SPOTLIGHT ON ACCOUNTABILITY

Integrated Annual Report | 2017-18

AUDITOR-GENERAL
SOUTH AFRICA

SPOTLIGHT ON

ACCOUNTABILITY

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 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.

LETTER
TO THE SPEAKER

Ms Baleka Mbete
Speaker of Parliament
PO Box 15
Cape Town
8001

28 September 2018

Honourable Speaker Mbete

REPORT TO THE SPEAKER IN TERMS OF SECTION 10(2) OF THE PUBLIC AUDIT ACT, 2004 (ACT NO. 25 OF 2004)

It is an honour to submit my integrated annual report, which includes the audited financial statements for the financial year ended 31 March 2018, as required by our governing legislation.

It gives me great pleasure to announce that the audit committee, established in terms of section 40 of the Act, is satisfied with the Auditor-General of South Africa's (AGSA) audited financial statements and unmodified audit opinion.

This report presents both our financial results and a review of our performance against predetermined objectives. I respectfully draw your attention to section 41(5) of the Public Audit Act, which requires that we submit our report within six months of the end of the financial year. I therefore request that this report be tabled in Parliament by 30 September 2018.

Yours sincerely

Thembekile Kimi Makwetu,
Auditor-General

PERFORMANCE
SNAPSHOT

VALUE-ADDING AUDITING

1003 audits completed

820 within the legislated time frames

We dealt with **19** requests for investigations 2017-18

Successfully implemented our internationally benchmarked audit methodology without our auditees and stakeholders experiencing disruption

Value chain approach to sector and infrastructure audits

- **Education** Sector
- **Water** Infrastructure
- **Health** Sector

We institutionalised our approach to integrated audits

- **259** Audits used Investigation expertise
- **157** **Auditees -** Performance Auditing was involved
- **298** Information system audit staff was involved - level 2 and 3 auditees.
- **161** **Regularity auditors -** Completing the information technology environment checklists

We issued a performance audit report on the development of sustainable human settlements at the Eastern Cape Department of Human Settlements

83% PASSED quality review

VISIBILITY FOR IMPACT

Held more than **2 783** meetings with our various stakeholders

54% Achieved in the first year of implementation of status of records reviews

Portfolio committees used our insight for their Budgetary review and recommendations reports

We reintroduced Provincial media briefings

Committees used our MFMA audit outcomes in their oversight visits to municipalities.

VIABILITY

Audit revenue

R3 247 million

Debtors book decreased by 19% to
R650 million

Local government debt is
R249 million
or
38% of the total debt

WE COLLECTED
R164 million
through our debt-collection strategies

EMPLOYEE TURNOVER OF
8,5%

3 459 staff,
including trainee auditors and short -term contractors

91% occupancy level
despite a moratorium on recruitment

46%
EMPLOYEE ENGAGEMENT score

1 184
audit employees are registered
AUDIT PROFESSIONALS

CULTURE SURVEY score
47,7

R13 million
IN THE THUTHUKA BURSARY FUND TO SPONSOR 75 STUDENTS

VISION AND VALUES DRIVEN

Level 2 B-BBEE
contributor for the fourth consecutive year

R575 million
spent on outsourced audit work,
70%
on B-BBEE levels 1 and 2 firms

44%
of our outsourced work was to
black-owned firms

2016-17
Integrated Annual Report was awarded
first prize WINNER AWARD first prize
in the Integrated Reporting Awards

Graduated 11 of 14 beneficiaries
from enterprise development to supplier development

RECEIVED A
CLEAN AUDIT
opinion

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section 1

Integrated Annual Report | 2017-18

MESSAGE
FROM THE AUDITOR-GENERAL

To our stakeholders

"In summary, we successfully protected our independence, enhanced the technical competence of our staff, demonstrated the necessary capacity to deliver audits, sustained contact with the public and observed that our message found resonance with South African citizens – and by design, those charged with the management of public resources."

Name	Thembekile Kimi Makwetu
Age	52
Title	Auditor-General of South Africa
Qualifications	CA(SA)
Appointment	2013
Experience	Kimi was at Deloitte as director in the forensic unit before his appointment as Deputy Auditor-General. In 2013 Kimi was appointed as the new Auditor-General of South Africa for a period of seven years

With the end of the 2017-18 financial year, I take the opportunity to share with you our successes in delivering value to the country and the challenges we faced on our journey, which took place in a complex and exciting environment.

We have had significant changes over the last few months. After years of diligent, if frustrating, reporting on the status of financial and performance management in the public sector, Parliament has responded to our persistent messages about the mismanagement of public resources by unanimously passing the Public Audit Amendment Bill, 2018 (PAA Bill) in both houses of Parliament.

While our stakeholders have taken note of the poor audit outcomes in all spheres of government, their overwhelming desire is to know what has been done to deal with the accountability failures in the auditees' environments that led to an environment of deteriorated financial health, a lack of delivery and a failure to maintain services and infrastructure. The Standing committee on the Auditor-General (SCoAG) expressed Parliament's increased intolerance of corruption and waste of public resources by initiating and leading the process of crafting the PAA Bill. The Bill strengthens our mandate to facilitate action on the audit recommendations and to pursue consequences for maladministration. The intention is not only to fight corruption and waste, but also to help restore the integrity of the financial and performance management systems used to achieve government's developmental goals. The level of support from stakeholders across the spectrum during the public participation process was encouraging. This support signified the willingness of many public sector institutions and the public to work towards the common goal of improved financial and performance management.

In anticipation of the President's assent, our teams have begun to craft the necessary enforcement mechanisms by creating regulations and reviewing our processes, capacity and behavioural readiness to implement the provisions of the Bill. We will communicate with our stakeholders as soon as the specific implementation tools have been developed and we have consulted with SCoAG on their use.

Another feature of the past year was the number of cases where the audit process and ethics failure of known professional firms resulted in damage to the reputation and brand of the auditing profession, and an erosion of the public trust that is the very foundation of the profession. This required us to act with urgency and responsibility, which we did by terminating our contracts with KPMG and Nkonki Inc. We understood that our country expects its supreme audit institution to act accountably and to project an image of accountability in the same way that we hold the public sector accountable for the use of taxpayers' resources. While the termination of these contracts placed a further burden on our already stretched resources and leadership capacity, as we had to take over a number of large audits, it also allowed us an opportunity to increase our footprint in auditing large state-owned companies. Currently, we have taken over 13 of these 21 Schedule 2 entities, which corresponds well with the view of an oversight structure.

Against the background of the change in our mandate and the threats to our profession, we continued to successfully deliver our strategy of adding value to stakeholders, facilitating transparency and enabling accountability in the public sector. We continued to select audit focus areas that helped us to remain relevant and to audit what matters. We audited key programmes for national development in the Education and Health sectors. We also audited state-owned enterprises (SOEs) with significant risk such as South African Airways (SAA), the South African Post Office (SAPO) and the South African Broadcasting Corporation (SABC), as well as Denel, the Development Bank of South Africa and other section 4(3) audits previously audited by KPMG and Nkonki. Our attention at local municipalities and metros has, for the last few years, been on auditing areas that are important to the lives of people, such as infrastructure, water and sanitation, and human settlements.

In the line of duty, our audit teams continued to provide a holistic, integrated view of auditees' performance by using regularity and performance auditing, and analytical and forensic skills. This integration of skills resulted in a deeper audit scope and coverage, improved evidence collection, greater depth of data analysis and interrogation and, ultimately, the improved quality of our audits. The use of specialised audit skills further enhanced our vast knowledge of the public sector and made it easier to identify the misuse or diversion of resources meant to support the country's economic growth and improve the lives of citizens.

In our effort to use the knowledge gained through our audits to improve public administration, we sought and developed strategic relationships with Parliament's portfolio committees, providing them with insight and information to enable them to execute their respective mandates. Our messages have been enthusiastically received and used by these committees to hold the respective executive, accounting officers and accounting authorities accountable.

We promoted the use of the status of records reviews, which is our flagship 'early warning' system for accounting officers. This review alerts them to the challenges that may compromise good financial and performance management, and compliance with legislation. It also identifies risks from the beginning of, and throughout, the audit cycle so that auditees are able to address the risks in time and with adequate internal controls.

The drive for accountability, though, was not met with enthusiasm by all. Contesting our audit outcomes escalated throughout the year, bringing a new trend of threats and intimidation against our staff. This demonstrates a direct disregard for the independence of our institution. Each push back is dealt with in a manner that considers its nature and our affected staff receive all the necessary support.

The contestations, combined with the additional section 4(3) audits taken over and the challenges to the liquidity of a number of SOEs, have resulted in delays in completing audits within the legislated timelines. This aspect of our performance is receiving greater attention to ensure that we adequately address it in the next audit cycle.

Critical work has been done to maintain our professional pipeline and accelerate the professional capacity of our staff. We are pleased to see the tremendous interest by university graduates with a Certificate in Theory of Accounting (CTA) signing on to serve their articles with us. Of an intake of 371 trainee auditors 217, or 59%, were CTA-qualified, which is by far the largest number recruited in a single year. We further increased our contribution to transforming the accounting profession by awarding an additional 35 external bursaries (130 in total) and funding 75 students through the Thuthuka scheme. We are certain that this investment will not only allow us to maintain the required supply of staff, but will also increase the productivity and the exam pass rates of trainees.

The financial autonomy of a supreme audit institution is one of the cornerstones of its independence. Although our challenge to collect revenue continues, there have been ongoing discussions with the National Treasury on them funding the excess audit fees of financially distressed auditees as provided for in the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA). At the end of the 2017-18 financial year, the National Treasury contributed an additional R150 million towards the long-outstanding debts of financially distressed municipalities. This contributed positively to our cash position at the end of the year. We continue our conversations with the National Treasury to develop different funding mechanisms to settle such fees directly from the National Revenue Fund in future.

In summary, we successfully protected our independence, enhanced the technical competence of our staff, demonstrated the necessary capacity to deliver audits, sustained contact with the public and observed that our message found resonance with South African citizens – and by design, those charged with the management of public resources.

Moving forward, we will focus on preparing the environment to implement the PAA Bill and continue to be a trusted source of insight and knowledge about the public sector's performance. Our task as a supreme audit institution is to position ourselves in the future of South Africa.

I express my appreciation to my capable team who made a positive contribution to the fight for a better South Africa because of their unique position and the scope of their work in support of public sector accountability throughout the country. This would not have been possible without the leadership group that helped me to navigate the challenging and often adverse environment.

I am proud that, through our work, we enable better governance.

Kimi Makwetu,
Auditor-General

OVERVIEW OF
PERFORMANCE BY THE DEPUTY AUDITOR-GENERAL

> **The 2017-18 financial year was both exciting and challenging, as we strove to attain the goals we set at the beginning of the year. We have worked hard, focusing on delivering our mandate even in the midst of increasing external expectations and internal change. We gained major traction in our journey towards a stronger institution. Our employees' exceptional effort has been the force behind our achievements during the year.**

Our focus over the past three years was on solidifying the foundation on which we will build the 4V strategy. This stage was characterised by conceptualising, researching, developing and piloting a number of projects geared towards making the organisation more efficient and effective in delivering its mandate. Based on our achievements in the current year, I firmly believe that we have achieved what we had set out to do in this phase. We have embraced and digested the changes and challenges that introducing our 4V strategy brought and were able to establish and improve our processes. I am now looking forward to the consistent implementation phase of our strategy, where we will focus on increasing the value that we add to our stakeholders and realise the operational efficiencies bolstered by a solid foundation.

OUR ADDED VALUE

We continued to make our work more relevant and intensive by auditing what matters and focusing our audits on areas of highest risk and greatest importance to the public's well-being. We covered a number of SOEs, key programmes of national government, supply chain management, human resource management, the effective

Name	Tsakani Ratsela
Age	43
Title	Deputy Auditor-General of South Africa
Qualifications	CA(SA)
Appointment	2014
Experience	Tsakani is a qualified chartered account (CA) with more than 15 years of experience in the private and public sectors

use of consultants, information technology controls, grants management, infrastructure projects, the provision of water, sanitation and road infrastructure and the financial health of our auditees.

During the past financial year 1 003 audits were completed, 90% of annual financial statements were received on time and 820 audits (82%) were signed-off within the legislated deadlines. Our audit outcomes indicate an increase in irregular expenditure and we are concerned that accountability is failing in local government, which has a negative impact on citizens. Accountability has also failed at some departments and public entities, which has an impact on them delivering key government programmes in education, health and infrastructure. Although a significant shift in audit opinions is not in sight, we have observed that our relevance continued to improve during the performance year. The wealth of insight we gathered in the line of duty and the manner in which it was delivered to the various stakeholders consistently enabled them to execute their own mandates.

We continued to experience resistance from certain auditees on the audit messages and opinions; 40 during the Public Finance Management Act (PFMA) audits and 16 during the Municipal Finance Management Act (MFMA) audits. The resistance was mainly driven by expectations of a clean audit outcome not materialising, regressions in audit outcomes and technical disagreements. The contestations have had an impact on the punctual completion of audits, with the extreme cases resulting in audit reports being tabled late. We have incurred unnecessary legal costs to defend our position and we are being forced to look at increasing our legal capacity. We continue to be vigilant and work with auditees and the relevant authorities to resolve disputed issues outside of the legal process. This is an important environmental aspect that we monitor closely and I expect to see it being drastically improved with the implementation of the PAA amendments.

The level of integration of our audit disciplines has matured considerably. Integrated audit teams comprised regularity, performance, information systems and investigations auditors from audit business units and our specialised audit services. These units collaborated to provide a smart, efficient and holistic audit to improve our value to auditees. The enhanced audit methodology has given added impetus to our integration efforts by ensuring input and collaboration from both regularity audit and specialised audit services though the relevant working papers.

SECTION 4(3) AUDITS

We maintained a vested interest in all section 4(3) auditees and continued to oversee SOE audits to ensure consistency and to share knowledge.

We audited 11 of the 21 schedule 2 SOEs. However, following our termination of the Nkonki and KPMG contracts, we took back five section 4(3) audits for the 2017-18 financial year. These were:

- Export Credit Insurance – KPMG
- SABS Commercial – KPMG
- The National Housing Finance Corporation (NHFC) – Nkonki
- Denel – Nkonki
- Development Bank of South Africa – Nkonki.

Our standalone report of the performance audit at the Eastern Cape Department of Human Settlements on the development of sustainable human settlements raised a number of significant findings about the department's strategic planning, financial management and project management. We also found shortcomings in their implementation of the strategic objectives, coordination, municipal capacity building and support. If not addressed, these shortcomings will have a negative impact on the economy, efficiency and effectiveness of sustainable human settlement projects.

We dealt with 19 requests for investigations from complainants during the 2017-18 financial year. These requests were either referred to the appropriate bodies, addressed as part of our annual regularity audits or addressed through standalone investigations. These requests are at different stages of completion.

It is heartening to see the progress that we have made in all our value-adding initiatives over the last three years.

IMPLEMENTING OUR IMPROVED AUDIT METHODOLOGY

We began this project four years ago and it gives me great pleasure to report that we have implemented it without disruption to our operations. The learning curve was steep and, although it normally takes a few years for such major changes to be fully embedded and the benefits to be realised, we can already see positive improvements in the following areas:

- A consistent risk approach to our audits based on a deeper understanding of our auditees' mandates, objectives, and financial and performance management processes.
- A significant increase in the use of fraud experts in our high-risk audits and a greatly improved process of integrating the work of information system auditors into the audit process.

We will continue to refine our audit methodology using the experience gained in its implementation so far. The next critical improvement will be to develop a lighter scope-tailored audit approach for certain auditees that manage smaller budgets or have a lower impact on service delivery.

QUALITY OF AUDITS

We have achieved our target (80% - 90%) on compliance with audit quality standards; 83% of our audit files complied. This achievement comes against a background of implementing the revised audit methodology and gives us confidence in the effectiveness of our quality control systems. Although an 83% compliance rate is within our acceptable range, we need to do more to improve the quality of our audits, such as proactive support reviews (on a selection of high-risk audits) before issuing the audit report and allocating high-risk audits to appropriately-skilled engagement managers. The importance of continued vigilance of the quality of our audits is understood by everyone in the organisation and amplified by the prospect of implementing the PAA amendments.

CONSTITUTIONAL STAKEHOLDER ENGAGEMENTS

Our mandate makes it necessary for us to communicate with those charged with governance and compel them to action where it is required to improve governance and public accountability.

The extent of our interaction with each stakeholder varies depending on the nature of the stakeholder. To ensure that we have an impact, we concentrated our interactions on stakeholders that had a keen interest in our audit recommendations and were willing to act by monitoring and overseeing their implementation. These prioritised stakeholders fell into the following categories:

- Accounting officers
- Accounting authorities
- Ministers and MECs
- Premiers
- Portfolio committees
- SCoPA
- Speakers

We used existing platforms, including the premiers' coordinating forums and the accounting officer and CFO forums, as opportunities to discuss topics that will assist our stakeholders, such as sustaining clean administration by maintaining sound internal controls. The bulk of our discussions with constitutional stakeholders were on the status of records reviews; unauthorised, irregular and fruitless expenditure; leadership in the public sector; and the audit of predetermined objectives.

We briefed portfolio committees on the audit outcomes during extensive discussions and enabled SCoPA oversight practices. The committees used the insight for their Budgetary review and recommendations reports to hold departments accountable. A number of departments appeared before SCoPA, which also called on enforcement agencies to impose consequences for criminal actions.

Various committees used this insight on the MFMA audit outcomes in their oversight visits to municipalities. Their recommendations to Parliament were based on our audit findings.

The capacity-building workshops organised by the Association of Public Accounts Committees (APAC) remained a well-exploited platform of communication outside the audit process. At these workshops we discussed ethical leadership, good governance and public accountability. We also encouraged the APAC to support the Municipal Public Accounts Committees (MPAC) by holding joint hearings and sharing their practices and experiences. We coordinated provincial indabas to provide a deeper understanding of the MFMA audit outcomes and discussed possible interventions and solutions with the MPACs.

STATUS OF RECORDS REVIEW

We began to implement the status of records review programme, aimed at having focused and insightful interactions with our auditees. The intention is to identify key areas of concern, provide our assessment of key focus areas and assess the progress of implementing previous action plans or commitments. We achieved a status of records review implementation rate of 54% at all eligible auditees as of March 2018, and will be rolling the reviews out to all our auditees in the next financial year. Implementing the status of records reviews heightened our audit risk assessment, allowing for a deeper level of understanding of the auditee and enabling our stakeholder conversations to be more focused and insightful. A large majority of stakeholders embraced the initiative as an opportunity to address areas of concern before preparing for their year-end reporting.

CITIZEN ENGAGEMENT

Our national and provincial government (PFMA) and local government (MFMA) briefings received widespread coverage on national and provincial media platforms.

Provincial media briefings were reintroduced to share and enable provincial media agencies to report on key provincial messages that would increase the reach of the messages in the general reports.

We held various conferences and public lectures among universities and professional associations such as:

- The South African Institute of Chartered Accountants (SAICA)
- The South African Institute of Professional Accountants (SAIPA)
- The Chartered Institute of Government Finance, Audit & Risk Officers(CIGFARO)
- The South African Local Government Association (SALGA)
- The Association for the Advancement of Black Accountants Southern Africa (ABASA)
- The Chief Financial Officers South Africa
- The African Women Chartered Accountants (AWCA).

We also used social media platforms to extend our visibility and reach by creating awareness of these interactions.

The media gave balanced coverage to the PAA Bill. The approval of the Bill by the National Assembly escalated it to a national dialogue. We are confident that the President will sign the Bill off in the next financial year. In anticipation, we will intensify our education drive to explain the meaning of the amendments to our stakeholders and to manage the growing expectation that the organisation will single-handedly fight maladministration.

STAKEHOLDER FEEDBACK

In 2017-18, we continued to solicit feedback from stakeholders as their views on our added value and effectiveness of our communication allows us to improve our work and remain relevant to them.

We canvassed constitutional stakeholders such as the coordinating ministries, portfolio committees, Public Accounts Committees, auditees and others. Using existing mechanisms such as questionnaires, video interviews and face-to-face engagements, we ensured that we received relevant, useful and quality information. Overall, more than 80% of our stakeholders highlighted our effectiveness in supporting them in carrying out their duties. They appreciated our focused discussions and presentations that enabled their oversight and saw our employees as well-versed on their reports and able to respond to queries adequately. The detailed feedback was given to the respective business units for them to identify specific areas for improvement and implement stakeholder-tailored actions to close any gaps in communications and delivery of value.

One of the most effective platforms was the live panel discussion with a few portfolio committee chairpersons in front of our staff at our head office. The National Assembly chairperson concluded that generally, the AGSA was a very effective part of the oversight value chain in the country that enabled Parliament's drive for accountability and good governance.

We received feedback from the citizens of South Africa who were clear about their role as active citizens in holding government accountable for the mismanagement of public funds. They understood the role and mandate of the AGSA and reflected well on our relevance. Their view was that without the powers to enforce consequences, our work will not fully contribute to better governance and accountability. The participants also highlighted some areas of improvement for the organisation, which will be addressed in the next financial year.

FINANCIAL PERFORMANCE

Our financial viability is based on sound financial principles, strict cash flow management and strong internal controls. Our actual revenue of R3 247 million (2016-17: R2 977million) represents a year-on-year increase of 9%.

This success is attributed to several factors including:

- Deploying our staff effectively using staff pooling
- Realising efficiencies from fully implementing our audit methodology
- Reducing unbilled hours.

However, we still effectively contributed R72 million (2017: R83 million) to the fiscus in unbilled hours because of the budgetary constraints of our auditees. This demonstrates our commitment to affordable audit fees.

We generated R575 million in audit income using outsourced audit firms (contract work), or 18% of the total audit income revenue (2016-17: 20%). The reduction in outsourced audit work is driven by our internal efficiencies and is a positive contribution to our gross profit.

Our overheads, excluding the impact of the R58 million in debt written off, grew by 4% year-on-year compared to 5% growth in the consumer price index excluding mortgage costs (CPIX). We realised a one-off saving of R60 million as a result of several factors including strategic sourcing; a moratorium on increasing our headcount and the use of internal resources instead of outsourced services. While it is unlikely that we will maintain this performance on cost saving, we will continue to actively manage our operational costs.

We achieved a surplus of R67,3 million compared to a deficit of R14,6 million in 2016-17. This was an outcome of a combination of our good performance in trading and the positive impact of our cost containment measures.

Overall, the debt owed to us has decreased, which is indicative of the success of our enhanced collection strategies and a significant payment from the National Treasury. The debtors book closed at R650 million, a decrease of 19% from last year's balance of R806 million. Local government debt of R249 million (2017: R391 million) constituted 38% of the total debt, which improved from a high of 49% in the previous year. There was a noticeable decrease in all debtor's balances except 'other debtors' (public entities, including some of the larger SOEs), which closed at R153 million from R132 million in the previous financial year. Of the debt owed by other debtors, 81% is still within our credit payment terms, with the balance of R27 million being collected through litigation and ring-fencing mechanisms.

We continued our ring-fencing and litigation efforts to further improve collections. We collected a cumulative R274 million through ring-fencing agreements, with R91 million collected in 2017-18 (2016-17: R94 million). This initiative is still effective as it allows debtors to settle their old debt while liquidating the current debt. We also collected R73 million owed to us through litigation in 2017-18, compared to R63 million in the previous year. Since we began litigation to recover debt, we have collected R244 million.

Our financial diligence led to a favourable cash balance at the end of the year, including short-term investments of R664 million (2016-17: R553 million). This translates into a safety margin of 2,14 months (2016-17: 1,96 months) against our target of three months. We are aware that the margin of safety is less than our risk tolerance level; however, we believe we have made progress and have introduced various measures to narrow the gap further.

DEVELOPING OUR HUMAN CAPITAL

In line with our people strategy, we have attracted, retained and cultivated talented individuals by continually improving talent-sourcing mechanisms, and talent development programmes and measures.

We recruited 1 085 employees for the 2017-18 financial year. Of these recruits, 541 (50%) were internal appointments, which demonstrates our strong and effective recruitment pipeline and our commitment to growing internal resources as part of the talent management process and succession planning.

We continued with our leadership and executive development programme, which is geared toward improving our organisational skills and pipeline.

Of the 102 identified high potential (HiPo) employees, 80% participated in our assessment programmes. It is important to reflect that all our executives took part in the leadership assessments, which helped establish the basis for our leadership capability development process that is strongly aligned to the organisation culture that we desire.

Our audit professional membership profile has improved over the years, growing by 21% since 2015, and we now boast 1 184 members of various professional bodies. We are proud to provide employment opportunities to our CAs, the number of which has grown by 14% to 622 CAs in 2018.

Our pass rates for the CTA1 and CTA2 remain unsatisfactory. The CTA1 pass rate increased from 6% in 2016-17 to 21% in 2017-18 while the CTA2 pass rate remained at 15%. Once the hurdle of the CTA exams is overcome, our trainees show better results going through the final step in the CA journey, the APC exam. Of the 224 AGSA candidates, 150 (67%) were successful.

ORGANISATIONAL TOOLS

Although we successfully stabilised our audit software and ensured the uninterrupted continuation of our audits, we did not achieve all our targets in our PeopleSoft Enterprise Resource Planning (ERP) improvement programme and the audit services management information system (ASMIS) upgrade was put on hold. The main reason for this was the scarcity of skills. We deferred certain spending as we are in the process of revising our overall ICT strategy. This area is currently receiving focused leadership attention.

ETHICS AND RISK MANAGEMENT

There has been growing recognition of the role that the AGSA plays in ensuring oversight, accountability and good governance in the public sector. As such, we are held to high expectations and we have made it a priority to zealously preserve the trust of our stakeholders. We endeavour to act as a model organisation that inspires confidence, credibility and integrity; a key component of this is our ethics policy. We have adopted the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ® (IESBA code) of the International Federation of Accountants (IFAC) in its entirety. We have further adopted the International Standard of Supreme Audit Institutions (ISSAI) 30, Code of Ethics to guide ethical behaviour in the organisation.

In the reporting year, the ethics policy underwent vigorous consultations and changes to ensure that it responds to identified challenges in the environment in which we operate and in pursuit of process improvement. The most significant changes implemented were:

- An additional safeguard known as a cooling-off period to manage threats to independence created when a key member of our audit team joins their auditee.
- Firmer and clearer pronouncement on prohibited and permitted activities in relation to maintaining political neutrality in carrying out professional duties at the AGSA.

Employees, stakeholders and members of the public can report suspected unethical conduct to the ethics office by using the complaints process in terms of section 13(1)(c) of the Public Audit Act. In 2017-18, 25 complaints were recorded and processed under the complaints management process. We resolved 18 complaints, as well as the seven complaints that were pending as at 31 March 2018.

Our internal control environment remains adequate and partially effective. Management periodically assesses its effectiveness and shows an ongoing commitment to addressing control weaknesses as they are identified.

INTEGRATED ANNUAL REPORT 2016-17

I am pleased to announce that our Integrated Annual Report 2016-17 was awarded first prize in the Integrated Reporting awards (Public sector category) hosted by Chartered Secretaries South Africa and the Johannesburg Stock Exchange. This illustrates the success of our journey in integrated reporting. We are proud to be leading the way in integrated reporting and are hopeful that other organisations in the public sector are inspired to embrace more transparent and responsible reporting.

Integrated reporting has provided a platform for us to communicate with all our stakeholders in a simple manner, and specifically to interact with our non-constitutional stakeholders. It gives greater context to how our environment influences our strategic choices, and how our decision-making processes (governance) allow the organisation to maintain an unblemished record of good internal controls and ethics. Most importantly, our integrated annual report describes the way we add value to our various stakeholders.

CONTRIBUTION TO TRANSFORMATION

Our transformation journey began in 2006, motivated by a strong aspiration to grow the number of black chartered accountants in the profession and to respond to the socio-economic challenges that were facing our country. While our core transformation objective remains the transformation of the profession, over the years our strategy has expanded and evolved so that we are positioned as a driver of making a difference to the lives of citizens. We embed the principles of diversity and inclusivity in our recruitment processes, skills development, procurement practices and the communities that we support through our socio-economic development initiatives. We use the broad-based black economic empowerment (B-BBEE) process to drive the transformation agenda and are guided by the B-BBEE codes of good practice.

We are delighted to report that we retained our level 2 B-BBEE contributor status for the past four years, based on the rating against the generic codes of good practice. We have made great strides in driving behaviour that supports the transformation objectives of the county by ensuring that all our policies that had an impact on implementing B-BBEE, were enhanced with the transformation principles.

The support and buy-in to the transformation agenda by our staff has greatly improved. In the business units' B-BBEE scorecard outcomes, six business units achieved level 1 and 16 business units achieved level 2 statuses.

We have made some progress in recruiting black people living with disabilities; our score increased from 0,52% last year (2016-17) to 0,90% against a 2% target for black people living with disabilities. A lot more needs to be done and we will continue endeavouring in this regard. I am proud to report that our efforts were noticed and we were nominated as one of the finalists for the Disability Award by the South African Board for People Practice (SABPP). Our allocation of audit work to private firms is a major stimulant to growth and transformation in the accounting profession. In 2017-18, we spent R575 million on audit work to private audit firms. Of this, R255 million (44%) was outsourced to black-owned audit firms while R109 million (19%) was outsourced to black women-owned firms. Overall, we distributed work worth R402 million (70%) to B-BBEE levels 1 and 2 audit firms that make an important contribution to transformation.

One of our business imperatives is to strengthen the financial and operational capacity of small and medium black and black women-owned businesses. We used our policies and tender processes to support these small businesses and ensured that we pay small suppliers within 15 days. The year-end results showed that all business units made a deliberate effort to support small black-owned businesses. This is mostly because leadership strengthened their oversight and the transformation champions supported all business units.

Through our enterprise and supplier development programme, we graduated 11 of 14 beneficiaries from enterprise development to supplier development and created 131 jobs. Four of our supplier development firms opened new branches in Mpumalanga, Gauteng, Northern Cape and North West, while several of our supplier development firms relocated to bigger premises due to their growth.

INTERNATIONAL VISIBILITY

As the chair of the INTOSAI Capacity Building Committee (CBC), we drive the effort and take full accountability for capacity development within INTOSAI by executing the

CBC strategy and monitoring its work plan. We led the development of an INTOSAI accountability dashboard report for use by all the strategic goal committees and held the first accountability session within INTOSAI during the September 2017 annual CBC meeting, demonstrating the willingness of the CBC to be transparent and accountable.

Through our designated subject matter experts participating in the activities to develop INTOSAI ISSAIs (Professional Standards Committee work streams) and creating and sharing knowledge (Knowledge Sharing Committee work streams), we had direct access to the latest thinking and developments shared by experts from SAIs across the world.

Our international network also helped us to receive rapid input on consequence management mechanisms. During our research on possible amendments to the PAA, this network also served us to obtain a better understanding of the financial reporting frameworks applied by other SAIs in the INTOSAI community. Similarly, we obtained valuable information on auditing the completeness of performance indicators.

As part of the direct capacity-building support to AFROSAI-E we hosted the SAIs of Uganda, Gambia, Malawi and Rwanda. We also provided guidance to the SAI of Namibia on auditing performance information and information systems, and implementing and managing ethics.

CULTURE AND ENGAGEMENT SURVEY OUTCOMES

I take this opportunity to thank the AGSA staff for taking the time to participate in the AGSA culture and employee engagement surveys. These surveys support our objective of creating an enabling culture and leadership to drive the 4V strategy and to continually improve staff motivation and productivity as envisaged in our 2018-21 Strategic Plan and Budget.

The overall participation in both the culture and employee engagement surveys was phenomenal, with a response rate of 89% and 86%, respectively. I appreciate your passion and commitment to making the AGSA the best place to work for. Although our baseline for both organisational culture and engagement indexes are lower than what we envisaged, your feedback will help create a positive environment where everyone can contribute optimally towards our mandate and the 4V strategy.

On behalf of the AGSA leadership, thank you for sharing your opinions about your own AGSA experience. We believe that the surveys will help us to understand, in a comprehensive manner, what satisfies, motivates and engages our employees. The actions that will emanate from this exercise will go a long way toward addressing your concerns on our culture.

CONCLUSION

Overall, we performed well during the year, achieving a number of our key objectives as set out in our strategic plan and budget. We have solidified the foundation we envisaged will enable us to deliver our 2024 vision. We have already started reaping the benefits of some of the major initiatives including the implementation of the revised audit methodology. This serves as encouragement to keep overcoming our challenges in our quest to realise good governance and clean administration in the public sector for the greater good of our country.

I would like to express my sincere and warm gratitude to the Auditor-General for his exemplary leadership in steering the AGSA towards the realisation of vision 2024. The exceptional effort of our leadership and employees on this journey is commendable and greatly appreciated.

Tsakani Ratsela,
Deputy Auditor-General

EXECUTIVE
COMMITTEE OF THE AGSA

SOLOMON SEGOOA

Corporate Executive:
Audit

EUGENE ZUNGU

National Leader:
Audit Services

JAN VAN SCHALKWYK

Executive in the Office of the
Auditor-General

SIBONGISENI NGOMA

Chief Financial Officer

SIBONGILE LUBAMBO

Corporate Executive:
Audit

BARRY WHEELER

Corporate Executive:
Audit

VANUJA MAHARAJ

Corporate Executive:
Audit

ALICE MULLER

Corporate Executive:
Audit

MLUNGISI MABASO

Chief People Officer

MABATHO SEDIKELA

Corporate Executive:
Audit

SAKHIWO NGOBESE

Corporate Executive:
Communications and
Technology

Who we are

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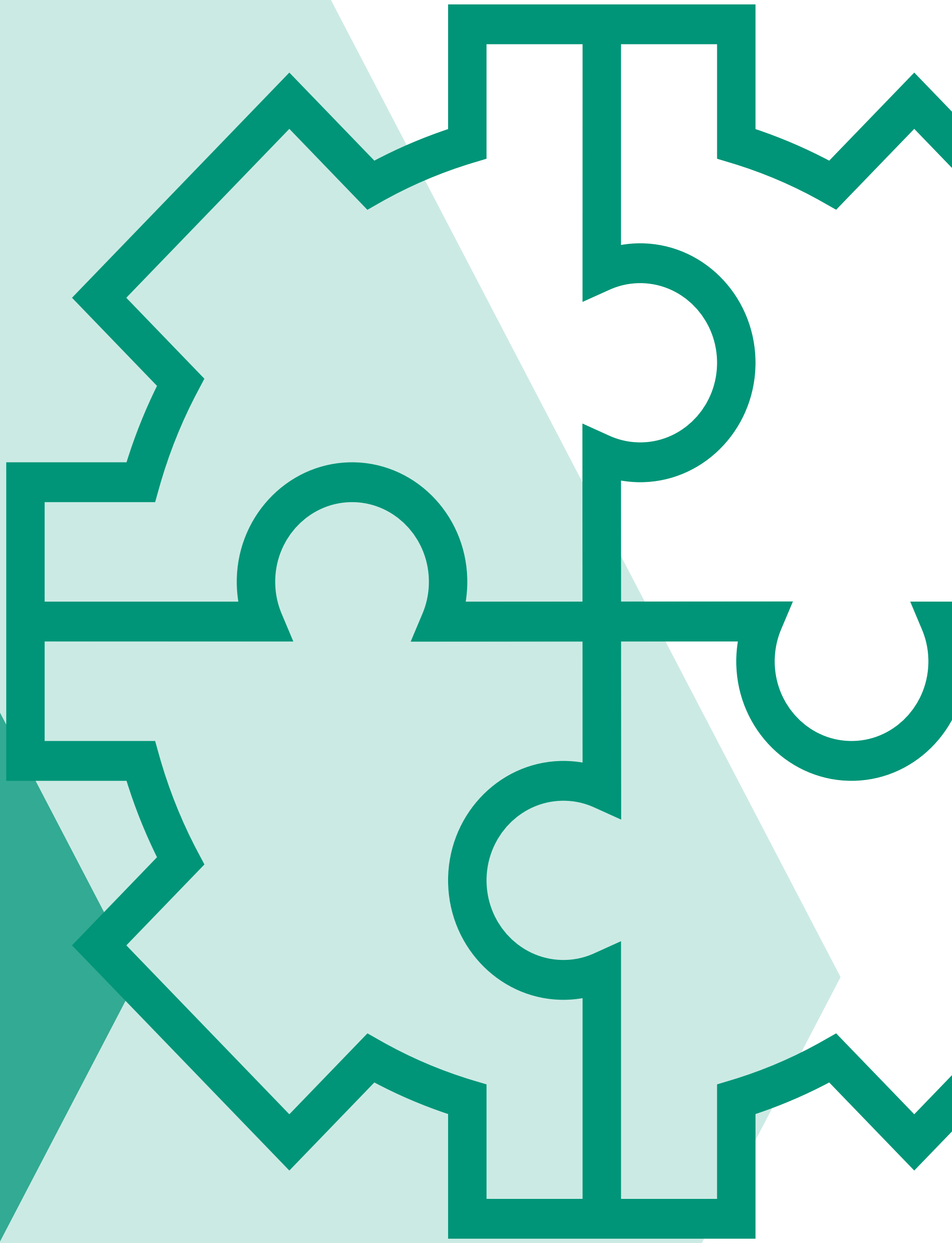


section 2

Integrated Annual Report | 2017-18

WHO WE ARE

Organisational mandate

Chapter 9 of the Constitution of the Republic of South Africa, 1996, established the AGSA as one of the state institutions supporting constitutional democracy. The Constitution entrenches our independence by making us subject only to the Constitution and the law. The Constitution also instructs that we be impartial, exercise our powers and perform our functions without fear, favour or prejudice.

The AGSA is by definition an organ of state in terms of sub-section 239(b)(i) of the Constitution, has full legal capacity and acts as a juristic person.

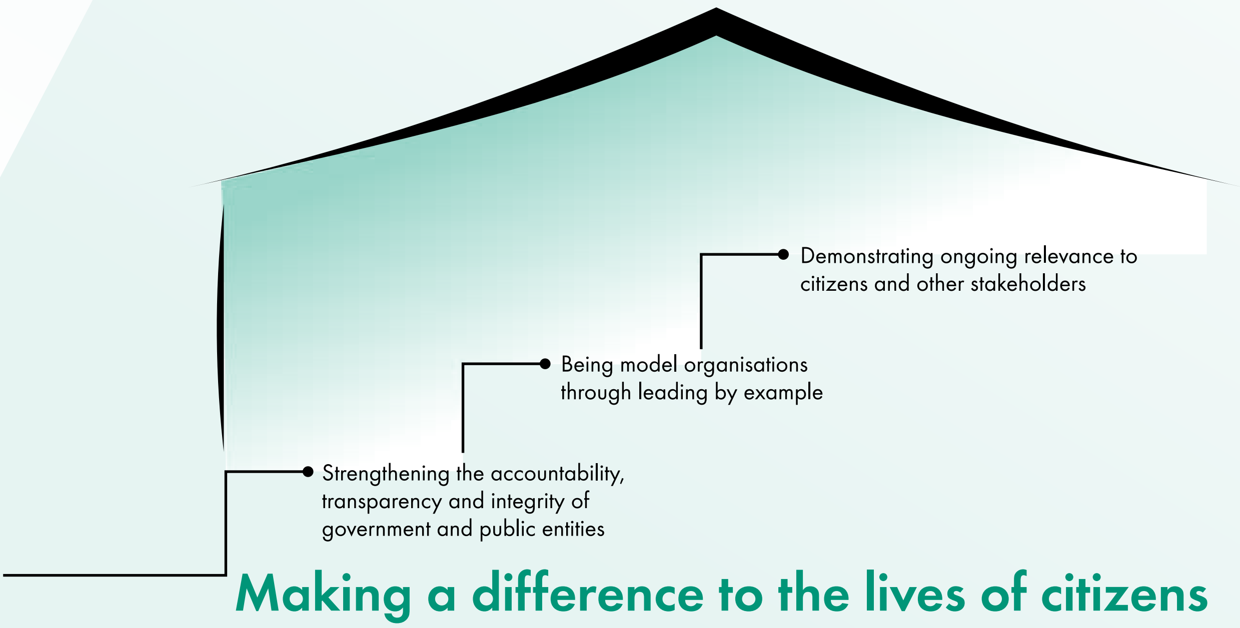
ACCOUNTABILITY AND REPORTING

We account to the National Assembly by tabling our annual report, annual financial statements and the audit report on those financial statements in Parliament [required by sub-section 10(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)].

