portfolio committees, as well as public accounts committees were specifically engaged in order to agree on priority oversight activities that from a provincial legislative point of view would expedite progress in key areas of financial administration and governance.

### **Association of Public Accounts Committees**

The Association of Public Accounts Committees (APAC) remains a vital stakeholder of the AGSA owing to the congruence of our respective mandates. Our reports on public sector financial statements, produced in terms of professional standards, provide the public accounts committees with the instruments and perspectives they require to promote good governance and enforce accountability. Collaboration between APAC and the AGSA once again culminated in a number of strategic sessions



# Section 3

## Performance review



The AG engaging external stakeholders at the MFMA NA NCOP meeting

during which ways were identified whereby more effective coordination between the audit and oversight committees of legislatures could be facilitated, as well as communication between audit committees, executive authorities and legislatures. During the strategic interactions, APAC members reaffirmed their commitment to strengthening oversight by incorporating the key focus areas pointed out by the AG in their work plans in order to make monitoring and governance more effective. Collaboration also continued during APAC's various capacity building initiatives for its members, as well as for the first-time MPAC members and support staff.

### Municipal door-to-door visits

Having concluded his programme of door-to-door visits to seven provinces in prior years, the AG personally visited all 61 municipalities in KwaZulu-Natal during the year under review. The interactions clarified and impressed on the councils the key challenges while recognition was given to councils that had demonstrated the will and conviction to achieve clean administration.

During the interactions, the responsibilities of the mayor, the MPAC, the municipal manager and the chief financial

officer in relation to the credibility of information were clearly set out, so that there was no uncertainty regarding the role of the municipal leadership in ensuring that the municipalities move to better audit outcomes. The support by the MECs of Local Government and Finance in the province was welcomed through the active involvement in many of the door-to-door visits by officials of these departments.

### Interaction with the media

An important feature of any supreme audit institution is to ensure transparency of its audit findings and communicate these to citizens. This is achieved mainly through direct media coverage, or coverage of parliamentary activities where AGSA reports are dealt with, such as activities of the public accounts committees in the various legislatures. Over the course of 2011-12, media coverage of the AGSA has increased, moving from around 300 statements per month in the previous year to a new average of approximately 1 000 per month.

Forty-seven per cent of all the information on the AGSA reported on in the media is directly attributable to AGSA sources of information. This was mainly due to constructive media engagements set up with various media houses during this period. Some of these engagements included sessions with the national and regional media as well as community media. The launch of the monthly AG's website column also helped to improve media interest and comprehension of the role and messages of the AGSA.



# Intensified leadership visibility through PFMA/MFMA roadshows, door-to-door visits, APAC conference and international cooperation



## Coordinating ministries

We have enhanced our close working relationships with key coordinating government ministries for financial and performance management in the public sector such as the Presidency, the Department of Public Service and Administration and the Department of Cooperative Governance. This cooperation is aimed at soliciting a coordinated response in reaction to early warnings of the challenges arising from public sector audit outcomes.

## Public sector regulators and standard authors

We are reaching out to all those on the African continent in building public confidence in governance and accountability systems. As a member of the INTOSAI Professional Standards Committee, and having a statutory role with regard to the setting of South African accounting standards, the AGSA enjoys a close working relationship with the Independent Regulatory Board for Auditors (IRBA), the Accounting Standards Board of South Africa (ASB), and the Accountant-General's office in the National Treasury.

To facilitate the effective sharing of information with the media, and ultimately the citizens of South Africa, the AGSA has frequent media workshops to explain the auditing process and terminology, thereby reducing the risk of incorrect reporting.

During the past year the AGSA targeted 65 community media sources that focused on the performance of local government, reaching audiences that would not necessarily have access to mainstream media.

The main objective of the close relationship with the ASB is to participate in technical forums on the development and application of the Standards of Generally Recognised Accounting Practice (GRAP) which enhance financial reporting from a public sector perspective.

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Figure 3: Media coverage during 2011-12

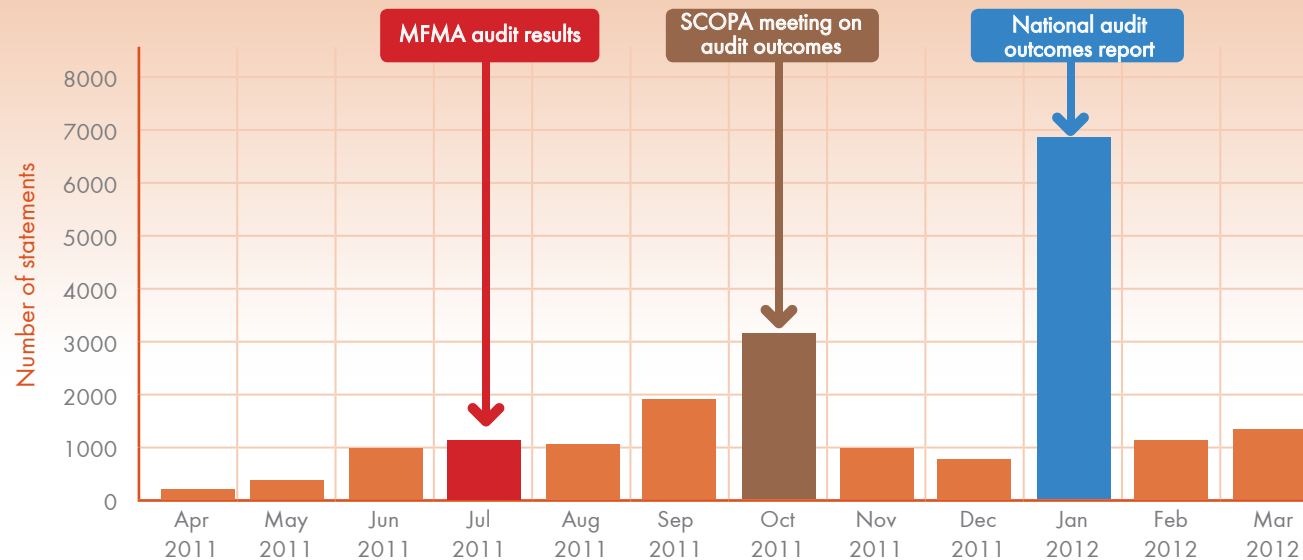
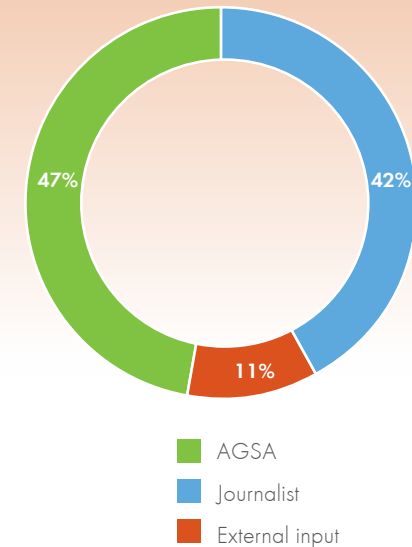


Figure 4: Media coverage sources



The close working relationship with the National Treasury (NT) is aimed at contributing to improved accountability in the public sector, whereby the NT provides assistance and guidance to entities on reporting frameworks for financial and service delivery information and compliance with laws and regulations.

In the past year we collaborated with IRBA on the development and preparation of a revised practice statement on illustrative auditor's reports which for the first time includes a public sector entity audit reporting template. In addition, in close collaboration

we developed guidance that supports registered auditors performing audits in the public sector, which will ultimately improve governance and financial management in the public interest.

### Professional bodies

Our long-standing relationships with professional bodies have always played a key role in ensuring the success of our core business and especially that of our trainee auditor scheme. The trainee auditors at the AGSA participate in the learnership programmes of the South African Institute of Chartered

Accountants, the Southern African Institute of Government Auditors and the Information Systems Audit and Control Association.

Not only do these relationships ensure that we have direct influence on the content of the programmes, but they also ensure that our staff are trained on the latest audit developments. It helped us increase the number of trainee auditors from 869 in 2010-11 to 985 in 2011-12 and placed us in a position to give valuable inputs to grow awareness of and bring into consideration the public sector perspective on accounting and auditing.

### Contracted private firms

Our relationship with private audit firms firstly originates from our business model through which we have undertaken to limit the audit costs to the public sector by contracting a certain amount of our work to private firms. To this end, we have continued to foster close working relationships by including them in our training, roadshows and stakeholder interactions. However, our relationship is also linked to our commitment to driving the transformation of the auditing profession in South Africa, and empowering the many young, talented individuals and smaller firms by involving them in the execution of the public audit mandate.

Figure 5: Collaboration diagram



Visit to the Mayor of Tshwane by an international delegation

The AGSA embraces its continuous commitment to the transformation of the profession in order to contribute to and strengthen the democracy of the country through skills development and easing access to the profession for all citizens of South Africa. We also look forward to collaborating on projects such as the recent successful development of public sector audit guides.

### Section 4(3) entities

A number of entities in the public sector can, in terms of their own legislation, appoint own auditors, subject to consultation with the AGSA. These entities are commonly referred to as section 4(3) entities. While we do not conduct these audits

ourselves, the AG prescribes adherence to certain audit focus areas in line with the public audit mandate, including specific reporting formats and a flow of information back to the AGSA. Our relationship with the boards, senior management, audit committees and auditors of the state-owned companies started approximately three years ago and has reaped benefits for both parties as well as the ultimate beneficiary, the South African citizen, with reporting taking place in a more standardised fashion aligned to the public sector.

In the past year, having engaged with the executive authority, interactions have been extended to universities and colleges for further education and training (FET) to clarify audit expectations.

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The audit reports of these entities will for the first time since their inception include audit findings on predetermined objectives and compliance with rules and regulations.

### International collaboration

Public sector auditing excellence has always been the driving force behind the AGSA's international cooperation, thereby embracing the INTOSAI motto 'Mutual experience benefits all' as its guiding principle.

We continued to play a leading role in INTOSAI throughout the past year as the chairperson of the Working Group on the Value and Benefits of SAIs. With the ultimate aim of improving the lives of citizens, we have promoted the benefits that citizens must derive from their SAIs. These benefits include:

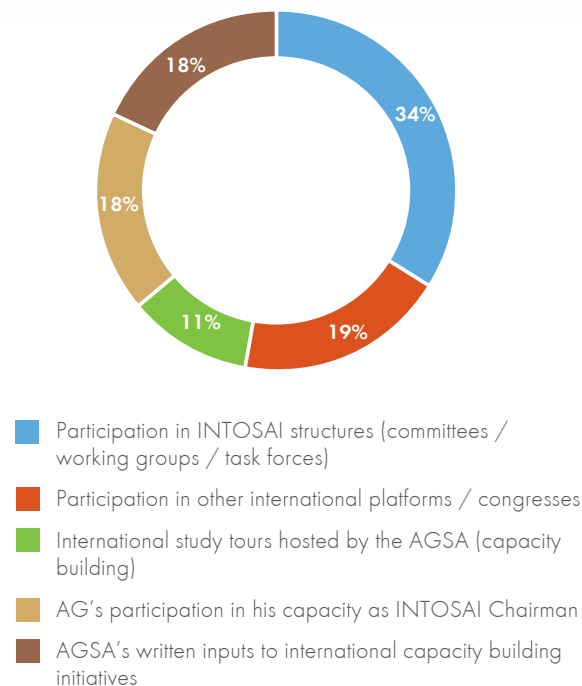
- the strengthening of accountability, integrity and transparency of government and public entities
- demonstrating ongoing relevance to stakeholders.

The benefit of our leadership's experience in interacting and communicating with those charged with governance and oversight ideally positions us to share with the INTOSAI community the extent to which such visibility can benefit the citizen.

We have also been honoured to host multiple delegations from across the world, most notably for a series of meetings and round-table discussions with eight Auditors-General during the centenary pinnacle week in November 2011.

Since his appointment as Chairman of the INTOSAI Governing Board in 2010, the Auditor-General, has utilised the opportunities presented by this role to promote strongly the call to SAIs to support one another in capacity building initiatives. He has done so by personally taking this message to the General Assemblies of each of the seven INTOSAI regional working groups and by establishing a new quarterly Chairman's column in INTOSAI's *International Journal of Government Auditing*. He also represented the INTOSAI community at several high-level global events.

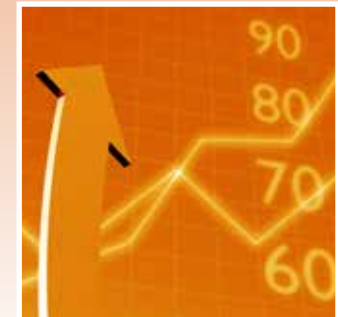
Figure 6: International leadership visibility



'We have been treated exceptionally well by the AGSA. Their grip of issues around audit and management of a supreme audit institution is second to none.'

- Constant Mayende, Chief Operating Officer, SAI of Uganda

Performed above industry norm in our staff engagement, leadership and culture activities



## STRENGTHENING OUR HUMAN RESOURCES

The AGSA's multifaceted strategy to build a motivated, high-performing and diverse workforce encompasses improvements to the trainee auditor scheme, a strong focus on leadership development, succession planning and performance management, innovative approaches towards sourcing, developing and retaining talent, and creating prospects for the long-term growth of our people.

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The successful implementation of the AGSA's strategy and, most of all, the achievement of our mandate are solely dependent on skilled and motivated employees. The culture change that was initiated a few years ago is strongly driven by the leadership of the organisation in ensuring that the AGSA fosters a high-performing culture. This culture is essential to enable us to respond to changes in the environment, both internally and externally. For this reason the leadership proclaimed that 'people are the agenda'. This is in line with the *Framework for communicating and promoting the value and benefits of SAs* which says that 'Continuous learning contributes to individual, team and organisational excellence.'

### Employee wellness programme

Work is a huge part of our life, effectively takes up more of our waking time than anything else and is a big part of our identity. Letting work take over our lives will do no good; that is why the AGSA provides support to employees striving to achieve a balance between work and life - preventing ill-health and strengthening wellness.

Our employee wellness programmes aim to support our employees to lead productive and healthy lives. In the 2011-12 annual cycle employees' wellness was delivered by a multifaceted approach. Below are some of the key initiatives that were undertaken:

- The employee assistance programme assisted 778 individual employees with problems ranging from psycho-social to legal, financial as well as other health- and wellness-related problems.

- The executive programme was offered to all senior management. There was an excellent uptake on the programme as 147 executives made use of the service during the year.
- For the current year training on managing personal finance was attended by 603 employees and others are still undergoing individual financial coaching.
- Wellness Days were rolled out to all regions where 1 127 employees participated in different health screenings that included glucose, body mass index, blood pressure, HIV counselling and testing as well as flu vaccine and vitamin B injections.
- Employees participated in other value-added, health-related activities that included 702 Walk the Talk (169 employees from the Gauteng region participated), the National Business Relay Challenge (138 employees from the Gauteng region participated) as well as the Shavathon (463 employees participated). The health of our people is important and the AGSA will continue to ensure a healthy workforce that will support the organisation in achieving its mandate.

### Talent management, retention and recruitment

In order to strengthen our workforce the organisation continues to monitor and evaluate the effectiveness of the implementation of the talent management framework. The first Talent Exco meeting took place in October 2011 and the outcomes of this meeting were as follows:

- Introduction of dual career paths (that of a leader and a

The successful implementation of the AGSA's strategy and, most of all, the achievement of our mandate are solely dependent on skilled and motivated employees



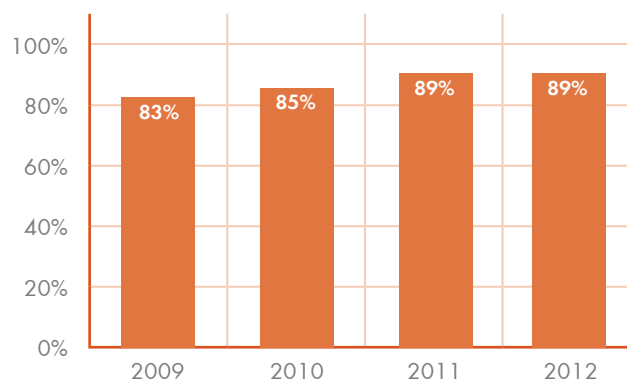
Siliziwe Ncanywa, a former Thuthuka student who just passed the SAICA Board 1 exam wrote: 'I don't consider this my victory but ours as without your faith, I could have never got this far. Never.'

specialist) which aims to recognise employees in various functional streams.

- Entrenching the culture of performance differentiation and rewarding talent for performance.
- Review of the reward and recognition strategy and programmes.

Talent management is viewed as one of the contributors to the achievement of the organisation's occupancy levels; the occupancy levels achieved for the year under review were 89% (2010-11: 89%) against the set target of 80%. These optimal occupancy levels were achieved as a result of robust recruitment efforts and talent retention strategies.

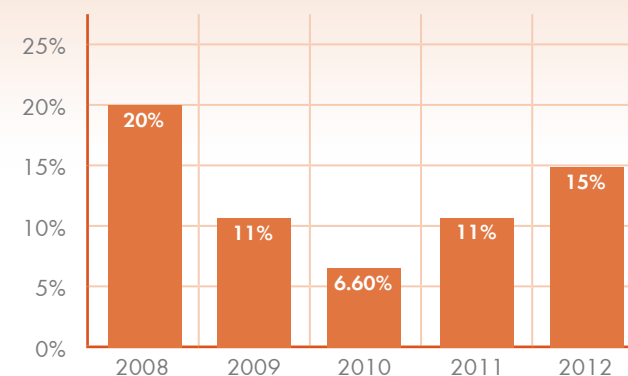
Figure 7: Staff occupancy profile



**Occupancy level 89%**  
**(2011: 89%)**

Figure 8 shows the turnover profile over the period of five years. For the year under review, we experienced a 15% turnover, which is below the industry norm of 17% as reported in *The South Africa Increase Report April 2012*. This is as a result of the competitive market in which we operate and changes in the economy.

Figure 8: Staff turnover profile



### The journey of our organisational culture

The culture journey at the AGSA for 2011-12 was exciting, as most of the objectives as per the organisational culture plan were met. In enhancing the executive and leadership style, relevant leadership interventions - for example, to deepen public sector insights and knowledge - were put in place, thereby contributing towards a high-performance culture.

The values of the AGSA were reiterated during 2011 to reflect the importance and the impact of living the values. Interventions included exercises where staff members had



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open engagements to internalise the values and initiatives in celebration of the AGSA's centenary such as the time capsules, 100 ways to live the values and the 100 years' cake competition. The positive impact of these interventions is reflected in the survey outcomes.

The diversity programme forms part of the organisational culture project and each year the approach is structured to address the specific challenges experienced in the organisation. During

2011-12, the areas of generational, gender, cultural and racial diversity were identified as challenges. These areas were addressed through a presentation that was rolled out to staff members, creating a platform for discussion and dialogue. These diversity sessions created awareness and understanding, and also improved team effectiveness.

In order to support the enhancements that we have made, the automation of the executive performance management

system will be expanded to include individual performance contracts of each employee in the new performance year. This process is aimed at ensuring management focuses its efforts in managing performance to enable a high-performance culture. Furthermore, an audit of performance contracts was introduced to instil a culture of formalised performance agreements to support delivery on business unit and organisational commitments.

As part of our strategic measures for this goal, we surveyed the organisation to determine our progress in terms of achieving a high-performance culture. In terms of achieving the target set for the 2011-12 performance year (3.2 on a five-point Likert scale, which was based on the industry norm), the organisation scored as indicated in table 2.

Table 2: Performance in terms of organisational indices

Index	Target 2011-12	Performance 2011-12
Culture index	3.2	3.71
Leadership index	3.2	3.76
Staff engagement index	3.2	4.01

Based on the above results, the organisation is seen to be performing above the industry norm in terms of the three indices. The tools for leadership and culture have been utilised effectively, as can be seen from the survey results. This is mainly due to the robust discussions that were conducted throughout the 2011-12 performance year to ensure messages were

## Organisational and leadership development interventions conducted

understood and equip the organisation's leaders effectively by providing ongoing guidance and support.

The journey for 2012-13 will concentrate on the integration of culture and ethics in the AGSA, as the two cannot be separated from each other.

### Enhancing the effectiveness of our leaders

#### Focused strategic organisational development and leadership

Key strategic organisational development and leadership interventions have been initiated within the AGSA to enhance people management strategies and processes. These initiatives are aimed at bringing about a change in leadership behaviour as well as streamlining processes and systems for excellent organisational performance. While most of the leadership interventions target the executive level, the approach is aimed at ensuring that the required change is cascaded throughout the organisation.

The key leadership interventions pursued during the past performance year are outlined in the following sections. While most of the results and achievements emanating from these interventions will be realised during the next few years, a number

of successes have already been visible over the past year and are evident from the excellent survey results.

#### Executive coaching

During 2011-12, efforts were focused on creating an internal coaching culture in order to enable a process where line managers are equipped with the knowledge, skills, attitude and confidence to coach others effectively so as to achieve enhanced levels of performance and retain talent within the organisation. We commenced with individual and team coaching and the process of creating a culture of coaching and mentoring within the AGSA has gained momentum. External coaches were used to ensure appropriate management and coordination of this process. The focus area for the next year is the establishment of a database of internal coaches available to staff.

#### Leadership pipeline development and succession planning

Over the past two years, efforts have been channelled towards strengthening leadership capability by encouraging leaders to continually adapt their skills and competencies to meet changing requirements and instil an appropriate organisational culture. A proactive approach in identifying, assessing and developing talent has been established during 2011-12 with the implementation of relevant talent identification processes by line managers across the AGSA. This process has also culminated in the establishment of the Talent Exco to drive this strategy.

The AGSA has started to experience a number of appointments into leadership positions from within the organisation. Leadership

pipeline building and succession planning initiatives within the AGSA will continue to identify, assess and develop talent to ensure business continuity. One of these initiatives is a rigorous monitoring and evaluation process to assess whether candidates in talent pools are energised and express interest in available vacancies within the organisation.

#### Building effective business teams

A number of initiatives aimed at enhancing the level of team performance have been initiated during the course of the year. The focus has been on providing leadership with the required tools and processes for continuous improvement of work performance. These initiatives have been uniquely designed and rolled out to empower AGSA leaders to build effective and engaged teams.

Senior leadership will continue to embark on team effectiveness initiatives so as to create a high-performance work environment, characterised by engaged, motivated and energised teams.

#### Executive performance management

The enhancement and improvement of the AGSA's performance management system and related processes remains one of the key focus areas. During 2011-12, focused efforts were made to enhance processes aimed at driving performance in its totality. These included the following:

- The concept of total performance was introduced to all senior management teams as a mechanism to elevate the level of performance of all AGSA employees.

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- Emphasis was placed on the need to focus on results and outputs as opposed to activity-based deliverables and, as such, more specific deliverables with specific measures were outlined per band level within the organisation.
- Periodic discussions among executives to improve and create alignment to strategy have commenced.
- Further refinements of the automated performance contracting and reviewing processes at the executive leadership level were implemented. These were based on the recommendations identified during this period. In addition, processes aimed at the automation of the performance management system for all staff were initiated and more focused attention will be given to this initiative during the next year.

The performance management system and processes will continue to be improved so as to create an environment for better performance, greater recognition and retention of talent.

### Continuous learning and professional development

The AGSA's multifaceted strategy to build a motivated, high-performing and diverse workforce encompasses, among others, developing and retaining talent and creating prospects for the long-term growth of our people. This includes support for continuing learning and professional development to assist employees to maintain, develop, update and expand their knowledge and skills in their fields of expertise.

Table 3: Categories of financial support for study, learning and growth

	Actual (R'000)	%	Budget (R'000)	%
Bursaries for tuition, study materials & accommodation	12 123	20,6%	15 530	16,6%
Study support by tuition providers	9 469	16,1%	14 483	15,4%
Internal training	12 077	20,5%	24 603	26,2%
External training	2 495	4,3%	2 849	3,0%
Subsistence and travel for training	5 073	8,6%	12 493	13,3%
Professional membership fees	8 100	13,8%	10 478	11,2%
Innovation and learning development projects	6 021	10,2%	7 041	7,5%
Mandatory grant received from the SETA	(6 708)	-11,4%	(3 000)	-3,2%
Skills development levy paid	10 152	17,3%	9 344	10,0%
<b>Total</b>	<b>58 802</b>	<b>100%</b>	<b>93 821</b>	<b>100%</b>

'My long-term goals involve growing with a company where I can continue to learn, take on additional responsibilities, and contribute as much of value as I can.' – Sudhakar Arlagadda, DMS Manager

Invested R58,8 million  
in study support

100% pass rate in  
SAIGA qualifying exam

Talent Exco  
established and  
operational

Total number of  
bursary holders: 119

The under-spending on the overall study support budget is linked to the academic support for trainee auditors that was not utilised. The trainee auditors that did not achieve academic progress were transferred to the position of audit clerk. Therefore, study support was no longer required.

Feedback from participants indicates that our approach to learning and development has been very effective for our heterogeneous audiences. The impact assessment of the training programmes and initiatives, to help managers identify and strengthen the links between training and staff performance, will be performed in future.