VALUE AND BENEFITS OF SUPREME AUDIT INSTITUTIONS

As a member of the International Organisation of Supreme Audit Institutions (INTOSAI), we subscribe to the principles entrenched in the International Standards of Supreme Audit Institutions (ISSAI) 12. These standards describe how supreme audit institutions demonstrate their value and benefits to the public sector. The goal of supreme audit institutions is to make a difference to the lives of ordinary citizens in their respective countries.

Figure 2.1: How the AGSA makes a difference



OUR VISION, MISSION AND VALUES

Our daily work provides value to the people of South Africa and their elected representatives in all spheres of government. Our existence is concisely defined by our vision, mission and values.

Our aspirations

We want to see a South African public service that is characterised by:

- strong financial and performance management systems
- oversight and accountability
- commitment and ethical behaviour by all
- a value-adding assurance provider in the form of the AGSA.

Our vision

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability.

Our mission

We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

Our values

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

OUR FOUR STRATEGIC GOALS

Our commitments to Parliament are structured around four strategic goals.

Value-adding auditing

is aimed at providing audit-derived valuable insights to our stakeholders on the status of their internal control and performance environment, accompanied by actionable recommendations. If implemented, our recommendations will lead to visible improvements in public sector administration.

Viability

an internally focused perspective of our work ensures that we have the necessary resources: an enabling legal framework, independent financial resources, and the required skills, competencies and culture to execute our mandate economically, efficiently and effectively.

Visibility for impact

structures our stakeholder engagement programmes to effectively encourage and enable the required improvements in the public sector.

Vision and values driven

through our work and behaviour, we aim to lead by example and continually demonstrate that clean administration and transformation are achievable.

ORGANISATIONAL FUNCTIONS, BENEFICIARIES AND PRODUCTS

Our functions are described in section 188 of the Constitution. These functions, together with the powers necessary to perform them, are further regulated by chapters 2 and 3 of the PAA.

> **"The AGSA is mandated by law to audit and report on how the government is spending the South African taxpayers' money."**

Every year, we conduct mandatory audits of government departments, certain public entities, municipalities and municipal entities (our clients or auditees). We also conduct discretionary and special audits, such as performance audits and investigations.

We not only have to audit and report on the financial management in the public sector, we also have to do so in a manner that will enable the legislature to call the executive to account for how they dealt with the maladministration of public funds.

The AGSA annually produces audit reports on all government departments, public entities, municipalities, public institutions and state-owned enterprises (SOEs). The reports are included in the auditees' annual reports, which they table in the relevant legislatures such as Parliament and provincial legislatures. The reports are also made available to municipal councils or bodies with a direct interest in the particular audit.

Audit reports may be provided to any other legislature or organ of state if we consider it in the public interest to do so.

In addition to these audit-specific reports, we publish general reports in which we analyse the outcomes of the respective audits at national and provincial levels, and at municipal level.

WE ADD VALUE TO

THE PEOPLE OF SOUTH AFRICA

Listening to the conversations in the public sector, acting in the public interest and selecting areas of audit that have a direct impact on peoples' well-being

Making public the results of our audit work, which enables people to hold their elected representatives and the custodians of public resources accountable

Being a model organisation and demonstrating that clean administration and transformation are achievable

Executing our audits in the most cost-effective, efficient and economical manner

THE LEGISLATURES

Being a credible source of relevant, independent and objective insight based on independent, professional judgement and sound analysis

Identifying themes, common findings, trends and root causes; providing audit recommendations and discussing these with relevant stakeholders who oversee and support beneficial changes in the public sector

THE EXECUTIVE

Identifying instances of mismanagement and their root causes, and recommending improvements tailored to the business of the auditee

THE AUDITING AND ACCOUNTING PROFESSIONS

Allocating contract audit work

Building skilled and qualified professionals

Creating a pipeline of black chartered accountants (CAs) to transform the profession and economically empower black audit firms

OUR EMPLOYEES

Creating meaningful employment and career development opportunities

Providing fair, transparent, market-related and equitable remuneration and benefits

Figure 2.2: Our process for creating value

BUSINESS MODEL

We generate revenue by charging our auditees for the work required to complete an audit, based on a publicly available, transparent, annually revised structure of audit fees. The defined percentage of profit, or our sustainability margin, is used to maintain our operations.

Section 38(4) of the PAA authorises the AGSA to retain any surplus, or a portion of it, following consultation with the National Treasury and after approval by the Standing Committee on the Auditor-General (SCoAG). We use this surplus to ensure the sustainability of the organisation, i.e. when approved we use this surplus to fund our infrastructure (capital) expenditure and for general reserve requirements. We pay the portion of the surplus that we do not retain into the National Revenue Fund.

Our business model allows us to generate value. We use inputs in the form of capitals and transform them through business processes and activities to produce outputs and outcomes that, over the short, medium and long term, create value for the organisation, its stakeholders, society and the environment.

The term 'capital' used in the integrated reporting framework refers broadly to any store of value that an organisation can use in the production of goods or services. The AGSA depends on the various forms of capitals for its success. Their availability, quality and affordability can affect our long-term viability and, therefore, our ability to create value. They must be maintained if we are to continue creating value in the future.

OUR BUSINESS CAPITALS

FINANCIAL

- The funds we collect from our audits

As a non-profit organisation we generate a small sustainability margin to sustain our operations and remain independent. Our financial capital will not increase as we strive to reduce costs for our auditees. We continue to improve our financial capital through the limit on headcount growth and other cost containment and reduction measures. The main threat to our financial viability remains the increasing debt by local government auditees

INTELLECTUAL

- Our knowledge and experience

Our intellectual capital is the basis of our value proposition. We improve it continually to increase the value that we deliver to auditees in the form of insights and recommendations for improvement. We also continue improving this capital with the aim of deriving audit efficiencies and reducing audit hours where possible.

MANUFACTURED

- Human-created, production-orientated equipment and tools

Our manufactured capital is minimal so that we do the most with the least use of public funds. It covers our needs for office accommodation, tools of trade and transportations means.

HUMAN

- Our staff's skills, knowledge, capabilities and experience and our culture

We develop our human capital and have the largest trainee auditor scheme in the country. We focus on professionalism and qualifying black CAs to support transformation. People development and performance management contribute to us achieving our strategic goals. We also support selected universities and the Thuthuka bursary fund, which feed into our trainee auditor scheme.

SOCIAL

- Our relationships with: auditees, oversight bodies and professional bodies

While our knowledge, experience and quality of audits are the basis of insights and recommendations for improvement, our engagements with auditees and various stakeholders allow us to communicate our messages and encourage actions for improvement. Our engagements are focused on influencing change and obtaining the best return on investment in the form of timely and effective corrective actions by auditees.

ENVIRONMENTAL

- Our impact on natural systems including land, air and water

Due to the nature of our work, our everyday impact on the environment is limited to the use of natural resources for our daily human needs. Our travel to and from auditees and other stakeholder engagements can increase our carbon footprint as we burn fossil fuels for transportation. Measures such as video conferencing, carpooling, prioritising engagements and using existing engagement platforms in the public sector are used to reduce the carbon emissions linked to our work.

OUR BUSINESS MODEL

ECONOMIC SUSTAINABILITY

INPUTS

FINANCIAL
- Prior investments to the value of R786 million (reserves) and interest accrued on the investments
- Debt owed to the AGSA of R806 million
- R266 million of funds in the current account

INTELLECTUAL
- Audit methodologies, incl. working papers on all types of audit
- Audit process
- System of quality control
- Audit technical guidance material
- Funding model specifically designed for the AGSA
- Technical expertise:
  - knowledge of the public sector
  - accurate interpretation of relevant laws to protect our independence
  - stakeholder relationships management
  - ethics registers, processes, complaints

MANUFACTURED
- Leased offices in all nine provinces and our head office in Pretoria,
- Property, plant and equipment of R90 million
- Audit computer software - TeamMate R11.0

OUTPUTS

FINANCIAL
- Increase in reserves. Investments to the value of R853 million
- Decrease in debtors. Total debtors worth R650 million
- Increase in current account balance. R355 million in the current account

INTELLECTUAL
- 1 003 audits completed and audit reports issued
- Two general reports issued and one standalone performance audit report
- Internationally benchmarked revised audit methodology
- Audit technical guidance based on the revised audit methodology
- Increase in technical expertise and knowledge of various sectors, standards and laws
- Use of a value chain approach
- Better trend analyses based on our insight
- Improved safeguards on ethical breeches

MANUFACTURED
- All our offices have remained unchanged
- Property, plant and equipment of R109 Million
- Stabilised TeamMate R11.0

OUTCOMES

FINANCIAL
- Maintained financial viability and independence

INTELLECTUAL
- Increased understanding of the auditee environment and increased ability to provide better recommendations for improvements to auditees and better insights to oversight structures
- Increased awareness of the citizens of our country on how to hold their elected representatives accountable

MANUFACTURED
- Effective and efficient management of our operations

ENVIRONMENTAL SUSTAINABILITY

INPUTS

ENVIRONMENTAL
- Our use of natural resources – land, air, water, trees (paper), energy
- Developed and implemented an environment management accounting system (EMAS) to measure the use of natural resources (focus on travel as the main driver of our CO_2 emissions)

OUTPUTS

ENVIRONMENTAL
- Total carbon emissions - 44 296,6 CO_2e

OUTCOMES

ENVIRONMENTAL

Knowledge of our carbon footprint and a conscious effort to increase the awareness of staff of our impact on the environment

SOCIAL SUSTAINABILITY

INPUTS

HUMAN
- Diverse, skilled, capacitated and motivated workforce of 3 483
- A pipeline of 1 298 trainee auditors
- Registered audit professionals: CA(SA) – 619, RGA – 464, CISA – 76, ACCA – 39
- HR policies, frameworks and processes
- Accountable and ethical leaders
- Suppliers: 104 Contract work firms and 1 254 general suppliers
- 138 academic and 140 Thuthuka bursary holders

SOCIAL
- Brand reputation
- Respect for our work
- Voted in the top 25 most attractive employers in the Universum employer of choice survey, as voted by Business/ Commerce students. (2016-17 survey results)
- Relationships with stakeholders
- Level 2 B-BBEE contributor

OUTPUTS

HUMAN
- Skilled, capacitated and motivated workforce of 3 459
- A pipeline of 1 251 trainee auditors
- Increased number of registered audit professionals: CA(SA) – 622, RGA – 436, CISA – 81, ACCA – 45
- Increase in suppliers: 102 Contract work firms and 1 616 general suppliers
- 130 academic and 75 Thuthuka bursary holders

SOCIAL
- Increase in brand reputation
- Respect for our work
- Maintained our position within the top 25 most attractive employers in the Universum employer of choice survey (2017-18 survey results)
- Improved and evolved relationships with stakeholders
- Maintained our level 2 B-BBEE contributor status

OUTCOMES

HUMAN
- Retained and developed a competent and ethical workforce that enabled the effective execution of our mandate
- Maintained leadership pipeline
- Nurtured a talent pipeline to ensure organisational continuity
- Contributed to the growth of black CAs in the profession
- Focus on transformed suppliers

SOCIAL
- Enabled our stakeholders to better execute their mandates
- Assisted parliament committees in their oversight roles
- Increased citizens' understanding of our mandate
- Contributed to the transformation agenda of the country

INPUT
is the status ofa capital at the beginning of the financial year.

PROCESSES
are the methods tha we use to ensure that the input of each capital yields the desired output.

OUTPUT
is the status of that capital at the end of the financial year.

PRIMARY PROCESSES

- Auditing organisations and entities funded by public money using the following tools:
  - audit research methodology
  - audit planning
  - audit execution
  - audit reporting
  - quality control over audit processes and products
- Training of professional auditors

SECONDARY PROCESSES

- Communication with stakeholders
- Stakeholders relations management
- Human resource management
- Legal
- Information technology management
- Information and records management

MANAGEMENT CONTROL

- Strategy management
- Risk management
- Governance
- Ethics management
- Policy management
- Transformation

Figure 2.3: Business process

AGSA CARBON FOOTPRINT

		CARBON FACTOR	SYSTEM INFORMATION	GHG EMISSIONS ($Metric Tons CO_2-E$) add totals
WATER USAGE				
Energy used for water purification and supply	MWh electricity per Ml	0,64		
GHG emissions per Ml water supplied	metric tonne CO_2-e	0,631798	23 647,47	149,40
ELECTRICITY USAGE				
GHG emissions per MWh electricity used	metric tonne CO_2-e	0,987185	2 540,32	25,08
PAPER USAGE				
GHG emissions per metric tonne paper produced	metric tonne CO_2-e	1,854410	24,14	0,45
ROAD TRAVEL				
GHG emissions per liter diesel used	metric tonne CO_2-e	0,002669144	178 842,33	4,77
GHG emissions per liter petrol used	metric tonne CO_2-e	0,002299903	1 004 780,33	23,11
Estimated average fuel use (diesel)	km/l	12,0		
Estimated average fuel use (petrol)	km/l	12,0		
GHG emissions per liter diesel produced	metric tonne CO_2-e	0,0005785		
GHG emissions per liter petrol produced	metric tonne CO_2-e	0,0004504		
FLIGHTS				
GHG emissions per km of short haul/domestic passengers flight (<425 km)	kg CO_2-e	0,29316		0,000000
GHG emissions per km of medium haul/regional passengers flight (425 - 1600 km)	kg CO_2-e	0,16625	21 023 873,20	34 952,19
GHG emissions per km of long haul/international passengers flight (>1600 km)	kg CO_2-e	0,21022	4 348 574,52	9 141,57
				44 296,6

Note: The carbon footprint is noted as high however the following considerations have to be made:
1. 2017-18 was the first year of implementation and this resulted in change management challenges as well as duplicate reporting.
2. In some instances, users provided inaccurate information.
3. We audit in the outskirts of South Africa and hence our mileage is excessive.

SCALE OF THE ORGANISATION

3 459 Employees | **R3 247 MILLION** Revenue | **1 003** Audits

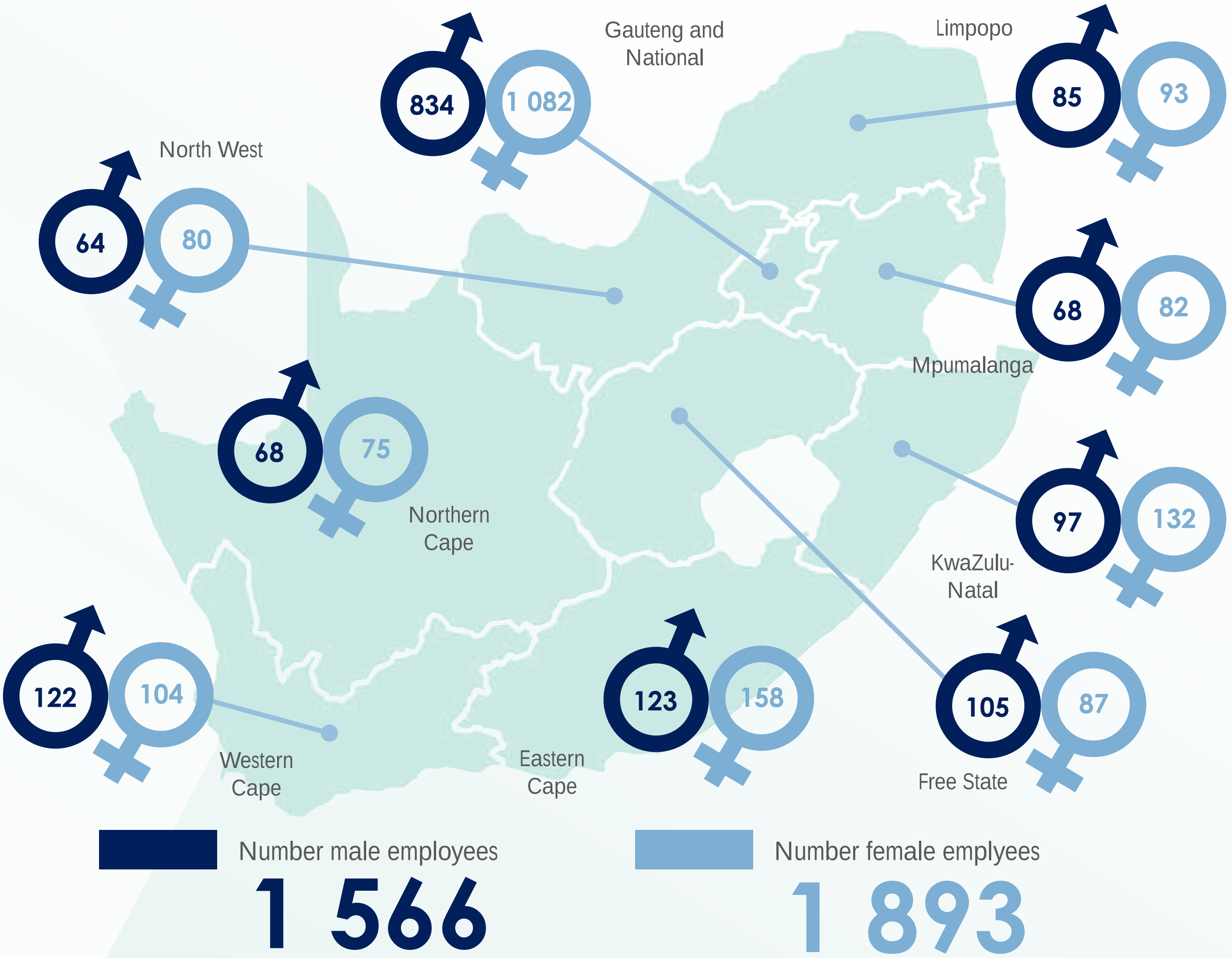


Figure 2.4: Our organisation's national footprint

Our head office is in Pretoria. We have offices in each of the nine provinces of South Africa to ensure that we are accessible to our clients and deliver our services in the most cost-effective manner.

While we are based in South Africa and deliver services that benefit local interests, the business operations of some of our auditees require the execution of audit work elsewhere in the world.

As a supreme audit institution, we actively participate in international events, forums and programmes, and cooperate with other supreme audit and selected institutions to enhance our reputation and gain experience that adds value for our auditees.

The organisation comprises 15 regularity audit business units – nine operating in each of South Africa's provinces and six at national level – three specialised audits services units, and 12 support business units (Management structure). A shared services model exists for all enterprise resources – financial and human capital, information and communication technology services, communication, technical services, quality control and others.

DEFINITIONS:

Regularity audit – is a statutory examination and reporting on the auditee's financial statements. Within the scope of regularity audit, we also examine the auditees' compliance with relevant legislation.

Regularity audit business unit - is a division of the AGSA responsible for conducting regularity audits at all auditees within a specific province or a set of portfolio departments.

Specialised Audit Services business units – is a division of the AGSA that nurtures and provides specialised skills and techniques to conduct in-depth audits based on the risk profile of the auditee. These audits can be stand-alone or integrated with regularity audits. The three specialised audit services units in the AGSA are: Investigations, Information Systems Audit and Performance Auditing.

VALUE-ADDED STATEMENT

	%	R million
Revenue		**3 247**
Paid to suppliers		1 064
- value added by operation		2 183
Interest income		67
Total value added		**2 250**
Applied as follows		
Paid on internal and external empowerment	**1,46%**	**33**
- Corporate social investment	0,04%	1
- Corporate social responsibility	0,13%	3
- Bursaries external	1,29%	29
Paid on employees and internal empowerment	**92,71%**	**2 086**
- Salaries, wages and benefits	90,71%	2 041
- Employee wellness	0,09%	2
- Study assistance	0,84%	19
- Training	1,07%	24
To pay poviders of capital	**0,27%**	**6**
- Finance cost	0,27%	6
Reinvested in the business	**5,56%**	**125**
- Depreciation	2,58%	58
- Retained (deficit)/surplus	2,98%	67
Total value added		**2 250**

MANAGEMENT STRUCTURE OF THE AGSA

AUDITOR-GENERAL
Kimi Makwetu

EXECUTIVE IN THE OFFICE OF THE AUDITOR-GENERAL
Jan van Schalkwyk

DEPUTY AUDITOR-GENERAL
Tsakani Ratsela

Strategy and Transformation
Tsvetana Mateva

Risk and Ethics
Tumi Ramoganyaka

Institutional Cooperation
Fezeka Baliso

Corporate Secretariat & Support
Adiel Kamedien

NATIONAL LEADER: AUDIT SERVICES
Eugene Zungu

CORPORATE EXECUTIVES

AUDIT: Alice Muller	AUDIT: Solomon Segooa	AUDIT: Mabatho Sedikela	AUDIT: Vanuja Maharaj	SPECIALISED AUDIT SERVICES: Barry Wheeler	AUDIT: Sibongile Lubambo
National D Andries Sekgeto	National B Polani Sokombela	National A Corne Myburgh	National C Lourens van Vuuren	Audit Research & Dev Linda le Roux	National E Zolisa Zwakala
Limpopo Nthanyiseni Dhumazi	Western Cape Sharonne Adams	North West Success Marota	Eastern Cape Sithembele Pieters	Quality Control Gerhard Joubert	National F Kgabo Komape
Free State Odwa Duda	Northern Cape Charles Baloyi	Gauteng Dumisani Cebekhulu	KwaZulu Natal Ntombifuthi Mhlongo	Performance Audit Kevish Lachman	Mpumalanga Bomkazi Bhobho
				Information Systems Audit Vacant	
				Investigations Aletta van Tromp	

CORPORATE EXECUTIVES

Chief People Officer Mlungisi Mabaso	Communications & Technology Sakhiwo Ngobese	Chief Financial Officer Sibongiseni Ngoma
People and Organisation Effectiveness Mpho Sadiki	Information Communications & Technology John Karageorgiou (Interim)	Corporate Legal and Provisioning Services Marissa Bezuidenhout
Business Support and Operations Wendy Mahuma	Information Knowledge Management Vacant	Finance Newman Madanhi
	Communication Mandla Radebe	Strategic Audit Projects Bongani Habile

ORGANISATION'S SUPPLY CHAIN

In line with the principles prescribed in the Constitution, we maintain a procurement and provisioning system that is fair, equitable, transparent, competitive and cost-effective.

SUPPLIER DATABASE MANAGEMENT

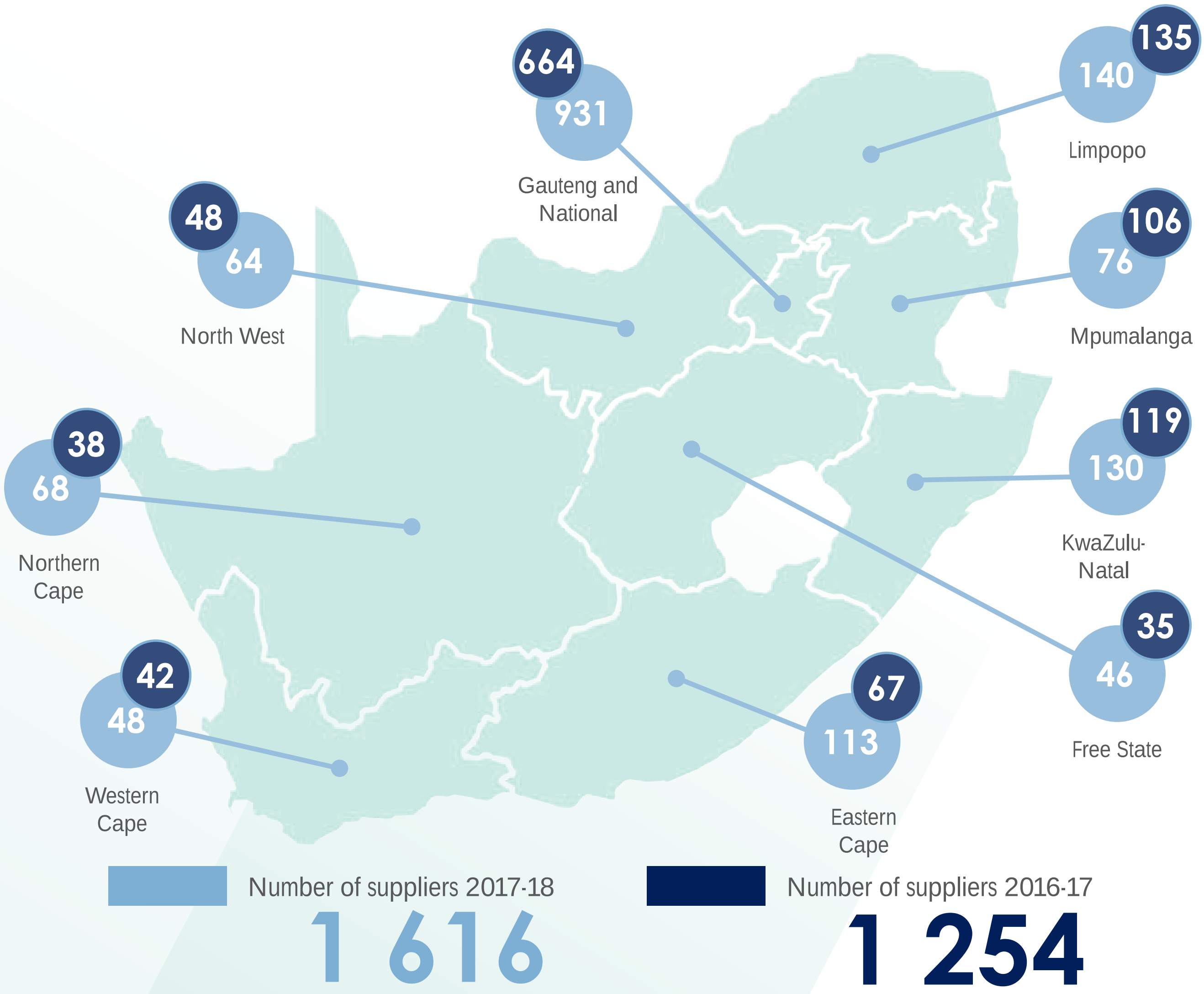
Categorising databases
In the 2016-17 financial year we revised our supply chain management policy and procedures to help re-engineer the supply chain function and improve support to stakeholders.

As part of our drive toward transformation, we updated our supplier database at all nine regional offices to ensure that companies' B-BBEE information and service categories were included. This was important as it became easier to identify the exempted micro enterprises and qualifying small enterprises that form part of our transformation strategy when procuring goods/services.

Estimated number of suppliers in the supply chain
Our supply chain management policy requires our regional offices to maintain local databases in addition to the national database maintained by the supply chain management office. This encourages the use of local businesses to support the transformation objectives introduced during 2017-18.

Our supplier database increased from 1 254 in 2016-17 to 1 616 suppliers in 2017-18. The increase in B-BBEE compliant suppliers provides greater opportunities for us to maximise our contribution to the country's transformation objectives.

Figure 2.5: Number of non-audit suppliers per province



CONTRACTS AWARDED

As part of our business model, we outsource some of our audit work. The firms that audit on our behalf are appointed through a transparent selection process that considers the firms' size, location, expertise and quality of audit work. The appointment process incorporates the principles of transformation for the development, growth and advancement of black chartered accountants.

- 102 firms (6 large, 17 medium and 79 small) were used as audit suppliers.
- 1 101 contracts were awarded to those firms.
- the outsourced work included pre-issuance reviews, regularity audits, information systems audits and performance audits services.

> **During 2017-18, R575 million was spent on audit work to private firms. Of this, R255 million was allocated to black-owned firms, while R109 million was allocated to black women-owned firms.**

Further information on our support to transformation is provided in the vison and values driven chapter.

Recognising the significant reputational risk to the organisation in continuing our association with the auditing firms Nkonki Inc. and KPMG, on 17 April 2018, after much deliberation, we decided to terminate all contracts with the two firms. Our decision stemmed from a tenet that has anchored the institution of the Auditor-General of South Africa for more than 100 years, i.e. we must act and project an image of accountability in the same way that we hold the entire public sector accountable for the use of taxpayers' money.

Significant changes during the reporting period

In 2017-18, we saw a great deal of support for the Auditor-General from both constitutional and non-constitutional stakeholders. All were willing to see the mandate and functions of the Auditor-General strengthen significantly so that he could initiate consequences for financial mismanagement, maladministration and serious breaches in duties. As a result, the Public Audit Amendment Bill was passed through the two houses of Parliament unopposed.

When signed by the President, this will be the single, most important change in the powers bestowed upon the institution.

In anticipation of the imminent signing of the Act, we have commenced our preparation for implementing the amendments by reviewing our processes and drafting the required secondary legislation.

We implemented our revised, internationally benchmarked audit methodology, which we anticipate will bring benefits such as consistency in planning audits and focusing on auditing what matters to improve internal efficiencies especially at smaller auditees.

We began to implement the status of records review programme aimed at having focused and insightful interactions with our auditees. The intention is to identify key areas of concern, provide our assessment of key focus areas and assess the progress of implementing previous action plans or commitments.

No significant changes occurred in the management structure or the business model of the organisation.

1 Large firm – Turnover of more than R50 million
Medium firm – Turnover between R10 m – R50 m
Small firm - Turnover between R0 m – R10 m

Corporate governance framework

Our governance framework is defined by the Constitution and the PAA. We are reviewing our alignment to the King IV code on governance and the roles of the various governance structures to enable our implementation of the King IV code in the near future.

SCoAG

- Provides oversight
- Ensures the AGSA's independence and impartiality
- Appoints external auditors to audit AGSA
- Recommends Auditor-General's conditions of employment

REMUNERATION COMMITTEE

- Provides specialised advice to the Auditor-General on remuneration and related issues. The final decision making power rests with the Auditor-General
- Provides advice on the latest industry development in remuneration framework

AUDITOR-GENERAL

AUDIT COMMITTEE

Assists the Deputy Auditor-General in discharging the following duties:

- Maintaining effective, efficient and transparent systems of financial management, risk management and internal control
- Maintaining an effective internal audit function
- The committee consists of four independent, non-executive members. Skills and competencies are complementary to their duties and they adequately cover business, financial and risk management matters

DEPUTY AUDITOR-GENERAL

QUALITY CONTROL ASSESSMENT COMMITTEE

- Oversight body that assists the Auditor-General and Deputy Auditor-General to implement a system of quality control at the AGSA
- Monitors the quality control system by reviewing quality control at both institutional and engagement level. This is a requirement of the International Standards on Auditing (ISAs)

EXECUTIVE COMMITTEE

- Established to assist the Deputy Auditor-General to manage the business and affairs of the organisation
- Chaired by the Deputy Auditor-General and consists of the national leader and corporate executives
- Focuses on reviewing and directing the implementation of the AGSA's business and strategic plans throughout the year. It has the power to establish subcommittees to assist it

Figure 2.6: Governance framework of the AGSA

Standing Committee on the Auditor-General (SCoAG)

The National Assembly established SCoAG as an oversight mechanism, aligned to the provisions of section 55(2)(b)(ii) of the Constitution and section 10(3) of the PAA. SCoAG's legislative mandate is to fulfil the following roles:

- Assist and protect the Auditor-General to ensure their independence, impartiality, dignity and effectiveness, and to advise the National Assembly accordingly.
- Recommend to the president the conditions of employment of the Auditor-General.
- Provide general oversight as required by section 55(2)(b)(ii) of the Constitution.
- Annually appoint an independent firm of external auditors.

We met with SCoAG to:

- discuss the strategic plan and budget and the integrated annual report
- draft the Public Audit Amendment Bill, which required several interactions beyond the norm
- discuss our intention to terminate the Nkonki and KPMG contracts.

SCoAG also supported us by issuing a media release after intimidation by auditees.

ANC	DA	EFF	IFP	COPE
Mr VG Smith (Chairperson)	Mr AR McLoughlin	Ms NV Mente Nqweniso	Mr N Singh	Ms D Carter
Ms ZS Dlamini Dubazana	Mr B Topham	Mr TE Mulaudzi		
Mr RC Adams				
Mr MLD Ntombela				
Ms P Bhengu-Kombe				
Ms NP Khunou				
Mr TS Mpanza				

SCoAG

Figure 2.7: Composition of the Standing Committee on the Auditor-General

AUDIT COMMITTEE

Section 40(1) of the PAA mandates the Deputy Auditor-General to establish an audit committee and appoint its members. The audit committee does not have managerial responsibility, but gives input to the Deputy Auditor-General to assist her in discharging the following duties:

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

The committee consists of three independent, non-executive members. The skills and competencies of committee members are complementary to their duties so that they adequately cover business, financial and risk management matters. Mr P Moyo was rotated in line with good practice as he had served on the committee for more than 10 years. Ms G Motau joined the committee in November 2017.

The audit committee met three times during the year to discuss:

- the status of internal controls and risk management in the organisation
- integrated reporting and financial statements
- sustainability and performance information
- the work of the internal audit function
- the appointment, independence and functioning of the external auditor.

The audit committee held a number of ad hoc meetings to identify and recommend the new external audit firm for SCoAG to finalise their appointment.

In performing its duties and functions the committee complied with section 40(6) of the PAA, the adopted principles of the King IV code and its terms of reference, which are reviewed annually. The full report of the audit committee chairperson is presented on page 112.

100%

Mr Peter Moyo
Chairperson

Name:
Mr Peter Moyo
(term completed)
Age: 55
Qualifications: B.Compt. Hons (UNISA); H. Dip Tax Law (Wits); CA (SA)
Appointed: 2005
Experience:
Mr Moyo has extensive business experience and is CEO of Old Mutual Emerging Markets, chairman of CSC, Willis SA and Business Against Crime SA (BACSA).

100%

Mr John Biesman-Simons
New chairperson

Name:
Mr John Biesman-Simons
Age: 64
Qualifications: CA (SA)
Appointed: 2005
Experience:
Mr Biesman-Simons understands auditing well, being a partner at Deloitte & Touché. He has served as financial director at Command Holdings Ltd, Canal Walk Ltd and Century City Ltd, was a chief operations officer at Community Chest Western Cape and had been the Cape regional executive for Lombard Insurance

100%

Ms Carol Roskruge-Cele
Member

Name:
Ms Carol Roskruge-Cele
Age: 45
Qualifications: BSc Hons Molecular Eng. UKZN; MSc Biochemical Science UKZN; MBL Governance & Leadership, UNISA
Appointed: 2016
Experience:
Ms Roskruge-Cele is a senior with 16 years of executive/ senior level supply chain experience, a long track record of operational and strategic leadership, and people, budgets and profit and loss responsibilities

100%

Ms Grathel Motau
Member

Name:
Ms Grathel Motau
Age: 44
Qualifications: CA(SA) MPhil Development Finance USB; BCompt. Honours UNISA
Appointed: 2005
Experience:
Ms Motau has more than 20 years of business experience from both the public and private sectors. She is currently chief executive at Mmoni Advisory Services.

AUDIT COMMITTEE

Figure 2.8: Attendance at the audit committee

QUALITY CONTROL ASSESSMENT COMMITTEE

The quality control assessment committee (QCAC) is an oversight body that assists the Auditor-General and Deputy Auditor-General to fulfil their responsibilities to implement a system of quality control at the AGSA. The QCAC consists of the Auditor-General, the Deputy Auditor-General, an external audit committee member and an external member co-opted by the Auditor-General annually.

The QCAC is required to monitor the elements of the quality control system by providing reasonable assurance that the organisation and our personnel adhere to professional standards and regulatory and legal requirements, and that the reports that we or our engagement partners issue are in line with accepted international standards of quality.

At its meeting on 5 May 2017, the QCAC decided on the final assessment results of the audit engagements that were subjected to quality control reviews in the 2016-17 performance year. Details of the results, and the outcome of the monitoring on an engagement level for 2016-17, are found in the performance information on the system of quality control on page 66.

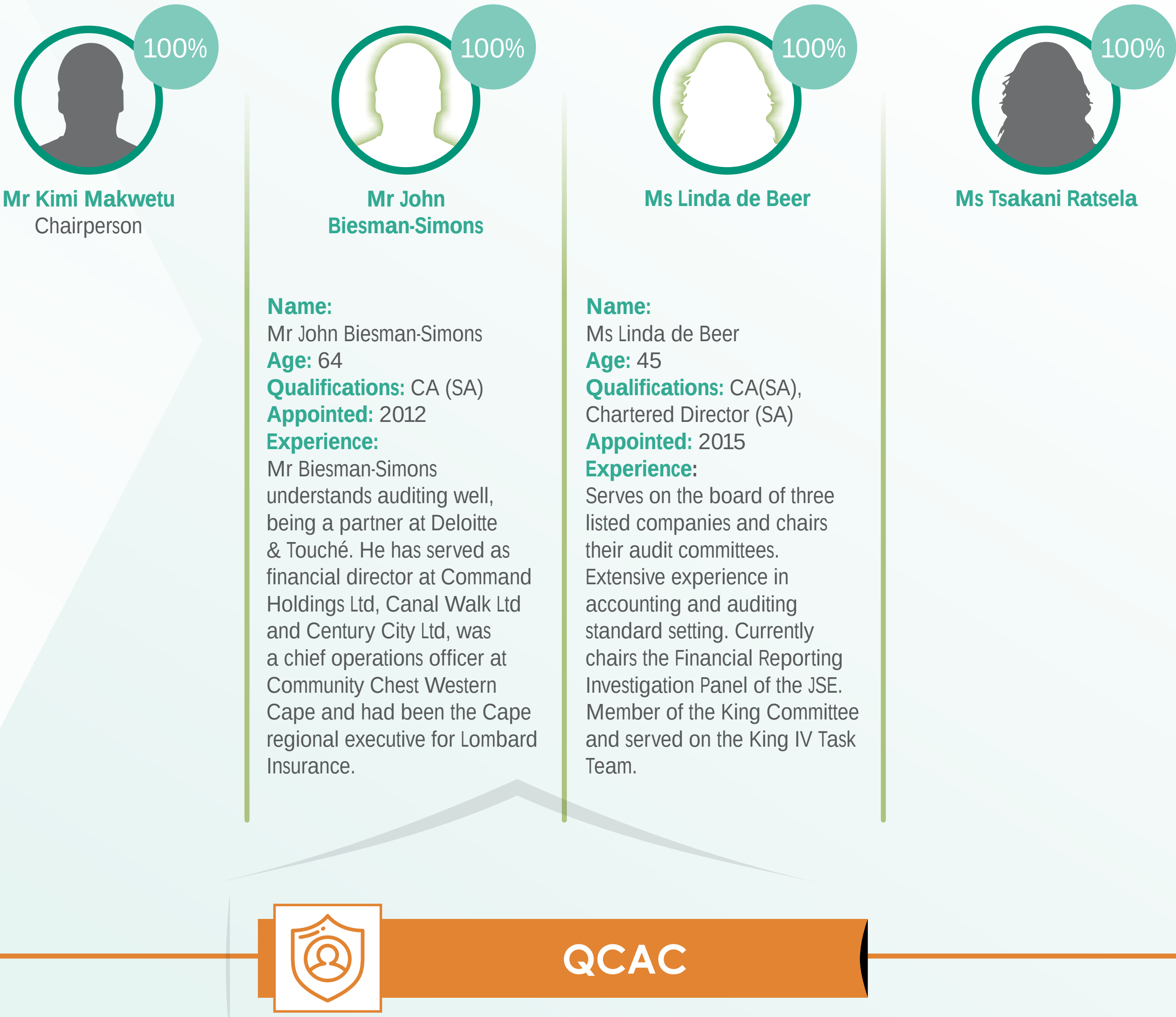


Figure 2.9: Composition of the quality control assessment committee

REMUNERATION COMMITTEE

The Auditor-General is responsible for determining the terms and conditions of employment of all employees in the organisation, in accordance with section 34(3) of the PAA. The remuneration committee (Remco) is established to provide specialised advice to the Auditor-General on remuneration and related issues, while the final decision-making power rests with the Auditor-General.

During the year the committee met twice and made recommendations to the Auditor-General on the annual employee increases as per its mandate. It also advised our leadership on the latest industry developments regarding remuneration frameworks.

100%

Dr Mark Bussin

Name: Dr Mark Bussin
Age: 55
Qualifications: BSc HDPM; MM; M Com; D Com; Master Reward Specialist
Appointed: 2007
Experience:
Serves as board member for several boards and HR/remuneration chair and audit committee member
Held Global Executive positions for three multinationals
Professor at Universities

50%

Mr Bernard Nkomo

Name: Mr Bernard Nkomo
Age: 57
Qualifications: B Comm
Appointed: 2008
Experience:
Over 18 years' experience in Compensation and Benefits Management at various companies – Vodacom, Arcelor Mittal, Transnet and Aspen Pharmacare

100%

Ms Nazlie Samodien

Name: Ms Nazlie Samodien
Age: 48
Qualifications: B Soc. Science (UCT); PDM (Wits); Dip HR (RAU); GRP; Master Reward Specialist
Appointed: 2009
Experience:
10 years' generalist HR
Over 15 years' specialist remuneration
President of the South African Reward Association

100%

Ms Mpuseng Tlhabane

Name: Ms Mpuseng Tlhabane
Age: 58
Qualifications: CA(SA)
B Admin Ind Psych (UNIBO)
MDP (UNIBO/Stellenbosch)
PDA Analyst; MyPDA Coach Analyst; FLA Coach;
LP Practitioner
Appointed: 2008
Experience:
27 years in corporate as HR practitioner, 15 of which at executive level (responsible for all HR disciplines, reward strategies as part of HR)
4 years in own consulting company

REMUNERATION COMMITTEE

Figure 2.10: Composition of the remuneration committee

EXECUTIVE COMMITTEE

The PAA gives both the Auditor-General and the Deputy Auditor-General 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 Deputy Auditor-General to manage the business and affairs of the organisation in line with the delegation of authority set out in the AGSA management approval framework.

The Exco, chaired by the Deputy Auditor-General, consists of the national leader and corporate executives. It meets on average eight times during the year and, when required, holds special meetings. Exco focuses on reviewing and directing the implementation of our business and strategic plans throughout the year. It has the power to establish subcommittees to assist it.

The Exco met 10 times during the 2017-18 financial year. It dealt with the implementation of strategic initiatives, approved various policies and strategic documents, and monitored management information for issues and trends.

100%

Ms Tsakani Ratsela
Chairpeson

67%

Ms Mabatho Sedikela

Name:
Ms Mabatho Sedikela
Age: 39
Qualifications: CA (SA); Master of Commerce Taxation
Appointed: 2016
Experience:
Mabatho joined the AGSA as a deputy business executive. She was appointed as a business executive in 2011 and promoted to corporate executive in January 2016

100%

Ms Sibongiseni Simangele Ngoma

Name:
Ms Sibongiseni Simangele Ngoma
Age: 40
Qualifications: CA(SA)
Appointed: 2012
Experience:
Bongi served her articles at EY. She joined the Industrial Development Corporation as a senior account manager and was promoted to head of internal audit. She joined the AGSA in 2012 and continues to serve in the role of chief financial officer

100%

Mr Eugene Msawenkosi Zungu

Name:
Mr Eugene Msawenkosi Zungu
Age: 51
Qualifications: CA(SA)
Appointed: 2009
Experience:
After qualifying as a chartered accountant with Deloitte, Eugene worked in several different industries including manufacturing, merchant banking and property development, mainly in finance positions ranging from project accountant to group financial executive. Eugene joined the AGSA in February 2009 as a corporate executive and was promoted to National Leader in 2015

EXCO

100%

Mr Mlungisi Maurice Mabaso

Name:
Mr Mlungisi Maurice Mabaso
Age: 50
Qualifications: Industrial Relations Hons
Masters Diploma in Human Resources
Appointed: 2016
Experience:
Mlungisi has 26 years of experience as a Human Capital professional at operational and strategic levels, of which 13 years have been in senior leadership roles in blue chip companies such as BMW, Murray & Roberts, Heineken and Buhler

90%

Mr Sakhiwo Ntobeko Ngobese

Name:
Mr Sakhiwo Ntobeko Ngobese†
Age: 48
Qualifications: B Comm
Appointed: 2013
Experience:
Sakhiwo has spent 14 years of his career working for a large diversified media, publishing and broadcasting group, with interest in retail, leisure and telecommunications. He joined the AGSA as a corporate executive in 2013 and resigned in January 2018

100%

Mr Solomon Mokaba Segooa

Name:
Mr Solomon Mokaba Segooa
Age: 43
Qualifications: CA(SA)
Appointed: 2014
Experience:
Solomon served his articles with Deloitte, where he was retained as an audit manager. He also worked as chief financial officer for Transnet prior to joining the AGSA. He joined the AGSA as a corporate executive in 2014

100%

Ms Alice Muller

Name:
Ms Alice Muller
Age: 49
Qualifications: CA(SA)
Appointed: 2008
Experience:
Alice completed her articles at Deloitte in Welkom. She became an associate at Odendaal and Marais before joining the AGSA as an audit manager. She has moved up the ladder to corporate executive: audit, a position which she has occupied since 2008

EXCO

83%

Ms Vanuja Maharaj

Name:
Ms Vanuja Maharaj
Age: 42
Qualifications:CA (SA)
Appointed: 2017
Experience:
Vanuja started out as a senior manager at the AGSA in the KwaZulu-Natal business unit. She has risen over the past 12 years and is now a corporate executive. Vanuja has been a champion for women in the chartered accountancy field. She holds the position of vice-chairperson of the SAICA Eastern Region Council in KwaZulu-Natal

100%

Ms Sibongile Lubambo

Name:
Ms Sibongile Lubambo*
Age: 39
Qualifications: CA(SA)
Appointed: 2017
Experience:
Sibongile joined the AGSA as a senior manager in 2009. She has moved up the AGSA leadership ladder to her current role of corporate executive

100%

Mr Barry Roy Wheeler

Name:
Mr Barry Roy Wheeler
Age: 64
Qualifications: B. Comm, Nat Dip: State Accounts and Finance; Post-Graduate: Public Administration; RGA
Appointed: 2008
Experience:
Barry has been with the AGSA from 1 November 1973 and has served in several leadership and strategic positions. He has been serving on the Exco since March 2008 and is currently heading up the Specialised Audit Portfolio as corporate executive

67%

Mr Jan Hendrik van Schalkwyk

Name:
Mr Jan Hendrik v Schalkwyk‡
Age: 51
Qualifications: CA (SA)
Appointed: 2010
Experience:
Jan joined the AGSA in 1997. He was tasked with entrenching the new trainee auditor scheme. In 2010 he became a corporate executive.

In 2015, he was appointed as the executive in the Auditor-General's Office. He is also involved in the INTOSAI community and the Capacity Building Committee.

EXCO

Figure 2.11: Composition of the executive committee and attendance

† Mr S Ngobese resigned in January 2018
‡ Mr J van Schalkwyk was a member of Exco while he was interim CE05
* Ms S Lubambo joined the executive committee in June 2017

External charters, principles and initiatives that we subscribe to or endorse

The AGSA is an active member of INTOSAI and participates in several of its working groups. We host the secretariat of the regional chapter of INTOSAI, the African Organisation of English-speaking Supreme Audit Institutions or AFROSAI-E.

We subscribe to the International Ethics Standards Board for Accountants (IESBA) Code of ethics for professional accountants and have also adopted the INTOSAI Code of ethics for the organisation.

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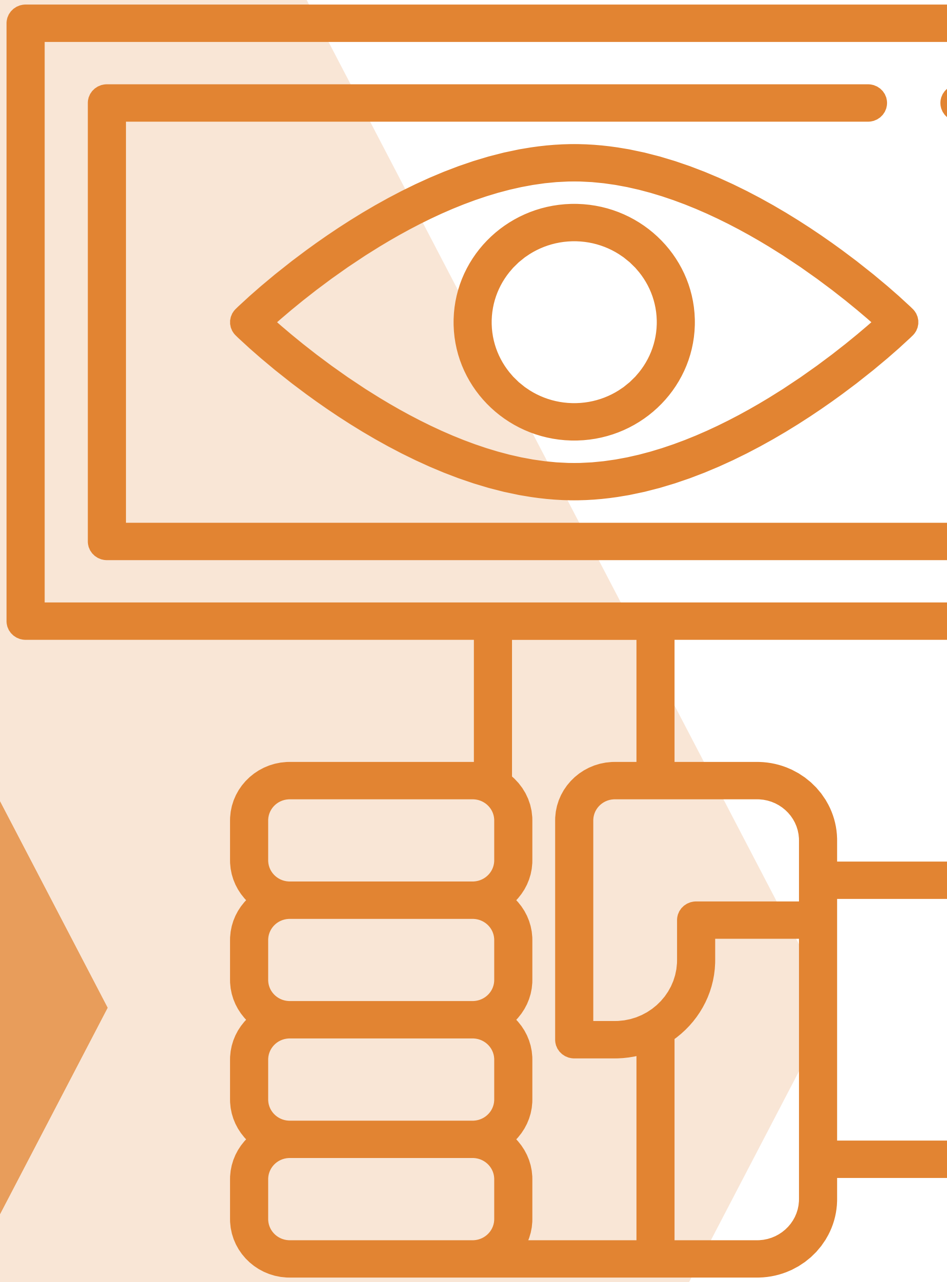


section 3

INTEGRATED ANNUAL REPORT | 2017-18

REPORTING
PROFILE

REPORTING CYCLE

Every year we produce an integrated annual report to account to Parliament for our performance during the previous financial year. Our reporting period is from 1 April to 31 March. The last annual report was tabled in Parliament on 27 September 2017.

REPORTING APPROACH

This integrated annual report provides a concise and balanced story of our performance from 1 April 2017 to 31 March 2018. The reporting is done against the commitments outlined in the 2017-20 Strategic plan and budget. It also includes the annual financial statements.

Our integrated approach to reporting is a result of the integrated thinking applied by our leadership and the executive teams in defining the imperatives for long-term, sustainable value creation for our stakeholders.

The report covers the performance of all business units in the organisation, including our head office and our offices in the nine provinces.

REPORTING PRINCIPLES, POLICIES AND PRACTICE

The content and format of this report was informed by both the guidelines for sustainable reporting of the global reporting initiative (GRI) standards 'general disclosures' version and the international integrated reporting <IR> framework. Therefore, this report meets the information and reporting requirements of both the IR and the GRI G4 'core' version.

The report also reflects the requirements of our governing legislation, the PAA, and the recommendations of the King IV code on corporate governance and reporting. The annual financial statements are prepared according to the International Financial Reporting Standards (IFRS) and the PAA.

MATERIAL FOCUS AND THE PROCESS TO DETERMINE THE CONTENT OF THIS REPORT

All matters that substantively affect the organisation's ability to create value over the short, medium and long term, which have an impact on the sustainability of the organisation and the country, and relate to our financial and performance management, are material to us. We also consider our risks and opportunities as material since they provide scenarios that the organisation may face in the future.

These material topics are defined by the Exco in the strategic commitments made to Parliament, based on our long-term strategy which is outlined in detail in the AGSA's 2017-20 Strategic plan and budget. The material topics were further confirmed through consultations with the corporate executives responsible for leading the various strategic goals at the end of the reporting period. No new material topics were identified in the year-end consultations.

The material aspects are applicable to all business units within the organisation, while the issues of value-adding auditing and visibility for impact are applicable to all our key stakeholders.

We continuously engage with our stakeholders to ascertain what is important to them so that we can respond to their needs. There were no changes to, or limitations on, the scope and boundary of the identified material aspects. There was also no need for any restatements from the previous integrated annual reports.

External assurance on this report

ORGANISATION'S POLICY AND PRACTICE ON SEEKING EXTERNAL ASSURANCE

We adhere to the principles of good governance as outlined in the King IV code. Our combined assurance model defines the various role players that provide assurance to the organisation, which includes management, internal specialists, actuaries, internal audit and external audit.

An independent external auditor audits our financial statements, financial management and performance information, and assures the information on the selected sustainability performance indicators.

The assurance on this report was conducted according to the International Standard on Assurance Engagements 3000 (ISAE 3000: revised), issued by the International Auditing and Assurance Standards Board. The assurance statement is reflected on page 122 of this report.

RELATIONSHIP BETWEEN THE ORGANISATION AND THE ASSURANCE PROVIDERS

We contracted Crowe as our new external auditor after our previous auditor was not reappointed by SCoAG. The external auditor is completely independent from the organisation. It does not receive any allocation of audits to be done on behalf of the AGSA and its income from the audit of the AGSA is less than 10% of the firm's annual revenue.

INVOLVEMENT OF THE HIGHEST GOVERNANCE BODY IN SEEKING ASSURANCE ON THE ORGANISATION'S SUSTAINABILITY REPORT

SCoAG, which oversees the work of the AGSA on behalf of Parliament, appoints the external auditor for a period of three years and their appointment is reviewed every year.

The audit committee facilitates contracting the external auditor in a process that is fair, equitable, transparent, cost-effective and in line with our transformation agenda. The audit committee further examines the auditor's capacity and competence to provide assurance on the sustainability information. The members of this committee are trained annually by certified service providers on their responsibilities regarding the assurance of the integrated report.

Approval of the report

This report is reviewed and approved by the Auditor-General, Deputy Auditor-General and the audit committee before it is published for external use.

AUDITOR-GENERAL AND DEPUTY AUDITOR-GENERAL'S APPROVAL

The Auditor-General and the Deputy Auditor-General have applied themselves to ensure the integrity of the 2017-18 Integrated Annual Report. They have considered the completeness of the material aspects addressed in the report, and the reliability of reported performance information presented, based on the combined assurance process followed. Accordingly, the Auditor-General and Deputy Auditor-General are satisfied that the 2017-18 Integrated Report provides a fair and balanced account of the AGSA's performance on those material matters that have been assessed as having a bearing on the AGSA's capacity to create value.

This report reflects the requirements of our governing legislation, the PAA, and has been prepared according to the GRI standards 'general disclosures' version and the international integrated reporting <IR> framework. It also reflects the recommendations of the King IV code on corporate governance and reporting. The report, including the annual financial statements for the year ended 31 March 2018, have been approved by the Auditor-General and Deputy Auditor-General.

Signed:

Signed:

FEEDBACK ON OUR REPORT

We welcome feedback on our integrated reporting to ensure that we continue to disclose information that is pertinent to all our stakeholders. Should you wish to provide written feedback, kindly use our email address agsa@agsa.co.za or our twitter account @AuditorGen_SA

CONDITIONS UNDER WHICH WE OPERATE

The major aspects of our environment and their potential to affect the delivery of our mandate informed our strategy. **These were:**

Changes in government

Changes in the country's leadership and cabinet reshuffles have an impact on the continuity and implementation of commitments made by auditees to address the root causes of poor audit outcomes. They also have an impact on stakeholder relationships built with auditees, legislatures and the executive over the years. To counter the potential to reverse the gains we have made over the years, and to remain relevant to our stakeholders, we implemented responsive and adaptive engagement programmes and training for municipal/departmental leadership.

Going forward we will observe the changes resulting from the 2019 elections and be ready to respond with rigour to build the required capacity and relationships with any newly elected individuals.

Sluggish economic growth

2017-18 was characterised by slow economic growth and ratings downgrades, which resulted in fiscal constraints to delivering government programmes and to revenue generation, especially at local government level. Subdued national treasury revenues exerted continued pressure on audit fees. In the previous year we made a bold decision to implement austerity measures, enhance the use of resources and contain overheads in the quest to create a lean and efficient organisation. It is important to note that the country's economy contracted in the first quarter of 2018, which may further increase the pressure on the fiscus; therefore, our drive to create an efficient organisation will continue.

Debt owed to the AGSA

Collecting outstanding debt from local government remains a challenge. We envisage that this trend may increase, given the increased demands on the government purse.

Local government debt, especially that owed by the financially distressed municipalities, has been a persistent threat to our financial sustainability. However, this year we received R150 million (above the R46 million allocated by the National Treasury) towards the long-outstanding debts of financially distressed municipalities. This contributed positively to our cash position at the end of the year.

It is our belief that once signed, the Public Audit Amendment Act 2018 will allow us to audit smarter and entrench efficiencies that had not been possible before. The amendment to section 23 of the PAA will specifically allow us to access the National Revenue Fund directly to recover audit fees owed by financially distressed auditees. This will greatly reduce our liquidity risk.

Failures in the auditing profession

Instances of unprofessional conduct by auditors in the private sector were reported in the media. These have brought scepticism and distrust on the auditing profession and have resulted in IRBA investigating the conduct of a number of auditors and audit firms. This has reaffirmed the reputational risks faced by audit institutions and has motivated the AGSA to zealously guard its reputation.

In our effort to mitigate against this risk we have introduced a new strategic measure on ethical conduct to our 2018-21 strategic plan.

Disruptive technologies

The emergence of new technologies like block chains, propriety data audit packages, robotic process automation and machine learning has the potential to change the auditing landscape. These technologies present opportunities for the government and the AGSA. We continue to analyse the audit environment for these new technologies to ensure that we are ready for them and to minimise disruption.

Public Audit Amendment Bill 2018

As discussed previously in this report, our oversight committee undertook to develop amendments to the Public Audit Act that will allow the AGSA to strengthen itself significantly and initiate consequences for mismanagement and dereliction of duties. However, we expect that the amendments will also result in greater stakeholder expectations of the AGSA, which will require careful management and responses.

Scarcity of skilled professionals in all specialities

As discussed previously in this report, our oversight committee undertook to develop amendments to the Public Audit Act that will allow the AGSA to strengthen itself significantly and initiate consequences for mismanagement and dereliction of duties. However, we expect that the amendments will also result in greater stakeholder expectations of the AGSA, which will require careful management and responses.

More complex auditing environments

The implementation of the Municipal Standard Chart of Accounts (MSCOA) introduces a change to information technology systems in government. South African municipalities were expected to fully comply with the MSCOA regulations from 1 July 2017. The changes rely on linking different information systems, which may introduce more complexities to the audit environment.

We gave our regularity auditors detailed plans to address the requirements of this initiative; these included how our Information Systems Audit unit would assist during migration testing for MSCOA and ongoing discussions on MSCOA's impact on municipalities. Our interactions helped to refine our ability to deal with the changes and address any risks related to information technology and data that may emerge because of these changes.

Increasingly difficult environment for auditing

Our audit environment continued to be hostile, with increased push back from some auditees. While it is perfectly acceptable for auditees to question and challenge the outcome of audits, these challenges must be based on evidence and solid accounting interpretations or legal grounds. We also acknowledge that many of the accounting and legal matters dealt with in our audits are complex and sometimes open to interpretation.

However, some auditees pressure our audit teams to change their audit conclusions without sufficient grounds, purely to avoid getting negative audit outcomes or having their irregular expenditure exposed. Our findings are communicated throughout the audit. Yet in such cases, it is only when outcomes become apparent at the end of the audit, that auditees contest the findings. Some auditees also use delaying tactics by not providing information and evidence as requested.

This points to a lack of accountability. Rather than acknowledging and correcting problems, some auditees prefer to attack the auditor. Auditees' leadership should set an example of accountability. Where audit outcomes are not as desired, they should direct their energy to addressing the problem and not to coercing the auditors to change their conclusions.

Increased risk of cyber-attacks and inability to protect information in such events

Cyber-attacks are on the increase world-wide. Firms face a growing threat from ransomware, data breaches and weaknesses in the supply chain. The AGSA is not immune to this threat, and we have taken steps to protect our information from cyber-attack. We will intensify our information management and security initiatives in the next financial year.

Strategic risks

We manage our organisational risk effectively with the support and full participation of our leadership. The executive leadership is responsible for identifying, measuring and managing all significant risks to which we may be exposed. A strategic risk assessment was performed at the beginning of 2017-18. It identified nine key risks ranging from financial to operational risks. Our organisational strategy has been aligned to combat the factors that threaten our survival and reputation. Our risk management programmes stretch over multiple years, with the resultant benefits expected in the medium to long term.

Responses to the strategic risks have been grouped into four programmes:

- Programme 1 addresses the financial viability of the organisation
- Programme 2 focuses on mitigation relating to the leadership, culture and behaviour required to steer the organisation
- Programme 3 is key to delivering and communicating our product
- Programme 4 focuses on information technology enhancements and information security.

The rationale behind grouping the initiatives into four programmes was to assign executive ownership for the risks. The executives are supported by the business unit heads responsible for the relevant functions. This approach is important to ensuring that our business units' priorities and activities, and the need to address strategic risks, are aligned. We are pleased to report that a number of the responses developed to mitigate strategic risks have been implemented, and some completed.

PROGRAMME 1

ADDRESSES THE FINANCIAL VIABILITY OF THE ORGANISATION

NEGATIVE IMPACT ON THE FINANCIAL VIABILITY of the AGSA as a result of pressure on revenue collection.

The benefits of efforts to enhance our financial viability can be seen in our improved financial performance. Tighter financial internal controls and disciplines have been enforced throughout the organisation; with benefits observed in the "own" revenue line. The gradual takeback of auditees classified under section 4(3) of the PAA is intended to ensure that the current workforce is not overburdened and the profession is not generally destabilised – the takeback approach is therefore sustainable.

PROGRAMME 2

FOCUSES ON MITIGATION RELATING TO THE LEADERSHIP, CULTURE AND BEHAVIOUR REQUIRED TO STEER THE ORGANISATION

FAILURE TO LEAD BY EXAMPLE through effective ethical leadership.

FAILURE TO MAINTAIN KEY SKILLS and personnel to enable the delivery of the 4v strategy.

FAILURE TO EMBED THE RIGHT ORGANISATIONAL CULTURE to support successful achievement of the 4V strategy.

LOSS OF CREDIBILITY due to the character of the environment we operate in.

Leadership is viewed as a principal driver of our strategy. As such, we developed leadership programmes to enhance their competence and skills. These have been rolled out and are continuously evaluated and revised to be responsive to both internal and external factors. We also assessed the organisation's culture, which will give us a baseline from which we can build.

PROGRAMME 3

KEY TO DELIVERING AND COMMUNICATING OUR PRODUCT

AUDIT PROCESS FAILURE

FAILURE TO HAVE A POSITIVE IMPACT and be relevant to our stakeholders.

Primarily, our reputation hinges on the behaviour and ethical character of our personnel and the adequacy and effectiveness of our tools. We need to ensure that our products (audit reports) are beyond reproach. We have completed the activities related to these two key factors.

PROGRAMME 4

KEY TO DELIVERING AND COMMUNICATING OUR PRODUCT

INADEQUATE IT capability to support successful delivery of the 4V strategy.

INABILITY TO PROTECT organisational resources.

We rolled out several infrastructure improvement projects, particularly in the information technology sphere, to replace aging information technology infrastructure and generally improve the business user experience. More programs have been planned in this area and will be implemented over the next few years.

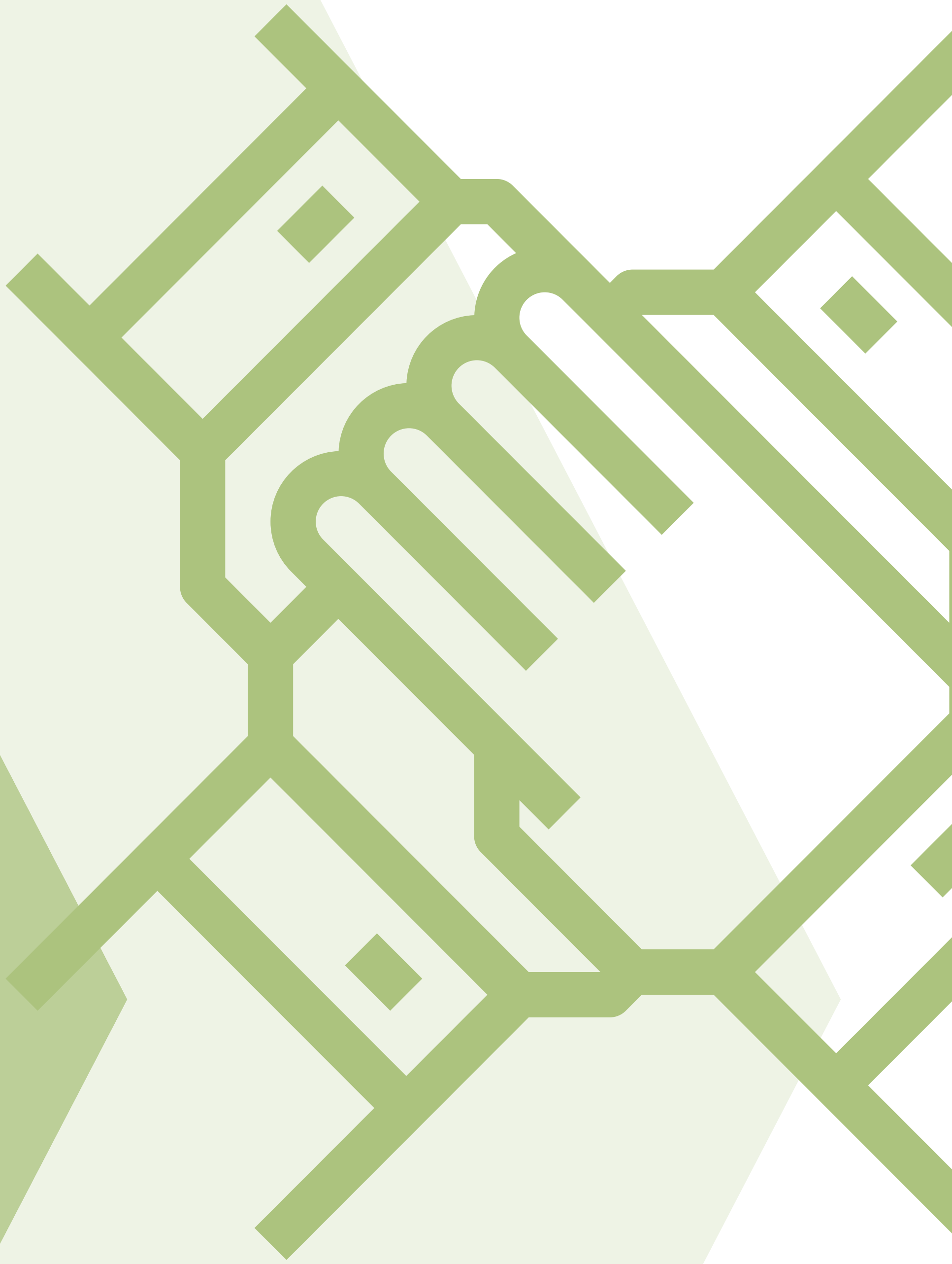
Figure 3.1: Mitigation of strategic risks

The programmes we develop respond to our full risk universe, i.e. strategic and operational, business process and project level risks. The complete extent of organisational initiatives aimed at achieving our objectives and mitigating risk can be traced to many areas highlighted in this integrated annual report. Ultimately, we are satisfied with our responses to organisational risks and are confident that none of the risks identified have not been responded to adequately. The risk and ethics business unit makes regular presentations to the audit committee.

Forward-looking statements

The report contains certain forward-looking statements on the AGSA's financial condition, performance results and operations. They are based on our current beliefs and expectations of future events. These forecasts involve risk and uncertainty as they relate to events and depend on circumstances that occur in the future, many of which are beyond our control. There are various factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.

Performance against predetermined objectives 60
Strategic goal 1: Value-adding auditing 60
Strategic goal 2: Visibility for impact 68
Strategic goal 3: Viability 79
Strategic goal 4: Vision and values driven 94



section 4

INTEGRATED ANNUAL REPORT | 2017-18

PERFORMANCE
AGAINST PREDETERMINED OBJECTIVES

STRATEGIC GOAL 1

VALUE-ADDING AUDITING

DELIVERING A THOROUGH AUDIT OF THE STATUS OF FINANCIAL AND PERFORMANCE MANAGEMENT IN THE PUBLIC SECTOR

In line with our mandate, we annually audit and report on the quality of our auditees' financial statements and performance reports, and their compliance with key legislation.

We report the audit results to accounting officers and authorities through our management reports. Our audit opinions, the material audit findings on compliance and performance information, and the significant deficiencies in internal control that gave rise to these findings, are reported to oversight bodies through our audit reports, which are published and tabled as part of the annual reports of our auditees.

Our reports are written in a simple and clear manner to ensure understanding, and include the root causes of our findings and recommendations. If implemented, our recommendations will ensure and sustain improvements in public sector administration.

Annually, the audit outcomes are also summarised and analysed in our general reports (one for national and provincial government and one for local government) to provide stakeholders with an overall view of financial and performance management in the public sector. We continue to highlight our key messages in the general reports to encourage action; these include examples to demonstrate the impact of poor management. We also provide detailed information on our website for further analysis and follow up.

This insight empowers both oversight bodies and citizens to hold elected representatives accountable, and constitutes the main value of our audits and reports. To increase this value, we continually strive to make our work more relevant and focused by auditing what matters. Through the revised audit methodology, we have refined our audit approach to ensure that we select for audit only the most material programmes and performance measures in the auditees' performance reports and the key, enabling legislation applicable to their financial and performance management.

We also focus on areas with the highest risk and of greatest importance to the public's well-being. Consequently, in the past year our annual audits focused on:

- state-owned enterprises
- key programmes of national government
- supply chain management
- human resource management
- effective use of consultants
- information technology controls
- management of grants
- infrastructure projects
- provision of water, sanitation and road infrastructure
- financial health of our auditees.

As in previous years, we added value to the Education and Health sectors to highlight weaknesses in their infrastructure and service delivery programmes. We demonstrated the impact of these weaknesses and provided recommendations for improvements. The results of these sector audits were well-received by all stakeholders, including the portfolio committees. We will follow up on whether the recommendations were implemented and the sector reports will be published in 2018.

We implemented a value chain approach for the education and health sector audits, and water infrastructure audits at metros, to enhance our understanding of all the elements, role players and processes involved in delivering objectives and projects. It allowed us to identify risks better and clearly articulate to our stakeholders where the focus on improvements should be. Based on the pilot results, we are considering applying the approach in the 2017-18 audits of key government programmes.

IMPLEMENTING THE REVISED AUDIT METHODOLOGY

Our audit methodology was revised through a rigorous process of research, benchmarking, consultation and testing over a period of three years. Before implementation we trained all our staff and those of the audit firms that do work for us, and followed this with a change management process to prepare the office and our stakeholders for the changes. The new methodology was implemented on all our audits in the 2016-17 audit cycle.

We view the implementation as successful as we could still deliver quality audits on time without our auditees and stakeholders experiencing disruption, despite the significant changes we had to implement and the resultant pressure on our people, processes and resources. The learning curve was steep and, although it normally takes a few years for such major changes to be fully embedded and the benefits to be realised, we can already see positive improvements in the following areas:

- A consistent risk approach to our audits based on a deeper understanding of our auditees' mandates, objectives, and financial and performance management processes.
- A significant increase in the use of fraud experts in our high-risk audits and a greatly improved process of integrating the work of information system auditors into the audit process.
- Improved audit efficiencies at small auditees and auditees with good control environments as a result of a tailored audit process for smaller auditees, improved risk assessment and response processes and the integration of the three audit areas into one seamless audit process.
- Good feedback from audit teams on how easy it is to use the new working papers and processes.

We will continue to refine our audit methodology using the experience gained in its implementation. The next critical improvement will be to develop a lighter scope-tailored audit approach for certain auditees that manage smaller budgets or have a lower impact on service delivery.

2016-17 AUDIT OUTCOMES

For the 2016-17 audit cycle, the audit outcomes of departments and public entities showed little improvement and municipalities regressed, as illustrated in figures 4.1 and 4.2. In addition, irregular expenditure significantly increased across all auditee types.

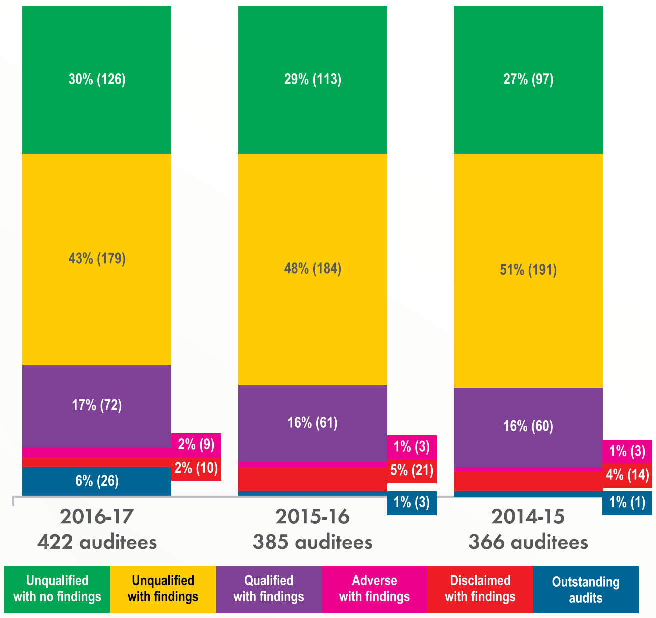


Figure 4.1: National and provincial government audit outcomes

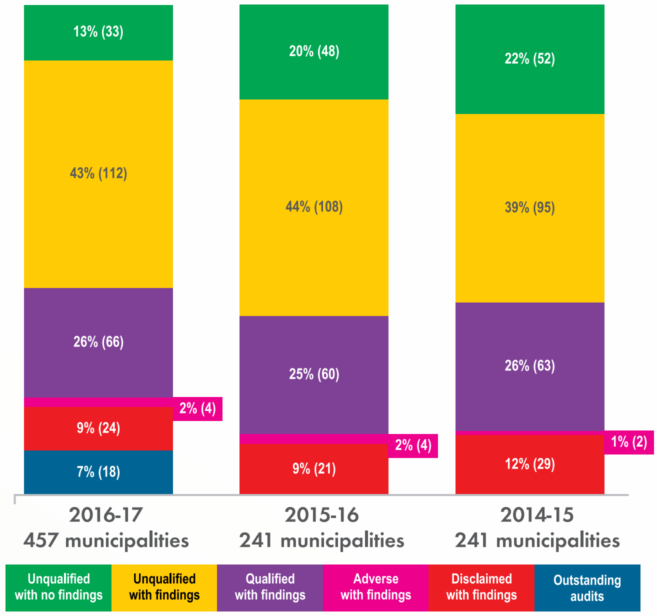


Figure 4.2: Local government audit outcomes

The general reports for 2016-17 provide insight to the audit outcomes and the increase in irregular expenditure. Overall, we are concerned that accountability is failing in local government and this has a negative impact on citizens. Accountability has also failed at some departments and public entities, which has an impact on them delivering key government programmes in education, health and infrastructure.

OUR AUDITS ON SCHEDULE

During the past financial year **1 003** audits were completed:

- **90%** of annual financial statements were submitted within the legislated deadlines
- **820 (82%)** audits were signed-off within the legislated deadlines

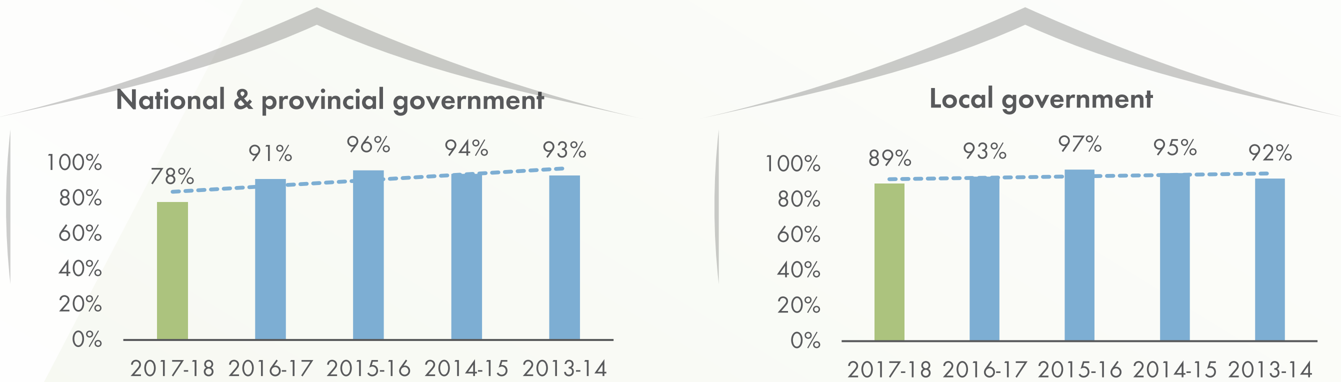


Figure 4.3: National, provincial and local government audits signed off within legislated deadlines

IMPROVING THE NUMBER OF AUDIT REPORTS DELIVERED ON SCHEDULE

In 2017-18 we identified a need to report consistently on the progress of audits. We are developing an audit milestone tracking tool to improve our project management. The tool will guide the audit teams by highlighting the due dates for specific sections of the audit and alerting leadership to delays in concluding the audits.