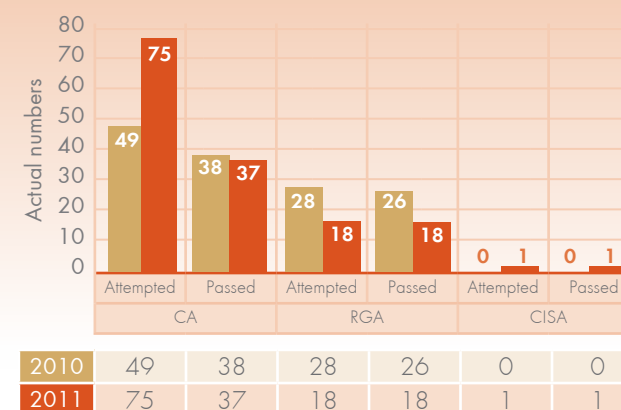
### Creating a highly skilled workforce

#### Growth in the number of qualified audit professionals

Our organisation is dedicated to the delivery of successful and qualified audit professionals including chartered accountants, registered government auditors and certified information systems auditors.

A total of 94 (2010: 77) staff members wrote the final qualifying examination, of whom 56 (60%) passed, thereby overcoming the ultimate academic challenge towards becoming qualified professionals. Of the 56 that passed, 22 have also completed their practical training in the AGSA, thereby becoming eligible to register as professionals. This resulted in the AGSA proudly adding 15 chartered accountants (CA (SA)) and seven registered

Figure 9: Newly qualified professionals  
(2011 = 56; 2010 = 64)



government auditors (RGA) to the richness of our country's professional workforce. The remaining 34 (2010: 17) are trainee auditors that passed the examinations, but will only obtain their professional qualification on completion of their training contracts.

To assist further and promote the development of our learners, we are dedicated in our quest to identify additional areas of enhancement within our bursary schemes, learnership programmes, study support and training. About one quarter of our employees consists of fully qualified and registered accountants/auditors (747 professionals of the total 2 891). This attests to our commitment to create and maintain a highly skilled workforce to enable us to render service of outstanding quality to our stakeholders.

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Figure 10: Professional membership of employees

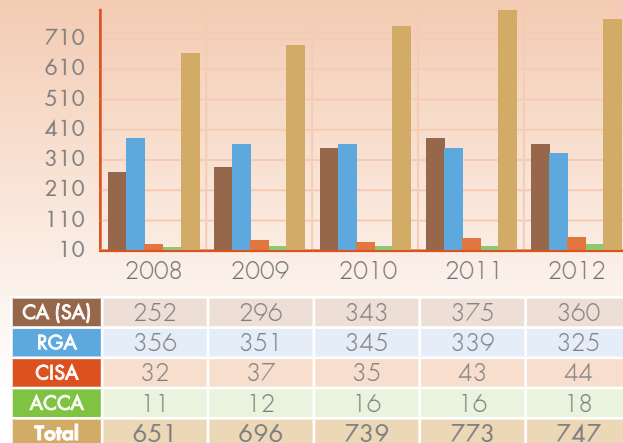
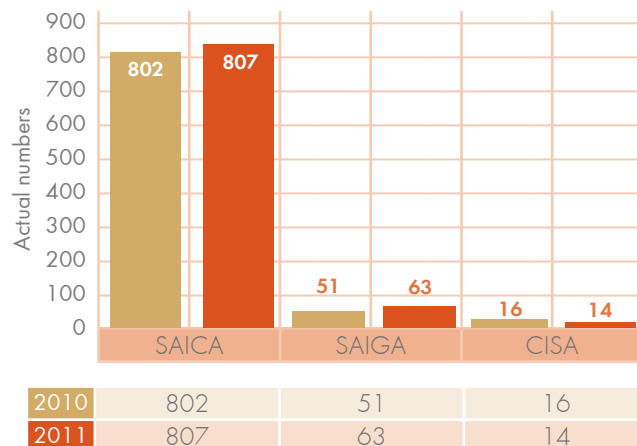


Figure 11: Trainee auditors registered for the different learnership programmes



### Trainee auditor scheme

Since its commencement in 1999, the trainee auditor scheme (TA scheme) has steadily developed into a recognised strength and sustainable drive behind qualifying professionals in the AGSA and the public sector at large. The TA scheme is actively managed and this involves, among others, the monitoring of academic progress, practical guidance by qualified supervisors, study support for academic progression and non-financial recognition of good performance.

Our recruitment of trainee auditors to participate in any one of our learnership programmes, i.e. CA(SA), RGA or CISA, is focused on graduates, although a small number of undergraduates are also appointed in provinces without universities.

During the year 259 TAs successfully completed their practical training.

### Trainee auditors' study results

Although the year-on-year decrease of 3,77% (2011: 11,76%; 2010: 15,53%) in the overall pass rate of our trainee auditors is concerning, it remains our aim to improve the situation by increasing the visibility of our leadership on the study support programme and intensifying the focus of our support programmes via additional study classes and study leave whilst continuing with the bursaries and interest-free study loans that cover the full cost of tuition, classes and handbooks. At the same time we will provide ongoing communication and motivational messages through our internal communication media (TA flashes, memos and interactive roadshows).

Josai Ncube, an AGSA bursary holder doing CTA in 2011 who recently passed the SAICA Board 1 exam wrote: 'Thanks very much. You made a great contribution towards our success. I appreciate the guidance I have received over the years and I am willing and looking forward to learn more in the working environment.'



The University of South Africa (UNISA) has changed its curriculum for the CTA programme with effect from 2012. Their new programme (CTA1 and CTA2) will now run over two years with a qualifying examination to progress to the second year and obtain the CTA qualification. It is believed that the changes will help the students to obtain a deeper understanding of the course material with an expected positive impact on their study results.

We are committed to pursue further opportunities of training support for our trainee auditors that will assist them to make optimal academic progress and realise their dreams of becoming qualified professionals, within the limits of our available resources.

### Continued investment in students through external bursaries

A key initiative in the AGSA is to provide study bursaries to talented young people, mostly from the previously disadvantaged communities, which allows them access to accredited learning institutions to study towards an academic qualification and become eligible for any of our learnership programmes. We follow a stringent bursary selection process to select the best candidates from the many applications every year.

Under the Thuthuka Bursary Fund programme, first-time bursaries are awarded to successful Grade 12 learners as well as those already studying for their degree and CTA, and such financial support continues for all students that make academic progress until they complete their SAICA Board 1 exam.



Lebogang Madumo and Olivia Nyembe celebrate passing their SAICA exam with AGSA staff members

The start of 2012 has witnessed a growth in the value of the external bursaries awarded by the AGSA with the monetary value increasing by R10 000 to R80 000 per bursary. We made 53 new awards for 2012 bringing the number of external bursary holders to 119. The start of 2012 has also seen a total of 31 (2011: 21) bursary holders employed in the AGSA. An achievement worth noting is the 100% pass rate for the SAICA Board 1 exam by the AGSA bursary holders. Some of our trainee auditors were seconded to certain universities for their first year of training.

### Recognising academic achievement

In 2011 the AGSA sponsored a prize to the top 2nd year Thuthuka student of the University of Pretoria's accounting department. Previously this accolade was received by the then top achiever (Lebogang Madumo), who is now a 2nd year trainee auditor with the AGSA.

As the first academic trainee of the AGSA, Godfrey Mongatane (University of Johannesburg) was awarded for striving to be superior in his studies and a trendsetter in the AGSA by setting

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Godfrey Mongatane celebrates the announcement of the SAICA PPE results with AGSA staff members

an example of dedication and commitment, which speaks volumes for the AGSA study support programmes. Having passed CTA on first attempt, he achieved the same merit with SAICA Board 1 and repeated it for the SAICA PPE exam. Seen in the picture above with Godfrey are Lulu Makaluza and Gabriel Tenene, sharing in his joy after the announcement of the SAICA PPE results at an event hosted in Pretoria.

In the past year the administration of the external bursaries was streamlined and our visibility at universities has

increased significantly in order to attract the best and the brightest.

#### Partnerships with other stakeholders

The AGSA is one of the big donors to the Thuthuka Bursary Fund (TBF). The TBF is managed by SAICA as a transformation project that aims to assist previously disadvantaged individuals from the South African population to obtain a CA qualification. Through the TBF, the AGSA is currently sponsoring 40 students per year at a total cost of R1,6 million.

In 2010, the AGSA was approached by the University of Limpopo, with a request to place one of the 2011 AGSA academic trainees at its School of Accounting as they were trying to obtain SAICA accreditation for their undergraduate curriculum. The AGSA was greatly honoured to be a partner in this initiative which yielded a positive outcome.

The AGSA is also involved in a funding agreement for the University of Fort Hare (UFH), which aims at assisting the university to sustain its SAICA accreditation. During the 2011-12 financial year UFH received R3,37 million from the AGSA as funding towards the salaries of their lecturers for their School of Accountancy and the cost of learning material. On 20 March 2012, the AGSA and UFH held a seminar on skills development in the public sector which hosted senior academics from different universities as well as senior government officials from different departments. We committed to form a properly represented monitoring committee and to coordinate similar seminars around the country.

#### Capacity building

Technical learning courses were developed and rolled out to our employees in line with a predetermined plan. The training curriculum encompasses training that is required by audit professionals and trainee auditors to enable them to conduct their audits efficiently and effectively. Technical development and accounting/auditing updates have been done, which resulted in a better skilled workforce that could meet the requirements of the profession. After each training session, feedback is given by the delegates and any concerns / issues raised are immediately addressed.



The DMS programme made a visible contribution to the AGSA's mission and vision by ensuring that the AGSA leads by example, thereby leaving a legacy



AGSA staff members and trainee auditors at the foundations programme

Courses are continuously modified / improved to meet the changing needs of our environment.

The development of the soft skills programme was completed as planned and within budget. Twenty skills courses were developed in line with the AGSA's competency development framework and will be available during 2012-13. These courses will be pivotal in equipping all levels of employees to contribute more effectively to the strategic goals of the organisation.

#### From on-boarding /orientation training to a new foundations programme

The beginning of 2012 saw the implementation of a new foundations programme as an orientation curriculum for induction of newly appointed staff in the AGSA.

#### Leadership and management development programme

The leadership and management development programmes play a pivotal role in the creation of a healthy leadership

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Table 4: Number of managers trained in leadership and management development programmes

Programme	Target group	2011-12	2010-11	2009-10	Number to be trained (2012-13)
Great leaders, great teams and great results	Senior managers	30	69	68	20
Practical management	Managers & assistant managers	149	417	70	311

pipeline for the AGSA, thereby ensuring the continuity of our service offering to our stakeholders. Moreover, effective leadership inspires employees to be engaged and committed to the vision, reputation promise/mission, strategic goals and values of the AGSA. The leadership and management development programmes were planned based on the needs of BUs and the total number trained during the reporting period is depicted in Table 4.

### Deloitte management secondment (DMS) programme

With the DMS programme, we entered into a joint venture with the objective of partnering in developing the trainee auditors' technical and soft skills. With the DMS managers' programme for 2011-12, the AGSA tracked progress of the manager's

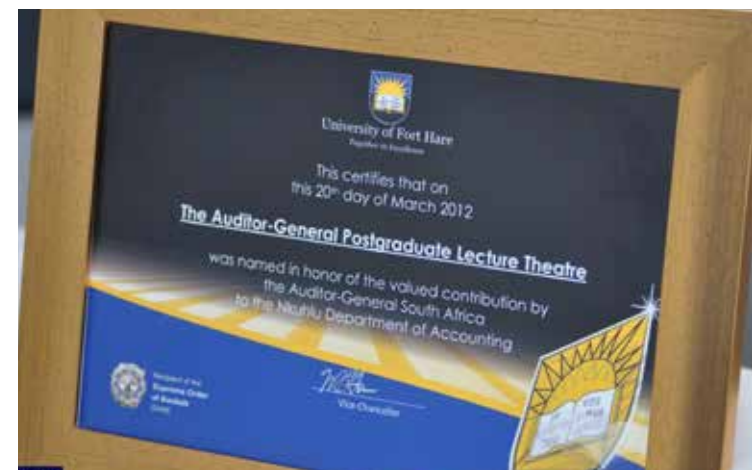
contribution towards the skills transfer process, especially to the trainee auditors.

The following benefits of the programme can be highlighted:

- It made a visible contribution to the AGSA's mission and vision by ensuring that the AGSA leads by example through this programme, thereby leaving a legacy at the AGSA.
- The DMS managers' assistance has been linked to the culture of knowledge sharing and ensuring that the AGSA is continuously driving a high-performance culture.
- Ongoing engagements and consultation with relevant stakeholders during their audits enabled the DMS managers to build rapport and ensure that the programme's objectives had been reached.



AGSA staff members and trainee auditors at the foundations programme



The University of Fort Hare named a lecture theatre after the AGSA

## AGSA achieved a clean audit report



## LEADING BY EXAMPLE

We promised to continually improve the quality and timeliness of all our reports, adhere to standards of clean administration and maximise our contribution to transformation with emphasis on **auditing methodology, quality control, risk management, transformation agenda and B-BBEE plan** in support of **fundamental requirement 11: Good governance** of the INTOSAI Framework for communicating and promoting the value and benefits of SAIs.

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### Auditing standards and methodology

In accordance with the PAA, the AGSA determines the standards and methodology to be applied in audits, taking into account international and local best auditing practice. The AGSA is one of only a few SAIs in the world that has fully implemented the clarified International Standards on Auditing (ISAs) in their regularity audits. Our methodology, working papers and templates are sound and in adherence to these standards, as confirmed by an external firm-level review conducted by the Independent Regulatory Board for Auditors (IRBA).

The International Standards of Supreme Audit Institutions (ISSAIs) provide public sector-specific guidance on performance audits and the auditing of financial statements, internal control and legislative compliance. It is to the AGSA's credit that it has contributed substantially to developing these guidelines through INTOSAI and continues to be active in the working groups that further refine and improve the standards and guidelines. We implemented several of the standards and are well on the way to incorporating them all into our AGSA methodology.

Our methodology for the audit of reporting against predetermined objectives has matured to the level of being able to express an audit opinion. This final phase of the approach, however, will only be implemented when we have confirmed the state of readiness by government to fully report on their performance through the performance audit referred to in goal 1 (simplicity of our messages). We have also substantially improved our methodology for the auditing of compliance with legislation, also

with a view to expressing an opinion in future as required by the PAA. This places us at the forefront of developments in the INTOSAI community and has further increased the relevance of our audit messages.

To find more effective and efficient ways to perform the audits and report consistently, we have focused in the past year on horizontal (transversal) and sector approaches. These allow for the standardisation of audit processes and reporting on processes which are common to a number of our auditees.

We introduced an audit management information system (AS: MIS) in 2009 for the purpose of providing management with key information from the audits conducted countrywide which was considered critical to enable effective leadership and management.

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. Since 2010-11 we have made major improvements so that, currently, the system allows for the tracking of audit progress, capturing and analysis of audit outcomes and assessment of the key drivers of audit outcomes to enable quarterly reporting. The focus in 2011-12 was to further improve the audit outcomes and key drivers' facility, which now enables the AS: MIS to produce all the information and analyses required for the general report. A module was also developed and piloted to capture and track our stakeholder interactions and the commitments made by them. This module will be implemented in 2012-13.

The AGSA is one of the few supreme audit institutions that fully implemented the International Standards on Auditing

## Quality of audits performed

### Outcome of engagement performance reviews

Audit quality is one of our primary focus areas as it is one of our key performance measures for leading by example. To achieve this, we have established policies and procedures designed to provide us with reasonable assurance that the system of quality control within the AGSA is relevant, adequate and operating effectively, and is complied with. The monitoring and review process is performed by our internal Quality Control Unit and the quality of the review process is annually evaluated by IRBA.

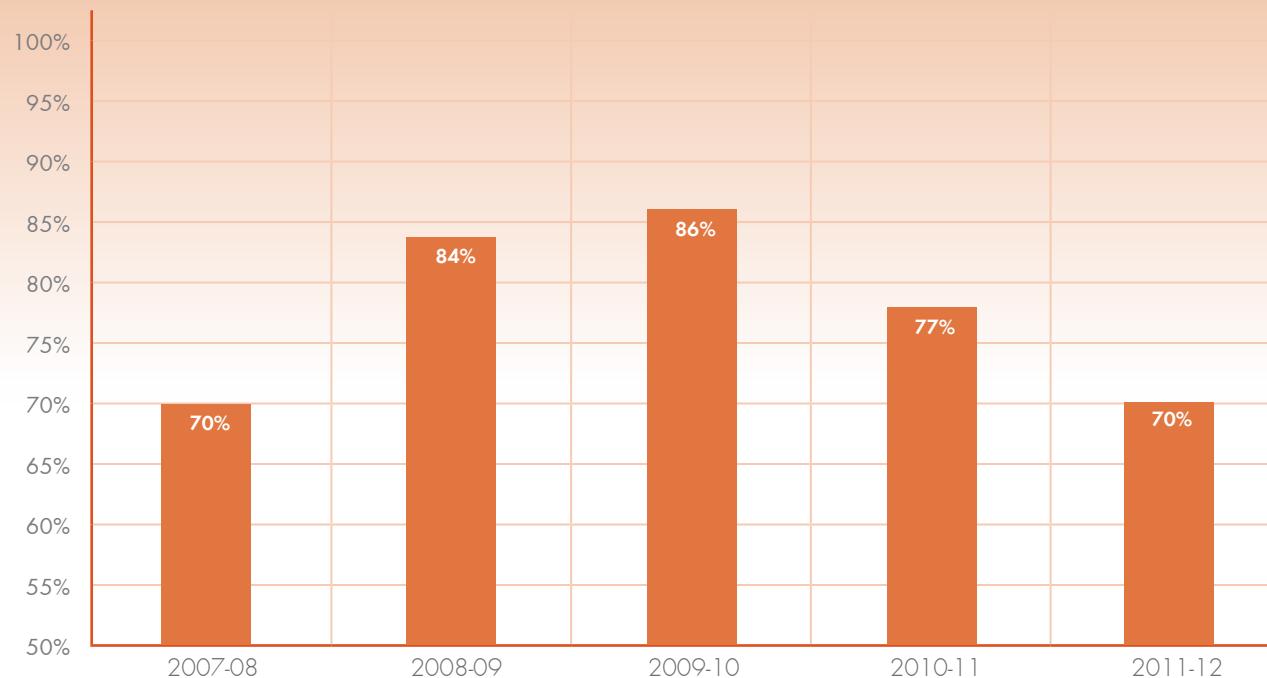
Table 5: Performance regarding adherence to all quality standards

Target 2011-12	Performance 2011-12	Performance 2010-11
86%	70%	77%

The deterioration of audit quality results is cause for concern. Corrective and preventative actions to improve the audit quality results are being implemented. The adequacy of these remedial processes will be monitored on an ongoing basis to ensure improvement in our audit quality.

A significant contributing factor is the continued increased scope of the audit in supporting our auditees to achieve clean administration. The additional focus on compliance with the applicable laws and regulations, financial management and audit of predetermined objectives resulted in a deterioration in certain areas of the audit performance. The main causal

Figure 12: Quality performance results for trend analysis period 2008-2012



factors are the difficulty that audit staff have in understanding and applying the increased audit guidance and the relative reduction in supervision and review time on the various components of an audit. These challenges require a significant change in our human resource and audit structures and processes, as well as our organisational learning abilities. The following are key initiatives to curb non-compliance with engagement quality standards:

- Implementation of a workforce planning framework that will, among others, deal with the workload of engagement

teams to ensure that adequate capacity exists to allow for proper direction, supervision and review.

- Elevated quality assurance measures are introduced and driven at an executive management level by the national leader.
- Engagement managers that perform poorly, as well as new engagement managers, are extensively and continually re-orientated to ensure adherence to quality standards.

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- Performance management processes incorporate an increased emphasis on quality at engagement level.
- Diligent and enhanced supervision, review and sign-off processes on audit engagements.
- The assessment and procurement of competent pre-issuance quality control reviewers.
- Extensively gauging the organisational learning and development needs, which includes a renewed approach to training, mentoring and coaching.

### Outcome of the internal firm-level review

The systems of quality control relating to leadership, ethical requirements, acceptance and continuation of client relationship, human resources and monitoring in terms of the International Standard on Quality Control (ISQC 1) have a direct impact on the quality of audit performance. The results of the external IRBA-conducted phase I firm-level review focusing on the adequacy of the AGSA's ISQC 1-related policies and procedures were released at the beginning of the performance year under review. This review indicated a satisfactory level

of compliance with ISQC 1 as well as the functioning of our internal QC monitoring processes.

The phase II IRBA firm-level review will focus on the operational effectiveness of the system of quality control in the AGSA. In order to assess the AGSA's readiness for phase II of the external firm-level review, an internal readiness assessment was performed by our Quality Control Unit during 2011-12. The outcome of the internal assessment indicated a need for certain changes to be made to the AGSA's processes and structures to ensure operational compliance. As a result, the external phase II review was postponed to the latter part of the 2012-13 performance year.

### Timeliness of audit reports

The measurement of the timeliness of our annual audits pertains to all annual financial statements (AFS) received and required to be completed within the financial year as per the deadlines legislated by the PFMA, MFMA or the AGSA's audit directive.

Quality of our  
audit reports in line  
with the industry  
norm of 70%

Table 6: Summary performance in meeting legislative deadlines for completion of annual audits

Applicable legislation	Total number of auditees	Number of auditees that submitted AFS in financial year		Number of audits completed within legislative deadline	
		Number	%	Number	%
PFMA and AGSA directive	614	517	84%	497	96%
MFMA	379	359	95%	338	94%
<b>Total</b>	<b>993</b>	<b>876</b>	<b>88%</b>	<b>835</b>	<b>95%</b>

The target percentage of compliance with statutory and legislative deadlines for PFMA and MFMA audit reports was set at 90% in the 2011-2014 strategic plan and budget. We exceeded the target percentages for both the PFMA and MFMA audit cycles.

### Timeliness of PFMA reports

Table 7: Performance of the AGSA in meeting PFMA reporting deadlines

Entity	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	
		Actual number	Actual %	Actual number	Actual %
PFMA departments*	152	152	100%	147	97%
Other PFMA organisations**	462	365	79%	350	96%
<b>Total</b>	<b>614</b>	<b>517</b>	<b>84%</b>	<b>497</b>	<b>96%</b>

\* Includes national and provincial departments

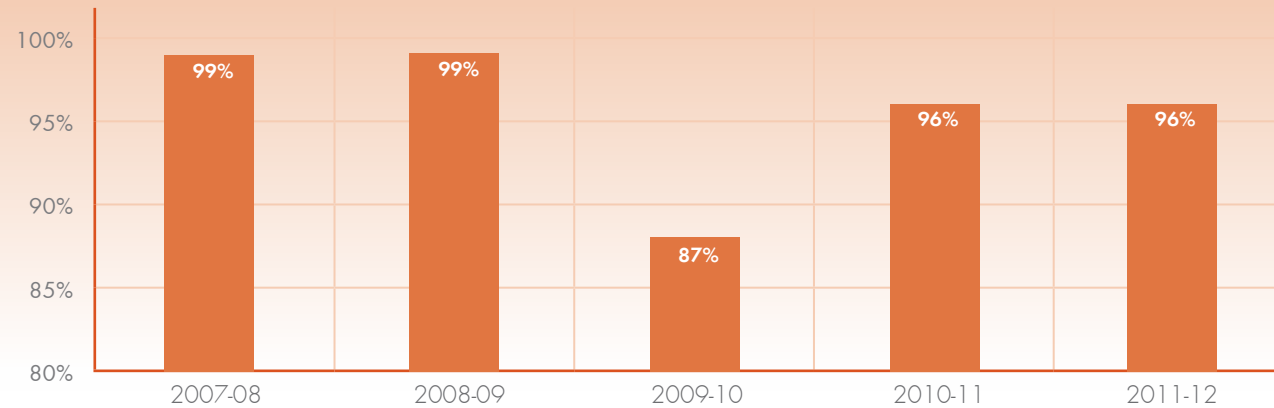
\*\* Includes all public entities, constitutional institutions, statutory bodies, trading entities and other entities.



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Figure 13: Timeliness results for PFMA trend analysis period 2008-2012



The 2011-12 performance level has remained the same as the previous year's.