AUDIT CONTESTATIONS

During the past year, 40 audit contestations were reported for the 2016-17 Public Finance Management Act (PFMA) and 16 for the Municipal Finance Management Act (MFMA) audit cycles. While most of these contestations were resolved, push backs from five auditees stood out, mainly because two resulted in court action and three resulted in audit reports

AUDIT PUSH BACK

ACTIONS

- 56 audit contestations
- Two court actions (SARS & DWS)
- Three reports not tabled on time

CAUSES

- Disagreements due to our audit findings or technical consultations
- Regression of the audit outcomes
- Concerns around the quality of the audit teams and auditees challenging the change in our methodology
- Expectations of a clean audit not being met

IMPACTS

- Auditees missing out on opportunities to improve their processes that are aimed at service delivery
- Undue pressure on our audit teams
- Delay in the conclusion of audits and unnecessary increases in the cost of audits

Figure 4.4: Audit push back

not being tabled. These auditees were:

- South African Revenue Service
- Department of Water and Sanitation
- Department of Environmental Affairs
- Western Cape Department of Agriculture
- Free State Department of Agriculture

We continue to be vigilant and work with auditees and the relevant authorities to resolve disputed issues outside of the legal process. Support will continue to be given by the legal team to ensure that these risks are mitigated.

INSTITUTIONALISE MECHANISMS TO DEVELOP A DEEP KNOWLEDGE OF THE AUDITEES' NEEDS AND BUSINESS

EXECUTING INTEGRATED AUDITS TAILORED TO THE NEEDS OF EACH CLIENT

During the 2016-17 audit cycle, the level of integration within the organisation matured considerably. Integrated audit teams comprised regularity auditors and our specialised audit services made up of Information Systems Audit, Investigations and Performance Auditing. They collaborated to provide a smart, efficient and holistic audit to improve our value to our auditees.

While we have focused on improving the state of integration for several years, the introduction of the new audit methodology has given added impetus to our integration efforts. We have enhanced working papers that contain prompts, which require input and collaboration from both regularity auditors and specialised audit services.

In addition to the new methodology, a pilot quality control exercise at selected 2016-17 MFMA audits, which required regularity auditors and specialised audit services senior managers to agree and sign off on the scope and extent of their work, further enhanced integration efforts.

Integration has resulted in specialised audit services becoming increasingly involved in planning and risk assessment procedures. Examples included:

- Using investigation specialists for fraud risk assessments and fraud risk detection analysis, which identified high-risk expenditure.
- Using information systems auditors as part of the automated system controls risk assessments, which resulted in additional risks being identified and increased the scope of the work.

Integration also resulted in a transfer of skills to regularity auditors, whose responsibilities increased. As an example, regularity auditors took over the responsibility of completing the information technology environment checklists for 161 level one auditees during the 2016-17 audit cycle (an increase from the 154 auditees during 2015-16). The transfer of skills by the investigation staff created greater risk consciousness and recognition of fraud risks among regularity audit teams.

Although our specialised audit services supported regularity auditors well during the 2016-17 audit cycle, we need to build further capability in both units to derive maximum benefits from integration.

The following are some of the highlights of our integration:

- **Investigations** staff collaborated on 259 audits – 80 were fraud risk engagements, 131 were fraud risk detection analysis, and 48 were reviews of high-risk supply chain management contracts. The nature and quality of Investigation's risk identification improved as the specialists gained a deeper understanding of the auditees, which informed their fraud risk detection analyses. Regularity auditors also proved more willing to request assistance for fraud risk detection analysis and supply chain management reviews.

  The fraud experts heightened the level of fraud awareness among the audit teams, assisted to mitigate potentially high-risk areas and ensured that integration was more structured. Reviewing contentious and high-risk contracts resulted in us finding instances of non-compliance and the disclosure of irregular expenditure at several auditees. The most notable of these included: South African Airways, the Passenger Rail Agency of South Africa, the South African Broadcasting Corporation, the Department of Water and Sanitation, the Gauteng Department of Education, and the cities of Tshwane and Cape Town metropolitan municipalities.

- Since the implementation of the audit methodology programme, the ISA focus has been risk level 2 and 3 auditees while RA performed Information Technology Environment Checklist at risk level 1 auditees. ISA's involvement reduced from 695 auditees in 2015-16 to 298 auditees in 2016-17. The level of involvement included general control reviews, business process reviews, computer aided audit techniques (CAATs) and network security reviews.

  We continued to use CAATs on supply chain management to test for conflicts of interest across the public service. This resulted in improved systems of internal control for procurement processes.

  We developed a detailed plan to use the assistance of Information Systems Audit specialists during migration testing for MSCOA, which contributed to refining the process to deal with the changes brought about by MSCOA and addressing any risks related to information technology and data that may emerge because of these changes.

- We used the technical expertise of **Performance Auditing** staff with infrastructure experience (such as civil engineers and quantity surveyors) extensively, supported by staff with auditing and accounting backgrounds. This ensured the technical credibility of our findings, supported by relevant root causes and value-adding recommendations. Performance Auditing was involved at 157 auditees across all nine provinces during the 2016-17 audit cycle.

The focus areas covered were in line with the five-year performance audit plan, which is aligned to the country's National development plan 2030 and the sustainable development goals. For the PFMA audit cycle, the focus was on health (pharmaceuticals, medical equipment and forensic laboratory services), education (school management, early childhood and skills development) and infrastructure (water and sanitation, human settlements, health and education). The majority of MFMA work focused on value-adding procedures relating to water, sanitation and roads infrastructure, with some performance audit work on housing, recreational and sports facilities, bus transport and electricity.

STAND-ALONE AUDITS

In addition to the integrated work performed by the specialised audit services, performance audit and Investigation business units also performed stand-alone audit work.

- **Investigations**
  We dealt with 19 requests for investigations from complainants during the 2017-18 financial year.

- **Performance Auditing**
  The development of sustainable human settlements: Outcomes of a performance audit at the Eastern Cape Department of Human Settlements was tabled at the Eastern Cape Provincial Legislature on 27 March 2018.

We raised significant findings on strategic planning, financial management and project management. Shortcomings in implementing strategic objectives, coordination, municipal capacity building and support were also included.

If not addressed, these shortcomings will have a negative impact on the economy, efficiency and effectiveness of sustainable human settlement projects.

DEVELOP AN UNDERSTANDING AND APPLY DATA ANALYTICS TO REDUCE THE AUDIT RISK AND INCREASE EFFICIENCIES

We focused our efforts on deepening our understanding of the science of data analytics, what it would take to implement data analytics tools and processes, and how data analytics can be used to enhance the overall audit process and the audit insight provided to the stakeholders. We developed and enhanced policies and procedures to enable effective data and knowledge management in anticipation of the implementation of a revised data analytics strategy.

INCREASE OUR OVERSIGHT OF THE GOVERNANCE OF SECTION 4(3) AUDITS[2]

Our section 4(3) strategy focuses on:

- Enhancing governance oversight mechanisms of section 4(3) audits
- Influencing a fair budget framework when concurring with section 4(3) auditor appointments
- Considering taking back significant risk section 4(3) audits currently not audited by us
- Reviewing the audit portfolio to match our audit effort and involvement to the audit risk profile of each auditee
- Reviewing the impact of the initiatives on section 4(3) audits constantly.

We have maintained a vested interest in all section 4(3) auditees and continued to oversee SOE audits to ensure consistency in reporting to the National Assembly.

The section 4(3) task team continued to monitor the nine schedule 2 entities classified as significant risk entities, through governance enhancement initiatives. The business executives and senior managers responsible attended key meetings with these entities and with their private auditors to ensure that the team was kept up to date. The initiatives form part of our section 4(3) strategy.

The SOE audit outcomes were also included in the general report to ensure complete reporting for the ministerial portfolios.

Following the AGSA suspending all contracts with Nkonki and KPMG with immediate effect, we took back five section 4(3) audits for the 2017-18 financial year. These were:

- Export Credit Insurance – KPMG
- SABS Commercial – KPMG
- NHFC – Nkonki
- Denel – Nkonki
- DBSA – Nkonki.

Three section 4(3) audits of institutions of higher learning previously audited by KPMG, which at the time of our decision had completed a significant portion of the audit work, were allowed to be signed off under our supervision and quality control.

2 Section 4(3) of the Public Audit Act (PAA) states:
The Auditor-General may audit and report on the accounts, financial statements and financial management of;
a) any public entity listed under the PFMA; and
b) any other entity not mentioned under subsection 1 of section 4 of the PAA which is;
   1. funded from a National Revenue Fund or Provincial Revenue Fund or by a municipality
   2. authorised by any legislation to receive money for a public purpose.

% adherence to quality standards: audit engagements

80% - 90% (C1, C2 and C3 rating)

83%

ACHIEVED

Figure 4.5: Adherence to quality standards: audit engagements

CONTINUOUSLY IMPROVE THE TECHNICAL QUALITY OF OUR AUDITS

The quality control (QC) business unit carries out quality reviews on a selection of audit files. The results are tabled at the quality control assessment committee, which is chaired by the Auditor-General. The committee membership and attendance at meetings is included in the corporate governance section of this integrated annual report. The director of inspections of the Independent Regulatory Board for Auditors South Africa (IRBA) attends the meeting at the invitation of the Auditor-General.

We firmly believe that the quality of our audits should be of the highest possible standard. This year we subjected 63 audit files to a post-issuance quality review. We obtained an 83% compliance rate with quality standards against a target range of 80% to 90%.

Although we achieved or target and an 83% compliance rate is within our acceptable range, we believe that we need to do more to improve the quality of our audits; e.g. proactive support reviews (on a selection of high-risk audits) before issuing the audit report and allocating high-risk audits to appropriately skilled engagement managers. We have increased the audit quality weighting on audit staff's individual performance contracts to ensure that they give specific attention to audit quality.

We continue to obtain assurance from independent external bodies. The reliability of our internal quality control review process was assessed by IRBA. No material weaknesses were identified in our audit quality monitoring process.

The importance of being constantly vigilant in the quality of our audits is understood by all our staff and is amplified by the amendments to the Public Audit Act. This aspect of our performance will be a priority in upcoming audit cycles.

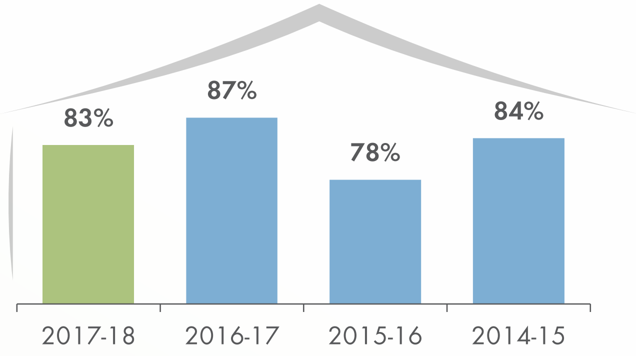


Figure 4.6: % adherence to quality standard audit engagements

ENSURE ADEQUATE QUALITY AND PUNCTUALITY OF INFORMATION REQUIRED IN THE COMPILATION OF THE GENERAL REPORTS

Our general reports are the main means of communicating the results of our work and, as such, they are subject to rigorous processes to ensure their quality. This includes validating and verifying the information collated for the analyses included in the report, various levels of review of the report and an independent quality review process. We have institutionalised these processes, which minimised the risk errors in the production process.

Our improved quality processes, good project management and innovative engagements allowed us to table the 2016-17 general reports earlier than in the previous cycle. The general report on national and provincial audit outcomes was tabled two weeks earlier and the report on local government a month earlier.

BENCHMARK AUDIT PRACTICES INTERNATIONALLY

The AGSA has been selected to lead a peer review on Office of the Auditor General of Canada (OAG) – the first time a supreme audit institution from the 'developing world' has been requested to review one from the 'developed world'. This is a great honour for the AGSA, coupled with the great responsibility to ensure that we perform a high-quality review according to international standards. The supreme audit institutions of the USA, Norway, Sweden and New Zealand make up the rest of the peer review team. While our primary function will be to review the policies and practices of the Canada OAG, we will also use this opportunity to benchmark our own practices against theirs.

CONCLUSION ON THE PERFORMANCE OF THE VALUE-ADDING AUDITING STRATEGIC GOAL

We continue to provide valuable insight to our stakeholders to enable them to hold their elected representative accountable. We were enabled by the successful implementation of our revised audit methodology with no disruption to our auditees. It also allowed us to institutionalise some of the initiatives aimed at deepening our understanding of auditees' business and sharpening our ability to identify risks in our environment. The level of integration in our environment has matured as we are able to provide intensified audit risk identification which is having a significant impact on the value we provide to our stakeholders. In addition, the results of the pilot exercise on the value chain approach show that with this approach we will identify risks better, which will improve the clarity of our root causes and relevance of our recommendations.

The quality processes of the revised audit methodology have yielded positive results as we achieved our targeted compliance rate on the quality of our audits despite the challenges in the environment.

All these achievements were supported by the positive feedback from stakeholders, confirming that our work has added value to their work and enabled them to be more effective in their oversight.

KEY CHALLENGES

The increase in the number of push backs by our auditees is a concern as it puts significant pressure on our resources i.e. human and financial resources, and threatens our independence. We will continue to make our stakeholders aware of the impact of these push backs while also tightening our processes to ensure that the impact is minimised.

OUTLOOK

In the next few years, we will focus on institutionalising our recent initiatives to move us closer to achieving our vision 2024. We will focus on building on the gains already made to achieve maximum benefits on these initiatives such as:

- refining our methodology to cater for certain auditees who manage smaller budgets or have lower impact on service delivery
- building capacity in the Specialised Audit Services business units
- addressing the areas of improvements from the stakeholder feedback
- continuing to increase our attention on the quality processes within the organisation.

We will finalise the review of the audit portfolios to ensure that we focus on the auditees with greater risk and the potential to have a negative impact on the lives of citizens.

Our involvement in the peer review of the Canada OAG will provide us with an opportunity to gain sound knowledge and insight, which can further improve our processes.

STRATEGIC GOAL 2

VISIBILITY FOR IMPACT

OUR STRATEGIC INTENT NECESSITATES THAT WE COMMUNICATE WITH THOSE CHARGED WITH GOVERNANCE, WHICH ASSISTS US TO COMPEL ACTION WHERE IT IS REQUIRED TO IMPROVE GOVERNANCE AND PUBLIC ACCOUNTABILITY.

The selection of our stakeholders is guided primarily by our mandate enshrined in the Constitution of South Africa and the ISSAIs. These stakeholders are categorised as: constitutional stakeholders, other chapter 9 institutions, professional bodies, regulatory bodies and the media. We also actively interact with fellow supreme audit institutions internationally.

Figure 4.7 Our stakeholders

CONSTITUTIONAL STAKEHOLDERS

Over the years, we estimated the success of the value that we add by the heightened level of interest from executive authorities and the administrative leadership of our auditees. Our impact is in the improved audit outcomes where our audit recommendations have been implemented. Our deliberations with stakeholders also provide us with a platform to discuss with our constitutional stakeholders' areas of risk that have been identified by executive authorities over the year. To make an impact, we concentrated our interactions on stakeholders that had a keen interest in our audit recommendations and were willing to act by monitoring and overseeing their implementation. These prioritised stakeholders fell into the following categories:

Figure 4.8: Constitutional stakeholders

We prioritised 125 stakeholders and had 360 interactions with these stakeholders against a target of 271 interactions for the year. These engagements were in addition to the 2 423 routine interactions that we had with our constitutional stakeholders for the performance year.

HOW WE INTERACT

We used existing platforms including the premiers' co-coordinating forums, accounting officers and CFO forums as opportunities to discuss topics that will assist our stakeholders, such as sustaining clean administration by maintaining sound internal controls.

A well-exploited platform outside of the audit process remained the capacity-building workshops organised by the Association of Public Accounts Committees. At these workshops we discussed ethical leadership, good governance and public accountability.

Our participation extended to leading and facilitating strategic planning sessions for those charged with oversight.

We actively participated in a task team of the Department of Planning, Monitoring and Evaluation (DPME), DPSA and Department of Cooperative Governance and Traditional Affairs (CoGTA) aimed at improving harmonisation between departments that have a coordinating role. This allowed us to consult on various matters including the criteria for auditing performance reports, and to solicit views on related audit developments.

Figure 4.9: Our prioritised stakeholders

KEY TOPICS DISCUSSED WITH CONSTITUTIONAL STAKEHOLDERS

The bulk of our discussions were on the status of records reviews, unauthorised, irregular and fruitless expenditure, leadership in the public sector, and the audit of predetermined objectives.

DELIBERATIONS WITH CONSTITUTIONAL STAKEHOLDERS

CONSTITUTIONAL STAKEHOLDER	INTERACTION
NATIONAL ASSEMBLY PORTFOLIO COMMITTEES	We held extensive discussions with portfolio committees. All committees received audit insight on the use of public funds previously appropriated to inform the following year's budget process. In return, the committees used the insight for their Budgetary Review and Recommendations Reports to hold departments accountable. There has been an increase in the adoption and monitoring of our findings/recommendations. Portfolio committees are also including our recommendations in their resolutions. Furthermore, the discussions focused on audit progress, briefings on the interim audit of annual performance plans, audit outcomes, status of records reviews, and updates on key service delivery projects such as the South African Social Security Agency (SASSA)-South African Post Office grant payments. Increasingly, portfolio committees focused on issues of unauthorised, irregular, fruitless and wasteful expenditure. In our experience, the portfolio committee members appreciate these briefings that equip them with the necessary information to execute their duties. In a session with AGSA staff held in November 2017, the House Chairperson for Committees confirmed the value that we added to their work and commended our visibility to Parliament.
NATIONAL COUNCIL OF PROVINCES, SELECT COMMITTEES	We provided critical insight to the National Council of Provinces on the MFMA audit outcomes. The CoGTA, Appropriations and Finance Select Committees used this insight in their oversight visits to more than five municipalities. Their recommendations to Parliament were based on our audit findings. Capacity-building initiatives included discussions on the AGSA's mandate, audit processes and the nature of audit findings, and the difference between the audit of predetermined objectives and performance audit. Our initiative was equally appreciated by the National Council of Provinces.

CONSTITUTIONAL STAKEHOLDER	INTERACTION
JOINT COMMITTEE OF CHAIRPERSONS	As a collective forum tasked with driving key oversight processes of parliament, the Joint Committee of Chairpersons from both houses was briefed on the 2016-17 PFMA audit outcomes. Through this interaction, the Auditor-General solicited oversight leadership support to drive clean administration.
STANDING COMMITTEE ON PUBLIC ACCOUNTS (SCoPA)	We continued to enable SCoPA oversight practices. Having received a briefing from all audit teams responsible for a particular department, the committee focused on unauthorised, irregular, fruitless and wasteful expenditure at departments in the context of initiating consequences. A number of departments appeared before SCoPA. The committee also called on enforcement agencies to enforce consequences on reported criminal allegations. While SCoPA's work remains a catalyst and an example of oversight, there is still the nagging challenge of processing resolutions. To date, the committee has not processed any resolutions.
PROVINCIAL PUBLIC ACCOUNTS COMMITTEES	We briefed the majority of provincial Public Accounts Committees on audit outcomes before their hearings, which focused on governance, accountability and the call for consequences. The issue of unauthorised, irregular, fruitless and wasteful expenditure was also at the centre of many hearings. Some Public Accounts Committees interacted with the performance audit outcomes that they were exposed to during the Association of Public Accounts Committees' capacity-building measures.
CABINET	There were no deliberations with the cabinet for the year under review; this was largely due to cabinet reshuffles closer to the end of the cycle. Engagement with individual members continued as in previous years.
EXECUTIVE AUTHORITIES	We interacted on the progress and outcomes of audits, status of records reviews, feedback on fraud and the progress of service delivery projects.
COORDINATING MINISTRIES	These were met as part of our drive to share the transversal issues that required government's attention. We focused on the need to compel various departments to correcting the audit issues raised during the financial year. Notably, some coordinating ministries joined the AGSA to launch the audit cycle outcomes and took ownership of the supporting role they need to play in all provincial and national departments. These included premiers, members of the executive committee (MECs) for Finance and MECs for local government.
PROVINCIAL EXECUTIVE AUTHORITIES	Similarly, these interactions were on the progress and outcomes of audits, status of records reviews, feedback on fraud and the progress of service delivery projects. Commitments included interventions to address all issues raised.

CONSTITUTIONAL STAKEHOLDER	INTERACTION
ASSOCIATION OF PUBLIC ACCOUNTS COMMITTEES (APAC)	Our strategic partnership with APAC has been characterised by deliberations on audit outcomes and replicating solutions such as the call for consequences and best practice in supporting progressive oversight at local government in a number of provinces. We facilitated capacity-building initiatives for three provincial Public Accounts Committees. These sessions dealt with the integrated outcomes of sector reports that were enhanced by performance audit outcomes on health, education and urban renewal. We also discussed unauthorised, irregular, fruitless and wasteful expenditure as a result of supply chain management. We supported and facilitated the APAC initiative to launch the National Association of Municipal Public Accounts Committees (NAMPAC), at which national executive officials were elected. In partnership with the APAC, we will nurture and assist with NAMPAC's growth. We encouraged PACs to support MPACs through joint hearings and sharing their practices and experiences. We also coordinated provincial indabas to provide deepened understanding of the MFMA audit outcomes and discussed possible interventions and solutions with the MPACs. A specific commitment by APAC was that provincial Public Accounts Committees and MPACs would conduct joint hearings on the MFMA outcomes for at least two municipalities in their provinces by June 2018.

STATUS OF RECORDS REVIEW TOOL

Our flagship status of records reviews initiative enhanced our conversations with accounting officers helping them to improve or sustain their audit outcomes by providing greater insight, relevance and impact, and communicating key areas of concern well in advance. This initiative also empowers the executive leadership to enhance their oversight of auditees and allows them to urge participation from accounting officers unresponsive to the initiative.

We included status of records reviews in our audit methodology to ensure that work completed is incorporated into the audit process. The planning and execution working papers were updated to include the status of records review element.

We achieved a 54% implementation rate on status of records reviews at all eligible auditees as of March 2018.

Implementation, which commenced in May 2017, will be rolled out to all auditees over a 22-month period and will be finalised by March 2019.

Status of records reviews have heightened our audit risk assessment; allowing for a deeper level of understanding of the auditee. This enabled more focused and insightful stakeholder conversations. A large majority of stakeholders embraced the initiative as an opportunity to address areas of concern before preparing for their year-end reporting.

Challenges to the initiative included auditees finding it cumbersome, especially after the audit process. This was the case in environments that were characterised by push backs.

Our audit business units will follow up with the relevant stakeholders to find alternative solutions for engagements.

Figure 4.10: Our prioritised stakeholders

Implementation rate on status of records reviews at all eligible auditees as of March 2018.

54%

DOMESTIC MEMORANDUMS OF UNDERSTANDING

Memorandums of understanding (MoUs) were used as a vehicle to cement collaborative relationships with various public institutions. An MoU with the National Archives encouraged a culture of records and document management in the public sector.

Providing appropriate training was the cornerstone of the capacity-building initiatives carried out through our MoU with the National School of Government. As part of this partnership we discussed ethical leadership and governance and endorsed an e-learning course on ethical leadership. Some of our teams also enrolled for the pilot study. Trainees benefitted from like-minded presenters helping them to understand the public-sector ethos.

MoUs have also allowed us to exchange research findings with the Council for Scientific and Industrial Research and Human Sciences Research Council on areas such as water and sanitation, education, and health, during performance audit processes.

PLATFORMS WE USE TO MONITOR THE IMPACT OF OUR VISIBILITY PROGRAMMES

Visibility programmes focus on influencing change and obtaining the best return on investment in the form of effective corrective actions by auditees. We aim to consult on audit outcomes as broadly as possible. We do prioritise specific stakeholders based on selected criteria. Having clear communication plans provides structure and a universal approach to our efforts.

Over the past three years, we reported using various existing platforms. This allowed us to:

- Save costs on our visibility for impact goal by addressing multiple stakeholders in one sitting, especially on transversal issues
- Leverage on the executive or oversight leaders' intergovernmental structures to instil a deeper understanding of proper financial management and to influence decision making
- Compel our stakeholders to take corrective action on unfavourable outcomes as a collective.

Our most common platforms in the provinces were the MPAC gatherings and MuniMEC.

Other recognised platforms used included:

- Department of Cooperative Governance, Human Settlements and Traditional Affairs gatherings
- Provincial Treasury workshops
- South African Local Government Association (SALGA) workshops
- MFMA Chief Financial Officer Forum
- MFMA Municipal Managers Forum
- NAMPAC launch
- Provincial forums of Institutions Supporting Democracy

The most commonly shared messages were on audit outcomes, audit processes, the status of records reviews process and annual performance plans.

REGULATORS AND STANDARD-SETTERS

Credible financial statements and performance reports are crucial for accountability and transparency in the public sector. We partner and cooperate with the institutions responsible for the reporting frameworks and supporting legislation to improve the quality of these reports. Our interactions included:

- The Office of the Accountant-General at the National Treasury and the Accounting Standards Board to resolve interpretations of the accounting standards and discuss revisions of the standards and accompanying guidance.
- The Office of the Chief Procurement Officer to identify procurement risks, deal with audit push backs and resolve matters arising from audits – an example is the recent instruction note on tax compliance status verification, which addresses its inconsistent application as identified by our audits.
- Public Sector Audit Committee Forum and internal auditors as key enablers of accountability in the public sector, to encourage and support their development of guidance, training and support to public sector internal auditors and audit committees.

- IRBA on implementing our new audit methodology, revising the guide on public sector auditing and dealing with emerging audit matters in the public sector.

DEEPENING THE ENGAGEMENTS WITH PROFESSIONAL ASSOCIATIONS AND INDUSTRY ORGANISATIONS

We interacted with and supported the following professional associations:

- Association for the Advancement of Black Accountants in Southern Africa (ABASA)
- Association for Women Chartered Accountants (AWCA)
- National Communicators' Forum organised by SALGA
- SALGA National Municipal Managers Forum
- The Chartered Institute of Government Finance, Audit & Risk Officers
- The SALGA
- Institute of Internal Auditors South Africa
- South African Institute of Chartered Accountants

We interacted with the following higher learning institutions during 2017-18:

- Gordon Institute of Business Science (GIBS)
- Wits University
- University of Cape Town
- UNISA SBL
- Graduate School of Business UCT
- We electronically shared the audit outcomes with the University of Limpopo, University of Fort Hare and University of Venda.

Partnerships were formed with some civil society organisations during the 2017-18 financial year. We also discussed audit outcomes with the Good Governance Leadership Network.

These interactions foster a deeper understanding of the role and mandate of the AGSA while giving professionals and other audiences the insight to hold their representatives in legislatures accountable.

OUR CITIZEN ENGAGEMENT STRATEGY

ENHANCING COMMUNITY REACH

We enhanced our community reach through a partnership with the Government Communication and Information System (GCIS) to educate citizens on the role and mandate of the AGSA using GCIS external communication channels.

STRENGTHENING THE IMPACT ON COMMUNITIES BENEFITING FROM OUR SOCIO-ECONOMIC DEVELOPMENT EFFORTS

All business units raised awareness about the role and mandate of the AGSA during their Mandela Day visits and within all 16 adopted schools using visual aids.

INCREASING CITIZEN AWARENESS AND UNDERSTANDING OF AUDIT OUTCOMES

How we improved responsible media coverage of audit outcomes:

- Our national and provincial government (PFMA) and local government (MFMA) briefings received widespread coverage on national and provincial media platforms.
- Several media interviews and forums were created for the Auditor-General to talk about critical issues such as the impact of the amendments to the Public Audit Act.
- Provincial media briefings were reintroduced to share and enable provincial media agencies to report on key provincial messages that would increase the reach of the messages in the general reports. A pilot of the re-launch was held at a provincial briefing.
- We continued to follow an educative approach to enable journalists to report on our audit reports in an accurate, balanced and informed manner.
- The media also gave balanced coverage to the PAA Bill.

APPROPRIATE SOCIAL MEDIA PRESENCE

Our social media objective for the citizen engagement strategy was to increase the reach and impact on our mandate and role. We broadly categorised these interactions into the report launch (PFMA, MFMA and the PAA Bill), professional associations, public education, the Auditor-General's international participation and trainee auditor recruitment.

REPORT LAUNCH (PFMA AND MFMA)

The general report launch activity plans and social media platforms were used to strategically amplify and increase the number of people seeing or receiving the messages contained in the general report. Using #AGReport, online conversations about these messages were grouped under one theme and were the most discussed topic of conversation in the country during both the MFMA and PFMA cycles.

When the media did not broadcast the launch live, we got the Auditor-General's messages to increased numbers in real time by broadcasting the launch live on social media (Facebook Live).

We also interacted in real time with those who sought clarity on topics that included the Auditor-General or audit outcomes so that the public received the general report messages from an empowered position.

PROFESSIONAL ASSOCIATIONS

We held various conferences and public lectures among professional associations such as the SAICA, The South African Institute of Professional Accountants, The Chartered Institute of Government Finance, Audit & Risk Officers The SALGA, Association for the Advancement of Black Accountants Southern Africa and Chief Financial Officers South Africa. We also used social media platforms to extend our visibility and reach by creating awareness of these interactions.

PUBLIC EDUCATION

Our rationale behind the social media public education initiatives was to educate members of the public to empower them to act on our information.

AUDITOR-GENERAL'S INTERNATIONAL PARTICIPATION

Social media platforms were used to highlight our international participation and recognition. These included a study tour (India), the audit experience programme, the Auditor-General's INTOSAI CBC leadership and profiling SAI SA among global peers.

INTERNATIONAL THOUGHT LEADERSHIP

As the chair of the INTOSAI CBC, we drive the effort and take full accountability for capacity development within INTOSAI by executing the CBC strategy and monitoring its work plan. We led the development of an INTOSAI accountability dashboard report for use by all the strategic goal committees and held the first accountability session within INTOSAI during the September 2017 annual CBC meeting, demonstrating the willingness of the CBC to be transparent and accountable.

Through our designated subject matter experts participating in the activities to develop INTOSAI ISSAIs (Professional Standards Committee work streams) and creating and sharing knowledge (Knowledge Sharing Committee work streams), we had direct access to the latest thinking and developments shared by experts from SAIs across the world.

Our international network helped us to receive rapid input on consequence management mechanisms. During our research on possible amendments to the PAA, this network also served us to obtain a better understanding of the financial reporting frameworks applied by other SAIs in the INTOSAI community. Similarly, we obtained valuable information on auditing the completeness of performance indicators.

As part of the direct capacity-building support to AFROSAI-E we hosted the SAIs of Uganda, Gambia, Malawi and Rwanda. We also provided guidance to the SAI of Namibia on auditing performance information and information systems, and implementing and managing ethics.

ACTING IN THE PUBLIC INTEREST

In an attempt to prompt a solution that will ensure the sustainable distribution of social grants to millions of South

Africans, on 17 March 2017 the Constitutional court further suspended the invalidity of the contract between SASSA and Cash Paymaster Services (CPS). The court obliged both parties to ensure the payment of the grants while working on an alternative long-term, favourable resolution to the supply chain irregularities associated with the contract.

In an unprecedented and innovative move, the court appointed an external body to assist it to oversee the implementation of this court order. A 10-member panel of experts, chaired by the Auditor-General was ordered to evaluate the steps taken by SASSA to pay social grants from 1 April 2017 until 31 March 2018 and to to find an alternative solution to CPS post 31 March 2018.

The Auditor-General also offered a full secretariat service staffed by two AGSA employees to the panel. Our team performed a document control function, managed the financial affairs of the panel and acted as liaison officers between the panel and all relevant roleplayers. All secretariat-related costs, the subsistence and travel costs of the panel members, as well as the production costs of the panel reports were absorbed by our organisation.

Based on the value delivered by the panel, the Constitutional court extended the Auditor-General's and the panel's appointment for another six months until 30 September 2018.

The panel demonstrates its value and impact by delivering a number of evaluation reports containing recommendations that, in several instances, are issued as directions by the Constitutional court. We proudly see our involvement in a unique assignment of this natue as an indication of the value that a reputable supreme audit institution provides in realising human rights in a democratic society.

CONCLUSION ON THE PERFORMANCE OF THE VISIBILITY FOR IMPACT STRATEGIC GOAL

Overall, the progress on our visibility programmes has been good. Some disruption of schedules was noted as key stakeholders were not available due to events such as the cabinet reshuffle in October and the governing party's national conference in December. Implementing the status of records reviews heightened our audit risk assessment, allowing for a deeper level of understanding of our auditees that enabled our stakeholder conversations to be more focused and insightful. A large majority of stakeholders embraced the initiative as an opportunity to address areas of concern before preparing for their year-end reporting. The feedback from stakeholders highlighted their appreciation of our initiatives to share and raise awareness around the audit outcomes. They believe that giving the Auditor-General powers to enforce consequence management will assist the country to move in the right direction to ensure good governance and accountability. The AGSA continues to hold those in power accountable for their decisions and to be an advocate for the public.

KEY CHALLENGES

Our scheduled deliberations with cabinet were severely disrupted by the frequent changes in the executive, which made sharing our outcomes difficult. However, we continued to deliberate through existing cost-effective channels such as portfolio committees and the budgetary review and recommendations report on performance sessions. Some of the planned events such as the AGSA Governance Seminar did not take place due to budget constraints. In the past we relied on relationships with our stakeholders to provide platforms to profile the Auditor-General at no cost; however, it has not been easy to secure such opportunities without spending during this financial year. A possible resolution, in order not to exhaust our relationships, is to consider spending reasonably for profiling opportunities.

OUTLOOK

We will continue to prioritise training the media to understand the audit outcomes and portray our messages correctly. We will also continue with similar sessions for both working and trainee journalists in the future. To ensure that our general report messages are spread even further, the provincial media briefings will be intensified after the Auditor-General has released the MFMA and PFMA general reports.

In 2018-19, we will focus on broadening our conversations on audit outcomes within selected criteria and using a systematic approach. Our intention is to institutionalise the status of records review with auditees to improve audit outcomes. We aim to fully explore capacity development opportunities for the organisation through structured professional programmes and solutions. We will continue to interact with society to create awareness around our mandate and our messages.

A major part of our communication with stakeholders in 2018-19 will be focused on creating an understanding about the amendments to the PAA and the manner in which we will be implementing them.

We will continue seeking inputs from our oversight body on compiling the regulations issued in terms of the Act. Discussions are envisaged with the major professional bodies such as SAICA and IRBA. Individual agreements will be pursued with all identified public bodies to which the Auditor-General can potentially refer detected material irregularities in the course of our audits.

Our professional engagements will be complemented by comprehensive engagements with the general public in response to the expressed interest about our work by citizens.

STAKEHOLDER FEEDBACK

CONSTITUTIONAL STAKEHOLDER FEEDBACK

PERFORMANCE MEASURE

% of stakeholders who view our audit work as adding value to the achievement of their mandate

70% – 80% and closure of identified gaps identified in the 2015-16 survey

83%

ACHIEVED

Figure 4.11: Value-adding auditing, objective 1: Demonstrate value-adding auditing

PERFORMANCE MEASURE

% of stakeholders who view our engagements as meaningful and of a high quality

Target 2017-18
65% - 75%

83%

ACHIEVED

Figure 4.12: Visibility for impact objective 1: Achieve impact through visibility programmes

In 2017-18, we solicited feedback from constitutional stakeholders such as the coordinating ministries, portfolio committees, public accounts committees, MPACs, their support staff and similar institutions including the SALGA and APAC. The feedback was on whether our audit work added value and assisted them to achieve their mandates. We defined added value as the simplicity, clarity and relevance of our messages. We also asked whether these stakeholders found the content of our capacity-building programmes relevant as it relates to their work and appropriateness of AGSA delivery methods.

We collected feedback using existing tools such as questionnaires, video interviews and face-to-face engagements, which ensured that we received relevant, useful and quality information. We also used a survey to assess whether the oversight stakeholders fully understood our mandate, as we had received requests that went beyond our functions.

In striving to solicit live feedback, we initiated a panel discussion on areas of improvement that was led by the National Assembly Chairperson of the Chairperson of Committees. The conclusion was that generally the AGSA added value to the value chain that enables effective oversight.

FINDINGS AND AREAS OF IMPROVEMENT

While we were found to add value, there are areas where we need to improve:

- We need to enhance our understanding of the government planning framework and the business environment.

- Our audit findings must contain extensive analyses of the root causes that led to the findings as well as recommendations to address them.
- We must provide clearer findings and recommendations within the report to remove any vagueness. The reader must be able to comprehend the content.
- We must confirm the reliability of our information and guard against reporting on issues previously raised – quality assurance.
- We require a more balanced approached as our reports currently focus on financial elements, but lack detail on the performance of departments.

The survey outcomes further provided feedback on whether our sessions were meaningful, of high quality and appropriate. Our stakeholders highlighted our effectiveness in supporting them in carrying out their duties. They appreciated our focused discussions and presentations that enabled their oversight and saw our employees as well-versed on their reports and able to respond to queries adequately.

However, they also highlighted some improvements in this area:

- Flexibility to meet stakeholders at places like airports or via video-conferences.
- Provide adequate support for executing coordinating responsibilities (DPME).
- Tailor presentations to committee requirements.
- Provide detailed information during national SCoPA briefings so the committee can adequately probe the departments' actions in their hearings (national SCoPA).
- Minimise the use of audit jargon and elaborate on the issues of unauthorised and irregular expenditure to increase the understanding of the public (Hon Mbalo, Deputy Speaker: Free State).
- Bridge the communication gap between the AGSA and the Speaker of the Legislature. Where there are challenges to tabling municipal reports, the AGSA must inform the legislature so that when municipalities table such reports they can be dealt with (Hon Mahlakeng, SCoPA Chairperson, North West).

The survey also showed that the majority of oversight stakeholders demonstrated a good understanding of our mandate and that they made requests beyond our mandate as a demonstration of their confidence in us.

CITIZEN ENGAGEMENT

PERFORMANCE MEASURE

% favourable opinion of the AGSA by citizens

Target 2017-18
70 – 80%
Closure of gaps

88%

ACHIEVED

Figure 4.13: Visibility for impact objective 2: Engage actively with citizens

We sought to gauge our stakeholders' understanding of the role and mandate of the AGSA, their views on the relevance of the work of the AGSA, the simplicity of audit reports and their understanding of their role as the public in holding government accountable. We used surveys to collect the feedback.

Feedback was obtained from the following non-constitutional stakeholders:

- Government communicators (SALGA, GCIS)
- Professional bodies and associations (SAICA, ABASA, CIGFARO)
- Institutions of higher learning (Wits university, Fort Hare university, UNISA school of business leadership and University of Cape Town graduate school of business)
- Media (journalists)
- Socio-Economic Development beneficiaries (Adopted schools and Mandela Day non-governmental organisations)

Non-constitutional stakeholder feedback was sought on the following areas:

- Understanding of the role and mandate of the AGSA
- Views on the relevance of the work of the AGSA
- Views on the simplicity of audit reports
- Understanding of their role as members of the public in holding government accountable.

The participants in the survey had a clear understanding of our role and mandate, with most stakeholders believing that the AGSA is a relevant independent oversight body that builds public confidence in the management of public funds among South Africans.

There were mixed feelings around the simplicity of our audit reports, with some stakeholders highlighting that the reports are easy to read especially with the help of graphs and glossary provided, while others claimed that the reports were too technical and contained a lot of information.

On understanding their role as active citizens in holding government accountable for the mismanagement of public funds, most of the stakeholders were clear on the actions they needed to take to hold government accountable, with some still unsure on the processes they should follow to hold their government representatives accountable.

Participants' view was that without powers to enforce consequences, our work will not fully contribute to better governance and accountability. They therefore supported the process of amending the PAA. Most importantly, our stakeholders appreciated our efforts to share the audit outcomes and raise awareness about the root causes for poor performance in the public sector. The feedback also highlighted areas for improvement, which will be our focus for 2018-19.

FINDINGS AND RECOMMENDATIONS

Figure 4.14 illustrates the identified gaps and our commitments.

FINDINGS	COMMITMENTS
Lack of knowledge by citizens on the processes to hold government accountable	- Share information with citizens on the processes and structures of government to enable them to participate in government initiatives and have a public voice
Without the necessary powers to enforce consequences, the AGSA's work cannot be perceived to fully contribute to better governance and accountability	- Share information and raise awareness on the AGSA's powers (upon PAA amendment)
Audit reports are too technical and contain a lot of information	- Use the abridged version of the general report to simplify the audit outcomes - Raise awareness of the abridged version of the general report

OUTLOOK

The focus for 2018-19 will be to address the gaps by developing and implementing a focused plan.

Based on the intense and structured interactions with constitutional and non-constitutional stakeholders, and increased visibility, relevance and impact, our view is that the organisation has 'achieved' its stated objectives for the performance year.

STRATEGIC GOAL 3

VIABILITY

Financial performance

PERFORMANCE MEASURE		
Net surplus / sustainability margin (% of audit revenue)	1,0% – 4,0%	2,7%
% debt collected over 12 months – national business units	98% – 100%	97%
% debt collected over 12 months – provincial business units	75% – 90%	86%

ACHIEVED

Figure 4.15: Viability objective 1: Maintain financial viability and legal independence

STRENGTHEN FINANCIAL VIABILITY AND LEGAL INDEPENDENCE

Our financial viability is based on sound financial principles, strict cash flow management and strong internal controls supported by sustainability strategies. At the heart of these is our funding model, which enables us to deliver on the organisational mandate in a manner that is cost-efficient, effective and adds value to the public sector. The model allows us to remain solvent and ensures that we have sufficient capacity to meet our operational and capital expenditure, and developmental and technological requirements.

Funding model principles:

- Commercially viable and financially independent (self-funding)
- Our tariffs are not capped and we apply mark up to fund operational daily expenditure
- Allows for a small surplus (1–4%) to fund our infrastructure and people development.

AUDIT INCOME

Actual revenue for the year ended 31 March 2018 was R3 247 million compared to R2 977 million in 2016-17. This success is attributed to several factors including:

- The operational benefits of staff pooling, resulting in increased and efficient staff use
- The full implementation of the audit methodology programme, which has brought efficiencies to the environment
- The reduction of unbilled hours.

Through unbilled hours necessitated by the budgetary constraints of auditees, we effectively contributed R72 million (2016-17: R83 million) to the fiscus, thus demonstrating our commitment to affordable fees.

We generated audit income of R575 million using outsourced audit firms (contract work), or 18% of the total audit income revenue (2016-17: 20%). The reduction in outsourced audit work is driven by our internal efficiencies and contributes positively to our gross profit.

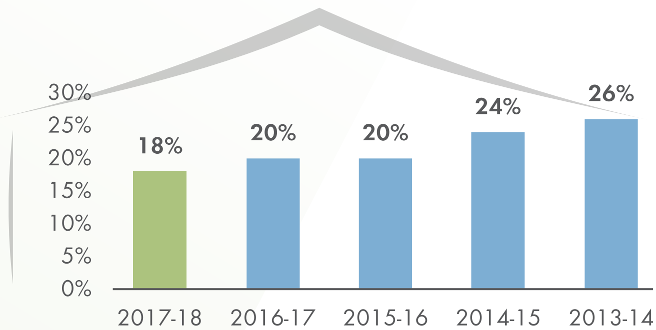


Figure 4.16: Outsourced audit work

OVERHEAD EXPENDITURE

Our overheads excluding the impact of R58 million due to write-off of debtors grew by 4% year on year compared to our 9% growth in revenue and the 5% growth in the CPIX. We realised savings of R60 million compared to the previous year's savings of R21 million. These savings can be attributed to several factors including strategic sourcing (e.g. ICT contracts and lease renegotiations); a moratorium on increasing our headcount and the use of internal resources instead of outsourced services. To maintain this performance, we will continue to manage costs to keep them below the CPIX.

PERFORMANCE MEASURE

% improved recovery rate aimed at improving organisational productivity

Target 2017-18
1-3% vs
2016-17

3,7%

Figure 4.17: Viability objective 3: Instil a performance-based reward culture

SURPLUS

We achieved a surplus of R67,3 million (deficit of R14,6 million in 2016-17). This was due to a combination of our good performance in trading and the positive impact of our cost containment measures.

DEBTORS

Overall, the debt owed to us has decreased, which is indicative of the success of our enhanced collection strategies and a significant payment from the National Treasury. At 31 March 2018 we were owed R650 million, which is a decrease from the R806 million owed in the same period last year. There was a noticeable decrease in all debtor's balances except 'other debtors' (unlisted public entities, municipal entities, and utility agency corporations), which closed at R153 million from R132 million in the previous financial year (refer to Figure 4.17).

Of the debt owed by other debtors, 81% is still within our credit payment terms, with the balance of R27 million being collected through litigation and ring-fencing mechanisms.

Local government debt of R249 million (2016-17: R391 million) constituted 38% of the total debt, which improved from a high of 49% in the 2016-17 financial year as shown in Figure 4.17. In addition, our debt collections averaged 91%, which is in line with our target. These contributed positively to the year-end cash position.

Total debtors	2017-18		2016-17		2015-16	
	R million	%	R million	%	R million	%
National departments	66	10	90	11	73	10
Provincial government	137	21	150	19	128	19
Local government	249	38	391	49	343	51
Statutory entities	45	7	43	5	38	6
Other entities	153	24	132	16	97	14
Total	**650**		**806**		**679**	

Figure 4.18: Debtors balance as at 31 March 2018 by category

We continued our ring-fencing and litigation efforts to further improve collections. We collected a cumulative R274 million through ring-fencing agreements, with R91 million (2016-17: R94 million) collected in 2017-18. This initiative is still considered effective as it allows debtors to settle their old debt while liquidating the current debt. Figure 4.18 shows the progress made on ring-fencing agreements since its implementation.

	No. of auditees entered into ring-fencing agreements	Ring-fenced amount	Amount paid
2017-18	96	R329 million	R274 million
2016-17	79	R243 million	R183 million

Figure 4.19: Accumulated progress of the ring-fencing agreement since implementation

We collected R73 million of the money owed to us through litigation in 2017-18, compared to R63 million in the previous year. Since we began litigation to recover debt, we have collected R244 million. In 2017-18, we incurred R1,4 million in legal fees to recover the debt through litigation (2016-17: R1 million).

	No of auditees	**Litigated amount**	**Amount paid**
2017-18	82	R366 million	R244 million
2016-17	69	R278 million	R171 million

Figure 4.20: Accumulated progress of the litigation since implementation

CASH FLOW

All these milestones led to a favourable cash balance at the end of the year, including short-term investments of R664 million (2017: R553 million). This translates into a safety margin of 2,14 months (2017: 1,96 months) against our target of three months. We are aware that the margin of safety is less than our risk tolerance level; however, we believe we have made progress and have introduced various measures to narrow the gap further.

Overall the organisation continues to achieve and maintain positive financial health supported by an above-average acid test ratio of 1,39:1 (2017: 1,16:1).

REVIEW OF THE LEGAL INSTRUMENTS THAT WE USE TO SUPPORT OUR MANDATE AND TO PROMOTE CONSEQUENCES IN THE PUBLIC SECTOR

BROADER EXPLANATION OF THE PAA AMENDMENTS

The 2017-18 financial year has focused on the amendments to the PAA. The Auditor-General worked with SCoAG on the amendments to take our responsibilities and constitutional mandate to the next level. This is part of the journey to expand our role to include consequence management for undesirable actions.

The most prominent amendments introduce a process to refer material irregularities for further investigation. These referrals will be directed to investigating agencies with a suitable mandate and the powers to adequately investigate the subject matter. A standard set of criteria will be used when considering whether a matter should be referred for investigation. These criteria are a work-in-progress; however, we have identified three main categories:

- status of the audit outcome
- qualitative factors
- loss to society.

If we find that the investigating agency's report contains sufficient evidence of a loss, and the loss is quantified, the auditee will have an opportunity to explain the circumstances that gave rise to the loss.

Where the Auditor-General finds that the explanation is not satisfactory, he will exercise his discretion to raise a debt against the defaulting party. The debt will be in the form of a certificate, which will signal the start of a civil process to recover the debt owed to the state.

The amendment also provides for a judicial review mechanism. The exact processes are the subject of an internal project aimed at refining the processes that will help us to apply these amended powers.

Other amendments proposed in the bill aim to broaden the Auditor-General's discretion to select audits. This will provide solid mandates for performance and international audits. A few amendments touch on our administration.

SCoAG completed its work on the Draft Public Audit Amendment Bill in March 2018.
The National Assembly considered the bill in April and May and, on 29 May 2018, approved the PAA Bill.

On 28 June 2018, the National Council of Provinces passed the Bill after all political parties present voted in its favour.

The Bill has now reached the last step in its journey, and is awaiting the President of the Republic of South Africa signing it into law.

We have various agreements with institutions such as the Special Investigating Unit (SIU), the Competition Commission and the Public Protector. Such agreements are based on information-sharing and collaborative relationships to enhance constitutional democracy and public accountability.

We met with the Financial Intelligence Centre (FIC) to ascertain whether the AGSA had obligations within the Anti-Corruption Task Team (ACTT) due to the Financial Intelligence Centre Amendment Act, 2017 (Act 1 of 2017) (FICAA). The FIC legal team clarified the legal issues and our legal team issued a memo to alert the AGSA of its obligations under various MoUs with members of ACTT and other enforcement/investigative agencies. Internal and external interventions will continue to be implemented and tracked.

Our MoU with the SIU formed the basis of the interaction between the Auditor-General and the Head of the SIU in the unit's investigation of malpractice at the SABC, Life Esidimeni Hospital and the Department of Correctional Services. We are confident that the information shared with the unit will contribute to high impact reports that are instrumental in assigning consequences to unacceptable conduct.

PEOPLE PORTFOLIO PERFORMANCE

AGSA TOTAL NUMBER OF POSITIONS AND EMPLOYEES

Our staff complement on 31 March 2018 was 3 459, including trainee auditors and short-term contracts. This is a reduction of 0,69% from the previous year. The staff establishment control and management is bearing fruit by minimising growth in the headcount.

The drive to achieve efficiencies resulted in business units critically considering vacancies before filling them and focusing on effective staffing levels. This also advances our broader transformation agenda, which is discussed in detail in the vision and values driven chapter of this report. We are making good progress towards meeting our employment equity targets on the representation of all persons living with disabilities, which was 1,38% of the total workforce at the end of March 2018 (2016-17: 1,05%).

Age Group	Race										Total	%
	AM	AF	CM	CF	IM	IF	WM	WF	FM	FF		
<25	161	210	13	9	7	13	11	5			429	12,4
25-35	787	984	60	61	67	59	30	35	2	4	2 089	60,4
36-55	183	247	27	46	39	43	99	127	12	4	827	23,9
>55	20	19	2	3	3	1	41	23	2		114	3,3
Total	**1 151**	**1 460**	**102**	**119**	**116**	**116**	**181**	**190**	**16**	**8**	**3 459**	**100,0**
%	33,3	42,2	2,9	3,4	3,4	3,4	5,2	5,5	0,5	0,2	100	

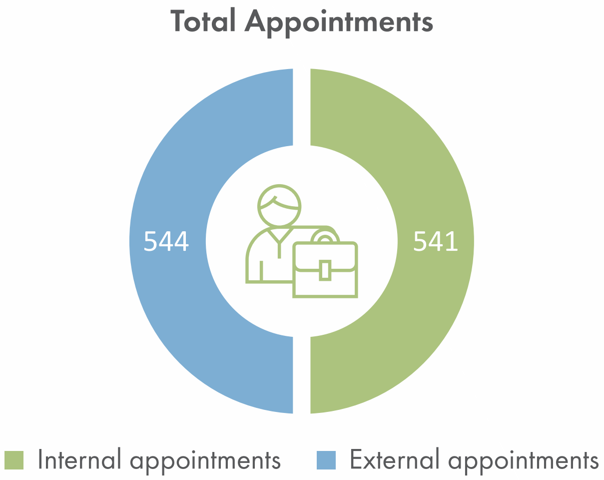
Figure 4.21: Workforce distribution by age, gender and race

Gender • M = Male • Race • I = Indian • W = White
• F = Female • C = Coloured • A =African • F = Foreign

IMPROVING JOB OCCUPANCY LEVELS AND EMPLOYEE STAFF TURNOVER

The AGSA recruited 1 085 employees for the 2017-18 financial year. Of these recruits, 541 (50%) were internal appointments and 544 (50%) external hires. Of the latter, 371 (68%) were trainee auditors including SAICA trainee auditors, SAICA academic trainees and IT trainees.

These statistics demonstrate our strong and effective recruitment pipeline and our commitment to growing internal resources as part of the talent management process and succession planning. Our talent management processes and efforts are yielding positive results and cultivating talent in-house.



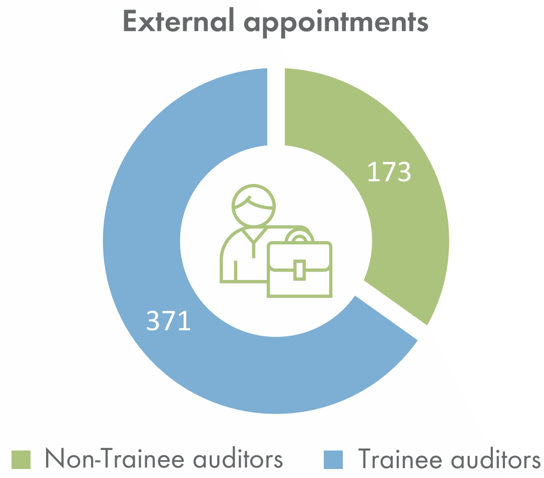


Figure 4.22: AGSA hires

Age Group	Race					Total	%
	AF	IF	WF	AM	WM		
36-55	4	1	1	4	1	11	91,7
>55					1	1	8,3
Total	**4**	**1**	**1**	**4**	**2**	**12**	**100,0**
%	33,3	8,3	8,3	33,3	16,7	100,0	

Figure 4.23: Executive Leadership distribution by gender and race

PERFORMANCE MEASURE

Voluntary turnover of high-potential individuals and critical skills

Target 2017-18
8 – 10%

10,89%

NOT ACHIEVED

Figure 4.24: Viability objective 2: Build employee competencies and grow organisational capabilities

Description	2017-2018	2016-2017	2015-2016	2014-2015
Occupancy rate	91%	91%	92%	90%
Staff turnover	8,5%	8,1%	8,9%	10,8%

Figure 4.25: Occupancy rate and staff turnover

The total staff turnover for 2017-18 is 8,5%, compared to 8,1% in 2016-17 and against the industry norm of 18,2% (PwC Report, Salary and Wages Movement, Jan to Dec 2017).

During 2017-18 we reviewed our approach to measuring the staff turnover rate to focus on senior leadership and high potential employees (HiPo), who are collectively deemed as having critical skills. A high-potential employee is usually in the top 5% of employees in an organisation. These people are thought to be the organisation's most capable, most motivated, and most likely to ascend to positions of responsibility and power.

The change was informed by a consistently low staff turnover rate compared to the benchmark over the three years when all staff were considered in this measurement. Our voluntary turnover of staff with critical skills from 1 April 2017 to 31 March 2018 was 10,89% against an industry norm for professionally qualified employees of 14,92% (PwC Report, Salary and Wages Movement, Jan to Dec 2017).

Figure 4.26: Critical skills definition

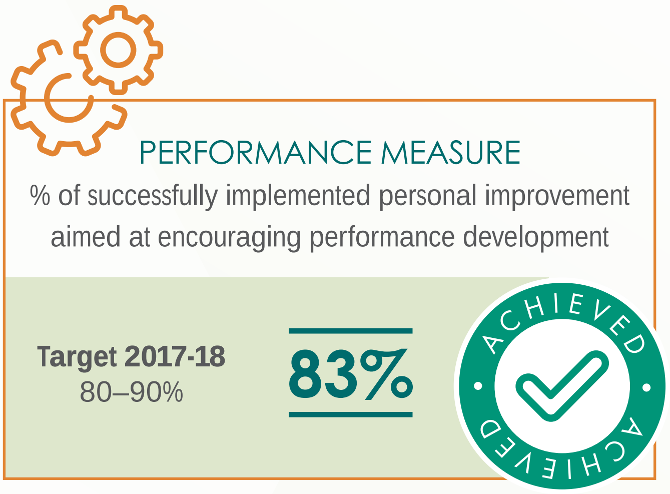


Figure 4.27: Viability objective 2: Build employee competencies and grow organisational capabilities

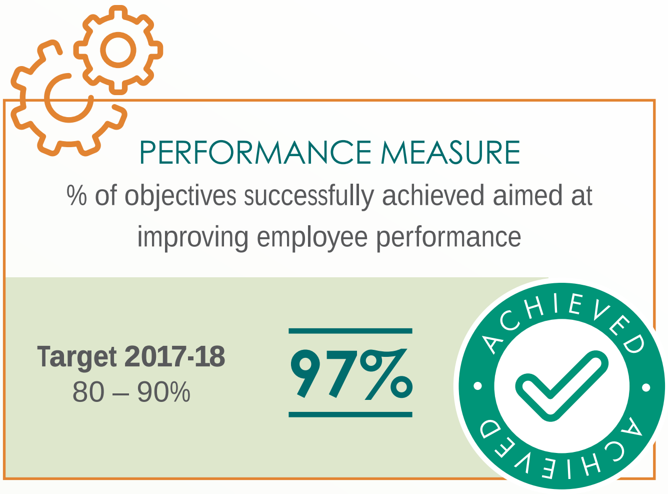


Figure 4.28: Viability objective 3: Instil a performance-based reward culture

We continue to drive performance excellence by ensuring that our employees' performance is managed for maximum effect. We have ongoing performance dialogues through standardised performance processes such as mid-year and year-end reviews.

Over the years we have invested time and effort in aligning the balanced scorecards, individual performance contracts and rewards. Last year we introduced a non-monetary reward element to our employee value proposition. Further enhancements included enabling flexibility on the strategic goals in the e-performance system.

The investment in our performance management systems is geared at supporting the organisation's implementation of a performance-based reward approach. We will continue rolling-out the performance-based reward approach while dealing with any challenges that arise during our journey.

TALENT MANAGEMENT

In line with our people strategy, we have attracted, retained and cultivated talented individuals by continually improving talent-sourcing mechanisms, and talent development programmes and measures.

We successfully delivered on learning and development programmes, specifically in building the capacity needed to implement the revised audit methodology. Although training on the audit methodology took the lion's share of our time and effort, we also implemented a number of training initiatives to build soft skills and competencies.

Through executive coaching and mentoring and an ongoing assessment of the desired AGSA leadership profile, we continue strengthening the leadership pipeline. This has enabled us to leverage our senior management and executive skills.

Our staff took part in programmes that enhanced their individual development and will bring back knowledge that will benefit the AGSA. The most notable events were the INTOSAI Development Initiative (IDIs), the SAI Young Leaders' programme 2017-18 and the Women Leadership Academy.

We continue to drive talent management processes. Our key focus was on empowering line managers and employees to diligently use the revised talent management framework. This framework allows more effective talent dialogues and development programmes targeted at promotions.

We also focused on strengthening our talent pipeline by facilitating evaluations through the management and leadership assessment development centres. Of the 102 earmarked HiPo employees, 80% participated in our assessment programmes. It is important to reflect that all our executives took part in the leadership assessments, which helped us establish the basis for leadership capability development.

INVESTMENT IN TRAINING

It is essential to fine-tune the mix of organisational skills and competencies to reflect a combination of technical skills, stakeholder knowledge and soft skills that is responsive to the changing external environment. We have developed a strategically-aligned multistage development framework to assist us in monitoring the coverage, continuity and advancement of the desired knowledge, skills and attributes for the auditor of the future.

A total of **3 234** employees spent **26 863** hours on training courses, equating to **8,31** training hours per attendee.

GROWING THE NUMBER OF QUALIFIED PROFESSIONALS

Our audit professional membership profile has improved over the years, growing by 21% since 2015, while our CA membership has grown by 14%. The professional membership decreased from 1 198 in 2017 to 1 184 in 2018 due to the decrease in the number of our RGAs.

Year	CA (SA)	RGA	ACCA	CISA	Total
2015	547	345	27	61	980
2016	548	358	34	64	1 004
2017	619	464	39	76	1 198
2018	622	436	45	81	1 184

Figure 4.29: Number of qualified professionals at the AGSA

TRAINEE AUDITOR SCHEME

The trainee auditor scheme is central to our business model and, thus, crucial to our long-term sustainability and continued success. In 2017-18, the training officer and business executive forums were instrumental in crafting the new trainee auditor strategy that will serve as a blueprint for all our trainee auditor initiatives.

In that regard, our effort to increase the number of CTA-qualified trainee auditors is progressing well. We recruited 371 trainee auditors in 2018, 59% (217) of which were CTA-qualified trainees. This is the largest percentage of CTA trainees recruited in any single reporting period and is attributed to our increased communication and social media marketing, continued presence at the universities, improved internal processes, timely planning and execution as well as enhanced branding.

CTA RECRUITMENT

	2018	2017	2016
CTA	217 (59%)	107 (29%)	17 (4%)
NON-CTA	154	259	370
TOTAL	**371**	**366**	**387**

Figure 4.30: CTA recruitment as a percentage of overall recruitment

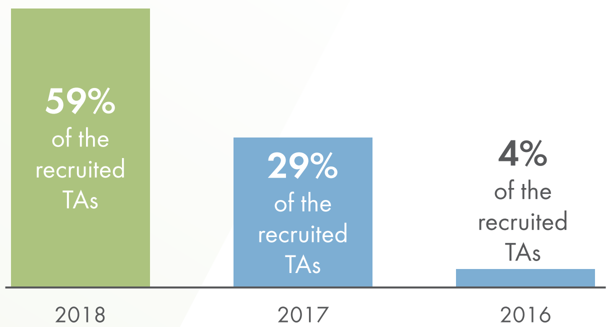


Figure 4.31: Trainee auditor recruitment over the past three years

Race	Total		ACCA		SAIGA		CISA		SAICA	
	M	F	M	F	M	F	M	F	M	F
African	491	631	2	4	30	34	7	23	452	570
Coloured	25	28				2		3	25	23
Indian	24	25			1	1			23	24
White	14	12							14	12
Foreign	0	1								1
Total gender	554	697	2	4	31	37	7	26	514	630
	1 251		**6**		**68**		**33**		**1 144**	

Figure 4.32: Trainee auditor profile

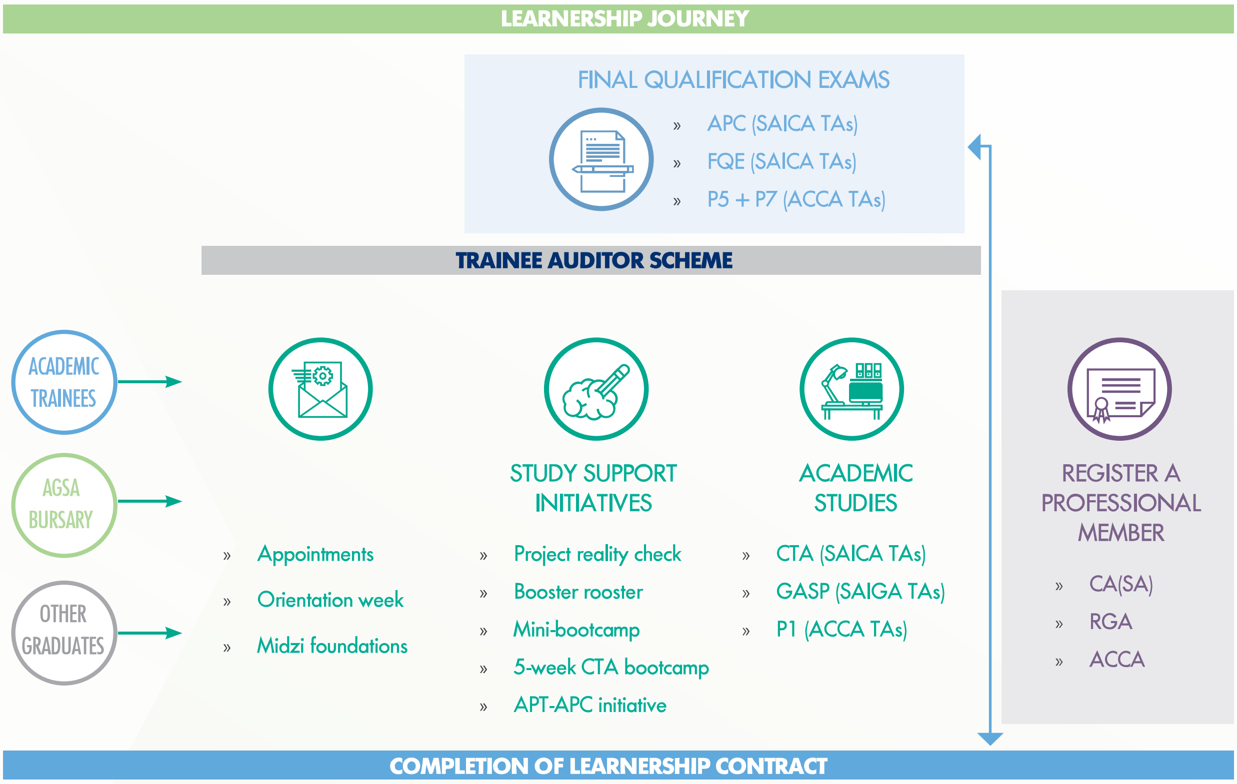


Figure 4.33: Learnership journey

SAICA LEARNERSHIP STUDY INITIATIVES

STUDY	STUDY SUPPORT INITIATIVE	PROGRAMME PASS RATES	AGSA OVERALL PASS RATES
Unisa Classes	Unisa (College of Accounting Sciences) has provided lecture classes at various AGSA offices and arrangements were made by People and Organisation Effectiveness (POE) for all other AGSA offices to access the same lecture classes via live streaming. Unisa provided four full days' lectures (two in May and two in August) focussed on all subjects (Auditing, Accounting, Tax and Management Accounting). Five management accounting lectures were provided by Unisa (one lecture per month) in March, April, June, July and August.		

STUDY	STUDY SUPPORT INITIATIVE	PROGRAMME PASS RATES	AGSA OVERALL PASS RATES
CTA 2	**Mini-boot camps** The organisation also held the mini boot camps during the year in preparation for test 2, 3 and 4 at which 50 top performing CTA 2 trainees were invited to attend face-to-face lectures for 5 days. The mini boot camps were held as follows: first contact session took place on 6-10 April 2017, Second session on 1-5 June 2017 and Third session on 12-16 July 2017. As part of the mini boot camps, videos were also made available to all AGSA CTA trainees. Management accounting videos were made available in preparation for test 3 and test 4. Videos were made available to AGSA CTA trainees on all subjects (auditing, accounting, tax and management accounting) in August 2017 for revision purposes in preparation for the exams.		
CTA2	**Boot camp** The programme comprises of a series of tutorials and practical study exercises which are conducted for a period of five weeks prior to each Unisa test. The aim of the programme is to assist trainees to gain base knowledge of the CTA 2 material, which would assist them with exam techniques. While the Boot Camp yielded a 100% pass rate, the overall pass rate for AGSA CTA 2 candidates is 15% (121 of 787 students passed). To address the low pass rate relevant interventions have been implemented and are being monitored.	2017-18: 100% (35 out of 35 attendees) 2016-17: 94% (33 out of 35 attendees) 2015-16: 100% (25 out of 25 attendees)	2017-18: 15% (121 of 787) 2016-17: 27% (103 out of 690) 2015-16: 35% (81 out of 229)
Assessment of professional competence (APC)	The AGSA and Accounting Professional Training (ATP) have entered into a joint initiative wherein ATP provides in-house training sessions to our trainees in preparation for the APC. The programme has two extra AGSA-specific intervention sessions, which take into account the public sector environment. The APC In-house programme was completed on 3 November 2017 which prepared the candidates for the APC exam that was written on 22 November 2017.		

Figure 4.34: Viability objective 3: Instil a performance-based reward culture

PERFORMANCE MEASURE

% improvement of CA board exam pass rates

Target 2017-18	Actual 2017-18	Actual 2016-17	Actual 2015-16
10% (vs 2016-17)	(-9%) 67% pass rate	76% pass rate	77% pass rate

NOT ACHIEVED

Year	ITC candidates	APC candidates
2018	382	224
2017	218	84
2016	120	46

Figure 4.35: AGSA ITC and APC exam candidates

SAICA TRAINEE AUDITOR PASS RATES

YEAR		17-18	16-17	15-16
TRAINEE AUDITOR	**CTA 1 Pass rates**	21%	6%	33%
TRAINEE AUDITOR	**CTA 2 Pass rates**	15%	15%	35%
TRAINEE AUDITOR	**Initial test of competence (ITC) Pass rates**	62%	52%	66%
TRAINEE AUDITOR	**APC Pass rates**	74%	75%	70%
NON-TRAINEE AUDITOR	**CTA 1 Pass rates**	These results are not monitored by the organisation		
NON-TRAINEE AUDITOR	**CTA 2 Pass rates**	These results are not monitored by the organisation		
NON-TRAINEE AUDITOR	**Initial test of competence (ITC) Pass rates**	48%	33%	45%
NON-TRAINEE AUDITOR	**APC Pass rates**	60%	77%	77%
OVERALL PASS RATE	**CTA 1 Pass rates**	These results are not monitored by the organisation		
OVERALL PASS RATE	**CTA 2 Pass rates**	These results are not monitored by the organisation		
OVERALL PASS RATE	**Initial test of competence (ITC) Pass rates**	61%	50%	61%
OVERALL PASS RATE	**APC Pass rates**	67%	76%	74%

Figure 4.36: Trainee auditor pass rates

Our pass rates for the CTA1 and CTA2 remain unsatisfactory.

- The CTA1 pass rate increased from 6% in 2016-17 to 21% in 2017-18
- The CTA2 pass rate remained at 15% (2016-17: 15%)

We achieved success though with our flagship study support programme BootCamp, for the top CTA2 trainee auditors which resulted in all 35 participants completing their CTA2.

In June 2017 and January 2018 the first professional exam in the SAICA learnership, the ITC, was written by 382 AGSA candidates. This was a significant increase from the 218 AGSA candidates that sat for the previous year's ITC. The pass rate for this level increased from 52% to 62%. Fifty non-trainee auditors who had already completed their articles also sat the ITC exam and 24 (48%) were successful which is an increase from the 8 (33 %) successful candidates in the previous year.

The final step in the CA journey, the APC exam, was taken by 224 AGSA candidates in November 2017 and 67% (150) of the candidates were successful in the exam.

This included 99 non-trainee permanent staff who had completed their SAICA articles in previous years. Of these, 60% were successful and have registered as CAs with SAICA.

SAIGA LEARNERSHIP

We have reduced our intake on the SAIGA learnership over the past four years but we remain committed to continue providing support to all participants in the scheme. The SAIGA learnership final qualifying exam (FQE) was also written in November 2017 by 15 SAIGA trainee auditors and 25 non-trainee auditors. Of our trainee auditors, 13 (87%) were successful.

ACADEMIC TRAINEES

At the beginning of the 2018 academic year we appointed 20 academic trainees, a 65% increase from the previous year. Nine (45%) are a product of the AGSA bursary scheme and the rest are from the Thuthuka bursary project. Academic trainees are trainees that are employed full-time at universities and are paid by the AGSA.

EXTERNAL BURSARY

We awarded an additional 35 bursaries for study toward an accounting qualification, bringing our total to130 external bursaries. The majority (75%) of these students are at an advanced level of their studies (i.e. third year and CTA). Of those at an advanced level of studies, 65 (64%) were successful.

Year	Total	Passed	Failed	Terminated	Pass %	Fail %
First	10	10	0	0	100	0
Second	23	16	6	1	69,6	26,1
Third	33	17	14	2	51,5	42,4
BCTA	18	11	5	2	61,1	27,8
CTA	50	35	14	1	70,0	28,0
Total	**134**	**89**	**39**	**6**	**66,4**	**29,1**

Figure 4.37: External bursary results

CENTENARY SCHOLARSHIP

The centenary scholarship has been absorbed into the external bursary scheme. A total of 30 students were studying under the AGSA centenary scholarship programme for the 2017 year. Six of the centenary scholarship students graduated with their CTA at the end of 2017.

In total 15 students from the scholarship programme have since been appointed as trainee auditors within the AGSA workforce and are progressing towards their professional qualifications. Three students, who are still continuing with their academic studies have been absorbed in the AGSA external bursary scheme. It is envisaged that the students who have been absorbed into the external bursary scheme will continue to be managed according to the external bursary policy and will be appointed as trainee auditors in the next two years, after completing their CTA. The remaining students have contractual obligations that have not been concluded. Discussions to determine a harmonious resolution are continuing.

THUTHUKA BURSARY FUND

The AGSA uses the bursary to develop a pipeline of future trainee auditors. This includes the AGSA's own bursary scheme and the contribution to the Thuthuka fund. The organisation realised a positive return on investment for its contribution to the fund; as a result, the number of students funded through the SAICA/Thuthuka bursary increased from 10 in 2015 to 75 in 2018. The increase in the number of funded students meant an increase in contribution from R2 299 200 in 2016 to R13 277 670 in 2017. This investment is part of our effort to develop our talent pipeline and has contributed to us placing 67 CTA trainee auditors at the beginning of 2018, which represents a marked (39) increase from last year (28 placements).

SPONSORSHIP

We continued to contribute to the development of the profession by providing support to identified universities.

Institution	Amount	Nature of sponsorship
Nelson Mandela University	R160 000	Salary of academic trainee
Nelson Mandela University	R16 000	Academic excellence awards
University of Cape Town	R28 000	Academic excellence awards
University of Pretoria	R10 000	Academic excellence awards
University of the Western Cape	R8 000	Academic excellence awards
University of Fort Hare	R3 704 000	Salary top-up for lecturing staff

Figure 4.38: Sponsorships

ACCREDITATION OF OUR TRAINING OFFICES

Performance measure	Target 2017-18	Actual 2017-18*	Actual 2016-17	Actual 2015-16
SAICA accreditation of our offices	Low – 4 - 6	4	5	4
	Medium – 9 - 11	9	9	6
	High – 0	0	1	4
	Very High - 0	0	0	1

Figure 4.39: Viability objective 2: Build employee competencies and grow organisational capabilities

*Two offices' assessment outcomes are pending from SAICA

Meeting SAICA's accreditation requirements provides a level of assurance about our training environment. SAICA issued the current risk ratings for accreditation of the 13 AGSA training offices as outlined in Figure 4.36.

We continue to maintain or improve the SAICA accreditation status of our training offices through proactive bi-annual internal assessments using the SAICA assessment criteria.

EMPLOYEE WELLNESS

We continue to provide employees with opportunities and services aimed at fostering their well-being. Employees used the following services:

- Assistance services: **692 employees** (2016-17: 769) (2015-16: 735)
- Cases accepted to support individuals: **1 619 cases** (2016-17: 1 381) (2015-16: 1 326)
- Dependants supported: **59 dependants** (2016-17: 62) (2015-16: 26)
- Senior managers and executives who attended the executive care programme: **49 executives and senior managers** (2016-17: 126) (2015-16: 91).

PERFORMANCE MEASURE

Staff engagement index

Target 2017-18
55 – 59%

46%

NOT ACHIEVED

Figure 4.40: Viability objective 4: Continually improve staff motivation and productivity

The organisational-wide employee engagement and culture surveys were conducted as part of the objective to continually improve staff motivation and productivity. An employee engagement score was determined for the organisation as well as for each business unit. The organisation attained a 46% employee engagement score and its culture survey measure was 477 with an overall participation rate of 86% and 89% respectively.

The organisation's employee engagement score was 46% versus the South African benchmark of 59%. Career development, talent, staffing and senior leadership openness in communication were highlighted as developmental areas.

The culture survey results show a culture gap between the actual organisational culture (477) and what the organisation's leadership perceive to be the optimum culture (778) i.e. the AGSA vision culture. Innovation, optimism and growth were highlighted as potential developmental areas.

CULTURE SURVEY OUTCOMES

Behaviours to continue	Behaviours to reduce	Behaviours to increase
Cooperate towards the achievement of a common goal	Accept the rules regardless of the situation	Challenge current assumptions to achieve better results
Support effective team collaboration	Always take the same approach	Be creative and innovative
Contribute to the growth and success of the community at large	Identify the problems and reasons a new plan will not work	Identify the reasons why a new plan can work
Recognise how your efforts impact the community at large	Be critical of new ideas	Recognise that there will be challenges to achieving your goals
Plan ahead	Look smart all the time	See the opportunity for you to grow

The next phase involves analysing the results to identify key focus areas and interventions that contribute to enhancing staff engagement levels. We will be able to leverage the positive expectations communicated by employees. Our ongoing engagement and focus on the culture transformation journey will enhance the required behaviour and drive us to implement changes to create an enabling environment and support the 4V strategy.

EMPLOYMENT RELATIONS

The AGSA does not belong to a bargaining council and is not a party to any collective agreement. This year we focused on developing the necessary skills within our line management to effectively manage employment relations consistently and fairly, and with an immediate response to discipline management. There were seven CCMA cases of unfair labour practice and unfair dismissal during the performance year. A settlement agreement was reached on three, the CCMA ruled in favour of the AGSA on the one, one was withdrawn by the applicant and the other is still pending arbitration. The table below indicates an increase in the number of CCMA cases compared to last year although these are still fewer than the 16 in 2015-16.

OUTCOME	2017-18		2016-17		2015-16	
	Total	% of Total	Total	% of Total	Total	% of Total
Favourable decision	1	14,3	1	25	6	37,5
Unfavourable decision	0	0	0	0	0	0
Settled	3	42,8	2	50	7	43,8
Withdrawal by applicant	1	14,3	0	0	0	0
Ongoing	2	28,6	1	25	3	18,7
Total	**7**	**100**	**4**	**100**	**16**	**100**

Figure 4.41: CCMA disputes by outcomes

OCCUPATIONAL HEALTH AND SAFETY

During the reporting period we implemented the following:

- A new fire detection system for the head office building
- Occupational Health and Safety (OHS) audits at all our offices except Nelspruit. We drafted OHS action plans to address non-compliance
- Emergency exercise drills at the Pretoria office
- The OHS policy, which was displayed as a poster at all AGSA offices

ACCIDENTS AND INCIDENTS REPORT

	2017-18	2016-17	2015-16	2014-15
Accidents and incidents	14	14	16	14
No. of compensation claims	7	9	8	8
Motor vehicle accidents (non-disabling)	5	6	4	5
Motor vehicle accidents (fatality)	0	1	0	0
Total no. of employees	**3 459**	**3 483**	**3 502**	**3 435**

Figure 4.42: Accident and incident report for the last four years

There were 14 staff injured during 2017-18, which is less than 1% of our total staff. This is testament to our successful occupational health and safety initiatives, although we continue to strive to reach zero accidents and incidents.