### Timeliness of MFMA reports

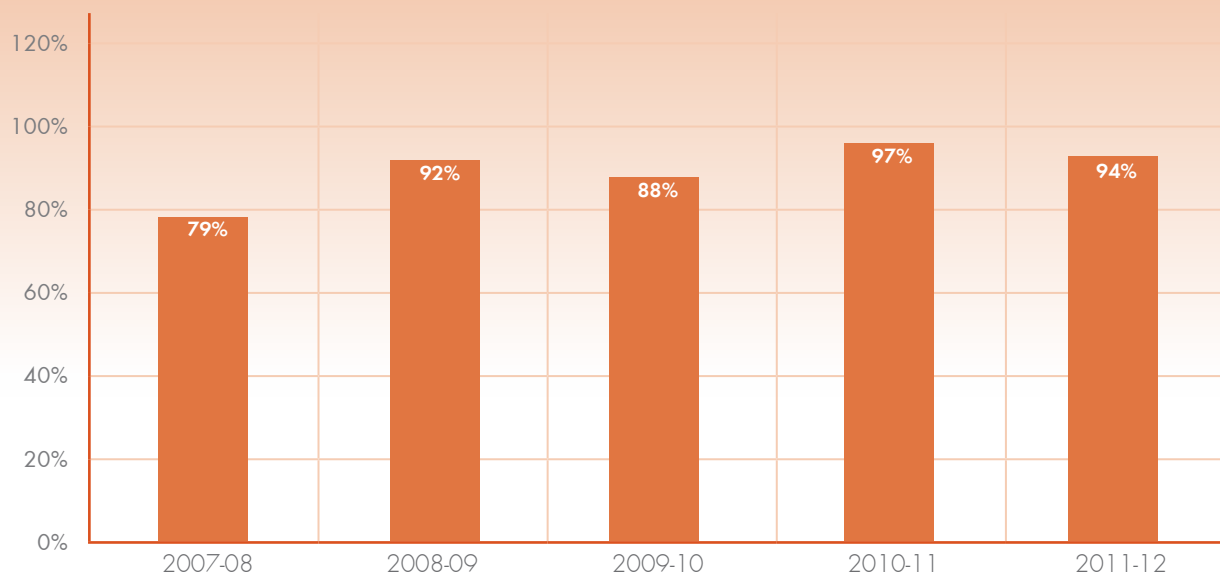
Table 8: Performance of the AGSA in meeting MFMA reporting deadlines

Entity	Total population of MFMA entities	Submission of financial statements as prescribed by the MFMA as a percentage of total audits performed by the AGSA		Completion of the audit by the AGSA within the statutory deadlines where financial statements were submitted in accordance with MFMA requirements	
		Actual number	Actual %	Actual number	Actual %
Normal municipalities	283	268	95%	249	93%
Consolidated municipalities	36	33	92%	32	97%
Municipal entities	60	58	97%	57	98%
Aggregate	379	359	95%	338	94%

Exceeded completion target of

- PFMA reports (target: 90% vs actual: 96%)
- MFMA reports (target: 90% vs actual: 94%)

Figure 14: Timeliness results for MFMA trend analysis period 2008-2012



In comparison to 2010-11, the current year's compliance for MFMA audit reports is 3% lower. The main reasons for this were poor quality of financial statements received by the audit teams and unavailability of senior staff members at the auditees at critical times during the audits.

### Timeliness of performance audit reports

The Performance Auditing Business Unit has embarked on specialisation in order to enhance their capacity and skills to ensure that they can address strategic government objectives and sectoral, thematic and/or systemic issues. They are in the process of increasing the breadth and depth of their research

on government programmes with the aim of influencing and directing key role players and increasing knowledge sharing and consultation with internal and external stakeholders. Strong emphasis is placed on the integration of performance auditing with regularity auditing and therefore the focus on separate performance audit reports has become less visible.

The consolidated (transversal) report on infrastructure delivery was tabled in Parliament on 6 September 2011. The provincial reports were tabled in the respective legislatures during November 2011 to coincide with the hearings on the transversal report.

Table 9: Timeliness of the AGSA in meeting performance report deadlines

Performance measure	Target 2011-12	Performance 2011-12
% compliance with statutory deadlines	95%	100%

The regulated deadline for the submission of performance reports was met.

### Timeliness of investigation reports

The Investigations Business Unit provided assistance to regularity auditing business units (ABUs) in various instances, within PFMA and MFMA deadlines. The findings were included in regularity ABU management letters. The Investigations Business Unit envisages not issuing separate reports in future.

Table 10: Timeliness of the AGSA in meeting investigation report deadlines

Performance measure	Target 2011-12	Performance 2011-12
% compliance with statutory deadlines	95%	66%

Of the three reports issued, two were provided within the deadline. Contributing to the non-achievement of the target were a number of factors, such as change in leadership at the auditees during the investigation, unavailability of the interviewees for a lengthy period of time, unavailability of

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documentation and failure by the auditees to meet deadlines for submitting management reports.

### Timeliness of corporate reports

We continued to submit our corporate reports, annual report and strategic plan and budget timeously as prescribed by the PAA.

Table 11: Timeliness of the AGSA in meeting corporate report deadlines

Performance measure		Target 2011-12	Performance 2011-12
% compliance with statutory deadlines	Annual report	100%	100%
	Strategic plan & budget	100%	100%

### Striving towards an ethical culture

In leading by example, we are committed to ensure that the AGSA's code of good practice, founded on the principles of the International Federation of Accountants (IFAC), INTOSAI codes of ethics and the AGSA's own procedures on ethical and independence requirements, is applied and adhered to. This is done by proactively creating awareness of the conduct expected of AGSA employees and its stakeholders to contribute to a highly ethical culture of public sector accountability, and thus to maintain our reputation, independence and objectivity.

A key priority is to manage risks effectively and proactively. Fraud and unethical behaviour can impact negatively on

the reputation of the organisation. In order to establish more transparent and reliable processes, the organisation intensified the 2011 annual ethics (integrity) declaration process, which requires each employee to disclose and/or declare all their interests.

This annual initiative includes the following aspects, which will be further developed and enhanced within the organisation:

- Analysis and monitoring of potential conflicts of interests
- Increasing awareness in terms of declaring financial, business and personal interests and reputational risks
- Maintaining a fair and transparent monitoring of the annual declarations submitted.

### Maximising the impact of transformation

We have aligned the relevant policies and procedures to the B-BBEE strategy and policy to ensure that the necessary tools and mechanisms are in place to meet our set objectives as well as contribute to the objectives as set out in the B-BBEE Act and the CA Charter (the chartered accountancy profession's sector code). Our commitment remains that of strengthening our democracy by assisting to achieve sustainable and inclusive economic development, social stability and labour-absorbing economic growth.

Through extensive engagement with our internal stakeholders, B-BBEE awareness has been created in the organisation to promote better understanding of the strategic alignment of B-BBEE and the codes of good practice and to enable the effective implementation of our B-BBEE plan.

The AGSA has been certified a level 3 contributor by the independent economic rating agency Empowerdex. In terms of target setting, we have used the B-BBEE code of good practice as a guideline in the implementation of our B-BBEE plan. Our focus for 2011-12 has been primarily on Codes 300 (*Employment equity*), 400 (*Skills development*), 500 (*Preferential procurement*), 600 (*Enterprise development*) and 700 (*Corporate social investment*), with the main intention of contributing to the growth of the auditing profession.

We looked specifically at skills development and preferential procurement with the intention of analysing the effectiveness of the current skills support to black employees and the extent to which black-owned and -managed enterprises have access to the AGSA's business.

### Preferential procurement

We have realigned our enterprise development plan so that the focus is on stimulating sustainable black enterprise development, contributing to the growth of the profession, and seeking innovative and creative solutions to enterprise development. This is part of our three-year plan so as to maximise our contribution and impact and maintain the sustainability of our enterprise development initiatives.

The criteria used for allocating work to BEE companies are indicated in Table 12.

Table 12: Allocation criteria and weighting

Criteria	Weights
Quality control results (as reviewed by IRBA)	30%
BEE (as defined in the AGSA's external guide)	70%

**We have realigned our enterprise development plan so that the focus is on stimulating sustainable black enterprise development**

While the allocation of work to small and medium firms grew from R310 million to R369 million between 2010-11 and 2011-12, we did not entirely reach our target of 40% on medium firms. Overall, we exceeded our target of 60% for work allocated to small and medium firms.

### Laying the foundation for an equitable tomorrow

The AGSA's approach to employment equity has not just been in terms of compliance and numbers. We utilise the national economically active population (EAP) as well as the regional and profession statistics to set realistic targets. We are aware of the challenges relating to skills capacity in the profession as

The AGSA actively pursues the allocation of outsourced work to small and medium-sized firms against preset targets.

Table 13: Allocation of audit work to private audit firms for 2011-12

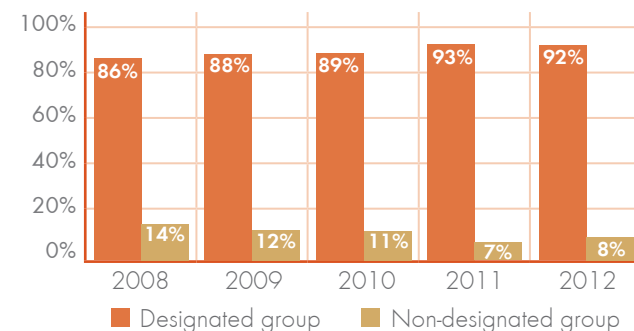
Size of firms	Actual 2012 (Rmil)	Actual 2011 (Rmil)	Actual allocation 2012 %	Actual allocation 2011 %	Budget 2012 (Rmil)	Budget 2011 (Rmil)	Allocation Targets 2012 %	Allocation Targets 2011 %
Big and large	217	233	37%	43%	205	210	40%	45%
Medium	223	236	38%	43%	205	164	40%	35%
Small	146	74	25%	14%	103	94	20%	20%
Total	586	543	100%	100%	513	468	100%	100%

well as the attraction of skills in some of the regions and thus have an exemption policy for the placement of non-target candidates. This is accompanied by an exemption plan which allows for the development of potential target candidates.

In 2011-12, the AGSA focused extensively on gender equality and embarked on an all-embracing disability awareness campaign to address gender- and disability-related challenges as identified in the 2010 employment equity report to the Department of Labour.

Tables 14 to 15 and figures 15 to 17 reflect performance against targets set for the performance year.

Figure 15: Employment workforce profile



During the last five years the percentage designated group employees increased from 86% to 92%.

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Table 14: Employment equity profile: economically active population targets per ethnic group and gender

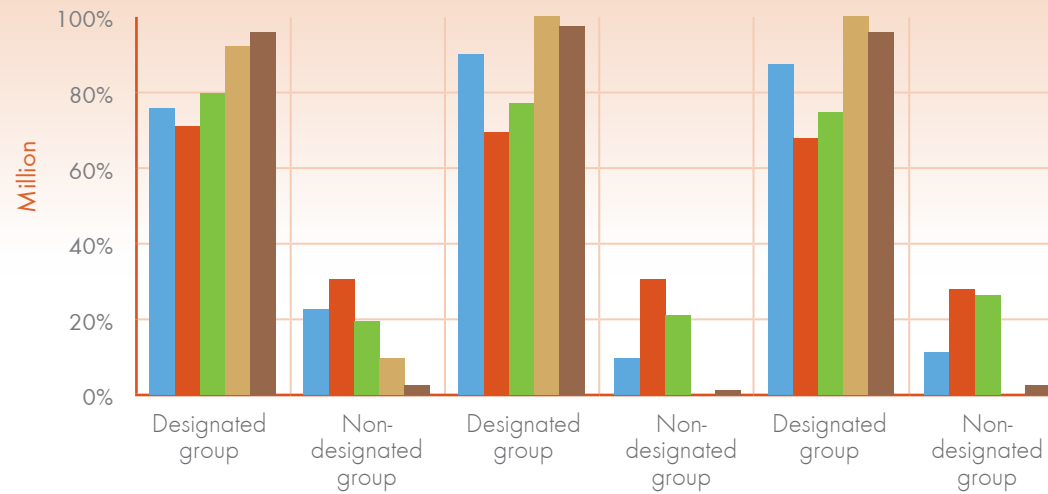
Race	2011-12				2010-11	
	Economically active population – male	Economically active population – female	Male	Female	Male	Female
African	39,2%	34,2%	29,6%	34,7%	30,5%	32,8%
Coloured	6,1%	5,2%	3,9%	3,7%	3,4%	3,9%
Indian	1,9%	1,1%	5,4%	4,6%	5,8%	4,2%
White	6,7%	5,5%	8,4%	9,0%	9,1%	9,7%
Disabled	0,0%	0,0%	0,4%	0,3%	0,2%	0,4%

Table 15: Achievement of B-BBEE targets in respect of employment equity (EE) (including trainee auditors)

Level	2011-2012			2010-2011		
	Designated group	Designated group	Non-designated group	Designated group	Designated group	Non-designated group
	Target	Actual		Target	Actual	
Band B	N/A	67%	33%	N/A	58%	42%
Band C	50%	60%	40%	43%	60%	40%
Band D	67%	61%	39%	63%	60%	40%
Bands E & F	75%	81%	19%	70%	78%	22%
Band G	N/A	98%	2%	N/A	98%	2%

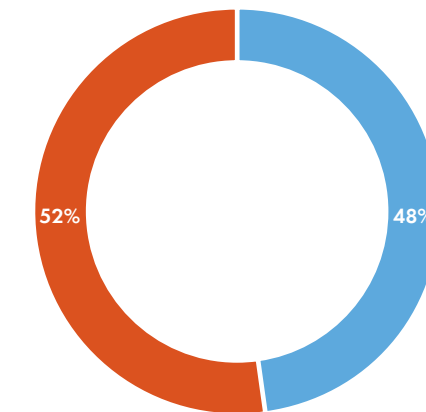
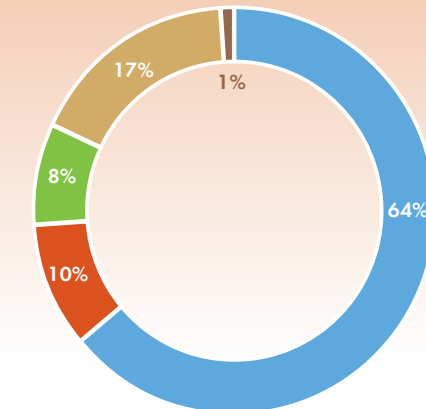
In 2011-12, the AGSA focused extensively on gender equality and embarked on an all-embracing disability awareness campaign

Figure 16: Achievement of EE targets in respect of designated group vs non-designated group (including trainee auditors)



	2011-12		2010-11		2009-10	
Band B	77%	23%	90%	10%	89%	11%
Band C	74%	26%	68%	32%	68%	32%
Band D	80%	20%	78%	22%	75%	25%
Bands E&F	92%	8%	100%	0%	100%	0%
Band G	98%	2%	99%	1%	98%	2%

Figure 17: Distribution of employees among ethnic groups and gender





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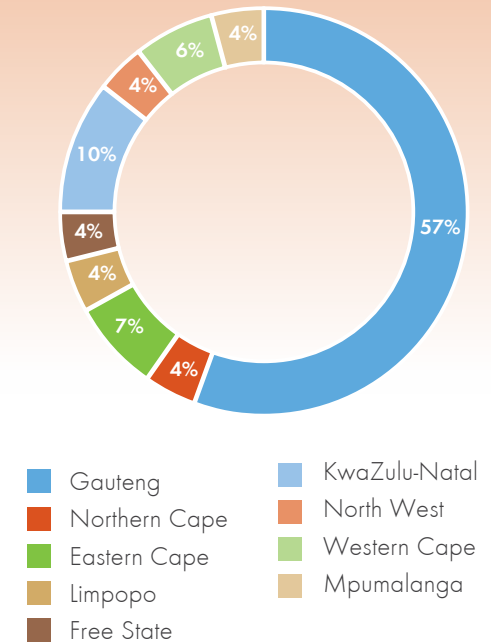
167 CSI schools visited

### Investing in excellence through corporate social investment

Our main approach to corporate social investment (CSI) as per our CSI plan is planting the seed towards educational freedom and making a meaningful contribution to the lives of the community members. This is done through our flagship CSI programme - the rural schools programme.

The focus of the CSI rural schools programme is to create awareness of the accounting and auditing profession to enable growth in the profession, thereby contributing towards the sustainability of the economy. This includes presentations to learners to influence them to select Mathematics as a school subject and an ongoing coaching and mentoring programme to improve their results in Maths and English.

Figure 18: CSI schools breakdown by province



Each business unit in all nine provinces adopted three high schools, with the focus on previously disadvantaged communities. The total number of high schools visited during 2011-12 was 167. This included career awareness sessions with the learners.

Our focus on community upliftment where the adopted schools are based was reflected in our collaboration with

Developing a culture of high-quality, life-long learning through the CSI programme

non-governmental organisations (NGOs), community-based services and leaders to assist in uplifting those communities and improving the lives of community members. These initiatives highlighted the challenges faced by these schools and how the lack of basic essentials influenced the learners' attitude towards their future and life in general.

Business units expanded their CSI initiatives through projects such as infrastructure improvement at high schools in North West. The lives of the vulnerable (women and children) were impacted through various initiatives such as painting the schools and feeding programmes for orphanages.

We formed a partnership with the Agricultural Research Council (ARC) with the objective of creating community vegetable gardens. This initiative has been piloted in Port Elizabeth, Kimberley and the North West. The gardens were made to create opportunities for community members and assist in providing a sustainable income for the communities. This initiative will be rolled out to the other provinces in the 2012-13 financial year.

Our staff eagerly participated in various national events such as Nelson Mandela Day and Women's Day. We aligned these events to our CSI plan and used the 1% net profit that was budgeted as per our CSI plan to fund these initiatives. Each business unit was allocated R10 000 to spend on various necessities for their adopted rural schools or for the communities within which the rural schools are based. The funds were used for, among others, the purchase of school

uniforms and books, school infrastructure repairs and learners' school fees.

As part of Women's Month, 20 female learners per province were hosted at the AGSA's offices nationally. These sessions created an opportunity for girl learners to interact with AGSA employees through one-on-one sessions, audit simulations and visits to auditees.

We also used our funds to purchase learning material in the form of study guides and calculators for the learners at our adopted rural schools. This assisted our learners to focus on their studies as the material and tools helped them to better absorb the content. We have worked in an integrated manner as an organisation and partnered with other growth programmes, specifically the bursary programme, to maximise our impact in terms of CSI.

## Leading by example through proactive risk management

### Proactive risk management

In past years, we made significant efforts to establish and embed sound risk management processes within our organisation. For the year 2011-12, we focused on enhancing our risk management processes to reach a higher degree of alignment with the King III Code of governance principles and other best practices, for example COSO (Committee of Sponsoring Organisations) and ISO31000 (International Standards Organisation). This was achieved by

revising our risk management framework to ensure that it capacitated our management and employees to apply it as second nature.

We improved the capacity of the risk management structures by redefining the roles and responsibility of all levels of staff with respect to the management of risk, reaffirming the leadership commitment to this imperative and conscious action and initiating an oversight committee to support the DAG in discharging his responsibility as the ultimate risk owner.

This way of life is best supported by the regular internal controls monitoring processes we revamped in the past year, where we not only focus on proactive identification of control deviations, but also investigate the root causes that led to these deviations, thereby enabling us to employ actions that bring about a sustainable and enhanced control environment. We believe that the improvement in this first line of defence has not only improved our control environment, but has also moved us a step closer to being the risk-intelligent organisation which we aspire to be.

As part of our strategic planning process, we perform a strategic risk assessment to identify and assess potential threats to the achievement of our strategic objectives. In preparation for the execution of our strategic objectives for the next financial year, we reviewed the remaining levels of exposure to the risks identified in the financial year 2011-12 and assessed potential threats to the 2012-13 objectives. The strategic risks identified demonstrate a more focused shift of

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the potential risk exposures from the previous years and are listed as follows:

- The basis and mechanism of our mandate are not always fully understood
- Failure to adequately understand and respond to priorities of our external stakeholders responsible for leadership, governance and oversight
- Inability to continue operating in a fast-changing environment
- Inability to have access to the right people and other resources to carry out our mandate
- Inability to adequately respond to transversal risks identified (internal and external)
- Unaffordable and unrealistic fees
- Inability to recover debt

It is evident in the risks identified that our stakeholders (internal and external) and the impact we make on them remain a priority for the AGSA. For each of the recognised risks, we identified additional controls to be implemented to ensure that the risks are reduced to an acceptable level, in line with our risk appetite. The same principles were also applied at business and process level throughout the year.

### Compliance with legislative and regulatory requirements

Compliance risk remains a focus area for the AGSA and has received elevated attention in the past year. We not only reviewed and updated our regulatory register, but also sought independent assurance on completeness and appropriateness.

We continue to manage our compliance risk through deliberate design of our business process, as defined within our policies and procedures, to ensure compliance with all our legislative and regulatory requirements.

### Independent assurance

We value our internal and external auditors as key contributors and role players within the risk management structure and processes. The outcome of the internal audits performed in the reporting year supports the improvements we have witnessed in our control environment. One of the key indicators of these improvements is the significantly reduced rate of repeat findings. We are confident that our audit findings resolution and tracking process has reached a level of sustained maturity. Yet again, we have sustained achievement of our strategic objective of a clean audit report, as reported by our appointed external auditors.

Table 16: Performance in respect of AGSA audit report

Performance measure	Target 2011-12	Actual performance
Achieve AGSA clean audit report	Clean audit report	Clean audit report

### Information and communications technology

Information and communications technology is our enabler and it is important to keep up with investment in this area.

### Production systems support

All information and communications technology (ICT) policies, procedures and the service level agreement (SLA) between

ICT and business units were reviewed to strengthen our internal IT control environment. The data analysis (QlikView) reporting tool was procured and the SLA reporting function was implemented within the tool. The PeopleSoft Customer Relationship Manager (CRM) tool was prioritised, as the existing eHelpdesk tool was rendered obsolete, thus hindering the provision of IT support services to our employees. We experienced delays in the implementation of the CRM tool due to unavailability of the necessary PeopleSoft skills for the project. This implementation is planned to be completed by May 2012.

## Alignment with King III in progress

### Enterprise resource planning

The PeopleSoft Human Capital upgrade, PeopleSoft Finance upgrade and automation of the termination process in PeopleSoft were planned for implementation in this performance year. The main objectives of the upgrade were firstly to mitigate the risk of business not being on the correct level of PeopleSoft application and secondly, to integrate seamlessly with other modules within the enterprise resource planning (ERP) solution and other business applications.

Despite the challenges in terms of PeopleSoft skills within the AGSA and the country in general, the projects were successfully implemented and went live in the production environment during the performance year. This achievement paves the way for further enhancing the ERP solution by implementing other key modules which were not part of

'Thank you AGSA, you've motivated me to study further, making me realise my potential.' – Dalena Pienaar (Barkley West Secondary)

this project, for example eRecruitment and ePerformance Management, and also by integrating these with other business applications within the organisation. The process of implementing e-Performance Management will be completed in the 2012-13 performance year. In addition, we are looking at integrating the budget tool into the overall ERP system.

#### ICT infrastructure and data centre upgrade

The procurement of equipment for data centre (storage) upgrade, renewal of video conferencing equipment and uninterrupted power supply systems was initiated and the implementation of these projects will commence in the next financial year.

Alternative audit software has been investigated and will be decided on during the 2012-13 performance year. The PFMA reports were published in e-book format to enable easy navigation of the content in the general reports through the hyperlinked table of contents, report section headers and pictures. This will be extended to other organisational publications.

#### Implementation of integrated management information systems / business intelligence tool

Process improvements continue to be a priority to ensure that systems deliver expected results in a timely and efficient manner. The AGSA Finance and Human Capital systems reached level 3 maturity by 31 March 2012. This means that all systems have policies and procedures that have been approved and communicated.

A pilot solution for Human Capital management information system (HC: MIS) reporting was developed, focusing initially on headcount reporting from various perspectives, for example by gender, race and job grade, with a roll-up and drill-down aligned with the AGSA's organisational structure. This project delivered positive impact in the first month, and was extended to include reporting on performance management and the employee wellness programme. This has resulted in integrity of MIS reporting and cost savings by moving from a manual to an automated process.

In addition, the online CE and BE performance management tools were developed as per plans. These solutions have been rolled out to the AG's and DAG's offices as the system owners. Both solutions will be used for the performance management of the executives, including BEs, CEs, the DAG and AG.

During the year under review we have succeeded in the empowerment of our ICT human capital through recruitment of two senior managers, qualified personnel, training and skills transfer to new personnel.

#### Electronic document and records management system (EDRMS)

In the financial year under review, we succeeded in setting up architecture for electronic records and document management. This will not only save space normally occupied by the physical records, but will also minimise the time spent on creating, reviewing and approving documents or records, without removing the credentials thereof.



AGSA staff members celebrating the centenary

## Successful hosting and celebration of Centenary 2011

### Knowledge sharing

To deliver on our mandate, the AGSA's workforce must be professional, motivated, skilled and knowledgeable about the environment in which we operate. In this regard, knowledge sharing among employees provided a platform where the following topics were discussed:

- Understanding the audit process
- Audit outcomes and the general report

In addition, renowned speakers were invited to share their knowledge and experience with the organisation on: the art of networking, potency of professionalism and fierce conversations.

### Celebrating 100 years of our existence

The year 2011 marked the 100th year of existence of the AGSA, and the year was spent celebrating this milestone achievement. The activities not only targeted the 100-year legacy of the organisation, but also sought to position the vision that the organisation has for its future as it executes its critical mandate for the country and beyond.

The objectives of the centenary events were to create awareness of the centenary among key stakeholder groups, to profile organisational milestones of achievement, to position South Africa as a leading country with auditing practices

ranking high in global terms, to engage the broader South African community in the celebration of the AGSA's centenary, to strengthen leadership visibility internally and externally, to position the employees of the AGSA and their families as passionate ambassadors of the AGSA brand.

The most significant interactions included family fun days for employees and their families in September 2011. Furthermore, a staff function that brought together all members from across the country was used to instil a sense of pride in the organisation and its achievements and to build on our culture of being a performance-driven organisation





The Head of State and other dignitaries at the centenary gala dinner



The year saw the establishment of the centenary scholarship fund

that values its staff and works effectively in teams. At the event we recognised those business units that had performed exceptionally well during the year under review.