ORGANISATIONAL MANAGEMENT TOOLS

UPGRADING OF OUR ENTERPRISE RESOURCE PLANNING (ERP) PLATFORM

The multiyear ERP improvement programme addresses the PeopleSoft ERP work backlog that resulted from the PeopleSoft ERP upgrade project in 2016. An ERP working group consisting of Finance, Business Support and Operations and ICT representatives was established to oversee the programme. The working group prioritised projects based on their impact on business.

Prioritised projects were initiated and most were completed. Incomplete projects were rolled over and will be executed with the 2018-19 ERP priority projects. We did not meet our targets for the PeopleSoft ERP improvement programme in 2017-18 because of resource limitations and the loss of staff in key positions through voluntary resignations.

TEAMMATE STABILISATION

The TeamMate R11 upgrade resulted in some errors in the system that had an impact on our operations. Most of the errors related to synchronising audit files, merging replicas and capturing coaching notes. We drew up an action plan to resolve these issues.

The TeamMate stabilisation programme included retraining all our auditors and reconfiguring the TeamMate application to allow data transfer online through the network and the 3G wireless network. We visited audit teams at various auditee sites to monitor the new online model of TeamMate and resolve any challenges. Although this TeamMate model provided productivity and near real-time audit progress monitoring benefits, it resulted in the increased data costs of using the 3G wireless network connections. The ICT team supporting TeamMate also received TeamMate R11 technical training from the supplier to ensure that sufficient technical support is available.

The TeamMate stabilisation programme was completed successfully and we will be monitoring the system's performance going forward.

AUDIT SERVICES MANAGEMENT INFORMATION SYSTEM (ASMIS) UPGRADE

The ASMIS system is still based on old software technology and frameworks and has not been upgraded. The infrastructure supporting ASMIS was partially upgraded. This infrastructure refers to both the physical IT equipment (servers, storage and back-up machines) as well as the software tools (referred to as development frameworks). The upgrade of ASMIS (rewrite using new software framework) was put on hold to focus on stabilising TeamMate. We will consider the future of ASMIS under the TeamMate optimisation programme.

We redeveloped the stakeholder management information system (SMIS) module in ASMIS into a standalone application, using a new software development framework so that it is no longer dependent on the old framework. The new standalone SMIS was then migrated to the new physical IT equipment (servers, storage and back-up machines).

CONCLUSION ON THE PERFORMANCE OF THE VIABILITY STRATEGIC GOAL

We recorded an impressive set of financial results for the year ended 31 March 2018. We achieved these results by using our resources efficiently, using cost optimisation tactics and strictly managing our working capital.

The emphasis of our people strategy remained the continuous refinement of processes and work methods. Having embedded the people strategy throughout the organisation, we continue to review and enhance it to remain relevant and meet our needs and environmental changes. This helps to empower us to effectively implement our people management responsibilities.

We have implemented most of our ICT-related projects, even though we fell short of our targets. We also implemented some critical PeopleSoft ERP projects and completed our TeamMate stabilisation programme successfully. The SMIS redevelopment was the highlight of our performance year as it proved that ICT and business stakeholders can take on innovation projects and deliver them successfully, with measurable business impact.

KEY CHALLENGES

While positive outcomes were derived from the CTA placement initiative, the overall outcomes of the 2017 SAICA APC exam fell short of the targeted improvement. We did not achieve some of our targets for the PeopleSoft ERP improvement programme due to some internal challenges. The TeamMate stabilisation programme took some resources away from other ICT projects. Our areas of concern included enterprise architecture, business analysis and applications development, IT risk management, information security and project management skills. We will focus on strengthening these areas in the new year.

OUTLOOK

We are proud of the resilience of our business model and the character shown by our teams in challenging times, and remain optimistic about the future. although challenges around budgetary constraints at the auditees will continue to have an impact on our revenue growth going forward. On 29 May 2018, the National Assembly passed the PAA Bill 2018 unopposed. These amendments will enable us to audit smarter and entrench efficiencies that have not been possible before. The amendment to section 23 of the PAA will enable us to access the National Revenue Fund directly to recover audit fees owed by the 1% debtors and financially distressed auditees. This will reduce our liquidity risk. Our focus over the medium term will be to deliver on our strategic commitments, which include implementing the status of records review at our auditees, ICT strategy enhancements and our response to the expectation that we take back some of the key SOE audits. The focus areas are imperative for us to realise trading opportunities and enable an efficient operating business environment. These initiatives together with capital projects will be funded through our retained surplus.

We will continue to create platforms that enable us to attract and retain skilled and motivated employees. The focus this year was to review the reward philosophy in its entirety, with the envisaged implementation during the upcoming performance year. We will fast-track the total reward programmes aimed at enhancing cost management, compliance and overall human resource effectiveness. The organisational culture and employee engagement surveys provided an organisational baseline from which we can build for the culture transformation journey that lies ahead. The employee engagement index for 2017-18 is 46% and the culture measure is 477. This is the organisational baseline level of motivation and commitment among our staff.

Addressing the challenges identified through the culture and employee engagement surveys will guide our future work to create an environment conducive to our staff performing at their full potential.We will focus on developing the new transformational ICT strategy that will inform the appropriate ICT operating model and organisational structure. Attracting the right calibre of talent to fill the vacancies remains a top priority. We will focus on the outstanding 2017-18 projects, and continue with our drive to develop, enhance and integrate our IT applications and technology. We will also commence with the integration of our organisational data.

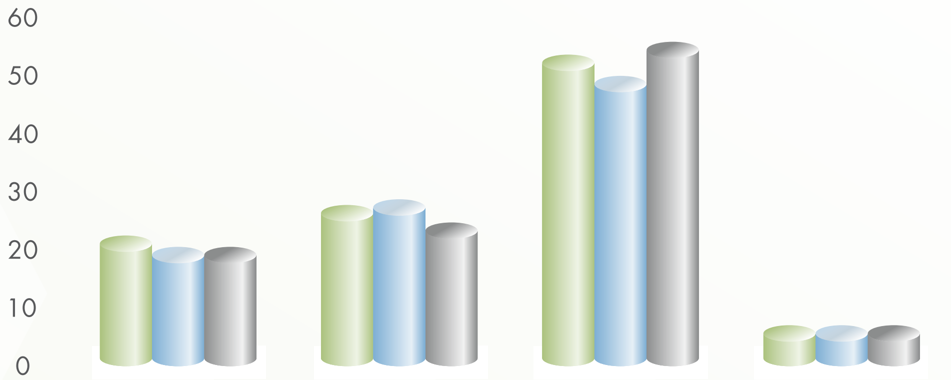
STRATEGIC GOAL 4

VISION AND VALUES DRIVEN

Our transformation journey

Our transformation journey began in 2006 motivated by a strong aspiration to grow the number of black chartered accountants in the profession and to respond to the socio-economic challenges that were facing our country. While our core transformation objective remains the transformation of the profession, over the years our strategy has expanded and evolved to position us as a driver of making a difference to the lives of citizens. We embed the principles of diversity and inclusivity in our recruitment processes, skills development, procurement practices and the communities that we support through our socio-economic development initiatives. We use the B-BBEE process to drive the transformation agenda and are guided by the B-BBEE codes of good practice. While we acknowledge that we have not fully reached all our goals, we are proud of what we have achieved in our transformation journey so far. We aim to maintain a level 2 B-BBEE contributor status over the medium term.

2017-18 B-BBEE SCORECARD PERFORMANCE



	MC	SD	ESD	SED
target	20	25	50	5
2016-17	17,48	25,91	46,68	5
2017-18	18,04	22,41	52,08	5

Figure 4.43: B-BBEE scorecard performance

We are delighted to report that we retained our level 2 B-BBEE contributor status for the past four years, based on the rating against the generic codes of good practice. We have made great strides in driving behaviour that supports the transformation objectives of the county by ensuring that all our policies that were reviewed in 2017-18, and had an impact on implementing B-BBEE, were enhanced with the transformation principles. The support and buy-in to the transformation agenda by our staff has greatly improved, evidenced by the improvement in the business units' B-BBEE scorecard performance.

BUSINESS UNIT B-BBEE LEVEL

Year	Over achieved Level 1 (100%)	Achieved Level 2 (95% - 99,99%)	Partially achieved Level 3 (90% - 94,99%)	Not achieved Level 4 (75%- 89,99%)
2017-18	6 BUs	16 BUs	7 BUs	2 BUs
2016-17	0 BUs	18 BUs	4 BUs	9 BUs
2015-16	0 BUs	10 BUs	13 BUs	8 BUs

Figure 4.44: Business unit B-BBEE scores

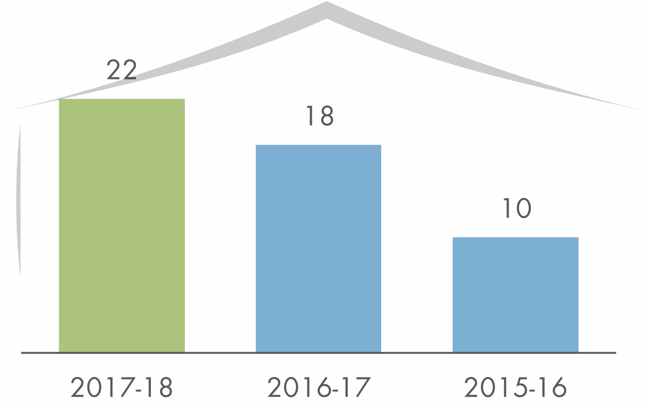


Figure 4.45: Number of business units with level 1 and 2 scores over three years

SCORECARD ELEMENTS

We achieved full points on enterprise and supplier development, and socio-economic development. However, we did not attain full points in skills development and management control.

MANAGEMENT CONTROL

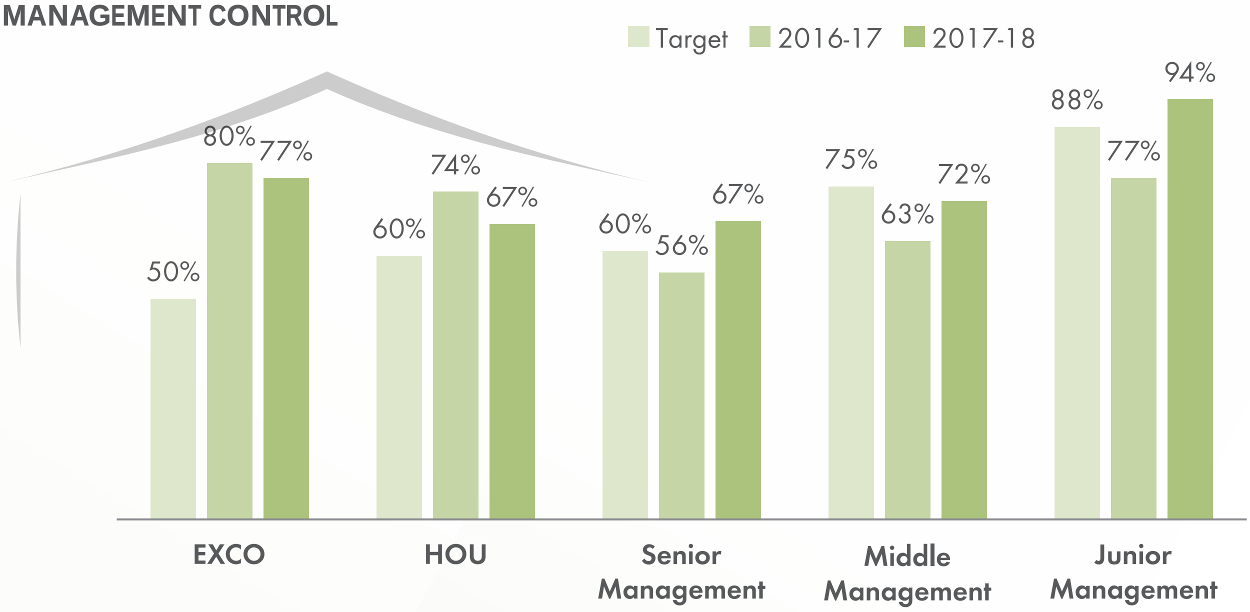


Figure 4.46: Management control comparison

The success of our enterprise and supplier development programme, which is aimed at strengthening the economic and operational capacity of 51% black-owned and 30% black women-owned small and medium-sized businesses, is a major contributor to achieving full points in this element. We intensified our focus on the plight of small, medium and designated suppliers that have been previously disadvantaged, such as the businesses owned by persons with disabilities, youth, women, rural and peri-urban enterprises. We opened opportunities through our tender processes and daily preferential procurement processes.

Our socio-economic development initiatives continue to be the flagship in enhancing both the value chain of the chartered accountancy profession and the promotion of the economic viability of our communities. We have made good progress in achieving B-BBEE level 2 contributor status; however, management control and skills development remain areas for improvement.

We continue to drive equity: of our 3 459 employees, 88,58% are black people with females representing 54,73%. Our greatest achievement resides at an EXCO level where 80% of members are black and 50% are black women.

We also achieved success at the next executive level (heads of units), and at senior and junior management levels. Middle management remains an area for improvement, which we manage through medium to long-term talent management strategies.

We have significantly improved our appointment of black persons living with disabilities, with our score increasing from 0,52% last year (2016-17) to 0,90% against a 2% target for black persons living with disabilities.

We were nominated as one of the finalists for the Disability Award by the South African Board for People Practice (SABPP). Our nomination was due to our progress and successes achieved in our initiatives for recruiting and developing persons with disabilities.

SKILLS DEVELOPMENT

We have made a significant contribution to alleviating the skills shortage facing the chartered accountancy profession and reviewed our trainee auditor scheme strategy to increase the number of trainees with the CTA qualification.

Our transformation goal in skills development is not only to grow the number of black professionals in the auditing profession. In 2018, 59% of our recruited trainee auditors were CTA-qualified. This is the largest percentage of CTA trainees recruited in any single reporting period, and was part of a deliberate effort to recruit 250 CTAs by 2019.

Over the past three years, 3 849 graduates have benefitted from our trainee scheme and 405 learners benefitted from our tertiary bursaries at recognised universities.

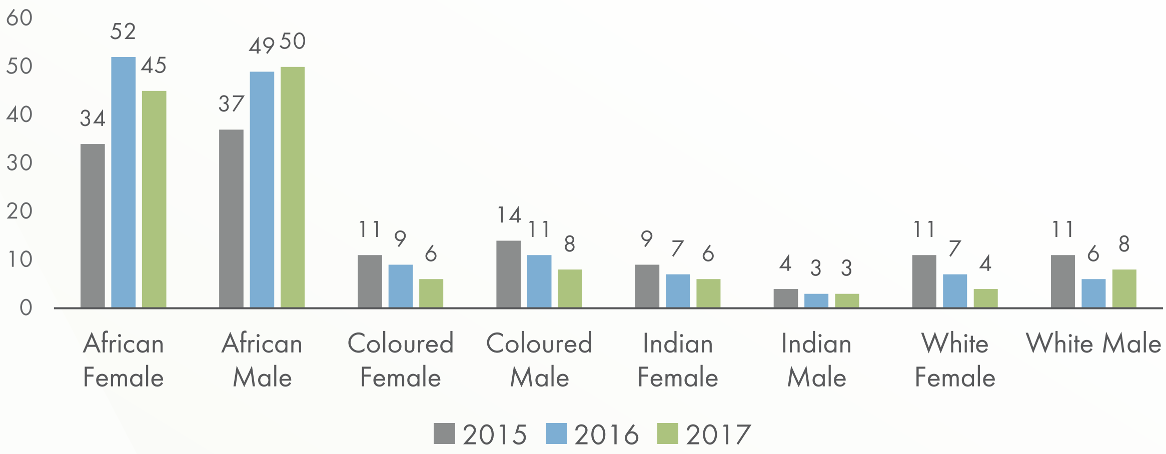
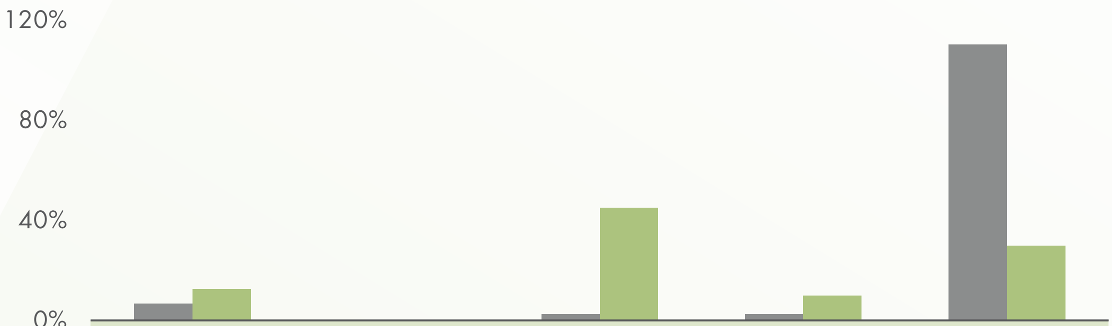


Figure 4.47: Bursary allocations per demographic and gender

BREAKDOWN OF THE SKILLS DEVELOPMENT PERFORMANCE AGAINST TARGETS



	Skills development expenditure for black employees on leviable amount	Skills development expenditure for black employees with disabilities	Number of black people participating in leanerships and internships	Number of black unemployed people participating in leanerships and internships	Bonus points: Number of black people absorbed
Target %	6%	0,30%	2,50%	2,50%	100%
Actual %	12,21%	0,00%	40,85%	9,14%	28%

Figure 4.48: Skills development elements

On the target of 6% of the leviable amount for skills development expenditure on black people, the organisation achieved a high score of 12,21%. We are also pleased to announce that 28% of our trainees from our learnership programme have been absorbed internally.

ENTERPRISE AND SUPPLIER DEVELOPMENT

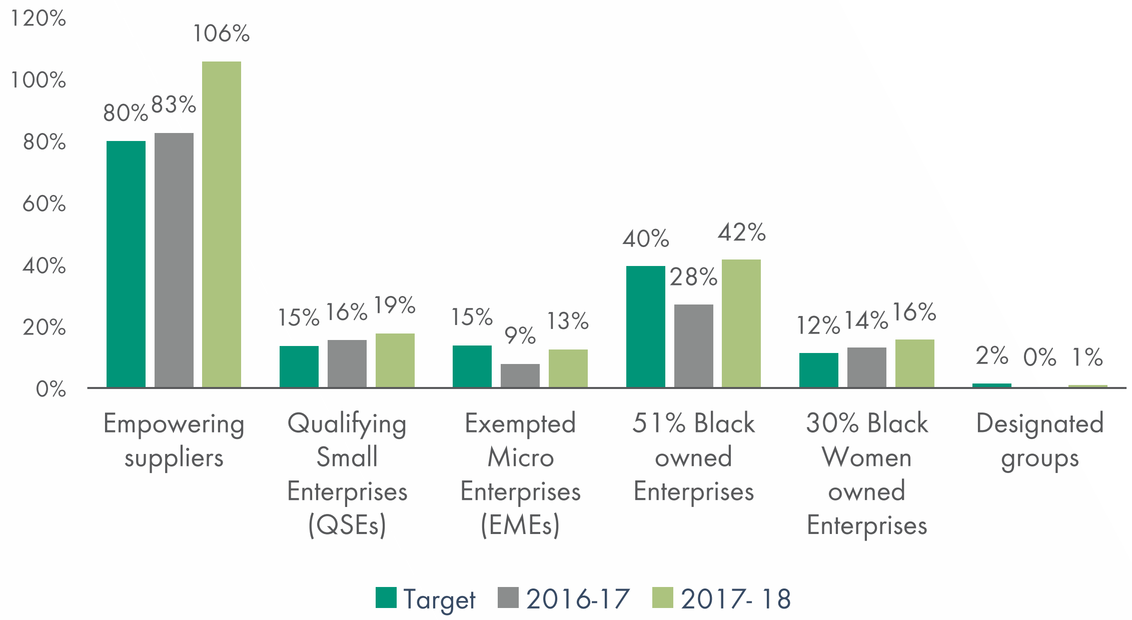


Figure 4.49: Preferential procurement comparison

One of our business imperatives is to strengthen the financial and operational capacity of small and medium black and black women-owned businesses. We used our policies and tender processes to support these small businesses and ensured that we pay small suppliers within 15 days. The year-end results showed that all business units made a deliberate effort to support small black-owned businesses. This is mostly because leadership strengthened their oversight and the transformation champions supported all business units.

Through our enterprise and supplier development programme, we graduated 11 of 14 beneficiaries from enterprise development to supplier development and created 131 jobs. Four of our supplier development firms opened new branches in Mpumalanga, Gauteng, Northern Cape and North West, while several of our supplier development firms relocated to bigger premises due to their growth.

One of our supplier development beneficiaries gained recognition as a successful small business at the opening of the Limpopo legislature.

Our audit business units adopted our enterprise and supplier development beneficiaries and have continued to give them unwavering support in all aspects of the audit.

Our interaction with SAICA led to four firms within the programme obtaining SAICA accreditation. This enables them to be included on our audit work supplier database. These interactions also allowed us to share our transformation vision, which helped to identify the needs of these firms.

To further grow the enterprise and supplier development firms through the programme, we will:

- Upskill directors through exposure to pre-issuance reviews, leadership and other technical skills that will enhance their businesses acumen and continuing professional development
- Continue with the SAICA partnership to ensure enterprise and supplier development firms remain compliant and maintain their accreditation
- Test the programme's application in an ISA environment.

FEEDBACK FROM OUR ENTERPRISE AND SUPPLIER DEVELOPMENT BENEFICIARIES

The programme has clearly demonstrated the value we add to transforming the profession. The following are testimonies from our beneficiaries: (Note: the selection and the editing of citations will be finalised at the time of the printing)

When we joined the programme, we had no hope of growth and had attempted every possible growth strategy without evident success. The financial support has helped us improve our infrastructure and internal processes, which in turn has boosted our confidence and there was a direct impact on the overall clientele growth. We are now more hopeful of the future than ever and actively claim the market share without physical boundaries. **– Andisa CA in the Western Cape**

The AGSA enterprise and supplier development programme has greatly assisted our firm in this trying economic climate. In addition to grant funding to assist in the implementation of an electronic platform for the assessment of trainee accountants on the SAICA training programme, the programme has also contributed funding to our IT infrastructure for server upgrades, which has improved internal efficiencies. However, the most significant contribution was enabling the firm to participate in the AGSA's contract work allocation, which has enabled us to employee a few additional resources, and exposed our trainee accountants to much-needed experience in the government space. **– Shabir Goga in KwaZulu-Natal**

The enterprise and supplier development StrAP division has played a significant role in the growth of SHUMBA INC, who owes its existence to the enterprise and supplier development department. SHUMBA INC expresses its infinite gratitude to this great initiative which the AGSA has embarked on, as it has impacted on the profession with a big bang. It has uplifted the disadvantaged black small audit firms to be able to provide for the much-needed SAICA training programme, thereby advancing empowerment and transformation in the audit profession. Our company has grown from five employees to 25 staff members within a year. It's amazing indeed, job well done AGSA. **– Shumba Inc. in Limpopo**

Being part of the enterprise and supplier development programme has allowed our firm to grow from strength to strength, and the AGSA has consistently held our hand during this journey. The ESD programme also offers opportunities for beneficiary firms to engage directly with SAICA to discuss challenges experienced in the administration of training contracts. One of our directors currently sits on the SAICA contract work forum as result of being a member firm of the enterprise and supplier development programme. Maine shall remain eternally indebted to the AGSA. **– Maine Management and Chartered Accountant Inc. in the Free State & North West**

Through the continued support of the AGSA we have managed to obtain and keep our SAICA accreditation and the enterprise and supplier development programme has ensured that we are an up-to-standard training office, assisting us with getting furniture for our office, laptops for our trainees and the LTS system among others. The AGSA contracts in our trainees, ensuring that they are never idle at the office. **– Sondlo in Gauteng (Mrs Monalisa Nkonki)**

Allocation of contract audit work (CWC)

Firm B-BBEE level	Number of firms	Allocations (R)	%	Actual paid (R)	%
Level 1	45	261 781 533	47	277 020 491	48
Level 2	15	130 579 222	24	125 143 559	22
Level 3	9	15 650 298	3	15 642 945	3
Level 4	20	114 543 430	21	109 500 614	19
Level 5	1	13 117 813	2	10 428 630	2
Level 6	1	1 736 517	0	1 825 010	0
Level 7	2	5 940 058	1	6 257 178	1
Level 8	9	9 178 764	2	28 859 216	5
Total	**102**	**552 527 635**	**100**	**574 677 642**	**100**

Figure 4.50: Contract work expenditure per B-BBEE level for 2017-18

Firm size	Number of firms	Allocations	%	Actual paid	%
Generic (large, i.e. turnover above R50 million)	6	222 552 894	40	189 065 444	33
Qualifying small enterprise (medium, i.e. turnover above R10 million but less than R50 million)	17	221 022 756	40	246 615 260	43
Exempt micro enterprises (small, i.e. maximum turnover of R10 million)	79	108 951 985	20	138 996 939	24
Total	**102**	**552 527 635**	**100**	**574 677 642**	**100**

Figure 4.51: Contract work expenditure per firm size for 2017-18

OUR OVERALL EXPENDITURE ON 51% BLACK-OWNED FIRMS (INCLUDING RECOGNITION LEVEL) WAS 44%

	Firm size	Number of firms	Amount paid (R)	%
Less than 51% black-owned	Qualifying small enterprise	9	46 091 990	8
	Exempt micro enterprises	49	84 874 134	15
	Generic – large	6	189 065 444	33
Black-owned firms	Qualifying small enterprise – medium	14	200 523 270	35
	Exempt micro enterprises – small	24	54 122 805	9
	Generic – large	0	0	0
All suppliers	**All sizes**	**102**	**574 677 642**	**100**

Figure 4.52: Expenditure on 51% black-owned firms as a proportion of all firms for 2017-18

OUR EXPENDITURE ON 30% BLACK WOMEN-OWNED FIRMS (INCLUDING RECOGNITION LEVEL) WAS 19%

	Firm size	Number of firms	Amount paid (R)	%
30% Black women-owned firms	Qualifying small enterprise – medium	13	64 365 658	11
	Exempt micro enterprises - small	6	44 506 815	8
	Generic – large	0	0	0

Figure 4.53: Expenditure on 30% black women-owned firms for 2017-18

Analysis	2016-17*	2017-18*	2018-19**
Contract work baseline – enterprise and supplier development	3 347 434	17 763 315	23 736 197
Contract work Consolidated baseline	498 147 576	456 242 161	447 783 922
Percentage allocation to enterprise and supplier development firm – baseline	1%	4%	5%

Figure 4.54: Contract work allocations to enterprise and supplier development firms for 2017-18

*Actual allocations as at 31 March 2018 (17-18) includes ad hoc allocations
**Baseline allocation for the period 1 April 2018 to 31 March 2019 (2018-19) excludes ad hoc allocations

AUDITING PFMA SCHEDULE 2 ENTITIES

We contributed to transforming the profession by overseeing the appointment of auditors for entities where we opt not to conduct the audit, specifically at the major SOEs. Of these entities, 40% are audited by black-owned firms.

No.	Entity name	2017-18		2016-17	
		Auditor name	B-BBEE level	Auditor name	B-BBEE level
1	Independent Development Trust	AGSA	N/A	AGSA	N/A
2	Airports Company of South Africa Ltd	AGSA	N/A	AGSA	N/A
3	South African Post Office Ltd	AGSA	N/A	AGSA	N/A
4	Land and Agricultural Development Bank of South Africa	AGSA	N/A	AGSA	N/A
5	Armaments Corporation of South Africa	AGSA	N/A	AGSA	N/A
6	South African Broadcasting Corporation Ltd	AGSA	N/A	AGSA	N/A
7	CEF (Pty) Ltd	AGSA	N/A	AGSA	N/A
8	South African Nuclear Energy Corporation Ltd	AGSA	N/A	AGSA	N/A
9	South African Express (Pty) Ltd	AGSA	N/A	AGSA	N/A
10	South African Forest Company Ltd	AGSA	N/A	AGSA	N/A
11	South African Airways Ltd	AGSA	N/A	AGSA	N/A
12	*Telkom			EY Inc.	2
13	** Trans-Caledon Tunnel Authority	AGSA	N/A	EY Inc.	2
14	Industrial Development Corporation of South Africa Ltd	SizweNtsaluba-Gobodo	2	KPMG and SizweNtsaluba-Gobodo	4 & 2
15	***Denel	Nkonki Inc. (AGSA)	1	SizweNtsaluba-Gobodo	2
16	Transnet Ltd	SizweNtsaluba-Gobodo	2	SizweNtsaluba-Gobodo	2
17	Eskom	SizweNtsaluba-Gobodo,	2	SizweNtsaluba-Gobodo, Ngubane Inc. JV and PSTM	2 & 1
18	Alexkor Limited	SizweNtsaluba-Gobodo	2	Nexia SAB&T	2
19	Broadband Infraco Ltd	SizweNtsaluba-Gobodo	2	Nexia SAB&T	2
20	***Development Bank of Southern Africa	Nkonki Inc. (AGSA)	1	Nkonki Inc.	1
21	Air Traffic and Navigation Service Company	Rakoma	1	Rakoma	1

* Telkom is no longer considered a section 4(3) based on the legal opinion.
** We will take the Trans-Caledon Tunnel Authority audit back in 2018-19.
*** The Denel & DBSA audits previously audited by Nkonki have been taken back by the AGSA for the 2017-18 cycle. These audits will remain within the AGSA portfolio of audits going forward.

Figure 4.55: Schedule 2 entity audits

SOCIO-ECONOMIC DEVELOPMENT

In keeping with our socio-economic development strategy of investing in our communities, initiatives were divided into three objectives, i.e. the adopted schools programme, Mandela Day and supporting historically disadvantaged universities.

The organisation budgeted R800 000 for these initiatives and the money was used fully.

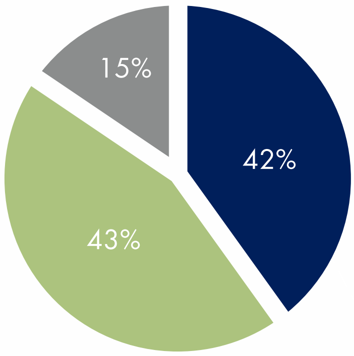


Figure 4.56: Socio-economic development initiatives

ADOPTED SCHOOLS INITIATIVE

This initiative is aimed at increasing the number of black CAs in the country. We adopted 16 schools across the nine provinces including rural, special needs and semi-urban schools. The schools were part of a three-year partnership with all our audit business units. The initiative was implemented successfully with R300 770 spent by business units in line with the needs of their adopted schools, focusing on:

- Encouraging learners to follow the accountancy profession
- Assisting learners to apply at the correct universities (in line with their performance and the universities' admission point system)
- Ensuring that learners write the National Benchmark Test for admission to universities
- Assisting learners to apply for the AGSA bursary

The Auditor-General and Deputy Auditor-General led by example and adopted Filadelfia Secondary School, a special needs school that accommodates physically disabled, partially sighted and hard of hearing learners.

MANDELA DAY INITIATIVE

This initiative is aimed at alleviating poverty within disadvantaged communities. We allocated R340 000 to this initiative (R10 000 per business unit), of which R318 262 was spent by business units.

We also donated R61 000 (R39 230 + R21 737) to the Thandulwazi Science, English and Maths academy. This organisation was chosen because of their strategic focus on improving the quality of Mathematics, English and Science subjects among black learners in disadvantaged communities.

The Mandela Day initiative was successful as many non-governmental organisations benefitted from our donations, for example:

- Tumelo home for the disabled – in addition to the R10 000 allocated to each business unit, the Communication business unit collected an additional R11 450 that was used toward a vegetable garden and carpet installation. This allowed the home to continue to develop their learning centre. The donation will help the home's financial sustainability as they will produce vegetables to feed their residents and to sell to the community. Residents will also use the development centre to produce items that will be sold to nearby communities.
- Maserole Secondary School - The Limpopo business unit supplied the school with stationery and sanitary pads for girl learners.
- Wheatlands community care for the aged – the Strategic Audit Projects business unit made the home conducive for the elderly by:
  - paving steps to ensure that the home is wheelchair friendly
  - inserting rails in bathrooms
  - placing nets around the vegetable garden to secure crops.

HISTORICALLY DISADVANTAGED UNIVERSITIES INITIATIVE

This initiative aims to uplift the chartered accountancy profession at historically disadvantaged universities. We allocated and used R120 000 to support accounting students that belong to the ABASA and AWCA student chapters at historically disadvantaged universities. The initiative was successfully implemented and the sponsorship assisted students with their induction and mentorship programmes.

Performance measure	Target 2017-18	
External audit opinion on the AGSA	Clean audit	Unmodified — ACHIEVED

Figure 4.57: Vision & values driven objective 2: Demonstrate clean administration

OVERVIEW OF THE MANAGEMENT OF RISK

MANAGEMENT OF RISKS

Risk management framework → Risk appetite framework & statement → Compliance management → Combined assurance model → Control adequacy and effectiveness → Internal controls monitoring

Monitoring & reporting

- Risk management reports (primarily highlighting activities we undertake to give effect to the risk management framework, such as risks assessment and the progress on implementing mitigations)
- Findings tracking reports (demonstrates our responsiveness to the findings reported by the assurance providers, i.e. how long it takes to address a reported risk exposure)
- Combined assurance reports (demonstrates the efficient use of resources in providing assurance on organisational risks and provides assurance to the audit committee that all key risk areas are adequately managed)
- Compliance management reports (highlights how we manage compliance risks and the degree of remaining exposure that requires attention)
- Risk appetite reports (provides information on our performance at the defined risk appetite levels. Where a breach is observed, it highlights actions to remedy the breach)
- Internal control reports (indicates feedback on the self-assessments by business units to the pre-defined focus areas – used as a management tool)

CONTINUOUSLY REVIEW PROCESSES AND TOOLS

Risk management processes continue to evolve with the aim of incorporating best practice and demonstrating integration with other activities targeted at managing organisational risks. By understanding our risk profiles, the risk management process enables us to seize and use new opportunities successfully. To this end, we advanced the organisation's philosophy toward risk management by improving:

- The risk management framework
- The strategic risk profile
- The risk appetite statement
- The combined assurance matrix

Primarily, these documents outline our philosophy toward managing risks.

THE RISK MANAGEMENT FRAMEWORK

Key among the amendments of the risk management framework was the demonstration of how the different risk management activities fit together to manage organisational risks. This approach highlights the interconnectedness of the different activities and their related value and impact. Furthermore, a risk acceptance process has been added to the framework, enabling risk owners to evaluate the appropriateness of accepting some level of risk exposure at an operational level. However, the accepted risk will be periodically evaluated and must be approved as appropriate, depending on the risk rating assigned.

RISK APPETITE STATEMENT

True to our ability to continuously improve processes and responsiveness, the risk appetite statement was revised. Fundamental changes included reassigning roles and responsibilities for certain key risk performance indicators to Exco subcommittees and aligning risk appetite measures to the strategic risk profile.

COMBINED ASSURANCE MATRIX

Over the year, we observed a visible improvement in coordinated monitoring and reporting on the risks by the different assurance providers. This demonstrates the true impact of combined assurance, with specific reference to the first and second line of defence as outlined in our combined assurance model. As a result, we also revised the combined assurance matrix to give these two lines of defence increased responsibility for providing assurance on more of the risks identified on the matrix. This will strengthen our proactive management and enhance our oversight of risk exposures.

At a broader level, we apply combined assurance to monitor the performance of controls identified or implemented to mitigate risks. In 2017-18, at least 50 risks across the risk landscape were mapped on the combined assurance matrix. Assurance on the performance of the controls related to these risks was provided by the different assurance providers.

As can be expected and in line with the adopted combined assurance model, the third layer of defence (made up of external and internal auditors; as well as other external assurance providers) provided the highest level of assurance on about 80% of the risks. Assurance on the other 20% was received from both the first and second layers of defence. In 2018-19, we expect to receive more assurance from the latter two layers – we believe that this will enable efficiencies in providing assurance to the audit committee and strengthen management's ownership of the control environment. In the end, we are confident that we received adequate assurance on the identified and mapped risks.

THE STRATEGIC RISK PROFILE

The strategic risks identified for 2017-18 will be retained into 2018-19. These risks are aligned to our strategic direction and have been evaluated as significantly relevant – for example, we need to remain vigilant about the risks of 'audit process failure' and 'inability to protect organisational resources'.

The state of our internal control environment remains adequate. Management periodically assesses its effectiveness and shows an ongoing commitment to addressing control weaknesses as they are identified. In the last quarter, the security of the information technology environment was assessed to be partially adequate and ineffective, resulting in a substantial number of findings. This had an impact on the rate of closure of audit findings. At the end of March 2018, the rate of closure was calculated at 71% (24% short of our target of 95%). However, history shows that the closure rate generally improves by the year-end reporting period (i.e. July of each year). We therefore expect a significantly improved closure rate by then.

PERIODICALLY MONITOR CONTROL PERFORMANCE

Internal controls monitoring is one of the cornerstones of the risk management process and a test of whether defined controls are working as intended. By monitoring, we are afforded an opportunity to correct control deficiencies as they are identified. Therefore, we cannot tolerate business units not reporting control exceptions identified within their areas. We must adhere to defined internal controls; this is an essential demonstration of what it means to lead by example in clean administration.

We have performed several assessments to appraise business units' performance in our objective of clean administration. Similar to last year, the organisation consistently performed in line with expectations by conforming to the rules and regulations that we use in assessing others' compliance.

We evaluated business units on their compliance to key internal controls and whether they reported internal control exceptions for resolution. Symmetrically, performance outcomes achieved by business units are translated to individual performance scores to drive ownership and personal accountability for internal controls performance at micro-level.

To ensure that organisational controls evolve with changing business dynamics and respond to emerging risks, a variety of business and project risk assessments were performed throughout the performance period. The outcomes empowered different process owners with information and activities aimed at improving organisational business processes.

ETHICS AND INTEGRITY

There has been growing recognition of the role that the AGSA plays in ensuring oversight, accountability and good governance in the public sector. As such, we are held to high expectations and it is important that we maintain the trust of our stakeholders. It is therefore important that we act as a model organisation that inspires confidence, credibility and integrity. A key component in obtaining this lies within our ethics policy. We have adopted the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ® (IESBA code) of the International Federation of Accountants (IFAC) in its entirety. We have further adopted the International Standard of Supreme Audit Institutions (ISSAI) 30, Code of Ethics to guide ethical behaviour in the organisation.

In demonstrating its commitment to instilling ethical values and integrity, the organisation has an ethics policy supported by a procedure to provide guidance to employees on behavioural expectations and ethical conduct. In the reporting year, the ethics policy underwent vigorous review through consultations in the spirit of being responsive to environmental changes and in pursuit of process improvement. Some of the most significant changes implemented were:

- An additional safeguard known as a cooling-off period to manage threats to independence that are created when a key member of our audit team joins their auditee.
- Firmer and clearer pronouncement on prohibited and permitted activities to maintain political neutrality when conducting professional duties at the AGSA.