A gala dinner was hosted for external stakeholders, attended by the South African Head of State, Hon. J Zuma, and several local dignitaries as well as Auditors-General or their representatives from eight supreme audit institutions from across the globe. Feedback has been overwhelmingly positive from both internal and external stakeholders. Our international counterparts highly commended the role of the AGSA and its overall utility to the country and the global community at large.

During the centenary celebrations valuable platforms were identified for engagement with non-constitutional stakeholders. Those included addressing the mayors, members of executive councils (MECs) and ministers at



# Section 3

## Performance review

Table 17: Legacy projects launched during the centenary celebrations

Activity	Purpose of the activity	Impacted stakeholders
AGSA university seminars	To strengthen AGSA visibility externally	External stakeholders
	To demystify the concept of auditing for the broader South African citizenry	
AGSA museum	To profile organisational milestones of achievement	Internal and external stakeholders
AGSA centenary scholarship programme	Aimed at leaving a legacy by contributing to the skills growth in the auditing profession	Internal and external stakeholders (scholars)
Centenary book	To assist the organisation to effectively create awareness of the centenary among key stakeholder groups	Internal and external stakeholders
	To profile organisational milestones of achievement	

the conference of the South African Local Government Association (SALGA) where the AG shared key messages on the overall audit environment within the local sphere of government. Further engagement took place in September 2011 at the conference of the Institute of Municipal Finance Officers (IMFO), where the AGSA delivered a key address

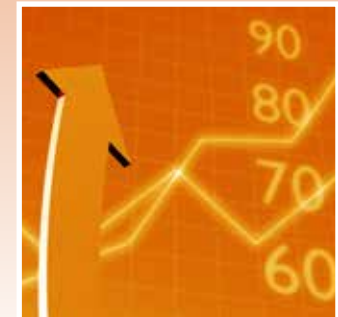
targeting mainly municipal finance officials. Other speaking engagements and visibility opportunities were undertaken, with presence of the AGSA leadership at several events of the professional bodies, including the South African Institute of Chartered Accountants (SAICA) and the Association of Black Accountants in South Africa (ABASA).



The Deputy Auditor-General addressing delegates at the AGSA gala dinner

During the centenary celebrations valuable platforms were identified for engagement with non-constitutional stakeholders

We are committed to running our organisation economically, efficiently and effectively



## FUNDING

We are committed to running our organisation economically, efficiently and effectively. In this way, we are able to contain our costs and therefore charge our auditees fees that are affordable. We are setting a net surplus target of 2,07% for 2012-13, which we believe will be adequate to enable us to enhance our infrastructure and invest in human capital development.

# Section 3

## Performance review

Key contributing factors for our financial results are as follows:

- Additional income/return generated from investments
- Under-spending on indirect overheads
- Our charge-out rates as approved through the funding model are proving to be effective

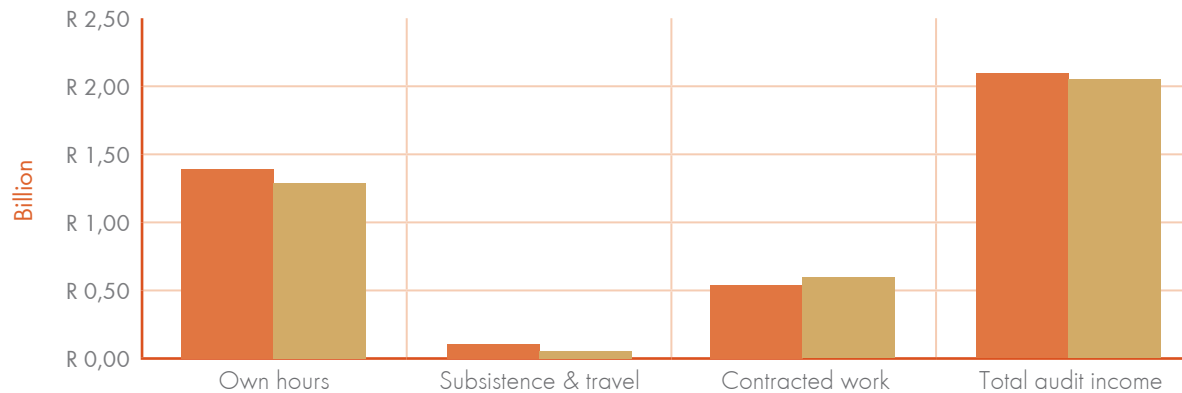
The key financial position and results are discussed in the sections below on financial performance.

### Audit income

Audit income is made up of revenue generated by our employees (referred to as own income), revenue generated by outsourced resources (audit work performed on our behalf by private audit firms) and recovery of subsistence and travel costs from our auditees. Our revenue is generated when we audit national, provincial and local government departments.

In the year under review our actual audit income was R2,074 billion (2010-11: R1,850 billion) against a budget of R2,088 billion (2010-11: R1,801 billion).

Figure 19: Actual audit income compared to budgeted audit income for 2011-12



<b>Budget (Rbil)</b>	R 1,46	R 0,12	R 0,51	R 2,09
<b>Actual (Rbil)</b>	R 1,41	R 0,09	R 0,57	R 2,07

Actual income of R2,074 billion against target of R2,088 billion

Table 18: Brief statement of comprehensive income over the period 2010 – 2012

	Budget 2012	Actual 2012	Actual 2011	Actual 2010
	(Rmil)	(Rmil)	(Rmil)	(Rmil)
Revenue	2 088	2 074	1 850	1 645
Direct audit cost	(1 400)	(1 449)	(1 298)	(1 155)
<b>Gross profit</b>	<b>688</b>	<b>625</b>	<b>552</b>	<b>490</b>
<b>Gross profit %</b>	<b>33%</b>	<b>30%</b>	<b>30%</b>	<b>30%</b>
Other income	3	5	44	23
<b>Contribution to overheads</b>	<b>691</b>	<b>630</b>	<b>596</b>	<b>513</b>
Overheads	(644)	(591)	(510)	(447)
<b>Surplus from operations</b>	<b>47</b>	<b>39</b>	<b>86</b>	<b>66</b>
Net interest income	31	60	47	33
<b>Total comprehensive income</b>	<b>78</b>	<b>99</b>	<b>133</b>	<b>99</b>

Table 19: Charge-out rate per hour from 2011 to 2012

	Budget 2011-12	Actual 2011-12	Actual 2010-11
	Rmil	Rmil	Rmil
Tariffs (R) per hour	489	491	458

Gross profit of 30% against target of 33%

### Tariffs (charge-out rate per hour)

Our revenue is generated by billing auditees for hours spent on audits based on published tariff rates per level of employee. The actual average tariff rate per hour was R491 (2010-11: R458) against a budgeted average tariff rate per hour of R489 (2010-11: R445).

### Gross profit

Gross profit for the current year remained at 30% (unchanged from the previous financial year) and is still within our target of 33%. The variance of 3% is mainly due to the present value adjustment of R32,9 million, which was not included in the 2011-12 budget. Present value adjustment is the adjustment in terms of Circular 9 of 2006 and International Accounting Standards (IAS) 18 to ensure that revenue is disclosed at fair value. Work outsourced to private audit firms is billed to our auditees at cost. There is no contribution to the recovery of our overheads and our surplus.

### Direct and indirect overheads

To control the increase in our audit fees we have managed our direct and indirect overhead expenditure. The actual percentage of direct overheads remained at 70% in 2011-12 against a budget of 67% (2010-11: 68%). The actual indirect overhead expenditure was 29% in 2011-12 (2010-11: 28%) against a budgeted expenditure of 31% in 2011-12 (2010-11: 32%).

# Section 3

## Performance review

Table 20: Comparison of actual vs budgeted gross profit percentage from 2011 to 2012

Description	2011-12		2010-11	
	Actual	Budget	Actual	Budget
Gross profit %	30%	33%	30%	32%

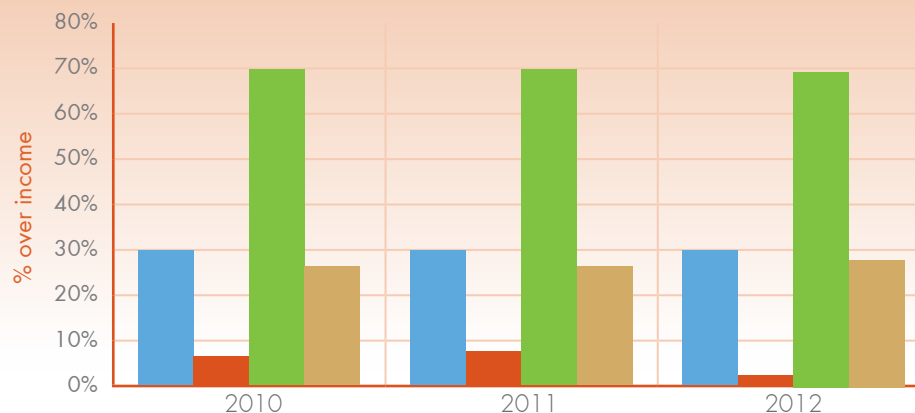
Table 21: Gross profit analysis over the period 2009-10 to 2011-12

	Budget 2011-12		Actual 2011-12		Actual 2010-11		Actual 2009-10	
	Rmil	%	Rmil	%	Rmil	%	Rmil	%
National departments	480	23%	374	18%	341	19%	320	19%
Provincial departments	500	24%	535	26%	485	26%	429	26%
Local government	587	28%	631	30%	547	30%	473	29%
Listed and other entities	491	24%	495	24%	451	24%	391	24%
<b>Total government entity audit income</b>	<b>2 058</b>	<b>99%</b>	<b>2 035</b>	<b>98%</b>	<b>1 824</b>	<b>99%</b>	<b>1 613</b>	<b>98%</b>
International audits	30	1%	39	2%	26	1%	32	2%
<b>Total audit income</b>	<b>2 088</b>	<b>100%</b>	<b>2 074</b>	<b>100%</b>	<b>1 850</b>	<b>100%</b>	<b>1 645</b>	<b>100%</b>
Audit staff expenses	770	37%	781	38%	689	37%	591	36%
Contract work - audit related	513	24%	580	28%	537	29%	502	30%
Audit-related subsistence and travel costs	117	6%	88	4%	72	4%	62	4%
Direct expenditure	1 400	67%	1 449	70%	1 298	70%	1 155	70%
<b>Gross contribution to fixed and operational costs</b>	<b>688</b>	<b>33%</b>	<b>625</b>	<b>30%</b>	<b>552</b>	<b>30%</b>	<b>490</b>	<b>30%</b>

Net surplus 4,79%  
(2010-11: 7,19%)  
against target of  
3,76%

## Other key financial indicators on the statement of comprehensive income

Figure 20: Summary of key financial indicators from 2010 to 2012



Indicator	2010	2011	2012
Gross profit	30%	30%	30%
Net surplus % of audit income	6,03%	7,19%	4,79%
Direct overheads	70%	70%	70%
Indirect overheads	27%	28%	29%

### Surplus

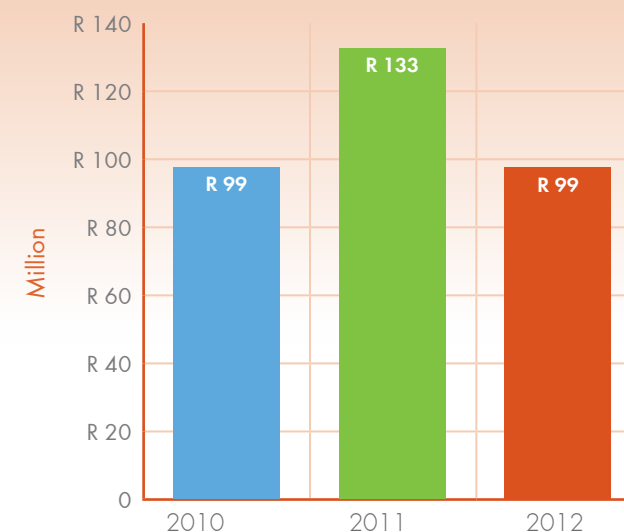
The AGSA continues to strive to keep its fees affordable for auditees. The actual surplus for 2011-12 was 4,79% (2010-11: 7,19%) against a budget of 3,76% (2010-11: 3,74 %). The actual surplus is higher than budget by 1,03% and is mainly due to interest income being higher than budgeted and significant under-spending on indirect cost in certain classes of operating expenses such as staff remuneration, professional

assistance and information technology projects. The under-spending was mainly due to delays in the commencement of certain projects.

### Financial position

The financial position of the AGSA showed a significant increase in equity. Details regarding our financial position are included in Table 22.

Figure 21: Net surplus trend analysis from 2010 to 2012



### Debtors

As at 31 March 2012, the total outstanding debt was R480 million (31 March 2011: R399 million) which amounted to 23% (2011: 22 %) of total revenue.

### Debt collection remains a challenge

Local government debt increased from R170 million in the previous year to R206 million as at 31 March 2012. This debt makes up 43% of the total debtors' book value (31 March 2011: 43%) before provision for bad debts and present value adjustment of debtors. Table 23 indicates that

Direct overheads in line with budget



# Section 3

## Performance review

local government debtors' days outstanding have increased from 204 days in 2010-11 to 233 days in 2011-12. During the year, various initiatives were undertaken to improve the collection from local municipalities and these are discussed in the paragraph below. Despite these initiatives by the AGSA, there is a concern that certain local municipalities and entities are still failing to settle their accounts/debt. Local debtors amount to an average of 33% of revenue from local auditees and should the collection problem continue it will result in a significant negative impact on our cash flow in the future.

Initiatives undertaken to improve debt collection in the year include:

- Continued engagements with the National Treasury, Department of Cooperative Governance and Traditional Affairs (CoGTA), provincial leadership and defaulting auditees in a bid to improve debt collection.
- Quarterly visits to auditees by our ABU leadership, which included, among other things, persuading non-paying auditees to make payments.
- Sending invoices to our auditees with accurate information and on time.
- Receiving an amount of R29 million from the National Treasury towards the debt payment of some of the low capacity municipalities. The amount we had expected from the National Treasury was R53 million. We did not receive the full amount expected due to the National Treasury's own budgetary constraints. Low capacity municipalities are those municipalities whose total audit fee exceeds 1% of their expenditure budget.

Table 22: Brief financial position from 31 March 2010 to 31 March 2012

	Budget	Actual	Actual	Actual
	2012	2012	2011	2010
	Rmil	Rmil	Rmil	Rmil
<b>Assets</b>				
Non-current assets	107	76	76	64
Current assets	658	835	717	577
<b>Total assets</b>	<b>765</b>	<b>911</b>	<b>793</b>	<b>641</b>
<b>Equity and liabilities</b>				
Equity	325	440	341	208
Non-current liabilities	89	75	82	74
Current liabilities	351	396	370	359
<b>Total equity and liabilities</b>	<b>765</b>	<b>911</b>	<b>793</b>	<b>641</b>

Table 23: Ageing for major categories of debtors (including accruals)

	31 March 2012		31 March 2011		31 March 2010	
	Rmil	Days Outstanding	Rmil	Days Outstanding	Rmil	Days Outstanding
National departments	63	15	50	13	67	19
Provincial departments	124	37	110	27	106	59
Local departments	206	233	170	204	140	162
Statutory bodies	58	79	49	91	44	94
<b>Total amount</b>	<b>451</b>		<b>379</b>		<b>357</b>	

Figure 22: Summary breakdown of total debt by sphere of government from 2010 - 2012

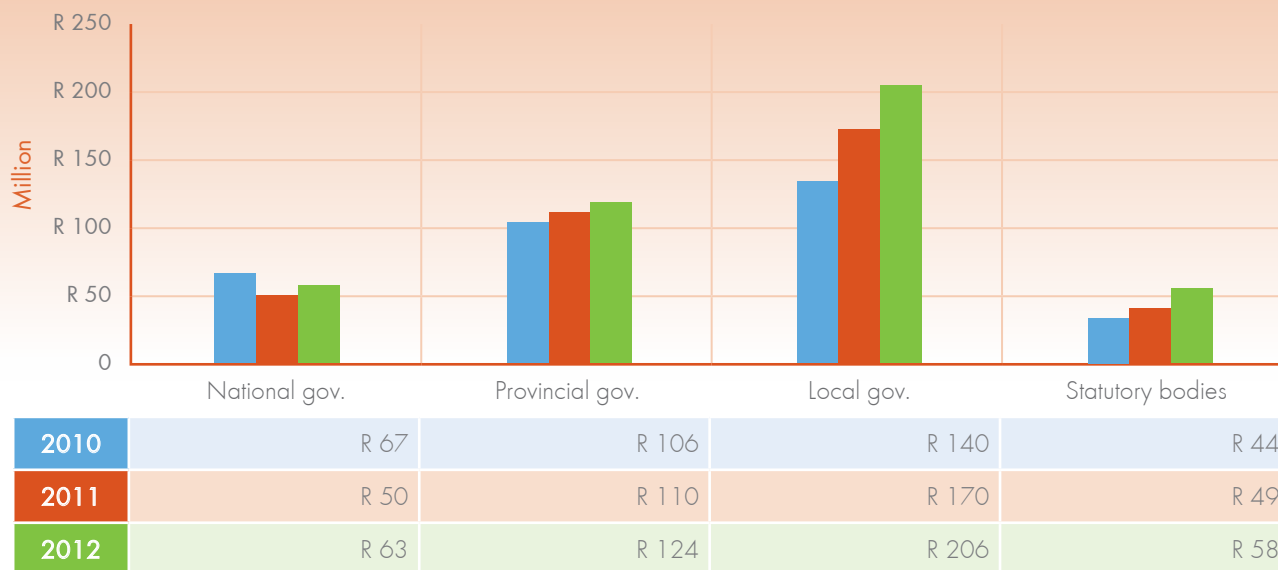


Table 24: Creditors average days

	Budget 2012 days	Actual days 2012	Actual days 2011
Creditors days	45	31	34

Table 25: Quick test ratio performance

Description	2011-12		2010-11	
	Actual	Budget	Actual	Budget
Quick test ratio	2,11	1,48	1,94	1,37

## Creditors

The creditors balance increased from R94 million in 2010-11 to R110 million in 2011-12. As part of our 'Leading by example' strategic objective, we ensure that we pay our creditors within the agreed time frames, as shown in Table 24. We intend to retain our current payment target of 45 days for the foreseeable future. The improvement in creditors days is due to the availability of funds that makes it possible for us to pay our suppliers on time, as it is our desire to build strong relations with our suppliers so that we are regarded as their preferred customer.

## Quick test ratio

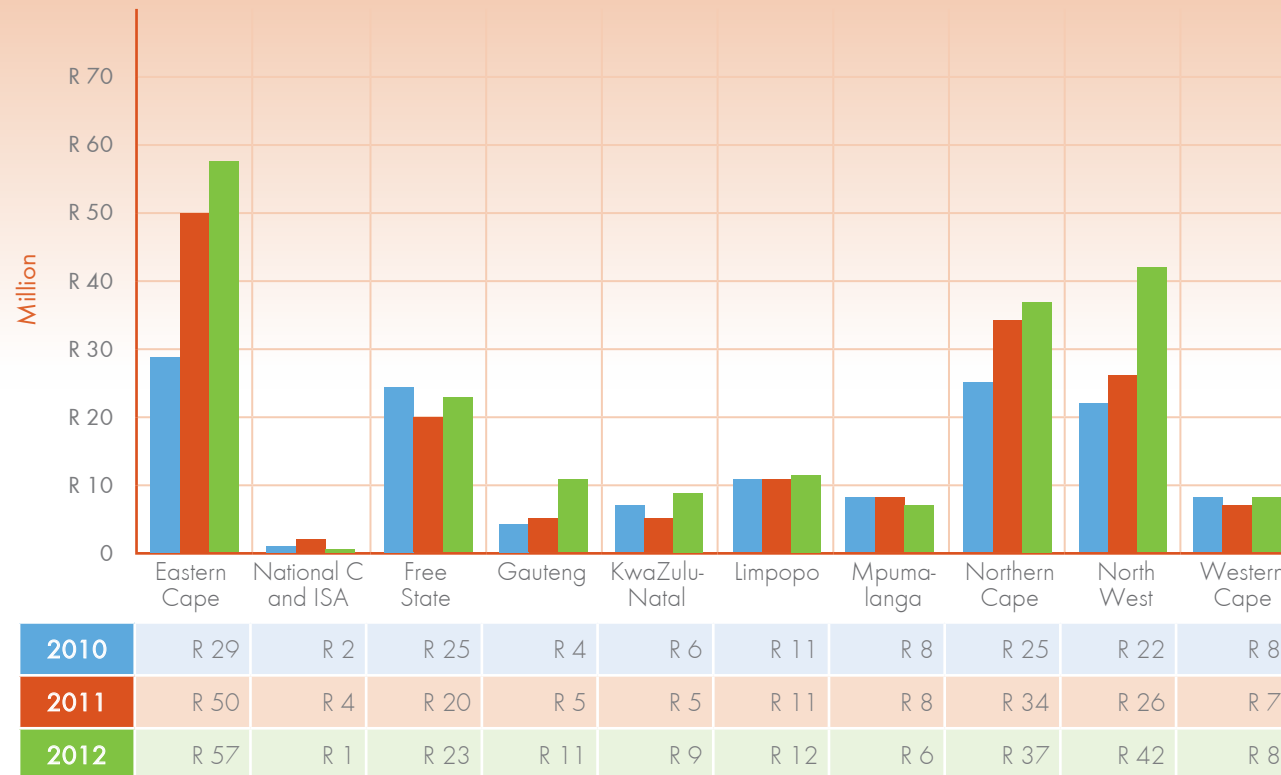
The effective management of working capital is crucial to meeting our ongoing financial obligations. Our working capital management methodology has been effective to ensure we are in a healthy cash flow position when comparing current assets with current liabilities. Our actual quick test ratio is 2,11 (2010-11: 1,94) against budget of 1,48 (2010-11: 1,37). However, the collectability of local government debtors, which is a significant part of our debtors balance, remains a concern and our key focus area.

We continue to trade in a healthy financial position. The closing cash balance improved from R352 million in 2011 to R415 million as at 2012. 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.

# Section 3

## Performance review

Figure 23: Local government debt by province as at 2010 to 2012



Quick test ratio of 2,11 (2010-11: 1,94) against target of 1,48

Creditors days 31 (2010-11: 34) against target of 45 days

The AGSA strives to be recognised as an institution that makes a difference to the lives of individuals



## Section 4

### SUSTAINABILITY PERFORMANCE REVIEW



The AGSA  
acknowledges  
the importance of  
environmental  
and sustainable  
development issues

Several initiatives that supported environmental sustainability were undertaken

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



## SUSTAINABILITY PERFORMANCE REVIEW

King III best practices advise that an organisation's board should ensure that the organisation is and is seen to be a responsible corporate citizen, appreciate that strategy, risk, performance and sustainability are inseparable, and realise that sustainability reporting and disclosure should be integrated with the company's financial reporting. Integrated reporting brings together material information about the organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how the organisation demonstrates stewardship and how it creates and sustains value.



# Section 4

## Sustainability performance review

Integrated reporting provides a clear and concise representation of how the organisation demonstrates stewardship and how it creates and sustains value

The AGSA acknowledges the importance of communicating the results of its work and the importance of the environmental and sustainable development issues. Taking into account the increased interest from external and internal stakeholders and the widening range of audit services provided, the AGSA compiled its first integrated annual report this year. This is also in line with the INTOSAI recommendations to emphasise the importance of sustainability and the principles of good governance, transparency and accountability.

The AGSA strives to be recognised as an institution that makes a difference to the lives of individuals and organisations by being responsive to changing environments and stakeholder expectations, without compromising independence.

### Integrated management of sustainability

Integrated reporting is not just about combining financial and non-financial information in one report, but reflects the manner in which the management of sustainability issues is embedded in the fabric of the organisation. The AGSA has already achieved a high level of integrating the management of sustainability issues in its core business. Many of these issues are, therefore, already integrated in the five main goals of the AGSA that are reported on in the previous sections. The AGSA will strive towards further integration of the remaining environmental sustainability aspects. Sustainability performance information is reported

not only in this chapter but also in the preceding chapters, in which case we cross-refer to such information below.

### Organisational profile

The AGSA is a constitutional institution reporting directly to Parliament. It is responsible for auditing of all government departments, public entities, municipalities and other public institutions. The AGSA is a self-funding organisation with its income derived from its auditees. The AGSA's organisation, geographical operations, constitutional and legislative mandate, and business model are described in detail in section 2 on pages 24-27. The AGSA has offices in all nine provinces of South Africa as well as in New York. The constitutional and legislative mandate of the AGSA describes the basis for providing its services and the market served.

### Material issues

The operating context (page 30) summarises the key issues with which the organisation is faced and which help shape the AGSA strategy. It addresses the organisation's political, economic, social and environmental context.

### Stakeholder engagement

The AGSA conducts an intensive stakeholder engagement programme with all its internal and external stakeholders, which includes direct involvement of the AGSA leadership

under its visibility programme. Section 3 on pages 42-49 reports in detail on our engagement with our employees, Cabinet, executive authorities in all spheres of government, parliamentary oversight structures, auditees, media, the National Treasury, regulatory and professional bodies, and contracted private firms. Our international collaboration activities are also described.

### Governance

Information on governance is provided in section 6 on page 110. The governance framework and associated committees, both internal and external to the organisation, are reported on, these being the building blocks for the operational sustainability of the AGSA.