We remain responsive to the changing environment and review our policies to ensure that we are not only aligned to best practice and the strategic direction of the organisation, but also that a harmonious ethical environment is sustained for and by employees.

In upholding the mandate of the organisation, it is essential that leadership and employees alike adopt the principles contained in these codes. Consequently, employees are expected to display a high level of moral consciousness and behaviour that can always be considered exemplary. We pride ourselves on recruiting and retaining individuals who strengthen the character and credibility of the organisation.

ETHICAL AND INDEPENDENCE REQUIREMENTS

AGSA employees have a responsibility to perform their work efficiently, effectively and fairly. Their personal situations, preferences or affiliations with family, friends and associates should not improperly influence them when performing their official duties and responsibilities. Our conflict of interest system is called the ethics register and provides a proactive mechanism and platform for employees to declare not only their interests, but also an annual declaration to confirm their individual compliance with the ethical and fundamental principles of the organisation.

The annual declaration cycle commenced on 3 July and concluded on 24 August 2017. The 2017-18 annual declaration cycle saw enhancements to the ethics register; amended declaration forms; the approval of private remunerative work by the Deputy Auditor-General, and a platform that allows employees to declare ethical threats during an audit and in other areas of their respective functions. The compliance figures based on the staff complement at the closure of the cycle are detailed in Figure 4.55.

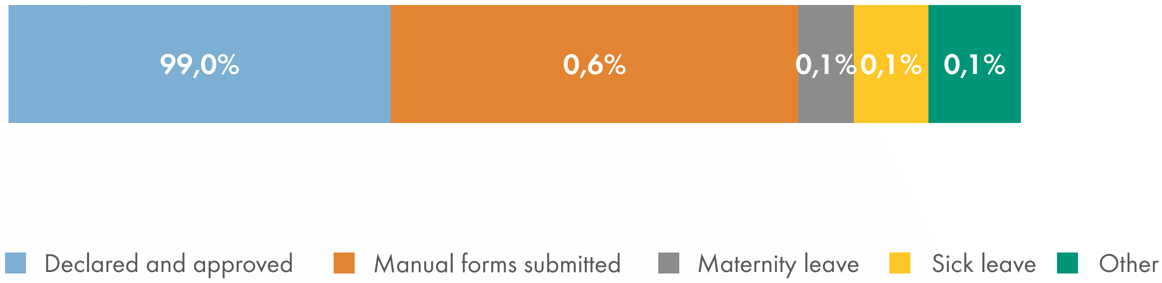


Figure 4.58: Annual declaration cycle statistics

Another essential component of managing the ethical risk exposure of the organisation is the establishment and maintenance of an ethical culture, which is significantly driven by the tone and conduct of our leaders. We have made significant strides in continuing to enhance the desired culture, especially with capacitating leadership in setting the tone:

- We introduced the Leadership Lens initiative as a platform for corporate executives to pledge their commitment to promote high levels of integrity within their portfolios and in the organisation. This helps to stimulate a sense of trustworthiness and encourage employees to accept and follow their ethics vision.
- We continued with the leadership dialogue under the banner AGSA Conversations by hosting the Ethics Coffee Sessions aimed at all members of the leadership. By the end of the financial year, of the 275 employees at senior management level, 196 of them including the Deputy Auditor-General, the Audit National Leader, Corporate and Business executives, and Senior Managers attended the coffee sessions. These sessions helped to create an intellectual and emotional dialogue, resulting in commitment among our leaders to influence change in their respective business units.
- We continued with training and awareness on ethics matters and customised training initiatives as required.

The foundation for sustaining a good ethical culture is an environment of trust and transparency that is sustained by ethical leadership and direction. We will continue to strive to maintain and grow this culture in the organisation.

ADDRESSING CONCERNS ABOUT UNETHICAL CONDUCT AND INTEGRITY MATTERS

In terms of section 13(1)(c) of the PAA, the organisation is required to have a complaints management mechanism in place. Complaints may be lodged by internal or external persons or institutions; and are dealt with in terms of the policy and procedure on complaints against the AGSA. Ethics complaints may be anonymous, and reported on ethics@agsa.co.za. The Risk and Ethics business unit independently investigates and resolves the matters reported.

We have received 25 complaints as at 31 March 2018; 18 complaints on various categories were closed and 7 are pending, in various stages of the investigation process.

Category	Description	2015-16 Lodged	2015-16 In progress	2016-17 Lodged	2016-17 In progress	2017-18 Lodged	2017-18 In progress
1	Complaints not in the policy	3	3	0	0	5	0
2	Operational complaints	5	5	6	5	6	4
2 + 3	Operational and misconduct complaints	3	3	3	2	5	0
3	Misconduct and criminal complaints	4	4	8	5	9	3
4	Complaints about the Auditor-General, not the institution	0	0	0	0	0	0
5	Complaints related to the Protected Disclosures Act	0	0	0	0	0	0
	Total	**15**	**15**	**17**	**12**	**25**	**7**

Figure 4.59: Complaints

In this reporting year, we have noted a significant increase in category 3 complaints (those pertaining to behaviour and administration of the organisation), similar to the previous year. This can be attributed to greater awareness, not only about ethics but also about the complaints resolution avenues. It is also a demonstration of the growing confidence and trust employees have in how the complaints process is handled.

We have experienced push backs from our auditees about our audit outcomes, some of which have resulted in category 2 complaints. The outcomes of these complaints, supported by independent quality control reviews, have confirmed that while our audit outcomes are correct and adequately supported, there are weaknesses that can be strengthened by the audit teams. Example of these weaknesses are: completeness of working papers; lack of documentation particularly at meetings; lack of timely communication; and acceptance of additional documentation late in the audit process. These issues form the basis of complaints from auditees. These deficiencies are shared and discussed in awareness sessions with the audit teams.

KPMG AND NKONKI CONTRACT TERMINATION

Risk management and professional competence are key fundamental principles of auditing; their lack depletes the trust in and the integrity of the profession. In the matter of KPMG, certain allegations that questioned the integrity of the firm surfaced during the year. We engaged the firm to ascertain whether these allegations were fundamental to risk management and professional competence; we had been waiting for a response to this matter when another matter implicating KPMG arose.

About two years ago we requested Nkonki Inc. to disclose its new stakeholders as having a new majority shareholder as a registered auditor was fundamental to the relationship. The leadership of the firm failed to do so. A decision was therefore taken to withdraw the work allocated to these two firms.

Since the decision to terminate was taken, the AGSA has worked hard with both firms to ensure that the audit process already underway was carried out until sign off. According to ISQC1, so as not to compromise the audit quality of the work, it is preferred that the person who commences an audit should ideally be predominantly the same person presiding over the audit evidence right up to the audit outcome.

Our cooperation with the affected firms was premised on our fundamental belief that the termination of these contracts was not a judgement on the capabilities or integrity of the professionals that work in these firms, but rather relates to recognition of the significant reputational risks associated with matters that affect their firms.

We have also decided to continue contracting in the professionals from both firms with the understanding that these resources will work within our existing audit teams.

DEMONSTRATE QUALITY AND TRANSPARENCY OF REPORTING IN OUR ACCOUNTABILITY PUBLICATIONS (THE INTEGRATED ANNUAL REPORT AND THE STRATEGIC PLAN AND BUDGET)

We continue to review and refine the model to include all sustainability elements that are relevant to the survival of the organisation. Such considerations require our leadership and all our staff to think in an integrated way. The practice of integrated thinking is steadily being institutionalised and has allowed us to be more effective in managing most of our capitals.

The 2016-17 integrated annual report was the first AGSA integrated annual report to include a full section explaining how the organisation adds value to its stakeholders, our value creation process and how we transform our inputs (capitals) to outputs and outcomes in our business model. The organisational business processes were highlighted together with how the 4V strategy affects our capitals.

This was aimed at informing our stakeholders about our mandate and the way we deliver value to society. As our understanding of our sustainability grows, the interrelatedness and trade-offs of our capitals and the impact of the external environments on them become more noticeable. We will therefore continue our sustainability journey and strive to quantify the elements of our model so that we can measure and track their improvements or depletion over time.

The 2016-17 Integrated Annual Report was awarded first prize in the Integrated Reporting awards (Public sector category) hosted by Chartered Secretaries South Africa and the Johannesburg Stock Exchange. This illustrates the successful journey in integrated reporting that we have undertaken as an organisation. We are proud to be leading the way in integrated reporting and are hopeful that other organisations in the public sector are inspired to embrace more transparent and responsible reporting.

Integrated reporting has provided a platform through which we can communicate with all our stakeholders in a simple manner, and specifically to interact with our non-constitutional stakeholders. It gives greater context to how our environment influences our strategic choices, and how our decision-making processes (governance) allows

the organisation to maintain an unblemished record of good internal controls and ethics. Most importantly, our integrated annual report describes the way we add value to our various stakeholders.

CONCLUSION ON THE PERFORMANCE OF THE VISION AND VALUES DRIVEN STRATEGIC GOAL

Our risk management processes are evolving by incorporating best practice and demonstrating integration with other activities targeted at managing organisational risks. Our internal control environment remains strong, with management periodically assessing its effectiveness and showing an ongoing commitment to addressing control gaps as they arise.

There has been growing recognition of the role that the AGSA plays in ensuring oversight, accountability and good governance in the public sector. As such, we are held to high expectations and it is important that we maintain the trust of our stakeholders. We therefore need to act as a model organisation that inspires confidence, credibility and integrity. A key component of this is within our ethics policy. We have encouraged robust conversations around individual commitment to ethics and integrity. The 2017-18 year has been challenging for the profession; considering this, the AGSA has been responsive to the environment by ensuring that the evolution of processes, policies and procedures are relevant and implemented across the organisation.

Although we improved the appointment of persons with disabilities and appointments at middle management level, these categories remain short of targets. We will continue to strengthen our partnership with recruitment agencies that deal with persons with disabilities and use natural attrition to reach the desired targets at the middle management level.

While the support of exempt micro enterprises i.e. small business has greatly improved, further efforts are required to strengthen the monitoring and oversight of procurement from exempt micro enterprises that are predominantly level 4 B-BBEE contributors in both the audit and non-audit suppliers. We acknowledge that the support of qualifying small enterprises i.e. medium sized businesses that are 30% black women-owned remains our focus, specifically in the non-audit suppliers.

KEY CHALLENGES

Information and cyber security remains a concern for the organisation; we remain alert to this challenge and we are constantly seeking innovative ways to address it.

OUTLOOK

While our intake in the learnership programme is commendable and our pass rate has improved, it remains an area of focus. We will also focus on continuously improving efficiencies in our supply chain practices and the B-BBEE spend in line with the changes in the legislative environment.

Our intention is to review our enterprise and supplier development strategy and ensure that we strengthen our support to these beneficiaries to include the psychological support that goes beyond their operational and financial needs.

We will ensure that our socio-economic activities remain impactful and assist our communities to be sustainable. We will also continue to create awareness and appreciation of ethical principles by exploiting the most effective platforms to enhance ethical principles.

Audit Committee report 112
Remuneration Committee report 115
Independent limited assurance report on selected key performance indicators 118

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

Deputy Auditor-General’s report 121
Independent auditor’s report 122
Statement of financial position 126
Statement of surplus or deficit and other comprehensive income 127
Statement of changes in equity 128
Statement of cash flows 129
Accounting policies 130
Notes to the financial statements 130

section 5

AUDIT COMMITTEE
REPORT

The Audit Committee (the committee) presents its report for the financial year ended 31 March 2018. The committee, an oversight body established in terms of section 40 of the Public Audit Act 25 of 2004 (PAA), is independent and fulfils its responsibilities as guided by its terms of reference, which have been aligned to leading governance practices.

This report sets out how the committee discharged its responsibilities, thus meeting its legislative and governance duties during the performance period under consideration.

OVERVIEW OF ACTIVITIES

During the performance period, the committee reviewed its governance protocols, including reviewing the independence of its members, and effecting changes in its membership and the chair. Key among the activities overseen by the committee were the appointment and reappointment of the external and internal auditors respectively.

The Deputy Auditor-General and the EXCO are responsible for creating and sustaining systems of adequate and effective internal controls and risk management. Accordingly, during the financial period and in line with their roles and responsibilities, the committee provided the required oversight of the financial and risk management aspects of the organisation. This included receiving, reviewing and advising on matters related to the AGSA's finances, the system of internal control and risk management.

The committee held at least three meetings during the 2017-18 performance period, excluding audit committee workshops and special meetings (details of meeting attendance are set out in the corporate governance section) covering the key topics as follows:

EVALUATION OF THE ANNUAL FINANCIAL STATEMENTS

As noted above, it is the responsibility of executive management to ensure that there are adequate and effective internal controls over financial reporting. These internal controls are designed to provide reasonable assurance on the accuracy and reliability of financial reporting, as well as the preparation of annual financial statements in accordance with the International Financial Reporting Standards (IFRS) and the PAA. The AGSA's internal control systems include established governance structures, approved frameworks, policies and procedures. Consequently, the committee:

- Reviewed the management representation letter relating to the financial statements signed by the Deputy Auditor-General and considered the appropriateness of the accounting policies, whether the annual financial statements fairly present the financial position, the results of operations, changes in equity and cash flows of the organisation in all material respects.
- Reviewed the external auditor's audit report and considered the accounting treatments, significant unusual transactions, the summary of uncorrected misstatements and accounting judgements contained therein.
- Reviewed and considered management's confirmation of going concern for the 2018-19 financial year.
- Met separately with the internal and external auditors without management present at all three Audit Committee meetings, and considered any representations.

The committee is satisfied that the AGSA will maintain its ability to trade as a going concern, for the foreseeable future.

INTERNAL AUDIT

The committee confirmed the reappointment of the incumbent internal auditor for one year, until 31 March 2019. The reappointment followed consultations with relevant stakeholders and the evaluation of the performance and effectiveness of the internal audit function to deliver assurance work. Additionally, the committee:

- Reviewed the purpose and position of the internal audit function; an activity that resulted in amendments to the Internal Audit Charter being effected.
- Evaluated the independence of the internal audit function.
- Reviewed and approved the annual internal audit plan and the audit fee. Consequently, the committee satisfied itself that the internal audit coverage plan adequately addresses key risk areas of the organisation.
- Reviewed internal audit reports and the results of the internal audit reviews to satisfy itself that the approved plan was on track, areas with weaknesses are discussed and appropriate controls implemented to mitigate identified risk exposures. IT controls remain a key focus area and the AGSA has implemented a plan to strengthen resources and improve controls in this respect in response to certain findings reported by the internal auditor.

After having considered the internal auditor's reports on risk management and maintenance of effective systems of internal control, as well as soft controls around ethics management, the committee is satisfied that the reported gaps identified did not pose any significant impact on the internal control environment; thus the system of internal controls is adequate and partially effective.

The committee also focused on addressing recommendations arising from the independent review of the AGSA's Internal Audit Activity (IAA) conducted in 2016-17 by the Institute of Internal Auditors (IIA). Actions to address the findings from the review continue to be tracked and monitored by the audit committee to sustainably improve the "partially conform" rating to a rating of "generally conform" by the end of March 2019.

EXTERNAL AUDIT

In accordance with its terms of reference, the committee has a primary responsibility for evaluating and recommending the appointment, re-appointment and removal of the independent external auditor by the oversight mechanism, in line with Section 39(1) of the PAA. Accordingly, the committee recommended the appointment of Crowe (previously known as Horwath Leveton Boner (a network member of Crowe Horwath International)) as the new independent external auditor of the AGSA.

The committee is satisfied that the external auditor is independent of the AGSA and not conflicted; as required by Section 39(2)(c) of the Public Audit Act no 25 of 2004.

The committee:

- Reviewed and approved the external audit plan, the proposed audit approach, materiality levels, audit risks, the budgeted external audit fee for the reporting period and the terms of engagement of the external auditor, including ensuring that non-audit services would not compromise the independence of the external auditor.
- Reviewed the outcomes of the external audit, the performance of the external auditor and the quality of the external audit process, all of which the committee found to be satisfactory.

RISK MANAGEMENT AND THE EFFECTIVENESS OF INTERNAL CONTROLS

Section 43(2)(b) of the Public Audit Act no 25 of 2004 states that the Deputy Auditor-General is responsible for the development and maintenance of an effective, efficient and transparent system of risk management and internal controls. In addition, the AGSA's adopted risk management framework assigns to the committee the responsibility of overseeing the risk management aspects of the organisation. As a result, during the performance period, the committee reviewed and approved the revised Risk Management Framework; a framework that outlines the organisation's attitude and processes towards the system of risk management, risk appetite setting and maintenance of the system of internal controls.

The principles enshrined in the risk management framework are aimed at ensuring appropriate discipline is exercised across the organisation to achieve objectives.

Further to the above, the committee:

- Reviewed and approved the strategic risk profile, and monitored the organisation's performance in relation to the assessed strategic risks. The committee deliberated on the inherent risks, mitigations put in place and actions undertaken by management to manage the risks to a level where the residual risks are considered acceptable.
- Reviewed and approved the risk appetite statement and monitored the organisation's performance in relation to the defined risk appetite statement. The risk appetite statement outlines the nature and extent of risk the organisation is willing to accept in relation to the pursuit of objectives.
- Reviewed and approved the combined assurance report and matrix developed to ensure that there is a coordinated approach to all assurance activities within the organisation.
- Considered the internal auditor's written assessment on the adequacy and effectiveness of the organisation's system of internal controls and risk management.

The committee appraised the work being performed on the management of organisational risks and the system of internal controls, and the progress made on commitments by management. It is satisfied that the system of internal controls employed within the organisation can be relied on for the integrity and reliability of the annual financial statements; the safeguarding, verification and maintenance of the organisation's assets; and the detection of fraud and compliance with legislation.

ASSESSMENT OF THE FINANCE FUNCTION AND THE CHIEF FINANCIAL OFFICER

The committee considered and reviewed the performance and expertise of the chief financial officer and the finance function and is satisfied that the resources and expertise within the finance function are adequate and appropriate to fulfil its requirements.

CONCLUSION

Having received, evaluated and overseen the work of both the internal and external auditors, as well as considered reports presented by management and the risk function, the committee recommends to the Deputy Auditor-General that she may sign the integrated annual report and the accompanying annual financial statements.

APPRECIATION

The committee acknowledges the work performed by the internal and external auditors, the executive management team of the AGSA, the Finance team, Risk & Ethics, the Corporate Secretariat, Strategy & Transformation and others. The committee thanks everyone for their commitment and dedication to the task at hand and I thank my fellow committee members for their contribution. Lastly, we pay tribute to Mr Peter Moyo, who retired as a committee member and its Chair, a position he held since the inception of the committee.

The committee also has the pleasure of drawing readers' attention to the fact that the AGSA has once again received an unmodified audit opinion on its annual financial statements.

REMUNERATION COMMITTEE
REPORT

BACKGROUND STATEMENT

The AGSA's remuneration committee (Remco) was established as an oversight governance structure with the primary purpose of ensuring that the organisation's remuneration principles, policies and practices are fair and transparent so as to promote the achievement of strategic objectives.

The organisation has developed a remuneration policy, procedures and processes that are made available to all employees through the organisation's Intranet. Any amendments to the policy principles are communicated to employees following consultations (where applicable). The implementation of the policy principles is executed in accordance with the provisions of the organisation's management approval framework (MAF).

OVERVIEW OF THE MAIN PROVISIONS OF THE AGSA REMUNERATION POLICY

The AGSA subscribes to a reward philosophy that promotes a culture of high performance. The key principles that shape our policy are:

- The reward philosophy and policy are approved by the organisation's executive committee (EXCO). The policy principles and practices are reviewed from time to time to ensure they are aligned with best practices.
- The organisation promotes transparency of its remuneration practices by communicating them to all employees.
- The remuneration policy promotes internal and external equity by ensuring that all positions in the organisation are graded based on best practice job evaluation system. Furthermore, the organisation regularly benchmarks its pay scales as well as broader remuneration practices. The basis for determining pay grades is consistently applied across all job levels.
- Annual salary adjustments are based on market information, CPI and affordability.
- The organisation has a well-designed performance bonus scheme. Performance bonuses are discretionary and based solely on performance.
- The organisation promotes the professionalisation of employees by providing a conducive environment to advancing employee qualifications and subsequently recognising achievement of qualifications with monetary rewards.
- The organisation has a vigorous performance management system, with clearly defined performance targets that are sufficiently challenging to drive a high performance culture.
- All remuneration transactions are approved in accordance with the relevant level of authority and provisions of the remuneration policy.

THE TOTAL SHORT-TERM, LONG-TERM AND TERMINATION BENEFITS PAID TO THE MEMBERS OF THE EXECUTIVE COMMITTEE ARE DISCLOSED IN OUR ANNUAL FINANCIAL STATEMENTS.

INTERNAL AND EXTERNAL FACTORS THAT INFLUENCED REMUNERATION

Remuneration considerations and decisions are always based on a combination of external and internal factors. The external factors include:

- market benchmarks, trends and practices
- changes in legislation relating to remuneration

- environmental factors such as stakeholder perceptions
- the organisation's reputational considerations.

Internal factors affecting the organisation such as staff retention and employee engagement are also considered.

KEY AREAS OF FOCUS AND KEY DECISIONS TAKEN BY THE REMUNERATION COMMITTEE DURING THE REPORTING PERIOD

Over the period under review, the committee considered the following matters:

- Review and recommendations on annual salary increases and performance bonuses.
- Recommend the implementation of the revised total reward philosophy.
- Executive market benchmarking to determine the remuneration positioning of executive pay.

USE OF REMUNERATION CONSULTANTS

While the organisation strives to use its internal resources to deliver on remuneration initiatives, it should be noted that there have been areas of specialty where external remuneration consultants were used due to the nature of expertise required. These include:

- **Market benchmarking** – This is an area of specialty that can only be provided by service providers that are accredited as salary survey providers for the purposes of, among other things, developing pay scales, providing salary increase projections and best practices on executive remuneration.
- **Group risk benefits** (i.e. group life, disability, funeral cover as well as the group pension fund) are all administered through the use external service providers. These functions require specialist expertise and in-depth knowledge of various financial regulations and legislation.
- **Job evaluation** – The organisation uses the services of external service providers for its job evaluation processes.

The committee has satisfied itself that the AGSA remuneration policy has achieved its objectives.

REMUNERATION AWARDED TO INDIVIDUAL MEMBERS OF THE GOVERNING BODY AND EXECUTIVE MANAGEMENT DURING THE REPORTING PERIOD

Members of the governing body are remunerated as per the rate in the Guideline on fees for audits done on behalf of the Auditor-General of South Africa (AGSA). This translates currently into R2 876 per hour.

The AGSA meetings are on average four hours, which equates to R2 876 x 4 hours per meeting i.e. **R11 504** per meeting.

The equivalent rate as per the 5th edition of the IoDSA's Non-executive directors' fees guide© provides a useful reference point to benchmarking non-executive directors' fees as disclosed by JSE-listed companies, including:

- A reasonable level of non-executive directors' remuneration
- Appropriate fees for serving on board committees
- A reasonable fee range for the chairman of the board.

The AGSA equivalent-sized organisation, a level 4 (market cap R2 714 000,00 and up) company is **R39 721** per meeting.

The national treasury rates have not been referred to. They are not applicable as they do not consider the professional status and loss of income or level of expertise of the committee member. The categories do not have any specific criteria as these institutions are adjudicated by the National Treasury along their own processes with the relevant ministers.

The AGSA remunerates its executives in terms of the AGSA remuneration policy and the details are reported as per section 4 of the Integrated Annual Report.

FUTURE AREAS OF FOCUS

A significant milestone has been achieved by the organisation relating to the amendments to the Public Audit Act (PAA). One of the key amendments relates to the role of the Remco. The following sections of the PAA have been amended as follows:

- Section 5 – establishment, composition and functions of Remco.
- Section 7 – once established, the Independent Commission must consult Remco on salary, allowances and benefits of the Auditor-General.
- Section 34 – The Auditor-General must consult Remco on the determination of salaries, allowances and benefits of staff of the AGSA

This amendment will strengthen the organisation's commitment to accountability and transparency in remuneration matters.

In addition to the above, a further key focus area in accordance with the objectives of the organisation's people strategy, will be the implementation of the total reward philosophy.

INDEPENDENT LIMITED ASSURANCE

REPORT ON SELECTED KEY PERFORMANCE INDICATORS

REPORT ON SELECTED KEY PERFORMANCE INDICATORS

We have undertaken a limited assurance engagement on selected key performance indicators, as described below, and presented in the 2017-18 Sustainability Report of the Auditor-General South Africa (AGSA) for the year ended 31 March 2018 (the Report).

SUBJECT MATTER

We have been engaged to provide a limited assurance conclusion in our report on the following selected key performance indicators, prepared in accordance with the Global Reporting Initiative (GRI) G4 Guidelines.

Category	Key performance indicators	Scope of coverage
Economic	Application of the funding model. Amounts and initiatives in respect of: • Trainee auditors scheme • Preferential procurement • Corporate social investment	Republic of South Africa
Social	Amounts and initiatives in respect of: • Bursaries and scholarships • Rural schools programme • Social responsibility programmes • Enterprise and supplier development	Republic of South Africa
Cultural	Disclosures in respect of: • Employee profile • Diversity • Staff turnover • Ethics training initiatives • Employee wellness programme • Employee relations	Auditor-General of South Africa
Stakeholder engagements	Disclosures in respect of: • Employees • Cabinet • Auditees • Constitutional stakeholders • Contract firms • Media	Republic of South Africa

DEPUTY AUDITOR-GENERAL'S RESPONSIBILITIES

The Deputy Auditor-General (DAG) is responsible for the selection, preparation and presentation of the selected key performance indicators in accordance with the GRI G4 Guidelines. This responsibility includes the identification of stakeholders and stakeholder requirements, material issues, commitments with respect to sustainability performance and design, implementation and maintenance of internal control relevant to the preparation of the Report that is free from material misstatement, whether due to fraud or error.

The DAG is also responsible for determining the appropriateness of the measurement and reporting criteria in view of the intended users of the selected key performance indicators and for ensuring that those criteria are publicly available to the Report users.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and all other ethical requirements of the Code of Professional Conduct for Registered Auditors, issued by the Independent Regulatory Board for Auditors (IRBA), that is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Crowe JHB applies the International Standard on Quality Control 1, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

AUDITORS RESPONSIBILITY

Our responsibility is to express a limited assurance conclusion on the selected key performance indicators based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than 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 limited assurance about whether the selected key performance indicators are free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3000 (Revised) involves assessing the suitability in the circumstances of AGSA's use of GRI G4 Guidelines as the basis of preparation for the selected key performance indicators, assessing the risks of material misstatement of the selected key performance indicators whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the selected key performance indicators.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. The procedures we performed were based on our professional judgement and included inquiries, observation of processes followed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:

- Interviewed management and senior executives to obtain an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process
- Inspected documentation to corroborate the statements of management and senior executives in our interviews
- Tested the processes and systems to generate, collate, aggregate, monitor and report the selected key performance indicators
- Performed a controls walkthrough of identified key controls

- Inspected supporting documentation on a sample basis and performed analytical procedures to evaluate the data generation and reporting processes against the reporting criteria
- Evaluated the reasonableness and appropriateness of significant estimates and judgments made by the DAG in the preparation of the selected key performance indicators
- Evaluated whether the selected key performance indicators presented in the Report are consistent with our overall knowledge and experience of sustainability management and performance at AGSA.

The procedures performed in a limited assurance engagement vary in nature and timing, and are less in extent than for a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether AGSA's selected key performance indicators have been prepared, in all material respects, in accordance with GRI G4 Guidelines.

LIMITED ASSURANCE CONCLUSION

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the selected key performance indicators as set out in the Subject Matter paragraph above for the year ended 31 March 2018 are not prepared, in all material respects, in accordance with GRI G4 Guidelines.

OTHER MATTERS

The maintenance and integrity of the AGSA's website is the responsibility of AGSA management. Our procedures did not involve consideration of these matters and, accordingly, we accept no responsibility for any changes to either the information in the Report or our independent limited assurance report that may have occurred since the initial date of its presentation on AGSA's website.

RESTRICTION OF LIABILITY

Our work has been undertaken to enable us to express a limited assurance conclusion on the selected key performance information to the AGSA in accordance with the terms of our engagement, and for no other purpose. We do not accept or assume liability to any party other than AGSA for our work, for this report, or for the conclusion we have reached.

Crowe JHB

Crowe JHB
Raakesh Khandoo
Partner
Registered Auditor

Sandton
31 July 2018

DEPUTY AUDITOR-GENERAL

RESPONSIBILITIES AND APPROVAL

As the Deputy Auditor-General I am required by the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) to maintain adequate accounting records and am responsible for the content and integrity of the financial statements and related financial information included in this report. It is my responsibility to ensure that the financial statements fairly present the financial position of the Auditor-General of South Africa (AGSA) at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with the International Financial Reporting Standards (IFRS) and the PAA. External auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with IFRS and the PAA and are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

I acknowledge that I am ultimately responsible for the system of internal financial control established by the AGSA and place considerable importance on maintaining a strong control environment. To enable me to meet these responsibilities, the AGSA, 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 AGSA and all employees are required to maintain the highest ethical standards in ensuring the AGSA's business is conducted in a manner that, in all reasonable circumstances, is above reproach.

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

I am 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 financial statements. However, any system of internal control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

I have reviewed the AGSA's cash flow forecast for the year to 31 March 2019 and, in the light of this review and the current financial position, I am satisfied that the AGSA has, or has access to, adequate resources to continue operating as a going concern for the foreseeable future. The going concern basis assumes that the AGSA will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the normal course of business.

I am not aware of any matter or circumstance arising since the end of the financial year that will materially affect these financial statements.

The financial statements set out on pages 126 to 164, which have been prepared on the going concern basis, were approved and signed by me 28 September 2018 behalf of the AGSA.

Ratsela

Tsakani Ratsela
Deputy Auditor-General

INDEPENDENT AUDITOR'S REPORT

TO PARLIAMENT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of the Auditor-General of South Africa (AGSA) as set out on pages 126 to 164, which comprise the statement of financial position as at 31 March 2018, the statement of surplus or deficit and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the AGSA as at 31 March 2018, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

BASIS FOR OPINION

We conducted our audit in accordance with the International Standards on Auditing (ISA's). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the AGSA in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

The Deputy Auditor-General (DAG) is responsible for the other information. The other information comprises the Audit Committee's Report, the Remuneration Committee's Report and the DAG's Report. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DEPUTY AUDITOR-GENERAL AND THE AUDIT COMMITTEE

In terms of section 43 of the PAA the DAG is responsible for the preparation and fair presentation of these financial statements in accordance with the IFRS and for such internal control as is determined as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the DAG is responsible for assessing the AGSA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

The audit committee is responsible for overseeing the AGSA's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISAs, we exercise professional judgment and maintain professional scepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the DAG's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the AGSA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained to the date of our auditor's report. However, future events or conditions may cause the AGSA to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the DAG and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide the DAG and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

REPORT ON PREDETERMINED OBJECTIVES

INTRODUCTION

We have audited the report on performance against predetermined objectives of the AGSA for the year ended 31 March 2018, as set out on pages 60 to 108 of the Integrated annual report 2017-18.

THE DEPUTY AUDITOR-GENERAL'S RESPONSIBILITIES

The DAG is responsible for the preparation and fair presentation of the report on performance against predetermined objectives as required by the PAA, and for such internal control as determined necessary to enable the preparation of a report on performance against predetermined objectives that is useful and reliable.

AUDITOR'S RESPONSIBILITY

As required by the PAA, 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 financial 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.

We provide reasonable assurance with respect to the usefulness of the information contained in the annual performance report.

We further provide reasonable assurance with respect to the reliability of the following selected material objectives as set out in the annual performance report:

- Value-add
- Visibility for impact
- Viability
- Vision and values driven

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 Framework for Managing Programme Performance Information.
- Relevance: The indicators relate logically and directly to an aspect of the AGSA's mandate and the realisation of strategic goals and objectives, as required by the National Treasury Framework for Managing Programme Performance Information.

RELIABILITY OF INFORMATION

- Validity: Reported performance has occurred and relates to the AGSA.
- 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 annual performance report and reliability of the objectives as set out in the annual performance report. The procedures selected depend on the auditor's judgement, including our assessment of the risks of material misstatement of the annual performance report. 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 information.
- Evaluating and testing processes, systems, controls and review of documentation in place at a detailed 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 information as well as the presentation and disclosure thereof in accordance with applicable requirements and guidance.
- Conducting detailed audit testing and obtaining sufficient appropriate audit evidence to verify the validity, accuracy and completeness of reported indicators and targets.

We believe that the evidence obtained from the work performed provides an appropriate basis for the reasonable assurance conclusions 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.

Crowe JHB

Crowe JHB
Raakesh Khandoo
Partner
Registered Auditor

Sandton
31 July 2018

STATEMENT
OF FINANCIAL POSITION

	Notes	2018 R'000	*Restated 2017 R'000
ASSETS			
Non-current assets		147 852	134 826
Property, plant and equipment	2	108 860	90 164
Intangible assets	3	38 992	44 662
Current assets		1 265 543	1 224 441
Trade and other receivables	4	601 921	671 212
Cash and cash equivalents	5	663 622	553 229
Total assets		**1 413 395**	**1 359 267**
RESERVES AND LIABILITIES			
Reserves		853 394	786 050
General reserve	6	781 086	795 664
Special audit services reserve	7	4 964	4 964
Accumulated surplus/(deficit)	8	67 344	(14 578)
Liabilities			
Non-current liabilities		81 903	94 712
Retirement benefit obligations*	9	58 000	60 983
Operating lease liability	10	23 903	33 729
Current liabilities		478 098	478 505
Retirement benefit obligations - current portion*	9	2 572	2 604
Operating lease liability - current portion*	10	12 392	10 133
Trade and other payables*	11	463 134	465 768
Total reserves and liabilities		**1 413 395**	**1 359 267**

*Comparative figures have been restarted for better classification (refer to note 27)

STATEMENT
OF SURPLUS OR DEFICIT AND OTHER COMPREHENSIVE INCOME

	Notes	2018 R'000	*Restated 2017 R'000
Revenue	12	3 246 612	2 977 211
Local services rendered		3 246 174	2 976 411
International services rendered		438	800
Direct audit cost		(2 062 815)	(1 968 664)
Recoverable staff cost *	13	(1 326 372)	(1 245 009)
Contract work	14	(574 678)	(576 259)
Subsistence and travel		(161 765)	(147 396)
Gross surplus		**1 183 797**	**1 008 547**
Other income	15	1 260	2 974
Contribution to overheads		**1 185 057**	**1 011 521**
Non-recoverable staff cost *	13	(787 122)	(719 247)
Depreciation expense	2	(40 611)	(30 410)
Amortisation expense	3	(17 177)	(15 357)
Other operational expenditure	16	(340 357)	(318 348)
Retirement benefit obligations - current service costs	9	(793)	(940)
Operating deficit before finance charges		**(1 003)**	**(72 781)**
Interest income	17	67 065	69 218
Interest expense	17	(5 898)	(20 665)
Surplus/(deficit) for the year		**60 164**	**(24 228)**
Other comprehensive income			
Items that will not be reclassified to deficit or surplus			
Retirement benefit obligations - Actuarial gains	9	7 180	9 650
Total comprehensive surplus/(deficit) for the year		**67 344**	**(14 578)**

*Comparative figures have been restarted for better classification (refer to note 27)

STATEMENT
OF CHANGES IN EQUITY

	General reserve R'000	Special audit services reserve R'000	Accumulated surplus/ (deficit) R'000	Total R'000
Balance at 1 April 2016	**690 933**	**4 964**	**104 731**	**800 628**
Transfer of accumulated surplus to reserves	104 731	-	(104 731)	-
Total comprehensive surplus			(14 578)	(14 578)
Deficit for the year	-	-	(24 228)	(24 228)
Other comprehensive income				
- Actuarial gains	-	-	9 650	9 650
Balance at 31 March 2017	**795 664**	**4 964**	**(14 578)**	**786 050**
Transfer of accumulated deficit to reserves	(14 578)	-	14 578	-
Total comprehensive surplus			67 344	67 344
Surplus for the year	-	-	60 164	60 164
Other comprehensive income				
- Actuarial gains	-	-	7 180	7 180
Balance at 31 March 2018	**781 086**	**4 964**	**67 344**	**853 394**
Notes	6	7	8	

STATEMENT
OF CASH FLOWS

	Notes	2018 R'000	*Restated 2017 R'000
Cash flow from operating activities			
Cash receipts from auditees*	18.1	3 349 224	2 856 710
Total direct audit cost payments*	18.2	(2 082 990)	(1 968 116)
Operational expenditure payments*	18.3	(1 151 926)	(938 318)
Interest received	17	67 065	63 174
Interest paid	17	(15)	(2 768)
Net cash inflow from operating activities		**181 358**	**10 682**
Cash flow from investing activities			
Additions to property, plant and equipment	2	(60 678)	(36 695)
Additions to intangible assets	3	(11 510)	(39 248)
Proceeds from sale of property, plant and equipment	2	1 223	1 062
Net cash outflow from investing activities		**(70 965)**	**(74 881)**
Net increase/(decrease) in cash and cash equivalents		**110 393**	**(64 199)**
Cash and cash equivalents at the beginning of the year		553 229	617 428
Cash and cash equivalents at the end of the year	5	**663 622**	**553 229**

*Comparative figures have been restated for better classification (refer to note 27)

NOTES
TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES

1 PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared according to the IFRS issued by the International Accounting Standards Board (IASB), and in line with the requirements of the PAA. The financial statements are presented in South African rand, which is the AGSA's functional currency. All financial information has been rounded to the nearest thousand unless stated otherwise. The financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at amortised cost, and incorporate the principal accounting policies set out below. These accounting policies are consistent with the previous year.

Standards, amendments and interpretations relevant to the AGSA's operations that are not yet effective and have not been adopted early:

Standard/ Interpretation	Effective	Details	Impact
IFRS 9 – Financial instruments	01/01/2018	• A final version of IFRS 9 has been issued, which replaces IAS 39: Financial instruments: recognition and measurement. The completed standard comprises guidance on classification and measurement, impairment hedge accounting and derecognition: - FRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow characteristics. A new business model was introduced that allows certain financial assets to be categorised as 'fair value through other comprehensive income' in certain circumstances. - The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. - The new standard introduces a single 'expected credit loss' impairment model for the measurement of financial assets. - IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, in addition enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements. - IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39.	Had IFRS 9 been implemented during 2017-18, the impact on the AGSA financial statements would have been a decrease in the provision for impairment of trade receivables of R34 million
	01/01/2019	• Prepayment features with negative compensation. The narrow-scope amendment allows companies to measure particular prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met.	