Wherever applicable, appropriate cross-referencing to information integrated in the sections on performance review will be made in the sections on economic, environmental, social and cultural sustainability below.

### Economic sustainability

The economic dimension of sustainability concerns the AGSA's impact on the economic conditions of its stakeholders and on economic systems at local, national and global levels. Economic indicators illustrate the flow of capital among different stakeholders and the main economic impact of the AGSA throughout society.

Financial performance is fundamental to understanding an organisation and its own sustainability. This information is reported in the financial statements (page 126). Detail on the financial sustainability of the AGSA by means of the application of its funding model is reported in the section on funding (page 80).

### Value-added statement

The AGSA creates value for its internal and external stakeholders through sustainable economic growth and development encompassing a number of elements. In adding value to the public, the AGSA strives for efficiencies in our audit process to ensure that our audit fees are affordable to auditees and creates jobs both internally and along the value supply chain, catering for small, medium and micro- enterprises (SMMEs). We are committed to provide our stakeholders with quality service and subscribe to high ethical business practices and standards. Table 26 reflects the flow of capital from auditees on the one hand (responsible for revenue) to other stakeholders, i.e. suppliers, employees, providers of capital and the community.

### Defined benefit plan

The AGSA 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. Details on the provision for this liability are disclosed in the financial statements (page 132). In order to reduce the financial risks for the organisation associated with defined benefit plans, these benefits are not applicable to employees appointed under the permanent new conditions.

### Corporate social investment

The AGSA has an active corporate social investment programme including, among others, a rural schools programme, a feeding programme for orphanages, community vegetable gardens, bursaries for accounting students and other support to several academic accounting departments. These activities are described in more detail in the chapter on leading by example (page 73), as well as in the section on external bursaries on page 58. CSI spending during the review period was approximately R2 million (2010-11: R0,6m) whereas more than R12 million was spent on external bursaries (similar to 2010-11).

CSI spending increased from R0,6m to R2 million

# Section 4

## Sustainability performance review

Table 26: Summary value-added statement for the past three years

	2012		2011		2010	
	%	Rmil	%	Rmil	%	Rmil
Revenue	-	2 074	-	1 850	-	1 645
Paid to suppliers	-	(891)	-	(757)	-	(699)
Value added by operation	-	1 183	-	1 093	-	946
Interest income	-	71	-	57	-	42
Total value added	-	1 254	-	1 150	-	988
Applied as follows:						
Paid on internal and external empowerment	1,12%	14	1,13%	13	1,32%	13
• Corporate social investment	0,16%	2	0,09%	1	0,10%	1
• Bursaries – external	0,96%	12	1,04%	12	1,22%	12
Paid on employees and internal empowerment	87,88%	1 102	84,26%	969	85,22%	842
• Salaries, wages and benefits	85,33%	1 070	82,09%	944	82,19%	812
• Employee wellness	0,24%	3	0,09%	1	0,20%	2
• Study assistance - internal	0,72%	9	0,69%	8	0,61%	6
• Training	1,59%	20	1,39%	16	2,22%	22
To pay providers of capital	0,80%	10	0,87%	10	0,81%	8
• Finance cost	0,80%	10	0,87%	10	0,81%	8
Re-invested in the business	10,20%	128	13,74%	158	12,65%	125
• Depreciation	2,31%	29	2,17%	25	2,63%	26
• Retained income	7,89%	99	11,57%	133	10,02%	99
Total value added	100%	1 254	100%	1 150	100%	988





The recycling of paper and subscription to electronic newspapers to support the going green initiatives

### Preferential procurement

The AGSA's enterprise development plan (EDP) focuses on stimulating sustainable black enterprise development, with particular focus on contributing to the growth of the profession, and seeking innovative and creative solutions to enterprise development, focusing on specific services (contract work creditors or CWC). By means of this EDP we strive to maximise our contribution and impact and maintain the sustainability of our enterprise development initiatives.

Exceeding our target (60%), we allocated 63% (2010-11: 57%) or R369 million (2010-11: R310 million) of our outsourced audit work to medium and small firms. More details are disclosed on [page 70](#).

### Indirect economic impact

Arguably the most important economic impact the AGSA has, is by means of its audits. By identifying wasteful expenditure and enhancing proper spending of public funds, the AGSA contributes directly to proper financial management in the public sector and in so doing, to economic development in the country. In addition, its activities increase the level of trust among foreign investors in South Africa's economy and reduce perceptions about corruption.

### Environmental sustainability

The environmental dimension of sustainability concerns the AGSA's impacts on natural systems, including land, air and water. The environmental indicators cover performance related to inputs (material, energy, water) and outputs (emissions and waste) and initiatives to improve environmental performance.

The AGSA highlighted the importance of 'walking the talk', in other words, ensuring that practices within the organisation are consistent with the objectives of environmental protection (for example, paperless meetings).

Several initiatives that supported environmental sustainability were undertaken. These initiatives ranged from energy consumption initiatives to waste minimisation, business travel initiatives, the recycling of paper and subscription to electronic newspapers to support the going green initiatives in the organisation.

### Energy

Electricity consumption data are not yet available due to the lack of monitoring systems. We are currently in the process of establishing the necessary systems and will use 2012 data as the baseline for future reporting and comparison.

### Energy efficiency initiatives

The AGSA implemented various energy efficiency initiatives.

# Section 4

## Sustainability performance review

Table 27: Energy-saving initiatives

Initiative	Description	Benefit
Virtual servers	Standardisation of server environments to virtual server technology in its regional and head office data centres; through virtualisation a single server is used for several applications.	Increased efficiency of server usage and considerable reduction of the total energy consumption.
Chillers for cooling on the roof of the Head Office building with fresh air-dampers	Compressors switch off when the outside temperature is lower than the required office room temperature of 23 degrees Celsius. The water pumps and air-handling units keep running and outside colder air is used to decrease the water temperature.	Energy savings because the compressors do not run.
Timers and low-energy globes to control lights	Timers are set so that office lights switch off between 18:00 and 21:00 at night and switch on at 06:00 the next morning. The lights have an override switch to keep power on for another hour after it has been pressed.	Energy savings as a result of the lights being switched off during the night.
Light sensors and motion detectors in offices	Light sensors and motion detectors were installed in some of our offices. The motion detectors ensure that the lights are switched on when a person enters the office and lights will switch off automatically after a set period of time after the person has left.	Expected significant savings on electricity usage in the long run.

The network equipment on which the AGSA has standardised has also been awarded the Miercom Green certification for energy consumption

The network equipment on which the AGSA has standardised has also been awarded the Miercom Green certification for energy consumption.

## Water

### Water consumption

Water consumption data is currently not available due to insufficient monitoring systems. The AGSA is committed to establish the necessary water monitoring systems and report on water consumption during the next reporting cycle.

### Water efficiency initiatives

Table 28 sets out initiatives that were implemented during the reporting period to start using water more efficiently.

### Waste minimisation

In an effort to reduce the requirement for printed documentation during Exco meetings, 20 Ipad tablet devices were supplied to Exco members and ICT at a total cost of R150 000. The feedback received from Exco members indicated that the pilot project was successful and the further roll-out of tablet devices is currently being considered.

Multifunction printing devices that are configured to print back-to-back by default, saving approximately 50% on paper usage, were installed. Comparable data will be available during the next reporting period.

### Recycling of paper

For the past year, we recycled paper and subscribed to electronic newspapers to support the going green initiatives in the organisation. Newspapers and used paper were collected and recycled and the money collected was used

Table 28: Water-saving initiatives

Initiative	Description	Benefit
Sprinkler timers	Timers were installed on the sprinkling systems to reduce water consumption. Smaller amounts of water applied over a longer period of time provide ideal growing conditions.	Water consumption savings of approximately 30%.
New variable refrigerant volume air-conditioning in Polokwane and East London	These air conditioners do not use water. In addition, because no water is used no leaks occur, thereby reducing damage to office furniture.	Savings with regard to water consumption.

for CSI projects, i.e. buying uniforms and stationery for the needy learners in adopted schools. Quantitative data on the AGSA's paper recycling initiatives will be provided in the next report.

Furthermore, a subscription to electronic newspapers was initiated, beginning with top management, to create an environmentally friendly office space and limit the number of newspapers and time spent distributing them. No cost was incurred by undertaking these initiatives; on the contrary, the AGSA has managed to centralise the collection and recycling of used paper. In the future, the library will replace its subscriptions to traditional paper magazines and journals with modernised electronic-based ones.

### Minimising carbon emissions

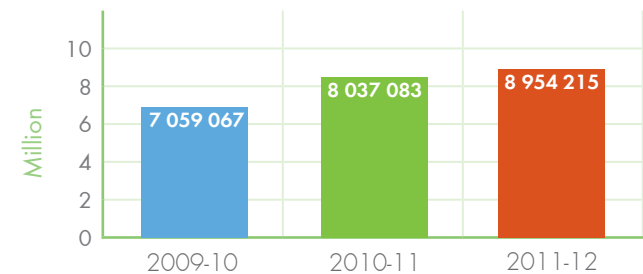
Business travel is probably the main source of the AGSA's

carbon emissions. In future the AGSA will determine and report on its carbon footprint.

### Business travel initiative

The total kilometres travelled by our own staff increased from 7,059 million km in 2009-10 to 8,037 million km in 2010-11 and 8,954 million km in 2011-12.

Figure 24: Kilometres travelled for business purposes



# Section 4

## Sustainability performance review

The average number of kilometres travelled per employee increased from 2 776 (2009-10) to 2 953 (2010-11). During 2011-12 this increased further to 3 097 km travelled per employee. This increase is due to the intensification drive and increased visibility of the AGSA which require more follow-up visits to auditees.

**Table 29: Average business kilometres travelled per employee**

	2011-12	2010-11	2009-10
Total km travelled (millions)	8,954	8,037	7,059
Average km per employee	3 097	2 953	2 776

To reduce the requirement for physical travel, we initiated several technological solutions as set out below:

- Video conferencing systems were used for a total of 454 meetings during the year which removed the need for the participants to travel and achieved a saving of approximately R1,3 million.
- Staff have access to a facility to connect remotely to the AGSA systems from their laptop computers and this reduces the requirement to travel to update and/or read information.

### Indirect environmental impacts

The indirect environmental impacts of the AGSA are associated with its performance audits, qualified audit opinions issued to auditees and international activities.

During the previous reporting period some municipalities received qualified audit opinions due to the fact that these municipalities did not disclose a provision for the rehabilitation costs of landfill sites under their control. This qualification ultimately forced municipalities to have a closer look at the management of the landfills, which in turn led to improvement of waste management. Similarly, the Department of Defence was encouraged to start disclosing its environmental liabilities, which has led to an active programme by the department to identify, quantify and manage these liabilities.

The AGSA performed 23 environment-related performance audits between 1993 and 2010 (the latest one being the audit on *The status and coordination of climate change initiatives in the country*). These performance audits raised government's awareness of the importance of the environment.

The AGSA participated in a number of environment-related activities during the 2011-12 financial year. Building on the commitments and resolutions of the XXth INCOSAI, the AGSA fostered relations with external organisations with a view to enhancing environmental and other sustainability matters and reporting.

- We participated in the first preparatory meeting of the World Congress on Justice, Governance and Law for Environmental Sustainability, which took place on 12 and 13 October 2011 in Kuala Lumpur, Malaysia, where the Kuala Lumpur statement was drafted. This will serve as input document for Rio+20 that is taking place in Rio de Janeiro in June 2012.

Water-saving initiatives implemented



Staff numbers  
increased from  
2 722 to 2 891



Thuthuka bursary recipients celebrate their graduation

- During a meeting of the INTOSAI Working Group on Environmental Auditing (WGEA), held in Buenos Aires, Argentina from 7 to 10 November 2011, the AGSA played a leading role.
- The AGSA hosted an exhibition booth on behalf of the WGEA at the UN 17th Conference of the Parties (COP 17).

### Future environmental outlook

The AGSA is committed to improve its environmental performance and will, during the next reporting period, set targets for the environmental indicators, which will be reported in the next report.

### Social sustainability

The social dimension of sustainability concerns the impact the AGSA has on the social systems within which it operates. We have divided the social systems into the external social system and the internal cultural system.

### Study bursaries

The social programmes we embark on include external study bursaries for talented young people, mostly from previously disadvantaged communities. We currently sponsor 119 students with bursaries. The AGSA is a donor to the Thuthuka Bursary Fund for sponsoring CA students. We are also

# Section 4

## Sustainability performance review

collaborating with the University of Limpopo and the University of Fort Hare. (See [page 59](#) for more details.)

### Rural schools programme

The focus of the CSI rural school programme is to create awareness of the accounting and auditing profession to enable growth in the profession, thereby contributing towards the sustainability of the economy. This includes presentations to learners to influence them to select Mathematics as a school subject and ongoing coaching and mentoring programmes to improve their results in Maths and English. (More details on this programme can be found on [page 73](#).)

### Enterprise development

We have accelerated efforts to drive enterprise development to ensure development of black entrepreneurs and businesses by means of the realignment of our enterprise development plan so that the focus is on stimulating sustainable black enterprise development in the accounting and auditing profession.

### Trainee auditor scheme

The trainee auditor scheme (TA scheme) of the AGSA developed into a recognised strength and sustainable drive behind qualifying professionals in the AGSA and the public sector at large. The TA scheme is actively managed and this involves, among others, the monitoring of academic progress, practical guidance by qualified supervisors, study support for academic progression and non-financial recognition of good performance. Although some trainees

are retained, the AGSA contributes to the sustainability of the profession by the flow of trained auditors into the market.

### Cultural sustainability

The cultural dimension of sustainability concerns the impact the AGSA has on its employees. A significant amount of information on the development and training of the AGSA's employees, as well as its wellness programme, is reported in the section on human resources ([page 50](#)).

### AGSA employee profile

The global and national competition for talent is growing increasingly fierce and the AGSA needs skills that are scarce and in demand. The AGSA remains focused on our multifaceted strategy to build a motivated, high-performing and diverse workforce and ensures that people are at or near the top of our agenda to contribute to accountability

and good governance. The AGSA's workforce has increased steadily in the last few years in order to respond to the changes in government as well as the changes associated with the implementation of new accounting frameworks.

### Staff turnover

At 15% (2010-11: 11%) staff turnover is still below the industry average of 17%. This is a result of the competitive environment in which the AGSA operates. (See [page 52](#) for more details.)

### Diversity

Relevant policies and procedures have been aligned to the B-BBEE strategy and policy to ensure that the necessary tools and mechanisms are in place to meet our set objectives as well as contribute to the objectives as set out in the B-BBEE Act and the CA Charter. B-BBEE awareness has been created in the AGSA to create

Figure 25: AGSA's total staff numbers (2009-12)

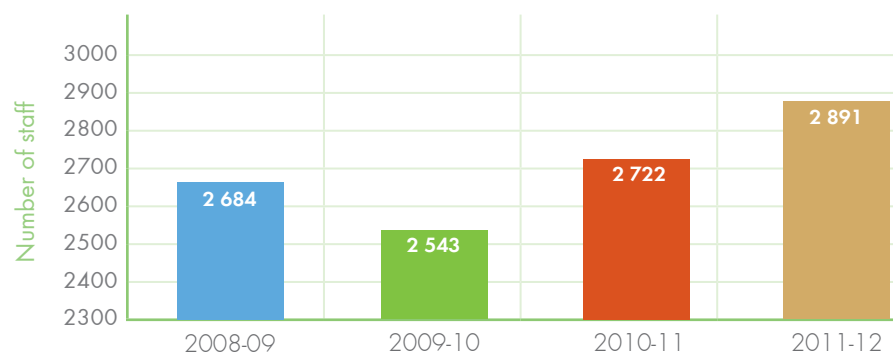
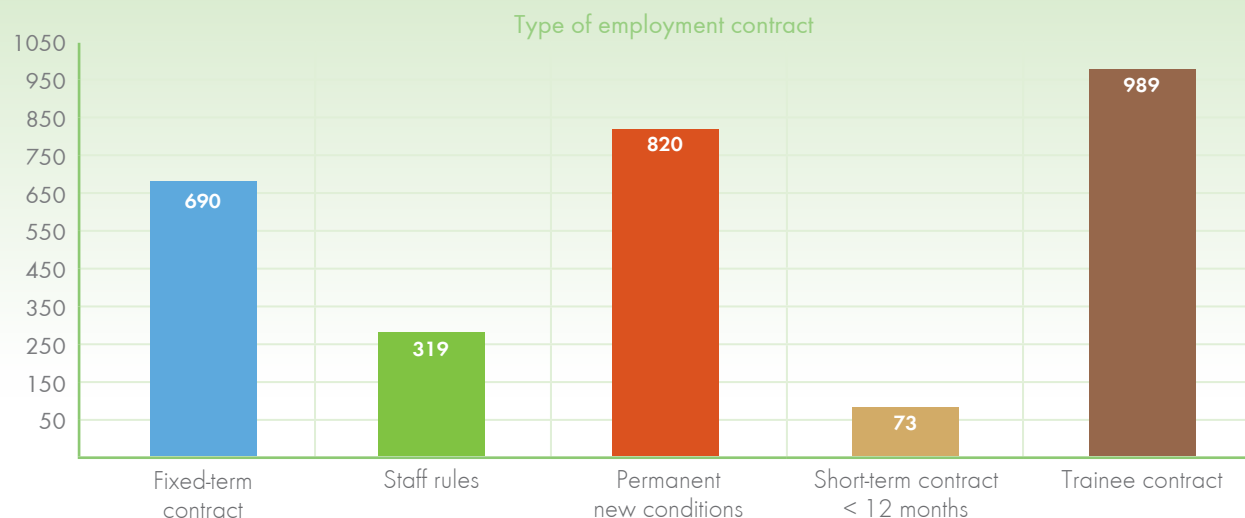


Figure 26: Number of employees per employment contract type



Note: Fixed-term contract: term duration of 12 months  
 Short-term contract: term duration shorter than 12 months  
 Staff rules: appointed on specific set of conditions before 2002  
 Permanent new conditions: appointed on new conditions from 2002  
 Trainee contract: people doing articles for a period of 3 years

better understanding of the strategic alignment of B-BBEE and the codes of good practice and to enable the effective implementation of our B-BBEE plan, thereby contributing to the strategic goal of leading by example. During the last five years the percentage designated group employees increased from 86% to 92%. (Details on our achievements regarding diversity in the workplace can be found on [pages 51-52.](#))

### Employee training

The AGSA's multifaceted strategy to build a motivated, high-performing and diverse workforce encompasses, among other things, developing and retaining talent and creating prospects for the long-term growth of our people. This includes support provided to continuing learning and professional development to assist employees to maintain, develop, update and expand

their knowledge and skills in their fields of expertise. A detailed overview of various capacity building programmes is provided on [pages 54-61.](#)

### Ethics

We strive to manage risks effectively and proactively. Fraud and unethical behaviour can negatively impact on the reputation of the organisation. In order to establish more transparent and reliable processes, the organisation intensified the 2011 annual declaration submissions. The annual declaration process requires each employee to disclose and/or declare all their interests.

### Employee relations

The AGSA is striving to create a workplace conducive to the development of positive employee relations. Employment policies and procedures minimise negative consequences for the organisation by clearly communicating the employer's and employees' expectations and complying with applicable labour legislation, laws and related regulations. Unfortunately, employee-related incidents still happen.

### Occupational health and safety

The management of occupational health and safety (OHS) within the AGSA is a new concept and meeting the minimum legal requirements is a key strategic objective. The implementation of OHS is also aligned to the key strategic goals of the AGSA. Commitment from the leadership would be the driving force that will result in a successful OHS system within the AGSA. The main objective is to ensure that all staff

# Section 4

## Sustainability performance review

Table 30: Summary of disciplinary incidents in 2011-12

	2011-12	2011-10
Number of employee relations incidents logged	22	18
Resolved through dismissal	4	8
Resolved through demotion (as an alternative to dismissal)	2	1
Resolved through written warnings	14	9
Resolved through suspension (as an alternative to dismissal)	1	-
Resolved (employee resigned before the process could be completed)	1	-

**Health and safety manuals and procedures are being developed**

Table 31: Summary of CCMA cases in 2011-12

	2011-12	2011-10
Number of CCMA cases logged	13	11
Settled	3	2
Withdrawn	2	-
Dismissed in favour of AGSA	4	6
Unfavourable decisions against AGSA	2	-
In progress	2	3

and stakeholders of the AGSA enjoy the benefits of working in a safe and secure environment in accordance with the Occupational Health and Safety Act, 1993 (Act No. 85 of 1993) and any other applicable legislation.

During the year under review, the AGSA identified various projects and initiatives to ensure that it improves compliance with applicable legislation. These include the following:

- A draft copy of an OHS policy is in the process of being approved.
- An OHS gap analysis of the AGSA's Head Office, Western Cape BU and Parliamentary offices was conducted. The gap analysis for other business units will be completed in the next financial year.
- A draft OHS strategic plan for 2012-13 is being compiled to address the compliance issues highlighted in the gap analysis.
- A health and safety manual and procedures are being developed to raise OHS awareness among employees and service providers.
- Industrial extractor fans were installed to remove the carbon dioxide emitted by cars parked in the basement of buildings.

### Accident reports and investigations

During the year under review, the AGSA's accident statistics report January 2011-12 reported the following accidents: a total of six injuries at Head Office, three of which were first-aid cases. There were 13 minor accidents and 37 incidents in respect of which no thorough inspections of hired vehicles were conducted.

### Future outlook and objectives of OHS

The AGSA remains committed to providing a safe and healthy environment to its employees and external stakeholders. The following future initiatives will ensure that the AGSA achieves full compliance with relevant OHS regulations:

- Electing health and safety representatives
- Establishment of Health and Safety Committees
- Development of an emergency plan and procedures
- First-aid training and health and safety training
- Establishment of first-aid room with supplies and equipment

### Employee wellness programme

Apart from the OHS programme, we also treasure the wellness of our employees and work towards sustaining our workforce by means of the wellness programme (see [page 51](#) for more detail).

Social economic  
development will remain  
one of our key objectives



# Section 5

KEY STRATEGIC PRIORITIES FOR 2012-13





We will place emphasis  
on reporting against  
predetermined objectives to  
encourage improvements in  
service delivery

We will continue to ensure  
the AGSA is regarded as a  
model institution that  
leads by example



# Key strategic priorities for 2012-13

## SIMPLICITY, CLARITY AND RELEVANCE OF OUR AUDIT MESSAGES

Much has been achieved in delivering clear and relevant messages to our auditees; however, we as the AGSA team believe there is a need to allow the process to mature by building on our experiences and interactions. Therefore, we will persist in delivering audit reports that clearly establish the status of financial and performance management in the public sector and rightly diagnose the root causes that contribute to the audit results in order to influence improvements in managing public funds.



# Section 5

## Key priorities



AGSA leadership visible at the Professional Standards Committee 9th SC meeting

We will continue to follow up on the impact of previous commitments and intensify our interaction with legislative oversight authorities

We will place emphasis on reporting against predetermined objectives to encourage improvements in service delivery. We will further enable our stakeholders to understand our messages and act on them by using a variety of methods to convey the audit results. We engage with the media as a popular form of communication and sharing information.

### **Intensify the visibility of our leadership**

The organisation's leadership is multifaceted and impacts on

a variety of stakeholders, both internally and externally. Our contribution to accountability and good governance in the public sector is not only dependent on the quality of our audits and reports, but also on the extent to which we succeed in sharing our insights with those in charge of public resources so that they are empowered to take the necessary corrective actions. We will, therefore, intensify the visibility of the AGSA's leadership through purposeful interaction. We will continue to follow up on the impact of previous commitments and



AGSA staff members at a workshop

The focus for our personnel will be the employee wellness programme and improving occupational health and safety within the AGSA

intensify our interaction with legislative oversight authorities. Internationally, the organisation will continue to maintain its position as one of the most active SAIs through the collective efforts of the INTOSAI working groups.

### Unleashing the potential of our human capital

At the AGSA, people are our main asset; they are the organisation's agenda. We will continue to develop our human capital focusing on a holistic approach that integrates talent development, performance management, transformation and capacitating our employees with all the necessary skills. Sector demands require our auditors to have a unique set of knowledge and skills which are not necessarily part of the auditor's training programme. A new Learning and Development unit will undertake the task of closing the knowledge and skills gaps for all audit and non-audit employees. All our efforts are expected to result in a high-performing, diverse and enthusiastic workforce that is well aware of the organisation's goals and objectives and has all the tools and skills to deliver on the mandate of the institution.

### Ensuring financial sustainability of our organisation

The AGSA's financial stability will be enhanced by concentrating on a stable cash flow and optimal margins. We are committed to running our business economically,

efficiently and effectively while offering extended service to our stakeholders. We will continue to use best available processes to compile our budgets, responding to changes in the public service environment by way of better value-adding approaches such as horizontal and sectoral audits. Debt collection remains one of our main financial challenges and we have put various measures in place to ensure that a proper discipline of providing for and paying audit fees is encouraged at our auditees. Where applicable, we will continue to influence the determination of the audit fees of the contract firms used for some of the public audits to ensure both the PFMA and MFMA audits remain affordable for the public sector.

### Leading by example

We will continue to ensure the AGSA is regarded as a model institution that leads by example as we believe this is a prerequisite for the effectiveness of stakeholder cooperation. We will demonstrate our leading role by upholding our independence and through transparency and accountability for all our activities, adherence to a strict code of ethics, service excellence, effective communication and exemplary governance. The measure of our transparent accountability remains our own clean audit report and our identity as a transforming organisation. We will continue to ensure that adequate internal controls exist to govern our day-to-day activities and that the effectiveness of those controls is

# Section 5

## Key priorities

independently assessed. All our products will be delivered on time and with appropriate quality, including our audit and general reports and our corporate reports in the form of an annual report and the strategic plan and budget.

An overarching priority for us is the diligent execution of the transformation agenda, which entails continuously deepening our understanding of South Africa's public sector and serving the sector with passion, while maintaining our independence and reflecting the profile of the South African society at all levels in the organisation.

### **Sustainability performance**

We are committed to undertake sustainability initiatives focusing on addressing the impacts of the AGSA during the next financial year. High-priority initiatives will include reducing electricity and water consumption, minimising the generation of waste and reducing paper usage. We will measure and report on our carbon footprint and reduce the environmental impact of our business travel. Social economic development will remain one of the key objectives with focus on CSI and skills development and training. We will emphasise the development of diversity and equal opportunities, which will include B-BBEE spending. The focus for our personnel will be the employee wellness programme and improving occupational health and safety within the AGSA.

A new Learning and Development unit will undertake the task of closing the knowledge and skills gaps for all audit and non-audit employees

Maintaining effective, efficient and transparent systems of financial management, risk management and internal control



# Section 6

GOVERNANCE AND REMUNERATION POLICIES  
INDEPENDENT ASSURANCE REPORT  
AUDIT COMMITTEE CHAIRPERSON'S MESSAGE



The King III Code has an apply-or-explain approach, deliberately avoiding the term 'comply'

The AGSA has undertaken to **lead by example** in all internal processes

The AGSA, as a unique constitutional institution, will endeavour to apply the King III Code



## GOVERNANCE AND REMUNERATION POLICIES

### **King III and other governance codes**

The AGSA has noted the requirements of the King III Code and undertaken to apply this code where applicable, specifically prioritising the area of risk management, in view of the fact that the AGSA is a constitutional institution. The protocol on corporate governance in the public sector, dated September 2002, is not addressed separately as the principles contained in the protocol are incorporated in the King III Code, which is now applicable to all entities.



# Section 6

## Governance and remuneration policies

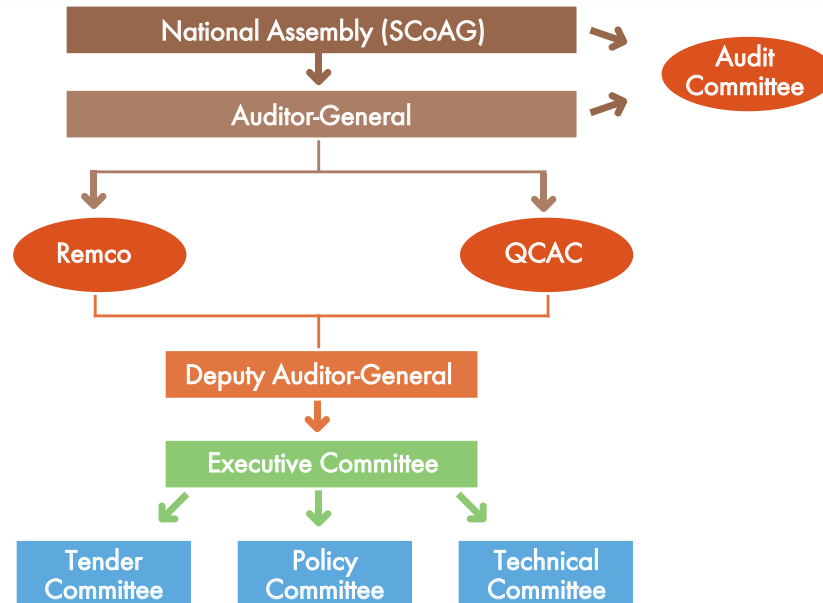
The King III Code has an apply-or-explain approach, deliberately avoiding the term 'comply'. We are satisfied that, where we do not adhere to King III recommendations, alternate governance controls are in place and can be appropriately explained.

### Corporate governance

The AGSA has undertaken to lead by example in all internal processes. The AGSA has thus embarked on a review of the King III Code, resulting in a process to amend the Public Audit Act, our governance legislation. This will

The AGSA's governance structure is shown in the figure below.

Figure 27: Governance framework of the AGSA



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



and has impacted on our governance framework and processes. The terms of reference of the Audit Committee and Remuneration Committee have been reviewed to ensure alignment to King III.

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

The Constitution and the PAA determine the oversight function of the Standing Committee on the Auditor-General (SCoAG). In terms of its legislative mandate SCoAG is required to fulfil the following role:

- to assist and protect the AG in order to ensure the independence, impartiality, dignity and effectiveness of the AG and to advise the National Assembly accordingly;
- to make recommendations to the President on the conditions of employment of the AG;
- to provide general oversight requirements in terms of section 55(2)(b)(ii) of the Constitution;
- to annually appoint an independent firm of external auditors;
- to 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 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;
- to 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; and
    - e) the code of conduct for authorised auditors, including standards of professional conduct, disciplinary steps for misconduct, and any other relevant matter.

One of the key issues SCoAG is dealing with is the issue of the conditions of employment of the current Auditor-General and the interaction with the Remuneration Committee.

Table 32: Members of the National Assembly who served on SCoAG in 2011-12

Political party	Representative
ANC	Masutha M (Adv)
	Tsebe S (Ms)
	Ndabandaba L
	Nxumalo D (Ms)
	Moloto K
	Yengeni L (Ms)
	Bikani F (Ms)
DA	Luthuli A (Dr)*
	George DT (Dr)
COPE	Dreyer A (Ms)#
	Koornhof N
IFP	Singh N
	Lebenya PS

\* Ms S Shope-Sithole replaced Dr A Luthuli (ANC) in January 2012

# Mr J Steenhuisen replaced Ms A Dreyer (DA) in January 2012

# Section 6

## Governance and remuneration policies

Table 33: Dates and purpose of SCoAG meetings held in 2011-12

Date of meeting	Purpose of meeting
23 February 2012	First term Programme and Outstanding Matters
10 November 2011	Audit Directives: Auditor-General's briefing, Adoption of Committee Report and Minutes
13 October 2011	Auditor-General of South Africa's Draft Budget and Strategic Plan 2012-2015 & Draft Audit Directives
14 September 2011	Committee Report on AGSA Annual Report 2010-2011: Postponement of Planned Study Tour to Canada
8 September 2011	Auditor-General of South Africa Annual Report 2010-11: First Briefing
29 June 2011	Auditor-General of South Africa briefing on the roadshow of the Municipal Audit Outcomes: Update on International Study Tour & Oversight visits to Eastern Cape and North West Provinces
8 June 2011	SC Auditor: Finalisation of the Remuneration Committee matter
1 June 2011	Remuneration of Auditor-General: Committee Report on Oversight visit to the Auditor-General of South Africa (AGSA) Head Office

SCoAG is required to assist and protect the AG in order to ensure the independence, impartiality, dignity and effectiveness of the AG

## 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.
- Appointment and approval of the AGSA's internal auditors, supervision of all internal audit activities and delivery on an agreed internal audit coverage plan.

- Examination and review of the preparations made to ensure accurate financial reporting.
- 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. Further detail on the Audit Committee's performance against their mandate can be obtained in the report of the Audit Committee on page 121.

## 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 to the AG 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

Table 34: Attendance record of Remco in 2011-12

Member	24 June 2011	29 February 2012
Bussin, Mark	✓	✓
Moloi, Mpuseng	✓	✓
Nkomo, Bernard	✓	✓
Samodien, Nazlie	✓	✓
Makwetu, Thembekile	✓	Apology
Jabavu, Lindelwa	✓	✓

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

# Section 6

## Governance and remuneration policies

- Any other human resource management issue which the AG may wish to table for discussion

During the year, Remco also advised SCoAG on the AG's conditions of employment.

### 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 AG's management approval framework. Exco met 16 times during the 2011-12 financial year,

dealing with the implementation of strategic initiatives and monitoring management information for issues and trends.

Exco is chaired by the DAG and consists of all the corporate executives. The committee meets on average eight times during the year and holds special meetings at regular intervals. It 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, Technical Committee and Policy Committee:

- The Tender Committee promotes a fair tender culture by

ensuring that 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.
- The Policy Committee reviews all policies and recommends them to Exco for approval to ensure an integrated approach and strategic alignment of policies.

Table 35: Attendance record of Exco in 2011-12 (period of April 2011 - July 2011)

Member	6 April 2011	21 April 2011	11 May 2011	24 May 2011	14 June 2011	19 July 2011	28 July 2011
Makwetu, Thembekile	✓	✓	✓	✓	✓	✓	✓
Serote, Paul	✓	✓	Apology	✓	Apology	✓	Apology
Zungu, Eugene	✓	✓	✓	✓	✓	✓	Apology
Wheeler, Barry	✓	✓	✓	Apology	✓	✓	✓
Jabavu, Lindelwa	✓	✓	✓	Apology	✓	✓	✓
Muller, Alice	✓	✓	✓	✓	✓	✓	✓
Van Schalkwyk, Jan	✓	✓	✓	✓	✓	✓	✓
Vanker, Imran	✓	✓	✓	✓	✓	Apology	✓
Bhana, Pramesh	✓	✓	✓	✓	✓	✓	✓

Table 36: Attendance record of Exco in 2011-12 (period August 2011 to November 2011)

Member	18 August 2011	14 September 2011	27 September 2011	25 October 2011	7 November 2011	14 November 2011
Makwetu, Thembekile	✓	✓	✓	✓	Apology	Apology
Serote, Paul	✓	Apology	Apology	✓	Apology	✓
Zungu, Eugene	✓	✓	✓	✓	Apology	✓
Wheeler, Barry	Apology	✓	Apology	✓	✓	✓
Jabavu, Lindelwa	✓	✓	✓	✓	✓	✓
Muller, Alice	✓	✓	✓	✓	✓	✓
Van Schalkwyk, Jan	✓	✓	✓	✓	✓	✓
Vanker, Imran	✓	✓	✓	✓	Apology	✓
Bhana, Pramesh	Apology	✓	✓	Resigned	Resigned	Resigned
Lourens, George (Acting from October 2011)				✓	✓	✓

Table 37: Attendance record of Exco in 2011-12 (Period January 2012 to March 2012)

Member	26 January 2012	20 February 2012	28 March 2012
Makwetu, Thembekile	✓	✓	✓
Serote, Paul	✓	✓	✓
Zungu, Eugene	✓	✓	✓
Wheeler, Barry	✓	✓	Apology
Jabavu, Lindelwa	✓	✓	✓
Muller, Alice	✓	✓	✓
Van Schalkwyk, Jan	✓	✓	✓
Vanker, Imran	✓	✓	✓
Lourens, George (Acting from October 2011)	✓	✓	✓
Bhana, Pramesh (resigned October 2011)	Resigned	Resigned	Resigned

# Section 6

## Governance and remuneration policies

### Quality Control Assessment Committee

The Quality Control Assessment Committee (QCAC) is an oversight body that assists the AG and DAG to fulfil their responsibilities for implementing a system of quality control in the AGSA as mandated in the policy on the monitoring of QC compliance to ensure adherence to standards as per section 13(1)(a) of the PAA.

The committee is required to monitor the elements of a system of quality control through the performance of quality control reviews, at both institutional and engagement level. This is also a requirement of the International Standards on Auditing (ISAs).

Further detail on the results and the outcome of the monitoring at engagement level for 2011-12 is found in the performance information relating to Commitment 5 - Leading by example: Quality of audits performed on [page 64](#).

Table 38: Attendance record of the QCAC in 2011-12

Member	2 May
Nombembe, Terence	✓
Barac, Karin	✓
Biesman-Simons, John	Apology
Makwetu, Thembekile	✓
Vanker, Imran (Alternate to DAG)	✓

### Remuneration policies

The AGSA's approach to the remuneration of employees and senior managers is similar in that remuneration in both cases is informed by comprehensive salary market benchmarks. The benchmarks are utilised to develop competitive pay scales aimed at ensuring our attraction and retention goals are achieved. The following key principles are considered when implementing remuneration for employees:

- Paying for performance and where applicable, scarcity of skills
- Cost-to-company offers that are competitive
- Affordability
- Observing governance requirements applicable to reward and recognition

The AGSA's reward structure integrates a combination of reward and recognition options such as the guaranteed package, benefits, performance bonuses, recognition programmes, career development opportunities and the entire work experience. With reward and recognition being viewed as one of the contributors to attraction and retention, the AGSA had planned to implement long-term incentives as well as non-financial reward and recognition programmes. These have been delayed and will receive attention in the new performance year.

Future factors that will most likely influence remuneration include but are not limited to:

- inflation fluctuation
- demand and supply of skills
- governance requirements.

We believe the evidence we  
have obtained is **sufficient and  
appropriate** to provide a basis  
for our conclusions



## INDEPENDENT ASSURANCE REPORT



# Section 6

## Independent assurance report

### TO THE AUDITOR-GENERAL

We have undertaken an assurance engagement on selected sustainability information as described below and presented in the Integrated Annual Report (the report) of the Auditor-General for the year ended 31 March 2012.

We have complied with the International Federation of Accountants (IFAC) Code of Ethics for Professional Accountants, which includes comprehensive independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We are required to provide assurance as follows:

1. **Limited assurance on the following sustainability information**

**Environmental sustainability** - The initiatives undertaken in respect of energy consumption, waste minimisation, recycling of paper and business travel.

**Stakeholder interactions** - The list of stakeholders engaged: government, auditees, contracted firms, professional bodies, public regulators, international collaboration, employees, section 4 (3) entities, and media.

2. **Reasonable assurance on the following sustainability information**

**Economic sustainability** - value-added statement and the financial performance results from applying of the funding model.

**Social sustainability** - allocation of contract work to different categories of firms; and corporate social investments - amounts and initiatives.

**Cultural sustainability** - employment equity profile, AGSA employee profile, number of employees who attended the wellness programme, staff occupancy and turnover, financial support for skills development and training, partnerships and amounts donated, number of employees attending leadership and management programmes, number of disciplinary incidents, the number of Commission for Conciliation, Mediation and Arbitration (CCMA) cases and safety-related incidents.

3. **Reasonable assurance on the Auditor-General's self-declaration of the GRI C+ Application Level**

### Deputy Auditor-General's responsibilities

The Deputy Auditor-General is responsible for the selection, preparation and presentation of the sustainability information, the identification of stakeholder requirements and material issues, for commitments with respect to sustainability reporting, and establishing and maintaining appropriate internal control systems from which the reported information is derived, and for such internal control as determined to be necessary to

enable the preparation of the report that is free from material misstatement, whether due to fraud or error.

The Deputy Auditor-General is also responsible for the selection and application of the criteria detailed below:

- The GRI G3.1 Guidelines applied to sustainability information; and
- The GRI G3.1 Guidelines on the Auditor-General's self-declaration of the GRI C+ Application Level.

### Auditor's responsibility

Our responsibility is to express assurance conclusions on the selected sustainability information based on our work performed. We have conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE 3000), *Assurance Engagements other than the Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform our engagement to obtain assurance about whether the selected sustainability information is free from material misstatement.

Our procedures and the extent of our procedures depend on our judgement including the risks of material misstatement of the selected sustainability information. In a limited assurance engagement, the evidence-gathering procedures are less than where reasonable assurance is expressed. In making our risk assessments, we considered internal control relevant to the

Auditor-General in the preparation of the report.

The evaluation criteria used for our assurance are based on:

- The GRI G3.1 Sustainability Reporting Guidelines for Level C+ Application
- Relevant reporting guidelines and methodologies for selected GRI G3.1 indicator parameters as set out in the report.

## Summary of work performed

Our work included the following evidence-gathering procedures:

- Interviews with management to evaluate the application of the GRI G3.1 Guidelines and to obtain an understanding of the control environment relative to the reported sustainability information.
- Inspecting documentation to corroborate the statements of management in our interviews.
- Testing the processes and systems to generate, collate, aggregate, monitor and report the selected sustainability information.
- Inspecting supporting documentation.
- Conducting an application level check on the report to evaluate whether all disclosure requirements of the GRI C+ Application Level have been adhered to.
- Evaluating whether the information presented in the report is consistent with our findings, overall knowledge and experience of sustainability management at the Auditor-General.

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

## Conclusions

### 1. On the selected sustainability information on which we are required to express reasonable assurance

In our opinion, the selected sustainability information for the year ended 31 March 2012 is fairly stated, in all material respects, in accordance with the GRI G3.1 Guidelines.

### 2. On the selected sustainability information on which we are required to express limited assurance

Based on our work performed, nothing has come to our attention that causes us to believe that the selected sustainability information for the year ended 31 March 2012 is not fairly stated, in all material respects, in accordance with the GRI G3.1 Guidelines.

*Kwinana Equifin Inc.*

**Kwinana Equifin Incorporated**

Registered Accountants & Auditors

Michiel Jacobsz Kruger

28 July 2012

Alenti Office Park, Block A

457 Witherite Street

The Willows Ext 82

Pretoria



# Audit Committee

## Chairperson's message

This report is provided by the Audit Committee for the financial year ended 31 March 2012 in compliance with the requirements of section 40(6) of the Public Audit Act (Act No. 25 of 2004) (PAA). 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. The Audit Committee's terms of reference are reviewed annually to ensure relevance and recommended for approval by the Auditor-General.

### Committee membership

The Audit Committee consists of four independent, non-executive members. 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. Biographical details of the current members of the committee are available on request.

The committee met three times during the period under review, as per the terms of reference. Members' attendance at the meetings held during the year was as follows:

Table 39: Attendance record of the Audit Committee

Committee member	Jul 2011	Nov 2011	Feb 2012
MP Moyo (Chairperson)	✓	✓	✓
S Badat	✓	✓	✓
RJ Biesman-Simons	✓	✓	✓
N Mthombeni	✓	✓	✗

Two Audit Committee members, MP Moyo and RJ Biesman-Simons retired by rotation and were reappointed during the

financial year, to ensure continuity. Committee member S Badat resigned from the audit committee in May 2012 to take up a position overseas.

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 were invited to attend all the committee meetings.

The Audit Committee confirms that for the period under review, it has discharged its duties and responsibilities in accordance with the terms of reference as they relate to the AGSA's accounting, internal auditing, internal control and financial reporting practices.

## Overview of activities

The committee has overseen the integrated annual reporting process and more specifically the following, during the year under review:

- In respect of the external auditor and the internal audit function, the committee, amongst other matters:
  - reviewed and approved the internal audit coverage plan and the budget for the 2012-13 financial year
  - considered the internal audit reports throughout the year on the adequacy and effectiveness of the control environment, governance structures and processes
  - reviewed significant issues raised by internal audit and the adequacy of corrective action in response to significant audit findings

- reviewed and confirmed the retention of KwinanaEquifin Incorporated as the external auditor until the end of the next financial year
- agreed, in consultation with executive management, to the external auditor's engagement letter, audit plan and budgeted audit fees for the financial year
- obtained an annual written statement from the external auditor that their independence was not impaired
- obtained assurance from the external auditor that proper and adequate accounting records were being maintained and that the internal control systems safeguarded the assets against unauthorised use or disposal thereof
- considered whether any reportable irregularities were identified and reported by independent auditors
- met separately with management, external audit and internal audit
- met with SCoAG to discuss the annual financial statements, the performance of the institution and the control environment, amongst other things.

- In respect of the financial statements, the committee, amongst other matters:
  - considered whether the annual financial statements fairly present the financial position of the institution 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 corrected and uncorrected misstatements.

- In respect of internal control and risk management, the committee, insofar as it is relevant to its functions:
  - reviewed the AGSA's risk management governance and processes as outlined in the *Risk management framework*
  - reviewed the strategic risk profile, including risks as they pertain to the strategic direction of the AGSA
  - received a written assessment of the effectiveness of the AGSA's system of internal controls and risk management from SizweNtsalubaGobodo, 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 model and management initiatives, the committee formed the opinion that the controls within the AGSA are adequate and effective to manage identified risks.

The activities of the different assurance providers indicate a greater awareness of the potential efficiency of assurance

# Section 6

## Audit Committee Chairperson's message

processes through the continuous removal of duplications, more focus on risk-based assurance against key areas of the AGSA and a consolidated view of the control universe.

### Evaluation of the annual financial statements

Following the review by the Audit Committee of the annual financial statements of AGSA for the year ended 31 March 2012, 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, financial results and operations at that date.

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

### Internal auditors

Internal audit is an independent, objective assurance and consulting activity, outsourced to SizweNtsalubaGobodo. The internal auditors have a functional reporting line to the Audit Committee and an administrative reporting line to the Deputy Auditor-General.

The three-year risk-based internal audit plan was approved by the Audit Committee, prior to execution. Similarly, any revision to the approved plan was agreed to and approved by the Audit Committee.

The committee is satisfied with the effectiveness of the internal audit function in providing independent assurance on the strength of the control environment.

### External auditor's appointment and independence

The Audit Committee is satisfied that KwinanaEquifin Incorporated is independent of the AGSA after taking the following factors into account:

- Representations made by KwinanaEquifin Incorporated 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.
- The criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies.

### Appreciation

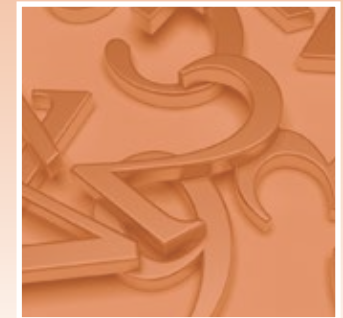
On behalf of the Audit Committee, I would like to thank the Auditor-General, the Deputy Auditor-General and their management team for their dedication and support in improving the AGSA's internal control environment, governance and risk management activities. We would also like to extend our gratitude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



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

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

Comply with the relevant provisions of the PAA and fairly present the financial position, state of affairs, financial results and operations



# Section 7

FINANCIAL STATEMENTS

GRI INDEX

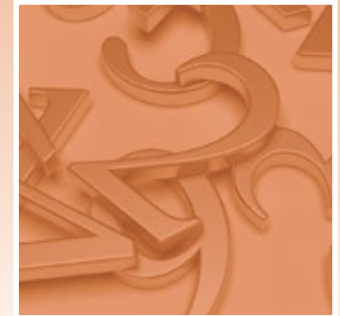
GLOSSARY OF TERMS

## Section 7

The annual financial statements fairly present the financial position of the Auditor-General as at the end of the financial year



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



# Annual financial

## STATEMENTS

## AUDITOR-GENERAL ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

# Contents

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

- 128 Deputy Auditor-General's responsibilities and approval
- 129 Report of the independent auditor
- 132 Statement of financial position
- 133 Statement of comprehensive income
- 134 Statement of changes in equity
- 135 Statement of cash flows
- 136 Accounting policies
- 149 Notes to the annual financial statements

# Auditor-General

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 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 financial position 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. 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 judgements 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 2013 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 132 to 190, which have been prepared on the going concern basis, were approved and signed by the Deputy Auditor-General on behalf of the Auditor-General:



**Thembekile Makwetu**  
DEPUTY AUDITOR-GENERAL

### REPORT OF THE INDEPENDENT AUDITOR

#### Report of the independent auditor to the Auditor-General on the financial statements of the Auditor-General for the year ended 31 March 2012.

#### Report on financial statements

#### Introduction

We have audited the financial statements of the Auditor-General set out on pages 132 to 190, which comprise the statement of financial position as at 31 March 2012, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

#### 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, and for such internal control as the Deputy Auditor-General determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### 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 auditor's 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 as at 31 March 2012, 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).

# Auditor-General

## ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### Report on other legal and regulatory requirements

### Report on predetermined objectives

#### Introduction

We have audited the report on performance against predetermined objectives of the Auditor-General for the year ended 31 March 2012, as set out on pages 32 to 87.

#### The Deputy Auditor-General's responsibilities

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), and guidance issued by the National Treasury regarding the planning, management, monitoring and reporting of performance against predetermined objectives, and for such internal control as determined necessary to enable the preparation of the report on performance against predetermined objectives that is useful and reliable.

#### 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.

#### Assurance work performed

We conducted our audit in accordance with the International Standards on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical information*.

We report on whether we have received all the information and explanations required to conduct the engagement, or if we became aware of additional information, the omission of which may result in the report on performance against predetermined objectives being materially misstated or misleading.

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

#### Usefulness of information:

**Presentation:** Performance against predetermined objectives is reported using the relevant principles from the National Treasury guidelines.

**Consistency:** Objectives, indicators and targets are consistent between planning and reporting documents as required by the National Treasury Regulations.

**Measurability:** Indicators are well defined and verifiable, and targets are specific, measurable and time bound, as required by the National Treasury's *Framework for managing programme performance information*.

**Relevance:** The indicators/measures relate logically and directly to an aspect of the Auditor-General mandate and the realisation of strategic goals and objectives, as required by the National Treasury's *Framework for managing programme performance information*.

#### Reliability of information:

**Validity:** Reported performance has occurred and relates to the Auditor-General.

**Accuracy:** Amounts, numbers and other data relating to reported performance have been recorded and reported correctly.

**Completeness:** All actual performance that should have been recorded has been included in the report on performance against predetermined objectives.

The audit involves performing procedures to obtain audit evidence about the usefulness of the report on performance against predetermined objectives and reliability of the objectives as set out in the report on performance against

predetermined objectives. The procedures selected depend on the auditor's judgement, including our assessment of the risks of material misstatement of the report on performance against predetermined objectives. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some, even material, misstatements may not be detected, even though the audit is properly planned and performed in accordance with the ISAE 3000. The procedures performed include the following:

- Understanding and testing the internal policies, procedures and controls relating to the management of and reporting on performance against predetermined objectives.
- Evaluating and testing processes, systems, controls and review of documentation in place at a detail level to support the generation, collation, aggregation, monitoring and reporting of the performance indicators and targets.
- Evaluating, testing and confirmation of the existence and consistency of planned and reported performance against predetermined objectives 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.

We believe that the evidence obtained from the work performed provides an appropriate basis for the conclusion expressed below.

### Conclusion

On the basis of our procedures described in this report, 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.



### **KwinanaEquifin Incorporated**

Registered Accountants & Auditors

Michiel Jacobsz Kruger

28 July 2012

Alenti Office Park, Block A

457 Witherite Street

The Willows Ext 82

Pretoria

### STATEMENT OF FINANCIAL POSITION

	Notes	2012 R '000	2011 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2	67 776	67 320
Intangible assets	3	8 459	9 042
<b>Current assets</b>			
Trade and other receivables	4	419 889	365 049
Cash and cash equivalents	5	414 961	351 984
<b>Total assets</b>		<b>911 085</b>	<b>793 395</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
General reserve	6	103 897	103 897
Special audit services reserve	7	4 964	4 964
Retained earnings	8	331 579	232 282
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Finance lease obligation	9	5 460	18 409
Retirement benefit obligations	10	69 578	63 845
<b>Current liabilities</b>			
Trade and other payables	11	376 711	348 463
Provisions	12	5 947	5 346
Current portion of finance lease obligation	9	12 949	16 189
<b>Total equity and liabilities</b>		<b>911 085</b>	<b>793 395</b>



## STATEMENT OF COMPREHENSIVE INCOME

	Notes	2012 R '000	2011 R'000
<b>Revenue</b>	13	2 073 643	1 850 432
Local services rendered		2 034 768	1 824 847
International services rendered		38 875	25 585
<b>Direct audit cost</b>		(1 448 979)	(1 298 188)
Recoverable staff cost	14	(780 957)	( 688 944)
Contract work	15	(580 094)	( 537 202)
Subsistence and travel		(87 928)	( 72 042)
<b>Gross profit</b>		<b>624 664</b>	<b>552 244</b>
Other income	13.1	4 208	3 518
Grant income - National Treasury	13.2	-	40 568
Defined benefit expense	10	(7 927)	( 7 288)
Foreign exchange gain	27.4	1 125	281
<b>Contribution to overheads</b>		<b>622 070</b>	<b>589 323</b>
Non-recoverable staff cost	14	(330 531)	( 290 870)
Depreciation expense	16	(24 530)	( 21 214)
Amortisation expense	17	(4 312)	( 3 518)
Other operational expenditure	18	(222 607)	( 170 507)
Hosting of International conferences	18.1	(1 251)	( 17 026)
<b>Surplus from operations</b>		<b>38 839</b>	<b>86 188</b>
Interest income	21	70 593	56 541
Interest expense	21	(10 135)	( 9 612)
<b>Net surplus for the year</b>		<b>99 297</b>	<b>133 117</b>
Other comprehensive income		-	-
<b>Total comprehensive surplus for the year</b>		<b>99 297</b>	<b>133 117</b>

### STATEMENT OF CHANGES IN EQUITY

	General reserve R '000	Special audit services reserve R '000	Retained earnings R '000	Total R'000
<b>Opening balance at 1 April 2010</b>	<b>103 897</b>	<b>4 964</b>	<b>99 165</b>	<b>208 026</b>
Total comprehensive surplus 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>
Total comprehensive surplus for the year	-	-	99 297	99 297
<b>Balance at 31 March 2012</b>	<b>103 897</b>	<b>4 964</b>	<b>331 579</b>	<b>440 440</b>
<b>Notes</b>	<b>6</b>	<b>7</b>	<b>8</b>	

STATEMENT OF CASH FLOWS

	Notes	2012 R '000	2011 R'000
<b>Cash flow from operating activities</b>			
Total revenue from auditees	27.1	1 992 051	1 821 571
Total direct audit cost payments	27.2	(1 435 496)	(1 297 036)
Operating expenditure payments	27.3	( 511 682)	(422 615)
Interest received		70 593	56 541
Interest paid		( 10 135)	(9 612)
Realised foreign exchange gains	27.4	840	459
<b>Net cash inflow from operating activities</b>		<b>106 171</b>	<b>149 308</b>
<b>Cash flow from investing activities</b>			
Additions to property, plant and equipment	27.5	( 25 993)	(32 518)
Additions to intangible assets	27.6	( 3 729)	(5 419)
Proceeds from sale of property, plant and equipment	2	2 265	862
<b>Net cash outflow from investing activities</b>		<b>( 27 457)</b>	<b>( 37 075)</b>
<b>Cash flow from financing activities</b>			
Payment on obligations under finance lease		( 16 189)	(13 943)
Increase in instalment sale agreement borrowings		-	20 428
<b>Net cash (outflow) / inflow from financing activities</b>		<b>( 16 189)</b>	<b>6 485</b>
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of the year		351 984	233 444
Exchange differences in cash and cash equivalents	27.4	452	(178)
<b>Cash and cash equivalents at end of the year</b>	<b>27.7</b>	<b>414 961</b>	<b>351 984</b>

### 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 2012:

Relevant to the operations of the Auditor-General:

Standard / Interpretation	Effective	Details
IFRS 7 - Financial Instruments: Disclosures	1-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
IAS 1 - Presentation of Financial Statements	1-Jan-11	This amendment deals with the clarification of statement of changes in equity
IAS 24 - Related Party Disclosures	1-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>

Not relevant to the operations of the Auditor-General:

Standard / Interpretation	Effective	Details
IFRS 1 – First-time adoption of International Financial Reporting Standards	1-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	1-Jan-11	This amendment clarifies that changes in accounting policies in the year of adoption fall outside the scope of IAS 8
IFRS 1 – First-time adoption of International Financial Reporting Standards	1-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	1-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	1-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	1-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
IFRS 3 – Business Combinations	1-Jan-11	Amendments to transitional requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS
IFRS 3 – Business Combinations	1-Jan-11	Clarification of the measurement of non-controlling interests
IFRS 3 – Business Combinations	1-Jan-11	Additional guidance provided on unreplaced and voluntarily replaced share-based payment awards

## Auditor-General

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

Standard / Interpretation	Effective	Details
IAS 21 - The Effects of Changes in Foreign Exchange Rates	1-Jul-10	This amendment deals with consequential amendments from changes to IAS 27 - Consolidated and Separate Financial Statements (Clarification of the transitional rules in respect of the disposal or partial disposal of an interest in a foreign operation)
IAS 27 - Consolidated and Separate Financial Statements	1-Jul-10	This amendment deals with transitional requirements for amendments arising as a result of IAS 27 - Consolidated and Separate Financial Statements
IAS 28 - Investments in Associates	1-Jul-10	This amendment deals with consequential amendments from changes to IAS 27 - Consolidated and Separate Financial Statements (Clarification of the transitional rules in respect of the disposal or partial disposal of an interest in a foreign operation)
IAS 31 - Interests in Joint Ventures	1-Jul-10	This amendment deals with consequential amendments from changes to IAS 27 - Consolidated and Separate Financial Statements (Clarification of the transitional rules in respect of the disposal or partial disposal of an interest in a foreign operation)
IAS 34 - Interim Financial Reporting	1-Jan-11	This amendment deals with the clarification of disclosure requirements around significant events and transactions including financial instruments
IFRIC 13 - Customer Loyalty Programmes	1-Jan-11	Clarification of the intended meaning of the term "fair value" in respect of award credits
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	1-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)

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 7 - Financial Instruments: Disclosures	1-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	1-Jan-13	New standard that forms the first part of a three-part project to replace IAS 39 - Financial Instruments: Recognition and Measurement
IFRS 10 - Consolidated Financial Statements	1-Jan-13	New standard that replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 - Consolidated and Separate Financial Statements. Standard builds on existing principles by identifying the concept to control as the determining factor in whether an entity should be included within the consolidated
IFRS 12 - Disclosure of Interests in Other Entities	1-Jan-13	New and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles
IFRS 13 - Fair Value Measurements	1-Jan-13	New guidance on fair value measurement and disclosure requirements
IAS 1 - Presentation of Financial Statements	1-Jul-12	New requirements to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement in order to facilitate the assessment of their impact on the overall performance of an entity
IAS 12 - Income Taxes	1-Jan-12	This amendment deals with the rebuttable presumption introduced that an investment property will be recovered in its entirety through sale
IAS 19 - Employee Benefits	1-Jan-13	Amendments to the accounting for current and future obligations resulting from the provision of defined benefit plans
IAS 27 - Consolidated and Separate Financial Statements	1-Jan-13	This amendment deals with consequential amendments resulting from the issue of IFRS 10, 11 and 12
IAS 28 - Investments in Associates	1-Jan-13	This amendment deals with consequential amendments resulting from the issue of IFRS 10, 11 and 12



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.

### 1.1 Significant judgements 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 judgement in the process of applying the Auditor-General's accounting policies. Use of available information and the application of judgement 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 judgements 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 judgements (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.

**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	
	2012	2011
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.

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	
	2012	2011
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.

### 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:

#### 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.

### **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 include 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.

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 the 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.

#### 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.



### 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.

### 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.

### **1.16 Related parties**

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the Auditor-General. All individuals from the Executive Management are regarded as key management per the definition of IFRS.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or be influenced by, key management individuals in their dealings with the Auditor-General.

Other related party transactions are also disclosed in terms of the requirements of IFRS. The objective of IFRS and the annual financial statements is to provide relevant and reliable information and therefore materiality is considered in the disclosure of these transactions.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Cost R '000	Accumulated depreciation R '000	Carrying amount R'000
<b>2 Property, plant and equipment</b>			
<b>2012</b>			
Computer equipment	82 665	(53 166)	29 499
Motor vehicles	4 325	(2 791)	1 534
Office equipment	3 053	(2 249)	804
Furniture and fittings	37 152	(16 454)	20 698
Leasehold improvements	24 259	(9 018)	15 241
	<b>151 454</b>	<b>(83 678)</b>	<b>67 776</b>
Assets under finance lease agreements included above comprise:			
Computer equipment (refer to note 9)	<b>44 053</b>	<b>(31 911)</b>	<b>12 142</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Opening carrying amount	Additions	Disposals	Depreciation charge	Closing carrying amount
	R '000	R '000	R '000	R '000	R '000
<b>2 Property, plant and equipment (continued)</b>					
<b>The carrying amounts can be reconciled as follows:</b>					
Computer equipment	36 448	12 171	(677)	(18 443)	29 499
Motor vehicles	1 599	367	(23)	(409)	1 534
Office equipment	884	424	(10)	(494)	804
Furniture and fittings	18 543	5 982	(268)	(3 559)	20 698
Leasehold improvements	9 846	7 049	(29)	(1 625)	15 241
	<b>67 320</b>	<b>25 993</b>	<b>(1 007)</b>	<b>(24 530)</b>	<b>67 776</b>
Assets under finance lease agreements included above comprise:					
Computer equipment (refer to note 9)	<b>26 296</b>	-	<b>( 537)</b>	<b>(13 617)</b>	<b>12 142</b>
					<b>2012</b>
					<b>R'000</b>
Proceeds on disposal of property, plant and equipment					<b>2 265</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Cost R '000	Accumulated depreciation R '000	Carrying amount R'000
<b>2 Property, plant and equipment (continued)</b>			
<b>2011</b>			
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>
Assets under finance lease agreements included above comprise:			
Computer equipment (refer to note 9)	<b>76 974</b>	<b>(50 678)</b>	<b>26 296</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Opening carrying amount R '000	Additions R '000	Disposals R '000	Depreciation charge R '000	Closing carrying amount R '000
<b>2 Property, plant and equipment (continued)</b>					
<b>The carrying amounts can be reconciled as follows:</b>					
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>
Assets under finance lease agreements included above comprise:					
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>

	2011 R'000
Proceeds on disposal of property, plant and equipment	<b>862</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)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Cost R '000	Accumulated amortisation R '000	Carrying amount R'000
<b>3 Intangible assets</b>			
<b>2012</b>			
<b>Computer software - purchased</b>			
Enterprise resource management system - PeopleSoft	18 950	(16 972)	1 978
Other software	17 039	(10 558)	6 481
	<b>35 989</b>	<b>(27 530)</b>	<b>8 459</b>

	Opening carrying amount R '000	Additions R '000	Disposals R '000	Amortisation charge R '000	Closing carrying amount R'000
<b>The carrying amounts can be reconciled as follows:</b>					
<b>Computer software - purchased</b>					
Enterprise resource management system - PeopleSoft	4 360	-	-	(2 382)	1 978
Other software	4 682	3 729	-	(1 930)	6 481
	<b>9 042</b>	<b>3 729</b>	<b>-</b>	<b>(4 312)</b>	<b>8 459</b>



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Cost R '000	Accumulated amortisation R '000	Carrying amount R'000
<b>3 Intangible assets (continued)</b>			
<b>2011</b>			
<b>Computer software - purchased</b>			
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>

	Opening carrying amount R '000	Additions R '000	Disposals R '000	Amortisation charge R '000	Closing carrying amount R'000
<b>The carrying amounts can be reconciled as follows:</b>					
<b>Computer software - purchased</b>					
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>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R'000
<b>4 Trade and other receivables</b>		
Trade receivables [1]	480 247	398 822
Provision for impairment of receivables [2]	( 74 483)	( 45 851)
Present value of trade receivables adjustment (refer to note 21)	( 5 025)	( 6 770)
Net trade receivables	400 739	346 201
Staff debtors	11 774	11 712
Prepayments	7 107	6 910
Other debtors	269	226
	<b>419 889</b>	<b>365 049</b>
[1] We have implemented the following debt collection interventions:		
<ul style="list-style-type: none"> <li>• Charging of interest on overdue accounts</li> <li>• Engagement with National Treasury and Department of Cooperative Governance and Traditional Affairs (CoGTA)</li> <li>• Quarterly visits to auditees by our audit business unit leadership</li> </ul>		
The debt collection interventions are quite effective in the national and provincial spheres of government but less effective in local government due to the financial challenges faced by this category of government.		
[2] Provision for impairment of receivables		
Opening balance	( 45 851)	( 37 500)
Utilised during the year	-	143
Additional provision for impairment of receivables	( 28 632)	( 8 494)
Closing balance	<b>( 74 483)</b>	<b>( 45 851)</b>

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R'000
<b>5 Cash and cash equivalents</b>		
Call account at Public Investment Corporation (PIC)	107 686	102 288
Investment reserved for specific liabilities (PIC 1) [3]	89 931	85 364
Investment to fund working capital requirements (PIC 2)	17 755	16 924
Overnight call account	100 823	-
Current bank account	202 705	246 505
Foreign bank account (USD)	3 747	3 191
	<b>414 961</b>	<b>351 984</b>
[3] Investment reserved for specific liabilities		
The liabilities covered by this investment include the following:		
Post-retirement benefits: medical care contributions (refer to note 10)	69 578	63 845
13th cheque accrual (refer to note 11)	5 317	5 461
Leave pay accrual (refer to note 11) [4]	48 938	43 340
The National Treasury for salary over-payments in the former TBVC states	3 525	3 585
Advances from the National Treasury for assistance with the local authority debtors	6 363	6 363
Payments made by staff in terms of the Auditor-General's notebook ownership policy	599	968
	<b>134 320</b>	<b>123 562</b>

The future service liability for post-retirement benefit: medical care contributions totalling R12 206 000 (2011: R11 196 000) 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.

[4] Only R14 579 000 (2011: R15 277 000) 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.

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R'000
<b>6 General reserve</b>		
Opening and closing balance [5]	<b>103 897</b>	<b>103 897</b>
[5] Retained earnings that was approved by the Minister of Finance (in terms of section 38(4) of the Public Audit Act, 2004 (Act No. 25 of 2004) to be retained for purposes of recapitalising the Auditor-General.		
<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	232 282	99 165
Total comprehensive income for the year [6]	99 297	133 117
Closing balance	<b>331 579</b>	<b>232 282</b>

[6] Retained earnings 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 regard to the retention of surplus.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R'000
<b>9 Finance lease obligation</b>		
Finance lease obligation in respect of computer equipment	18 409	34 598
Less: Current portion	(12 949)	(16 189)
	<b>5 460</b>	<b>18 409</b>

Liabilities under finance lease obligations are payable over periods from 1-3 years in instalments of R1 148 626 (2011: R1 511 714) at an effective interest rate of between 7,0% and 13,5% (2011: 7,0% and 13,5%). Secured by computer equipment with a carrying value of R12 142 000 (2011: R26 296 000) (refer to note 2).

	Up to 1 year R'000	1 to 5 years R'000	More than 5 years R'000	Total R'000
<b>2012</b>				
Minimum lease payments	13 784	5 614	-	19 398
Finance cost	(835)	(154)	-	(989)
Present value	<b>12 949</b>	<b>5 460</b>	-	<b>18 409</b>
<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>34 598</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R'000
<b>10 Retirement benefit obligations</b>		
Post-retirement benefits: medical care contribution	<b>69 578</b>	<b>63 845</b>
<b>The liability can be reconciled as follows:</b>		
Opening balance	63 845	58 626
Current year provision	7 927	7 288
Current service cost	1 112	1 054
Actuarial loss	1 374	1 299
Interest adjustment	5 441	4 935
Less: Payments made	( 2 194)	( 2 069)
Closing balance (refer to note 5)	<b>69 578</b>	<b>63 845</b>
The amounts recognised in the statement of comprehensive income are as follows:		
Current service cost	1 112	1 054
Actuarial loss	1 374	1 299
Interest cost	5 441	4 935
Total post-retirement benefit adjustment recognised in the statement of comprehensive income	<b>7 927</b>	<b>7 288</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012	2011
<b>10 Retirement benefit obligations (continued)</b>		
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 as at 31 March 2012 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.	8,5%	9,0%
Subsidy increase rate	6,0%	5,8%
Expected retirement age	63	63
Number of continuation members	184	182
Average age of continuation members	65,2	64,1
Percentage continuation members married	73%	72%
Number of in-service members	223	245
Average age of in-service members	50,0	49,5
Average past service of in-service members	24,7	24,0
No explicit assumption was made about the mortality and health care cost due to HIV/AIDS		
<b>Sensitivity analysis</b>		
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		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012		
	Discount rate		
	Assumption 8,50%	-1%	+1%
<b>10 Retirement benefit obligations (continued)</b>			
Accrued liability 31 March 2012 (R'000)	69 578	82 026	59 820
% change	-	17,9%	-14,0%

	Subsidy increase rate		
	Assumption		
	6,00%	-1%	+1%
Accrued liability 31 March 2012 (R'000)	69 578	59 648	82 067
% change	-	-14,3%	17,9%

	Expected retirement age		
	Assumption	1 year	
	63 years	younger	1 year older
Accrued liability 31 March 2012 (R'000)	69 578	71 475	67 839
% change	-	2,7%	-2,5%

The future service liability for post-retirement benefit: medical care contributions amounts to R12 206 000 (2011: R11 196 000). Future service costs are recognised when the services are delivered by the employees during the employment terms.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

		2011		
		Discount rate		
		Assumption 9,00%	-1%	+1%
<b>10</b>	<b>Retirement benefit obligations (continued)</b>			
	Accrued liability 31 March 2011 (R'000)	63 845	74 768	55 224
	% change	-	17,1%	-13,5%
		Subsidy increase rate		
		Assumption 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 63 years	1 year younger	1 year older
	Accrued liability 31 March 2011 (R'000)	63 845	65 601	62 158
	% change	-	2,8%	-2,6%

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R'000
<b>11 Trade and other payables</b>		
Trade payables	110 193	93 736
Straightlining of leases	47 746	40 727
Present value of trade payables adjustment (refer to note 21)	(334)	(845)
Net trade payables	157 605	133 618
Accruals	59 506	57 083
13th cheque accrual (refer to note 5)	5 317	5 461
Accrued leave pay (refer to note 5)	48 938	43 340
Performance bonus accrual	72 503	66 048
United Nations contract - prepaid income	3 343	11 563
Staff creditors	9 798	10 039
Value-added tax	13 338	14 948
Advance on local authority debtors	6 363	6 363
	<b>376 711</b>	<b>348 463</b>

Ageing of trade payables:	Total R'000	Current R'000	30 - 120 R'000	120+ R'000
<b>2012</b>				
Trade payables	110 193	68 910	41 028	255
	<b>110 193</b>	<b>68 910</b>	<b>41 028</b>	<b>255</b>
<b>2011</b>				
Trade payables	93 736	69 974	22 755	1 007
	<b>93 736</b>	<b>69 974</b>	<b>22 755</b>	<b>1 007</b>

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R '000
<b>12 Provisions</b>		
<b>Government Employees Pension Fund</b>		
Opening balance	5 346	3 784
Additional provision [7]	601	1 562
Closing balance	<b>5 947</b>	<b>5 346</b>

[7] The amount of R5 947 000 is made up of a penalty portion of R4 040 000, which is due to early retirement of employees allowed by the Auditor-General, and an interest portion of R1 907 000. During 2006 the Government Employees Pension Fund Board made a decision to impose penalties for early retirees for the first time. The Auditor-General was only notified of this decision during April 2007 at which time there were six claims that attracted penalties per the Government Employees Pension Fund Board decision of 2006. This resulted in a dispute between the Auditor-General and the Government Employees Pension Fund. Despite protracted discussions and two offers of settlement made by the Auditor-General to the Government Employees Pension Fund, the matter remains unresolved. Subsequent to the initial six claims that are in dispute, three subsequent claims also resulted in a dispute. To date eight out of the nine claims have prescribed in law. The Auditor-General is committed to amicably resolving the dispute with the Government Employees Pension Fund and hopes to conclude the matter as speedily as possible.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R'000
<b>13 Revenue</b>		
Local services rendered	2 034 768	1 824 847
Own hours	1 407 383	1 248 871
Contract work (refer to note 15)	586 594	543 317
Subsistence and travel	79 502	66 813
Present value of revenue adjustment (refer to note 21)	(38 711)	(34 154)
International services rendered	38 875	25 585
Own hours	31 106	20 864
Subsistence and travel	8 426	5 229
Present value of revenue adjustment (refer to note 21)	(657)	(508)
	<b>2 073 643</b>	<b>1 850 432</b>
<b>13.1 Other income</b>		
Sundry income	2 643	2 913
Telephone charges recovered	307	264
Profit on sale of property, plant and equipment (refer to note 27.3)	1 258	341
	<b>4 208</b>	<b>3 518</b>

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

		2012	2011
		R '000	R'000
<b>13.2</b>	<b>Other income - Government grant [8]</b>	<b>-</b>	<b>40 568</b>
[8]	Analysis of grant received	<b>R'000</b>	
	Total grant received (January 2009)	90 000	
	Recognised (2008-09)	(33 517)	
	Working capital	(33 517)	
	Recognised (2009-10)	(15 915)	
	Capital expenditure	(5 000)	
	INTOSAI Governing Board meeting	(5 749)	
	INCOSAI conference	(760)	
	Balance to revenue	(4 406)	
	Recognised (2010-11)	(40 568)	
	INTOSAI Governing Board meeting	51	
	INCOSAI conference	(17 077)	
	Balance to revenue	(23 542)	
		<b>-</b>	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R'000
<b>14 Staff cost</b>		
Management salaries	21 952	19 328
Other non-recoverable staff salaries	150 539	138 015
Other staff expenditure	80 201	73 735
Performance bonus [9]	67 546	62 199
Group life scheme	8 160	6 723
Other employer contributions (UIF, workmen's compensation, long service awards, early retirement penalties - Government Employees Pension Fund, etc.)	4 495	4 813
Course fees and study assistance	58 802	49 665
Accrued leave pay provision	19 037	10 127
<b>Total non-recoverable staff cost</b>	<b>330 531</b>	<b>290 870</b>
Recoverable staff salaries	780 957	688 944
<b>Total staff cost</b>	<b>1 111 488</b>	<b>979 814</b>
Average number of staff	2 875	2 612
[9] In general, the performance bonus accrual for the organisation is no more than one month of the total remuneration bill.		
<b>15 Contract work recoverable</b>		
Contract work recoverable (refer to note 13)	586 594	543 317
Present value of expenditure adjustment (refer to note 21)	( 6 500)	( 6 115)
	<b>580 094</b>	<b>537 202</b>

This represents work done by external audit firms on behalf of the Auditor-General. The revenue does not have any mark-up that the Auditor-General benefits from.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R '000
<b>16 Depreciation</b>		
Computer equipment	18 443	16 439
Motor vehicles	409	631
Office equipment	494	274
Furniture and fittings	3 559	2 497
Leasehold improvements	1 625	1 373
	<b>24 530</b>	<b>21 214</b>
<b>17 Amortisation</b>		
Computer software		
Enterprise resource management system - PeopleSoft	2 382	1 800
Other software	1 930	1 718
	<b>4 312</b>	<b>3 518</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R'000
<b>18 Other operational expenditure</b>		
Auditor's remuneration		
Statutory audit services	1 912	2 137
Other audit services	-	28
Consultants' fees	19 305	15 516
Fruitless and wasteful expenditure (refer to note 19)	18	21
Governance costs	396	604
ICT services	23 638	22 248
Internal audit fees	2 040	4 420
Legal costs	378	1 010
Other operational expenses (excluding staff cost)	10 182	6 757
Operating leases - land and buildings	69 817	58 491
Operating leases - equipment	4 436	3 723
Provision for impairment of receivables	28 632	8 351
Receivables written off as uncollectable	-	143
Recruitment costs	9 161	8 319
Stakeholder relations	22 828	13 909
Stationery and printing	8 201	4 888
Subsistence and travelling irrecoverable	15 649	13 735
Telephone and postage	7 187	7 201
Present value of expenditure adjustment (refer to note 21)	(1 173)	(994)
	<b>222 607</b>	<b>170 507</b>



### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R'000
<b>18.1 Hosting of international conferences</b>		
INCOSAI conference (net of reimbursements)	1 251	17 077
INTOSAI Governing Board meeting	-	(51)
	<b>1 251</b>	<b>17 026</b>
<p>XXth 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, Mr. T Nombembe, was appointed chairperson of INTOSAI until the next INCOSAI in 2013.</p> <p>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.</p>		
<b>19 Fruitless and wasteful expenditure</b>		
Other [10]	18	21
[10] This relates to interest paid on overdue accounts and cancellation of accommodation costs.		
<b>20 Notebook losses</b>		
63 (2011: 50) notebook computers stolen and written off at the carrying amount [11]	<b>(364)</b>	<b>(338)</b>
[11] No amounts have been recovered as the Auditor-General self-insures notebook computers. Stolen notebooks are reported to the police for investigation.		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R'000
<b>21 Net interest cost</b>		
<b>Interest income</b>		
Interest income on bank and investments	16 621	14 389
Other interest income	12 859	7 545
Present value of revenue and trade receivables adjustment	41 113	34 607
Present value of revenue adjustment (refer to note 13)	39 368	34 662
Increase in present value of trade receivables adjustment (refer to note 4)	1 745	(55)
	<b>70 593</b>	<b>56 541</b>
<b>Interest expense</b>		
Interest on obligation under finance lease agreements	(1 951)	(2 385)
Present value of expenditure and trade payables adjustment	(8 184)	(7 227)
Present value of expenditure adjustment (refer to notes 15 and 18)	(7 673)	(7 109)
Decrease in present value of trade payables adjustment (refer to note 11)	(511)	(118)
	<b>(10 135)</b>	<b>(9 612)</b>

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R '000
<b>22 Commitments</b>		
<b>Operating lease commitments</b>		
The future minimum commitments are as follows:		
Due within one year	<b>47 949</b>	<b>45 683</b>
Accommodation	46 074	39 838
Communication equipment	-	3 271
Office equipment	1 875	2 574
Between one and five years	<b>239 616</b>	<b>217 082</b>
Accommodation	238 808	212 248
Communication equipment	-	3 271
Office equipment	808	1 563
More than five years	<b>67 701</b>	<b>114 734</b>
Accommodation	67 701	114 734
	<b>355 266</b>	<b>377 499</b>

The office premises are leased for periods between two and thirteen years. The average lease payments are R3 747 805 (2011: R3 075 588) per month. The leases escalate between 6,5% and 10% annually. The lease agreements are renewable for periods 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.

Certain items of communication equipment were leased for a period of two years. The average lease payments are R nil (2011: R272 581) per month. The lease agreements have been cancelled. This has been replaced with the Auditor-General being charged based on actual usage.

Certain items of office equipment are leased for a period of three years. The average lease payments are R156 262 (2011: R214 533) 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 office equipment.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R'000
<b>22 Commitments (continued)</b>		
<b>Other commitments</b>		
<b>Thuthuka</b>		
The Auditor-General is committed to support 40 students for an indefinite period, subject to the Auditor-General having the right to withdraw at any point without any implications, at a rate per student that is determined every year by the Board of the Thuthuka Bursary Fund. Due to the fact that the rate per student is determined yearly and the commitment is for an indefinite period, the commitment cannot be quantified. The commitment is unlikely to be material in future years.		
<b>23 Contingent liabilities</b>		
<b>Guarantees</b>	<b>137</b>	<b>137</b>
Guarantees provided by the Auditor-General to various financial institutions for portions of home loans granted to five staff (2011: five staff). This policy has been discontinued since 1993.		
<b>Bursaries</b>		
Internal bursaries are awarded to trainee accountants on the following principles:		
- 70% of the cost is a bursary		
- 30% of the cost is a loan which is deductible		
If a student passes the registered exam, then the 30% loan amount will be refunded. Due to the fact that the pass rate cannot be determined with certainty, the amount cannot be quantified. The commitment is unlikely to be material in future years.		
External bursaries are awarded to full-time students on a yearly basis. If a student passes, a bursary is awarded for the following year. Any subjects failed must be repeated at the student's own expense. If a student fails repeatedly, the bursary is stopped and the amounts advanced must be repaid to the Auditor-General or worked back. Due to the uncertainties around the number of bursaries awarded and the pass rate, the amount cannot be quantified. The commitment is unlikely to be material in future years.		

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

#### 24 Related parties

##### 24.1 Key management personnel compensation

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

Position	Name	Appointment date	Termination date	2012		
				Gross remuneration	Performance bonus	Total remuneration
				R'000	R'000	R'000
Auditor-General [12]	TM Nombembe	1 Dec 2006		2 816	-	2 816
Deputy Auditor-General	T Makwetu	1 Jul 2007		2 682	565	3 247
Chief Operating Officer	L Jabavu	1 Aug 2007		1 715	-	1 715
Corporate Executive	P Bhana	1 Oct 2006	30 Sep 2011	886	-	886
Corporate Executive	AH Muller	1 Mar 2008		1 695	350	2 045
Corporate Executive	BR Wheeler	1 Mar 2008		1 695	350	2 045
Corporate Executive	PKK Serote	1 Apr 2008		1 783	368	2 151
Corporate Executive	EM Zungu	1 Feb 2009		1 796	370	2 166
Corporate Executive	JH v Schalkwyk	1 Nov 2010		1 647	347	1 994
Corporate Executive	I Vanker	1 Jan 2011		1 622	335	1 957
Corporate Executive	G Lourens (Acting)	1 Oct 2011		795	135	930
				<b>19 132</b>	<b>2820</b>	<b>21 952</b>

[13]

## Auditor-General

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

# Section 7

Annual financial statements

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 24.1 Key management personnel compensation (continued)

Position	Name	Appointment date	Termination date	2011		
				Gross remuneration	Performance bonus	Total remuneration
				R'000	R'000	R'000
Auditor-General [12]	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>

[13]

[12] Included in the Auditor-General's salary is the deferred compensation of R256 000 (2011: R251 000). At reporting date the review of the Auditor-General's total remuneration had not been finalised.

[13] This includes all remuneration paid to management.

	2012	2011
	R '000	R'000
Compensation to management is summarised as follows:		
Short-term employee benefits	21 696	19 077
Long-term employee benefits - termination	256	251
	<b>21 952</b>	<b>19 328</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R'000
<b>24.2 Other related parties</b>		
The Executive Secretariat of AFROSAIE is hosted by the Auditor-General and headed by the Auditor-General as Chief Executive Officer. In addition to free office accommodation, communication and IT facilities, the Auditor-General will provide the Executive Secretariat with adequate full-time human resources on a secondment basis. The Auditor-General will also provide in its annual budget for the expenditure related to the services of a senior manager to undertake the responsibilities as Executive Officer for AFROSAIE. The costs of the seconded human resources are recovered at a mutually agreed monthly rate that will cover the actual cost plus a 10% mark-up to provide for overheads.		
<b>Related party balances</b>		
Trade receivables	202	-
Trade payables	-	(175)
<b>Related party transactions</b>		
Revenue	1 126	1 487
Expenses	4 428	4 542

Transactions from related parties are on an arm's length basis at market-related prices.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 25 Financial instruments

#### 25.1 Market risk

##### 25.1.1 Foreign currency risk management

The Auditor-General delivers a small portion of its audit services based on fixed sum contracts in foreign currencies.

Trade accounts receivable include receivables of Euro 8 635 (2011: Euro 21 161) and 372 109 USD (2011: 0 USD) 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 = R10,2789 (2011: Euro 1 = R9,5286) and 1 USD = R7,6999 (2011: 1 USD = R6,7713).

Included in the bank balances at 31 March 2012 is an amount of 486 589 USD (2011: 471 249 USD). These balances have been translated at the year-end exchange rate of 1 USD = R7,6999 (2011: 1 USD = R6,7713).

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



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## 25.1.1 Foreign currency risk management (continued)

## Foreign currency sensitivity

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

A one Rand decrease or increase in the USD and Euro exchange rate.

	2012		
	USD and Euro exchange rate		
	Current balance	+R1	-R1
Net profit (R'000)	99 297	105 165	93 719
% change	-	5,9%	-5,6%
Foreign bank account balance (R'000)	3 747	4 234	3 260
% change	-	13,0%	-13,0%
International debtor balance (R'000)	2 954	3 453	2 567
% change	-	16,9%	-13,1%
	2011		
	USD and Euro exchange rate		
	Current balance	+R1	-R1
Net profit (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%

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## 25.1.2 Interest rate risk management

## Interest rate sensitivity

Below are 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 percentage point decrease or increase in the finance lease agreement interest rate.

	2012		
	Current & call account interest rate		
	Current balance	+1%	-1%
Net profit (R'000)	99 297	103 174	95 455
% change	-	3,9%	-3,9%
Current bank and call account balances (R'000)	411 214	415 089	407 371
% change	-	0,9%	-0,9%
	Finance lease agreement interest rate		
	Current balance	-1%	+1%
	Current balance	-1%	+1%
Net profit (R'000)	99 297	99 554	99 040
% change	-	0,3%	-0,3%
Finance lease agreements balance (R'000)	18 409	18 547	18 273
% change	-	0,7%	-0,7%

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 25.1.2 Interest rate risk management (continued)

#### Interest rate sensitivity (continued)

	2011		
	Current & call account interest rate		
	Current balance	+1%	-1%
Net profit (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%

	Finance lease agreement interest rate		
	Current balance	-1%	+1%
Net profit (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%

### 25.2 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 enshrined audit mandate of the Auditor-General. However, the Auditor-General has a significant concentration of credit risk with local government.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

25.2 Credit risk (continued)

An analysis of the ageing of debtors that are 30 days and over (2012:2011) is as follows:  
 R188 354 000 (2011: R165 558 000) of debtors, comprising 39,2% (2011: 41,5%) of total debtors, is in arrears. Local government arrears comprise R138 832 000 (2011: R123 953 000) or 73,7% (2011: 74,9%) 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:

Debtor type	Total R'000	Current R'000	30 - 120 R'000	120+ R'000
<b>2012</b>				
National	63 077	60 080	669	2 328
Provincial	124 302	107 757	6 825	9 720
Local	206 046	67 214	52 600	86 232
Statutory	57 337	42 212	3 841	11 284
Other (including unallocated deposits) [14]	29 485	14 630	9 021	5 834
	<b>480 247</b>	<b>291 893</b>	<b>72 956</b>	<b>115 398</b>
<b>2011</b>				
National	50 252	48 272	1 205	775
Provincial	110 254	91 072	15 895	3 287
Local	170 416	46 463	55 863	68 090
Statutory	48 458	34 988	4 760	8 710
Other (including unallocated deposits) [14]	19 442	12 469	3 485	3 488
	<b>398 822</b>	<b>233 264</b>	<b>81 208</b>	<b>84 350</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 25.2 Credit risk (continued)

#### Financial assets subject to credit risk

Debtor type	Total R'000	Fully performing R'000	Past due but not impaired R'000	Impaired R'000
<b>2012</b>				
National	63 077	60 080	545	2 452
Provincial	124 302	107 757	10 929	5 616
Local	206 046	67 214	83 987	54 845
Statutory	57 337	42 212	8 052	7 073
Other (including unallocated deposits) [14]	29 485	14 630	10 359	4 496
	<b>480 247</b>	<b>291 893</b>	<b>113 872</b>	<b>74 482</b>
<b>2011</b>				
National	50 252	48 272	1 980	-
Provincial	110 254	91 072	19 017	165
Local	170 416	46 463	87 259	36 694
Statutory	48 458	34 988	7 029	6 441
Other (including unallocated deposits) [14]	19 442	12 469	4 422	2 551
	<b>398 822</b>	<b>233 264</b>	<b>119 707</b>	<b>45 851</b>

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**25.3 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.

**Maturity profile of financial instruments**

<b>31 March 2012</b>	<b>1 year or less R'000</b>	<b>1 to 5 years R'000</b>	<b>Total R'000</b>
<b>Assets</b>			
Trade and other receivables	419 889	-	419 889
Cash			
<i>Local</i>			
Current account	202 705	-	202 705
Overnight call account	100 823	-	100 823
Call account - PIC	107 686	-	107 686
Foreign	3 747	-	3 747
Total financial assets	<b>834 850</b>	-	<b>834 850</b>
<b>Liabilities</b>			
Interest-bearing borrowings	12 949	5 460	18 409
Trade and other payables	376 711	-	376 711
Total financial liabilities	<b>389 660</b>	<b>5 460</b>	<b>395 120</b>
<i>Net financial assets / (liabilities)</i>	<b>445 190</b>	<b>(5 460)</b>	<b>439 730</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## 25.3 Liquidity risk (continued)

## Maturity profile of financial instruments (continued)

31 March 2011	1 year or less R'000	1 to 5 years R'000	Total R'000
<b>Assets</b>			
Trade and other receivables	365 049	-	365 049
Cash			
<i>Local</i>			
Current account	246 505	-	246 505
Call account - PIC	102 288	-	102 288
Foreign	3 191	-	3 191
Total financial assets	<b>717 033</b>	-	<b>717 033</b>
<b>Liabilities</b>			
Interest-bearing borrowings	16 189	18 409	34 598
Trade and other payables	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>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## 25.4 Additional information in relation to financial instruments

2012			
Line items presented in the statement of financial position summarised per category of financial instrument	Carrying amount R'000	Adjustment R'000	Fair value R'000
<b>Financial assets</b>			
<i>Loans and receivables</i>			
Cash and cash equivalents (refer to note 5)	414 961	-	414 961
Trade and other receivables (refer to note 4)	424 914	(5 025)	419 889
	<b>839 875</b>	<b>(5 025)</b>	<b>834 850</b>
<b>Financial liabilities</b>			
<i>Financial liabilities measured at amortised cost</i>			
Finance lease agreements (refer to note 9)	18 409	-	18 409
Trade and other payables (refer to note 11)	377 045	(334)	376 711
	<b>395 454</b>	<b>(334)</b>	<b>395 120</b>



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## 25.4 Additional information in relation to financial instruments (continued)

2011			
Line items presented in the statement of financial position summarised per category of financial instrument	Carrying amount R'000	Adjustment R'000	Fair value R'000
<b>Financial assets</b>			
<i>Loans and receivables</i>			
Cash and cash equivalents (refer to note 5)	351 984	-	351 984
Trade and other receivables (refer to note 4)	371 819	(6 770)	365 049
	<b>723 803</b>	<b>(6 770)</b>	<b>717 033</b>
<b>Financial liabilities</b>			
<i>Financial liabilities measured at amortised cost</i>			
Finance lease agreements (refer to note 9)	34 598	-	34 598
Trade and other payables (refer to note 11)	349 308	(845)	348 463
	<b>383 906</b>	<b>(845)</b>	<b>383 061</b>

The table above provides information that permits the comparison of the fair values of financial instruments with their carrying amounts. The fair values in the "fair value"-column have been determined for disclosure purposes only. The following assumptions were applied:

	2012	2011
Average days outstanding - receivables	129	113
Average days outstanding - payables	31	34

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R'000
<b>26 Capital commitments</b>		
Approved but not yet contracted for	<b>65 451</b>	<b>74 369</b>
Source of funding		
Internal financing	65 451	59 650
Borrowings	-	14 719
	<b>65 451</b>	<b>74 369</b>
This relates to property, plant and equipment approved in the 2012-13 budget.		
<b>27 Notes to the cash flow statement</b>		
<b>27.1 Revenue collectable from auditees</b>		
Revenue	2 073 643	1 850 432
Net increase in trade receivables	( 81 592)	( 28 861)
	<b>1 992 051</b>	<b>1 821 571</b>
<b>27.2 Direct audit cost payables</b>		
Direct audit cost	(1 448 979)	(1 298 188)
Net increase in trade payables	13 483	1 152
	<b>(1 435 496)</b>	<b>(1 297 036)</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R '000
<b>27.3 Operational expenditure payments</b>		
Operational expenditure	(525 367)	(459 695)
Adjusted for:		
Straightlining of leases	7 020	7 280
Interest income	(70 593)	(56 541)
Interest expense	10 135	9 612
Foreign exchange loss	(1 125)	(281)
Depreciation	24 530	21 214
Amortisation	4 312	3 518
Increase in provision for impairment of receivables	28 632	8 351
Increase in provision for post-retirement medical aid benefits	5 733	5 219
Profit on the disposal of property, plant and equipment and intangible assets (refer to note 13.1)	(1 258)	(341)
Increase in provisions	601	1 562
	<b>(517 380)</b>	<b>(460 102)</b>
Other working capital changes	5 698	37 487
Increase in other receivables	(2 047)	(816)
Increase in other payables	7 745	38 303
	<b>(511 682)</b>	<b>(422 615)</b>
<b>27.4 Foreign exchange gains</b>		
Realised foreign exchange gains	840	459
Unrealised foreign exchange differences in the international debtor [15]	(167)	-
Unrealised foreign exchange differences in the foreign bank balance [15]	452	(178)
Foreign exchange gains	<b>1 125</b>	<b>281</b>

[15] The difference between the closing and opening exchange rate applied to the foreign bank balance and international debtor balance at year-end.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2012 R '000	2011 R'000
<b>27.5 Acquisition of property, plant and equipment</b>		
Computer equipment	(12 171)	(22 219)
Motor vehicles	(367)	(1 394)
Office equipment	(424)	(487)
Furniture and fittings	(5 982)	(4 337)
Leasehold improvements	(7 049)	(4 081)
	<b>(25 993)</b>	<b>(32 518)</b>
<b>27.6 Acquisition of intangible assets</b>		
Enterprise resource management system - PeopleSoft	-	(953)
Other software	(3 729)	(4 466)
	<b>(3 729)</b>	<b>(5 419)</b>
<b>27.7 Cash and cash equivalents</b>		
Call account at Public Investment Corporation	107 686	102 288
Investment to fund working capital requirements	17 755	16 924
Investment reserved for specific liabilities	89 931	85 364
Overnight call account	100 823	-
Current bank account	202 705	246 505
Foreign bank account	3 747	3 191
	<b>414 961</b>	<b>351 984</b>
<b>28 Taxation</b>		
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).		

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

#### 29 Professional indemnity insurance

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

#### 30 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.

#### 31 Comparative information

Certain statement of comprehensive income items were reclassified in order to obtain better presentation. The effect of the reclassification in the prior year was as follows:

	2011	
	Restated R'000	Originally disclosed R'000
<b>Effect in the statement of comprehensive income</b>		
Other income	3 518	3 177
Other operational expenditure	( 170 507)	( 170 166)
	<b>( 166 989)</b>	<b>( 166 989)</b>
<b>Effect in the notes</b>		
<b>Note 13.1 - Other income</b>		
Profit on sale of property, plant and equipment	341	-
<b>Note 18 - Other operational expenditure</b>		
Other operational expenses (excluding staff cost)	6 757	6 416

# GRI index

This report has been compiled in accordance with the Global Reporting Initiative (GRI) Guidelines for Sustainability Reporting version 3.1. We self-declare this report as a GRI Level C+ report (this has been confirmed by the external assurance). This index guides the reader to the page(s) where information relating to GRI parameters and performance indicators can be found. In addition to page references, the index also indicates whether the level of detail on a parameter or performance indicator is partial (yellow) or more or less complete (green) with reference to the requirements of the GRI guidelines and performance indicator protocols. The bolded parameters are a minimum requirement for a GRI Level C report. Only parameters and performance indicators, on which information is disclosed, are included in this index.

(NA = Not applicable)

Table 40: GRI index

Parameter or performance indicator		Level of detail	Page number(s)
No.	Brief description		
Parameters: Strategy and analysis			
1.1	<b>CEO (and Chairman) statement</b>	Green	10-19
1.2	Description of key impacts, risks and opportunities	Yellow	30-31
Parameters: Organisational profile			
2.1	<b>Name of the organisation</b>	Green	24
2.2	<b>Primary brands, products and/or services</b>	Green	25
2.3	<b>Operational structure of the organisation</b>	Green	27
2.4	<b>Location of organisation's headquarters</b>	Green	26
2.5	<b>Countries where the organisation operates</b>	Green	25-26
2.6	<b>Nature of ownership and legal form</b>	Yellow	25
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2.8	<b>Scale of the reporting organisation</b>	Yellow	25-26, 82, 99
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2.10	<b>Awards received</b>	NA	

Parameter or performance indicator		Level of detail	Page number(s)
No.	Brief description		
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3.3	Reporting cycle		23
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3.7	Specific limitations on scope or boundary of report		23
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# Section 7

## GRI index

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# Glossary of terms

## A

AC:	Audit Committee
AFROSAL:	African Organisation of Supreme Audit Institutions
AG:	Auditor-General
AGSA:	Auditor-General of South Africa
ANC:	African National Congress
APAC:	Association of Public Accounts Committees
ASB:	Accounting Standards Board
ABASA:	Association of Black Accountants in South Africa
ABU:	Audit business unit
ARD:	Audit Research and Development
AFS:	Annual financial statements
ARC:	Agricultural Research Council

## B

B-BBEE:	Broad-Based Black Economic Empowerment
BCTA:	Bridging Certificate in the Theory of Accounting
BU:	Business unit

## C

CA:	Chartered accountant
CCMA:	Commission for Conciliation, Mediation and Arbitration
CFAS:	Committee for Auditing Standards
CFO:	Chief financial officer

CGE:	Commission on Gender Equality
CISA:	Certified information systems auditor
CMM:	Capability maturity model
CoGTA:	Department of Cooperative Governance and Traditional Affairs
COPE:	Congress of the People
CSI:	Corporate social investment
CTA:	Certificate in the Theory of Accounting
CWC:	Contract work creditors
CRM:	Customer relations management
COSO:	Committee of Sponsoring Organisations

## D

DA:	Democratic Alliance
DAG:	Deputy Auditor-General
DMS:	Deloitte management secondment

## E

EE:	Employment equity
ERP:	Enterprise resource planning
Exco:	Executive Committee
EAP:	Employee assistance programme

## F

FET:	Further education and training
------	--------------------------------

## G

GRAP:	Generally Recognised Accounting Practice
GRI:	Global Reporting Initiative

## H

-

## I

IRBA:	Independent Regulatory Board for Auditors
ICT:	Information and communications technology
IFP:	Inkatha Freedom Party
INCOSAI:	International Congress of Supreme Audit Institutions
INTOSAI:	International Organisation of Supreme Audit Institutions
ISA:	International Standards on Auditing
ISACA:	Information Systems Audit and Control Association
ISSAIs:	International Standards of Supreme Audit Institutions
ISQC1:	International Standard on Quality Control
IFRS:	International Financial Reporting Standards
ISAE:	International Standard on Assurance Engagements
IT:	Information technology
ISA:	Information Systems Auditing
IBU:	Investigations Business Unit

# Section 7

## Glossary of terms

IFAC: International Federation of Accountants  
 ISO: International Organisation for Standardisation  
 IMFO: Institute of Municipal Finance Officers

### J

-

### K

KZN: KwaZulu-Natal

### L

-

### M

MFMA: Municipal Finance Management Act  
 MPAC: Municipal Public Accounts Committee  
 MIS: Management information system

### N

NCOP: National Council of Provinces  
 NT: National Treasury

### O

-

### P

PAA: Public Audit Act  
 PAC: Public Accounts Committee  
 PCF: Premiers' Coordinating Forum  
 PFMA: Public Finance Management Act  
 PPE: Public Professional Examination

### Q

QC: Quality control  
 QCAC: Quality Control Assessment Committee

### R

Remco: Remuneration Committee  
 RGA: Registered government auditor

### S

SAICA: South African Institute of Chartered Accountants  
 SAIGA: Southern African Institute of Government Auditors  
 SAI: Supreme audit institution  
 SCoAG: Standing Committee on the Auditor-General  
 SCOPA: Standing Committee on Public Accounts  
 SETA: Sector education and training authority  
 SMW: Senior Management Workshop

SALGA: South African Local Government Association  
 SLA: Service level agreement

### T

TA: Trainee auditors  
 TBF: Thuthuka Bursary Fund

### U

UNBOA: United Nations Board of Auditors  
 UN: United Nations

### V

VA/OA: Vision alignment and organisational achievement

### W

-

### X

XXth: 20th

### Y

-

### Z

-

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