Standard/ Interpretation	Effective	Details	Impact
IFRS 15 - Revenue from contracts from customers	01/01/2018	• A new standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five step methodology that is required to be applied to all contracts with customers. • The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were previously not comprehensively addressed and improve guidance for multiple-element arrangements. • The new standard supersedes: (a) IAS 11: Construction contracts (b) IAS 18: Revenue (c) IFRIC 13: Customer loyalty programmes (d) IFRIC 15: Agreements for the construction of real estate (e) IFRIC 18: Transfers of assets from customers (f) SIC-31: Revenue-barter transactions involving advertising services.	Should IFRS 15 have been implemented during 2017-18, the impact on the AGSA financial statements would have been a reduction in revenue of R65 million, subsequent reduction in interest charged on overdue accounts of R15 million and therefore a reduction in the provision for impairment of trade receivables of R17 million
IFRS 16 - Leases	01/01/2019	• A new standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. • IFRS 16 contains expanded disclosure requirements for lessors. • IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. • IFRS 16 also requires lessors to provide enhanced disclosures that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. • IFRS 16 supersedes the following standards and interpretations: (a) IAS 17: Leases (b) IFRIC 4: Determining whether an arrangement contains a lease (c) SIC-15: Operating leases - incentives (d) SIC-27: Evaluating the substance of transactions involving the legal form of a lease.	The impact on the AGSA's financial statements is yet to be determined.

Standard/ Interpretation	Effective	Details	Impact
IAS 19 - Employee benefits	01/01/2019	Plan amendment, curtailment or settlement (Amendments to IAS 19): The amendments require an entity to use the updated assumptions from a remeasurement net defined liability or asset resulting from a plan amendment, curtailment or settlement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.	The impact on the AGSA's financial statements is yet to be determined.
IFRIC 22 - Foreign currency transactions and advance consideration	01/01/2018	This interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.	No impact on the AGSA financial statements

1.1 SIGNIFICANT JUDGEMENTS AND ACCOUNTING ESTIMATES

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. In addition, management is required to exercise its judgement in the process of applying the AGSA's accounting policies. Using available information and applying judgement are inherent to forming estimates. Actual results in the future could differ from these estimates, which may be material to the financial statements. Significant judgements include:

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. Advice on the appropriateness of the assumptions is taken from independent actuaries. Changes in the assumptions used may have a significant effect on the statement of surplus or deficit and other comprehensive income and statement of financial position (refer to note 1.7).

Allowance for impairment of receivables

An allowance for impairment of trade receivables is established when there is objective evidence that the AGSA will not be able to collect all the amounts due according to the original terms of receivables. The calculation of the amount to be allowed for impairment of receivables requires the use of estimates and judgements (refer to note 1.5).

Annual evaluation of property, plant and equipment and intangibles

To review property, plant and equipment and intangibles for possible impairment, changes in useful lives and changes in residual values at the end of each financial year, reference is made to historical information and the intended use of assets (refer to notes 1.2 and 1.3).

1.2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 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 AGSA 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, and the intended use, of the asset. Depreciation is calculated on the straight-line method to write off the cost, less residual value, of each asset over its estimated useful life as follows:

Item	Useful life (current and comparative period)
Computer equipment	3 to 8 years
Motor vehicles	5 years
Furniture and fittings	6 to 19 years
Office equipment	3 to 5 years
Leasehold improvements	Over the period of the lease

The depreciation charge for each period is recognised in surplus or deficit.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. The effects of any changes to residual values, useful lives and depreciation methods are accounted for on a prospective basis.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit 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 relating to useful lives are mainly based on historical information relating to the use of the assets. 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 (current and comparative period)
Enterprise resource management system - PeopleSoft	14 years
Other software	3 years

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the AGSA, and that will generate probable economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and overheads directly attributed to preparing the asset for use. Other development expenditures are recognised as an expense as incurred.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each reporting date. The effects of any changes to residual values, useful lives and amortisation methods are accounted for on a prospective basis.

The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

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, in surplus or deficit, 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 AGSA assesses at each reporting date whether there is any indication that an impairment loss recognised in previous 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 previous years. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

1.5 FINANCIAL INSTRUMENTS

Financial instruments are recognised when the AGSA becomes party to the contractual provisions of the instrument. Financial instruments carried in the statement of financial position include cash and bank balances, trade and other receivables and trade and other payables. These instruments are carried at their amortised cost.

Financial assets

The AGSA classifies its financial assets into one of the categories discussed below, depending on the business model assessment which centres on whether financial assets are held to collect contractual cash flows. The AGSA has not classified any of its financial assets as fair value through profit and loss. The accounting policy for each category is as follows:

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. They are initially recognised at fair value, and are subsequently carried at amortised cost using the effective interest method.

Receivables measured at amortised cost

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through providing 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 method, less allowance for impairment.

Impairment allowances 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 AGSA will be unable to collect all of the amounts due under the terms receivable, the amount of such an allowance 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 amounts are recorded in a separate allowance account with the loss being recognised within operational expenditure in surplus or deficit. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated allowance.

Financial liabilities

Trade payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Derecognition

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

1.6 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.

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.

1.7 EMPLOYEE BENEFITS

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

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 surplus or deficit 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 AGSA 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 previous periods. In respect of early retirements the AGSA is required to incur the cost of early retirement penalties.

Post-employment medical care benefits - 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 are recognised in other comprehensive income in the statement of surplus or deficit and other comprehensive income in the period in which they occur. Interest cost and service cost are recognised in surplus or deficit in the period in which they occur. The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation. Valuations of these obligations are carried out annually by independent qualified actuaries.

Leave liability

The AGSA calculates the value of leave not taken at year-end based on the guaranteed package or basic salary. The value of leave is recognised in the statement of financial position as a short-term employee benefit.

1.8 REVENUE

Revenue is recognised in the accounting periods in which the services are rendered and when the outcome can be estimated reliably. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the organisation
- the costs incurred for the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable. Revenue arising from rendering audit services consists of the invoiced value charged net of value-added tax.

1.9 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.

1.10 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 surplus or deficit.

1.11 IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of the PAA. 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 surplus or deficit in the period it was incurred.

1.12 LOSSES THROUGH CRIMINAL CONDUCT

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

1.13 RELATED PARTIES

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the AGSA. All individuals from the executive management are regarded as key management according to the IFRS definition.

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 AGSA.

Other related party transactions are also disclosed in terms of the requirements of IFRS. Qualitative and quantitative materiality is considered in the disclosure of these transactions.

2 PROPERTY, PLANT AND EQUIPMENT

2018	Cost R'000	Accumulated depreciation R'000	Carrying amount R'000
Computer equipment	147 722	(76 451)	71 271
Motor vehicles	7 337	(5 769)	1 568
Office equipment	3 198	(2 410)	788
Furniture and fittings	63 535	(44 134)	19 401
Leasehold improvements	45 432	(29 600)	15 832
	267 224	**(158 364)**	**108 860**

The carrying amounts are reconciled as follows:	Opening carrying amount R'000	Additions R'000	Disposals R'000	Depreciation charge R'000	Closing carrying amount R'000
Computer equipment	40 421	56 538	(1 325)	(24 363)	71 271
Motor vehicles	2 664	-	-	(1 096)	1 568
Office equipment	878	514	(26)	(578)	788
Furniture and fittings	25 701	758	(10)	(7 048)	19 401
Leasehold improvements	20 500	2 868	(10)	(7 526)	15 832
	90 164	**60 678**	**(1 371)**	**(40 611)**	**108 860**

	2018 R'000
Proceeds on disposal of property, plant and equipment	**1 223**

2 PROPERTY, PLANT AND EQUIPMENT (coninued)

2017	Cost R'000	Accumulated depreciation R'000	Carrying amount R'000
Computer equipment	120 973	(80 552)	40 421
Motor vehicles	7 451	(4 787)	2 664
Office equipment	3 390	(2 512)	878
Furniture and fittings	64 130	(38 429)	25 701
Leasehold improvements	50 477	(29 977)	20 500
	246 421	**(156 257)**	**90 164**

The carrying amounts are reconciled as follows:	Opening carrying amount R'000	Additions R'000	Disposals R'000	Depreciation charge R'000	Closing carrying amount R'000
Computer equipment	35 989	22 324	(727)	(17 165)	40 421
Motor vehicles	3 693	193	-	(1 222)	2 664
Office equipment	431	693	(6)	(240)	878
Furniture and fittings	26 112	3 779	(342)	(3 848)	25 701
Leasehold improvements	18 735	9 706	(6)	(7 935)	20 500
	84 960	**36 695**	**(1 081)**	**(30 410)**	**90 164**

	2017 R'000
Proceeds on disposal of property, plant and equipment	**1 062**

The AGSA 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 20.1).

3 INTANGIBLE ASSETS

2018 Computer software - purchased	Cost R'000	Accumulated amortisation R'000	Carrying amount R'000
Enterprise resource management system - PeopleSoft	17 288	(2 925)	14 363
Other software	53 585	(28 956)	24 629
	70 873	**(31 881)**	**38 992**

The carrying amounts are reconciled as follows: Computer software - purchased	Opening carrying amount R'000	Additions R'000	Disposals R'000	Amortisation charge R'000	Closing carrying amount R'000
Enterprise resource management system - PeopleSoft	15 106	-	-	(743)	14 363
Other software	29 556	11 510	(3)	(16 434)	24 629
	44 662	**11 510**	**(3)**	**(17 177)**	**38 992**

2017 Computer software - purchased	Cost R'000	Accumulated amortisation R'000	Carrying amount R'000
Enterprise resource management system - PeopleSoft	34 277	(19 171)	15 106
Other software	75 716	(46 160)	29 556
	109 993	**(65 331)**	**44 662**

The carrying amounts are reconciled as follows: Computer software - purchased	Opening carrying amount R'000	Additions R'000	Disposals R'000	Amortisation charge R'000	Closing carrying amount R'000
Enterprise resource management system - PeopleSoft	523	15 326	-	(743)	15 106
Other software	20 248	23 922	-	(14 614)	29 556
	20 771	**39 248**	**-**	**(15 357)**	**44 662**

	2018 R'000	2017 R'000

4 TRADE AND OTHER RECEIVABLES

	2018 R'000	2017 R'000
Trade receivables (refer to note 23.2)	649 595	805 810
Allowance for impairment of receivables [1]	(87 144)	(177 367)
Net trade receivables	562 451	628 443
Staff debtors	12 081	10 518
Prepayments	27 176	32 053
Other debtors	213	198
	601 921	**671 212**

[1] Allowance for impairment of receivables

	2018 R'000	2017 R'000
Balance at the beginning of the year	(177 367)	(169 295)
Used during the year	53 603	4
Adjustment of allowance for impairment of receivables (refer to notes 16 and 18.3)	36 620	(8 076)
Balance at the end of the year (refer to note 23.2)	**(87 144)**	**(177 367)**

5 CASH AND CASH EQUIVALENTS

	2018 R'000	2017 R'000
Call account at Public Investment Corporation	159 536	149 175
Investment reserved for specific liabilities [2]	159 536	136 464
Investment to fund working capital requirements	-	12 711
Overnight call account	1 834	1 694
Notice deposit	147 176	136 357
Current bank account	355 076	266 003
	663 622	**553 229**

	2018 R'000	2017 R'000

5 CASH AND CASH EQUIVALENTS (continued)

	2018 R'000	2017 R'000
[2] Investment reserved for specific liabilities		
The liabilities covered by this investment include the following:		
Post-retirement benefits: medical care contributions (refer to note 9) [3]	60 572	63 587
13th cheque accrual (refer to note 11)	9 117	9 055
Leave pay accrual (refer to note 11) [4]	111 334	112 947
Repayment to former TBVC states employees - deductions of salary over-payments	195	198
Pre-payments made by staff in terms of the AGSA's notebook ownership policy	-	52
	181 218	**185 839**

[3] The future service liability for post-retirement benefit: medical care contributions totalling R5 374 000 (2017: R6 382 000) 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 R81 910 652 (2017: R84 776 472) of the leave pay accrual is ring-fenced through the investment reserved for specific liabilities. The balance of R29 423 793 (2017: R28 170 938) is covered through the current account as this can be encashed within the current year.

6 GENERAL RESERVE

	2018 R'000	2017 R'000
Balance at the beginning of the year	795 664	690 933
Transfer of accumulated (deficit)/surplus to reserves (refer to note 8)	(14 578)	104 731
Balance at the end of the year	**781 086**	**795 664**

Accumulated surplus that was recommended by the Standing Committee on the Auditor-General (SCoAG) and approved by Parliament (in terms of section 38(4) of the PAA) to be retained for working capital and general reserve requirements of the AGSA.

	2018 R'000	2017 R'000

7 SPECIAL AUDIT SERVICES RESERVE

	2018 R'000	2017 R'000
Balance at the beginning and end of the year	**4 964**	**4 964**

A fund set aside to finance special investigations or audits for which the AGSA 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 SCoAG, established in terms of section 55(2)(b)(ii) of the Constitution.

8 ACCUMULATED SURPLUS/(DEFICIT)

	2018 R'000	2017 R'000
Balance at the beginning of the year	(14 578)	104 731
Transfer of accumulated deficit/(surplus) to general reserve (refer to note 6)	14 578	(104 731)
Total comprehensive surplus/(deficit) for the year	67 344	(14 578)
Balance at the end of the year	**67 344**	**(14 578)**

Accumulated surplus is available to fund the AGSA's ongoing activities after consultation with the National Treasury and by agreement with SCoAG (in terms of section 38(4) of the PAA).

9 RETIREMENT BENEFIT OBLIGATIONS

	2018 R'000	2017 R'000
Post-retirement benefits: medical care contribution	**60 572**	**63 587**
The liability is reconciled as follows:		
Balance at the beginning of the year	63 587	68 327
Current year provision	(504)	(2 224)
Current service costs	793	940
Actuarial gains	(7 180)	(9 650)
Remeasurements due to experience adjustments	(6 272)	(6 000)
Remeasurements due to demographic assumptions	(42)	-
Remeasurements due to financial assumptions	(866)	(3 650)
Interest expense adjustment on retirement benefit obligations (refer to note 17)	5 883	6 486
Less: Payments made	(2 511)	(2 516)
Balance at the end of the year (refer to note 5)	**60 572**	**63 587**

	2018 R'000	2017 R'000

9 RETIREMENT BENEFIT OBLIGATIONS (continued)

	2018 R'000	2017 R'000
Non-current portion	58 000	60 983
Current portion	2 572	2 604
	60 572	**63 587**

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 2018 by Alexander Forbes using the projected unit credit method.

The valuation is based on the following principal actuarial assumptions:

	2018	2017
The discount rate reflects the timing of benefit payments and is based on market bond yields.	8,9%	9,8%
Subsidy increase rate (based on the inflation rate)	6,0%	7,0%
Expected retirement age	63	63
Number of continuation members	210	203
Average age of continuation members	69,4	68,9
Percentage continuation members married	75%	75%
Number of in-service members	135	156
Average age of in-service members	53,6	53,5
Average years of past service of in-service members	28,8	28,0

Sensitivity analysis

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

Below is the recalculated liability showing the effect of:

A one percentage point decrease or increase in the discount rate

No increase in the subsidy increase rate

A one-year decrease or increase in the expected retirement age

	2018		
		Discount rate	
	Assumptions 8,9%	-1%	+1%
Accrued liability 31 March 2018 (R'000)	60 572	69 538	53 331
% change	-	14,8%	-12,0%

9 RETIREMENT BENEFIT OBLIGATIONS (continued)

	Subsidy increase rate	
	Assumption 6,00%	0%
Accrued liability 31 March 2018 (R'000)	60 572	31 028
% change	-	-48,8%

	Expected retirement age		
	Assumption 63 Years	1 year younger	1 year older
Accrued liability 31 March 2018 (R'000)	60 572	61 799	59 211
% change	-	2,0%	-2,2%

	2017		
	Discount rate		
	Assumption 9,80%	-1%	+1%
Accrued liability 31 March 2017 (R'000)	63 587	73 145	55 812
% change	-	15,2%	-12,2%

	Subsidy increase rate	
	Assumption 7,00%	0%
Accrued liability 31 March 2017 (R'000)	63 587	29 230
% change	-	-54,0%

	Expected retirement age		
	Assumption 63 years	1 year younger	1 year older
Accrued liability 31 March 2017 (R'000)	63 587	64 973	62 192
% change	-	2,2%	-2,2%

	2018 R'000	2017 R'000
10 OPERATING LEASE LIABILITY		
Non-current portion	23 903	33 729
Current portion	12 392	10 133
Total operating leases	**36 295**	**43 862**

	2018 R'000	2017 R'000

11 TRADE AND OTHER PAYABLES

	2018 R'000	2017 R'000
Trade payables	45 154	41 438
Accruals	47 737	67 526
13th cheque accrual (refer to note 5)	9 117	9 055
Leave pay accrual (refer to note 5)	111 334	112 947
Performance bonus accrual	180 095	144 530
Staff creditors	7 009	7 401
VAT and PAYE	62 688	82 871
	463 134	**465 768**

Ageing of trade payables:

	Total R'000	Current R'000	30-60 R'000	60-90 R'000	90-120 R'000	120+ R'000
2018						
Trade payables	**45 154**	**6 776**	**26 236**	**8 866**	**1 704**	**1 572**
2017						
Trade payables	**41 438**	**4 579**	**24 873**	**8 755**	**1 598**	**1 633**

	2018 R'000	2017 R'000

12 REVENUE

	2018 R'000	2017 R'000
Local services rendered	3 246 174	2 976 411
Own hours	2 510 169	2 251 724
Contract work recoverable (refer to note 14)	574 678	583 586
Subsistence and travel	161 327	147 130
Present value of revenue adjustment (refer to note 17)	-	(6 029)
International services rendered [5]	438	800
Own hours	-	549
Subsistence and travel	438	266
Present value of revenue adjustment (refer to note 17)	-	(15)
	3 246 612	**2 977 211**

[5] International income relates to the Eastern & SA Association for Accountants (ESAAG), the Southern African Customs Union (SACU) and Pan African Parliament audits.

13 STAFF COST

	2018 R'000	2017 R'000
Management salaries (refer to note 22.1)	44 380	39 181
Other non-recoverable staff salaries	398 272	368 454
Other staff expenditure	199 439	160 293
Performance bonus	164 313	131 563
Group life scheme	26 738	20 626
Other employer contributions	8 388	8 104
Course fees and study assistance	107 401	111 856
Accrued leave pay accrual	37 630	39 463
Total non-recoverable staff cost	**787 122**	**719 247**
Recoverable staff cost (part of direct audit cost)	1 326 372	1 245 009
Total staff cost	**2 113 494**	**1 964 256**
Average number of staff	**3 472**	**3 498**

	2018 R'000	2017 R'000

14 CONTRACT WORK

	2018 R'000	2017 R'000
Contract work recoverable (refer to note 12)	574 678	583 586
Present value of contract work recoverable adjustment (refer to note 17)	-	(7 327)
	574 678	**576 259**

This represents work done by external audit firms on behalf of the AGSA. Work is allocated to audit firms based on a tender process. No mark-up is applied to contract work.

15 OTHER INCOME

	2018 R'000	2017 R'000
Sundry income [6]	1 204	2 898
Telephone charges recovered	56	76
	1 260	**2 974**

[6] Sundry income consist mainly of income from the AGSA's gift shop, tenders sold and salaries recovered for academic trainees.

	2018 R'000	2017 R'000

16 OTHER OPERATIONAL EXPENDITURE

	2018 R'000	2017 R'000
Auditors' remuneration		
Statutory audit services	2 363	3 483
Adjustment of allowance for impairment of receivables (refer to notes 4 and 18.3)	(36 620)	8 076
Governance costs	1 374	911
ICT services	61 456	55 934
Internal audit fees	3 531	5 178
Legal costs	5 609	5 897
Loss on disposal of property, plant and equipment (refer to note 18.3)	151	19
Operating leases - land and buildings	115 111	109 137
Operating leases - equipment	5 690	6 027
Other operational expenses (excluding staff cost)	21 735	23 234
Outsourced services	15 464	16 380
Receivables written off as uncollectable	57 719	-
Recruitment costs	15 820	15 362
Stakeholder relations	21 279	27 167
Stationery and printing	7 076	8 331
Subsistence and travelling	33 604	28 481
Telephone and postage	8 995	8 815
Present value of expenditure adjustment (refer to note 17)	-	(4 084)
	340 357	**318 348**

	2018 R'000	2017 R'000

17 NET INTEREST COST

	2018 R'000	2017 R'000
Interest income		
Interest income - bank, investments and debtors	67,065	63,174
Interest income on bank and investments	35 974	36 844
Interest on overdue debtors accounts	31 091	26 330
Present value of revenue adjustment (refer to note 12)	-	6 044
	67 065	**69 218**
Interest expense		
Interest on lease payments	(14)	-
Interest on repayment of salary over-payments in the former TBVC states	(1)	(1)
Interest on VAT payment	-	(2 767)
Present value of expenditure adjustment	-	(11 411)
Present value of contract work recoverable adjustment (refer to note 14)	-	(7 327)
Present value of other expenditure adjustment (refer to notes 16)	-	(4 084)
Interest expense adjustment on retirement benefit obligations (refer to note 9)	(5 883)	(6 486)
	(5 898)	**(20 665)**

18 NOTES TO THE CASH FLOW STATEMENT

18.1 Cash receipts from auditees

	2018 R'000	2017 R'000
Revenue	3 246 612	2 983 255
Net decrease/(increase) in trade receivables	102 612	(126 545)
	3 349 224	**2 856 710**

18.2 Total direct audit cost payments

	2018 R'000	2017 R'000
Direct audit cost	(2 062 815)	(1 975 991)
Net (decrease)/increase in trade payables	(20 175)	7 875
	(2 082 990)	**(1 968 116)**

		2018 R'000	2017 R'000
18.3	**Operational expenditure payments**		
	Operational expenditure	(1 122 336)	(1 033 695)
	Adjusted for:		
	Operating leases	(7 567)	(4 411)
	Interest income	(67 065)	(69 218)
	Interest expense	5 898	20 665
	Depreciation	40 611	30 410
	Amortisation	17 177	15 357
	(Decrease)/increase in allowance for impairment of receivables (refer to notes 4 and 16)	(36 620)	8 076
	Increase in 13th cheque accrual	62	271
	(Decrease)/increase in leave pay accrual	(1 613)	12 276
	Increase in performance bonus accrual	35 565	28 143
	Decrease in liability for post-retirement medical aid benefits	(3 015)	(4 740)
	(Decrease)/increase in accruals	(6 103)	956
	Loss on the disposal of property, plant and equipment and intangible assets (refer to note 16)	151	19
		(1 144 855)	(995 891)
	Other working capital changes	(7 071)	57 573
	Decrease in other receivables	3 299	5 963
	(Decrease)/increase in other payables	(10 370)	51 610
		(1 151 926)	**(938 318)**

19 NOTEBOOK LOSSES

	2018 R'000	2017 R'000
74 (2017: 106) notebook computers stolen and written off at the carrying amount	**391**	**443**

The AGSA policy is to self-insure notebook computers as this has proven to be more economically effective.

	2018 R'000	2017 R'000

20 COMMITMENTS

20.1 Operating lease commitments

	2018 R'000	2017 R'000
The future minimum commitments are as follows:		
Due within one year	88 018	91 155
Land and buildings	83 623	87 163
Office equipment	4 395	3 992
Between one and five years	126 210	165 182
Land and buildings	124 012	165 045
Office equipment	2 198	137
More than five years	50 357	64 418
Land and buildings	50 357	64 418
	264 585	**320 755**

The office premises are leased for periods between two and thirteen years. The average lease payments are R6 968 578 (2017: R7 263 555) per month. The lease payments escalate between 7% 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 AGSA does not have the option to acquire the land and buildings.

Certain items of office equipment are leased for a period of three years. The average lease payments are R366 250 (2017: R332 663) per month. The lease agreements are renewable at the end of the lease term and the AGSA does not have the option to acquire the office equipment.

20.2 Other commitments

Thuthuka

The AGSA has committed to fund 210 undergraduate students for a period of three years while they complete their studies, at a rate per student that is determined every year by the Thuthuka Bursary Fund trustees and on condition that the AGSA can stop its financial contribution by written notice. As the rate per student is determined yearly, the commitment cannot be quantified; however, the yearly commitment at current rates amounts to R14 605 500 (210 students x R69 550 per student).

Scholarship fund

The AGSA launched the Centenary Scholarship Fund during the centenary celebrations in November 2011. This one-off initiative enabled 32 young students to pursue careers in the financial management or accounting streams at SAICA-accredited universities. The AGSA funds students for undergraduate and postgraduate studies if they progress academically and for a maximum five years. The funds provided include tuition, accommodation, books and living allowance. The students are required to work for the AGSA for the duration equivalent to the years funded. Due to the uncertainties around the varying costs of studies across the universities and the pass rate, the amount cannot be quantified; however, the yearly commitment at current rates is estimated at R216 000 for 2 students for the 2018-19 financial year.

External bursaries

External bursaries are awarded annually to full-time students for undergraduate and postgraduate studies until they complete the qualification and with the condition that all subjects must be passed. Failed subjects are repeated at the student's own expense. If a student fails repeatedly, the bursary agreement is terminated and the amounts advanced must be repaid to the AGSA, or in certain instances, redeemed through employment at the AGSA if the student already has a degree. Due to the uncertainties around the varying costs of studies across the universities and the pass rate, the amount cannot be quantified, but will be managed within the budgeted amount of R8 987 091 for approximately 97 students for the 2018-19 financial year.

		2018 R'000	2017 R'000
20.3	**Capital commitments**		
	Approved and contracted [7]	8 752	24 238
	Approved but not yet contracted	50 948	65 065
	Total approved [8]	**59 700**	**89 303**
	Source of funding		
	Internal financing	59 700	89 303
		59 700	**89 303**

[7] Property, plant and equipment approved and contracted for in 2017-18 but for the 2018-19 financial year.

[8] This relates to property, plant and equipment approved during 2017-18 for the 2018-19 budget.

21 CONTINGENT LIABILITIES

Legal claim

During the 2017 financial year, a review application was brought against the AGSA in the High Court of South Africa. The AGSA's legal advisors believe that the AGSA has reasonable defences against the claim and that the probability of loss will be unlikely. Accordingly, no provision has been made in the annual financial statements.

22 RELATED PARTIES

Transactions with related parties are on an arm's length basis at market-related prices.

22.1 KEY MANAGEMENT PERSONNEL COMPENSATION

Total short-term, long-term and termination benefits paid to manage-ment.

2018

Position	Name	Appoint-ment date	Termina-tion date	Gross remunera-tion R'000	Performance bonus R'000	Total remunera-tion R'000
Auditor-General [9]	T Makwetu	1 Dec 2013		6 351	-	6 351
Deputy Auditor-General	T Ratsela	1 Apr 2014		3 803	1 167	4 970
National Leader	EM Zungu	1 Jul 2014		3 113	632	3 745
Corporate Executive	AH Muller	1 Mar 2008		2 701	565	3 266
Corporate Executive	BR Wheeler	1 Mar 2008		2 701	565	3 266
Corporate Executive	JH v Schalkwyk	1 Nov 2010		2 709	565	3 274
Chief Financial Officer	SS Ngoma	1 Nov 2012		2 540	942	3 482
Corporate Executive	SN Ngobese	1 Jan 2013	31 Jan 2018	1 976	-	1 976
Corporate Executive	MS Segooa	1 Aug 2014		2 618	565	3 183
Corporate Executive	MM Sedikela	1 Jan 2016		2 608	565	3 173
Chief People Officer	MM Mabaso	1 Aug 2016		2 466	520	2 986
Corporate Executive	V Maharaj (Acting)	1 Dec 2016	31 May 2017	355	-	355
Corporate Executive	V Maharaj	1 Aug 2017		1 658	497	2 155
Corporate Executive	S Lubambo	1 Aug 2017		1 701	497	2 198
Total management compensation (refer to note 13)				**37 300**	**7 080**	**44 380**

[10]

22.1 KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

2017

Position	Name	Appointment date	Termination date	Gross remuneration R'000	Performance bonus R'000	Total remuneration R'000
Auditor-General [9]	T Makwetu	1 Dec 2013		5 935	-	5 935
Deputy Auditor-General	T Ratsela	1 Apr 2014		3 560	528	4 088
National Leader	EM Zungu	1 Jul 2014		2 965	591	3 556
Corporate Executive	AH Muller	1 Mar 2008		2 402	490	2 892
Corporate Executive	BR Wheeler	1 Mar 2008		2 384	490	2 874
Corporate Executive	JH v Schalkwyk	1 Nov 2010		2 428	496	2 924
Chief Financial Officer	SS Ngoma	1 Nov 2012		2 191	447	2 638
Corporate Executive	SN Ngobese	1 Jan 2013		1 987	406	2 393
Corporate Executive	S Badat	1 Mar 2014	28 Feb 2017	2 270	-	2 270
Corporate Executive	VT Msibi	1 May 2013	31 Jan 2017	2 066	-	2 066
Corporate Executive	MS Segooa	1 Aug 2014		2 159	441	2 600
Corporate Executive	MM Sedikela	1 Jan 2016		2 138	293	2 431
Chief People Officer	MM Mabaso	1 Aug 2016		1 467	220	1 687
Corporate Executive	V Maharaj (Acting)	1 Dec 2016		711	116	827
Total management compensation (refer to note 13)				**34 663**	**4 518**	**39 181** [10]

[9] Included in the Auditor-General's salary is deferred compensation of R1 465 559 (2017: R1 369 681).

[10] This includes all remuneration paid to management.

Compensation to management is summarised as follows:

	2018 R'000	2017 R'000
Short-term employee benefits	42 914	37 811
Long-term employee benefits - termination	1 466	1 370
	44 380	**39 181**

23 FINANCIAL INSTRUMENTS

The carrying amount of financial assets and liabilities reasonably approximate their fair value due to the short-term nature of the financial instruments.

23.1 MARKET RISK

23.1.1 Interest rate risk management

The exposure to changes in interest rates relates primarily to the AGSA's current and call accounts.

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

	2018		
	Current & call account interest rate		
	Current balance	+1%	-1%
Net surplus (R'000)	67 344	73 404	61 318
% change	-	9,0%	-8,9%
Current bank and call account balances (R'000)	663 622	669 682	657 596
% change	-	0,9%	-0,9%

	2017		
	Current & call account interest rate		
	Current balance	+1%	-1%
Net deficit (R'000)	(14 578)	(9 091)	(21 269)
% change	-	37,6%	-45,9%
Current bank and call account balances (R'000)	553 229	558 716	546 538
% change	-	1,0%	-1,2%

23.2 CREDIT RISK

Financial assets that potentially subject the AGSA to concentrations of credit risk consist principally of cash and short-term deposits placed with the Public Investment Corporation (PIC) and financial institutions that have the following short-term bank deposit credit ratings:

Financial institution	2018 (2017)		
	Fitch	Moody's	S&P
Standard Bank	F1+ (F1+)	P-1 (P-3)	B (A-3)
Investec	F1+ (F1+)	P-1 (P-1)	A-1 (A-1)
Nedbank	F1+	P-3	B

The PIC 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 impairment. Credit risk with respect to trade receivables is limited to some degree due to the AGSA's constitutionally conferred audit mandate. However, the AGSA has a significant concentration of credit risk with local government debtors.

All financial assets are unsecured. The carrying amount of financial assets included in the statement of financial position represents the AGSA's exposure to credit risk in relation to these assets.

An analysis of the ageing of trade receivables that are 30 days and over is as follows:

R267 325 000 (2017: R426 692 000) of receivables, comprising 41,2% (2017: 53,0%) of total receivables, are in arrears. Local government debtors arrears comprise R190 402 000 (2017: R372 372 000) which is 71,2% (2017: 87,3%) of total arrears and amount to 29,3% (2017: 46,2%) of total receivables.

A breakdown of the ageing and concentration of credit risk that arises from the AGSA's trade receivables (refer to note 4) in relation to the type of auditees is as follows:

23.2 CREDIT RISK (continued)

2018 Debtor type	Total R'000	Current R'000	30 - 120 R'000	120+ R'000
National	66 193	64 388	1 650	155
Provincial	136 477	127 761	5 744	2 972
Local	248 867	58 465	122 489	67 913
Statutory	45 357	22 289	950	22 118
Other [11]	152 701	109 367	13 712	29 622
	649 595	**382 270**	**144 545**	**122 780**

2017 Debtor type	Total R'000	Current R'000	30 - 120 R'000	120+ R'000
National	90 205	89 357	848	-
Provincial	150 488	144 465	3 089	2 934
Local	390 633	18 261	138 667	233 705
Statutory	42 535	23 954	564	18 017
Other [11]	131 949	103 081	4 367	24 501
	805 810	**379 118**	**147 535**	**279 157**

Financial assets subject to credit risk

2018 Debtor type	Total R'000	Fully performing R'000	Past due but not impaired R'000	Impaired R'000
National	66 193	64 388	1 792	13
Provincial	136 477	127 761	8 232	484
Local	248 867	58 465	147 378	43 024
Statutory	45 357	22 289	2 926	20 142
Other [11]	152 701	109 367	19 853	23 481
	649 595	**382 270**	**180 181**	**87 144**

23.2 CREDIT RISK (continued)

2017 Debtor type	Total R'000	Fully performing R'000	Past due but not impaired R'000	Impaired R'000
National	90 205	89 238	967	-
Provincial	150 488	144 465	5 549	474
Local	390 633	18 261	228 030	144 342
Statutory	42 535	23 954	3 102	15 479
Other [11]	131 949	103 081	11 796	17 072
	805 810	**378 999**	**249 444**	**177 367**

Aging of financial assets past due but not impaired

2018	30-60 days	60-90 days	90-120 days	120+ days	Total
National	1 664	2	-	126	1 792
Provincial	5 362	262	107	2 501	8 232
Local	15 260	49 393	47 950	34 775	147 378
Statutory	532	178	-	2 216	2 926
Other [11]	5 185	4 706	2 482	7 480	19 853
	28 003	**54 541**	**50 539**	**47 098**	**180 181**

2017	30-60 days	60-90 days	90-120 days	120+ days	Total
National	967	-	-	-	967
Provincial	2 168	457	459	2 465	5 549
Local	14 773	36 631	65 153	111 473	228 030
Statutory	213	204	-	2 685	3 102
Other [11]	183	2 485	577	8 551	11 796
	18 304	**39 777**	**66 189**	**125 174**	**249 444**

[11] Other receivables include unlisted public entities, municipal entities and utility agency corporations.

23.3 LIQUIDITY RISK

Liquidity risk is the risk that the AGSA will not be able to meet its financial obligations as they fall due.

The AGSA has adequate cash balances at its disposal and minimum long-term debt, which limits liquidity risk. Nevertheless, budgets and cash flow forecasts are prepared annually to ensure liquidity risks are monitored and controlled.

Maturity profile of financial instruments	**2018 R'000**	**2017 R'000**
	1 year or less	**1 year or less**
Assets		
Trade and other receivables	574 745	639 159
Total trade and other receivables	601 921	671 212
Prepayments	(27 176)	(32 053)
Cash	663 622	553 229
Current account	355 076	266 003
Overnight call account	1 834	1 694
Notice deposit	147 176	136 357
Call account - PIC	159 536	149 175
Total financial assets	**1 238 367**	**1 192 388**
Liabilities		
Trade and other payables	99 900	116 365
Total trade and other payables	463 134	465 768
Payroll accruals	(300 546)	(266 532)
VAT and PAYE	(62 688)	(82 871)
Total financial liabilities	**99 900**	**116 365**
Net financial assets	**1 138 467**	**1 076 023**

All financial assets and liabilities mature in less than one year

23.4 CLASSIFICATION OF FINANCIAL INSTRUMENTS

2018

Line items presented in the statement of financial position summarised per category of financial instrument	Loans and receivables R'000	Non-financial assets R'000	Total R'000
Financial assets			
Financial assets measured at amortised cost			
Trade and other receivables (refer to note 4)	574 745	27 176	601 921
Cash and cash equivalents (refer to note 5)	663 622	-	663 622
	1 238 367	**27 176**	**1 265 543**

	Financial liabilities R'000	Non-financial liabilities R'000	Total R'000
Financial liabilities			
Financial liabilities measured at amortised cost			
Trade and other payables (refer to note 11)	289 112	174 022	463 134
	289 112	**174 022**	**463 134**

2017	Loans and receivables R'000	Non-financial assets R'000	Total R'000
Financial assets			
Financial assets measured at amortised cost			
Trade and other receivables (refer to note 4)	639 159	32 053	671 212
Cash and cash equivalents (refer to note 5)	553 229	-	553 229
	1 192 388	**32 053**	**1 224 441**

23.4 CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

	Financial liabilities R'000	Non-financial liabilities R'000	Total R'000
Financial liabilities			
Financial liabilities measured at amortised cost			
Trade and other payables (refer to note 11)	269 950	195 818	465 768
	269 950	**195 818**	**465 768**

24 TAXATION

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

25 PROFESSIONAL INDEMNITY INSURANCE

It is not the policy of the AGSA to take professional indemnity insurance cover.

26 EVENTS AFTER THE REPORTING PERIOD

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

27 COMPARATIVE INFORMATION

The classification of certain statement of financial position, statement of surplus or deficit and comprehensive income and cash flow items were restated for better presentation. The effect of the reclassification in the previous year was as follows:

	2017 Restated	2017 Originally disclosed
Effect in the statement of financial position		
Non-current liabilities		
Retirement benefit obligations	60 983	63 587
Current liabilities		
Retirement benefit obligations - current portion	2 604	-
Operating lease liability - current portion	10 133	-
Trade and other payables	465 768	475 901
	539 488	**539 488**
Effect in the statement of surplus or deficit and other comprehensive income		
Recoverable staff cost	(1 245 009)	(1 334 574)
Non-recoverable staff cost	(719 247)	(629 682)
	(1 964 256)	**(1 964 256)**
Effect in the statement of cash flows		
Cash flow from operating activities		
Cash receipts from auditees	2 856 710	2 856 714
Total direct audit cost payments	(1 968 116)	(2 057 681)
Operational expenditure payments	(938 318)	(848 757)
	(49 724)	**(49 724)**

27 COMPARATIVE INFORMATION (continued)

	2017 Restated	2017 Originally disclosed
Effect in the notes		
Note 13 - Staff cost		
Other non-recoverable staff salaries	368 454	278 889
Recoverable staff cost (part of direct audit cost)	1 245 009	1 334 574
Note 18.1 - Cash receipts from auditees		
Net (increase)/decrease in trade receivables	(126 545)	(126 541)
Note 18.2 - Total direct audit cost payments		
Direct audit cost	(1 975 991)	(2 065 556)
Note 18.3 - Operational expenditure payments		
Operational expenditure	(1 033 695)	(944 130)
Increase in 13th cheque accrual	271	-
(Decrease)/increase in leave pay accrual	12 276	-
(Decrease)/increase in performance bonus accrual	28 143	-
Operating leases - current portion	956	-
	(992 049)	(944 130)
Other working capital changes	57 573	99 215
Decrease in other receivables	5 963	5 959
(Decrease)/increase in other payables	51 610	93 256
	(1 423 549)	**(1 423 549)**

GLOSSARY
OF TERMS

A

ABASA	Association of Black Accountants in South Africa
AC	Audit committee
ACCA	Association of Chartered Certified Accountants
AFROSAI	African Organisation of Supreme Audit Institutions
AFS	Annual financial statements
AG	Auditor-General
AGSA	Auditor-General of South Africa
APC	Assessment of Professional Competence
APAC	Association of Public Accounts Committees
ARD	Audit Research and Development
ASB	Accounting Standards Board
ASMIS	Audit Services Management Information System

B

B-BBEE	Broad-based black economic empowerment
BU	Business unit

C

CA	Chartered accountant
CCMA	Commission for Conciliation, Mediation and Arbitration
CISA	Certified information systems auditor
CoGTA	Department of Cooperative Governance and Traditional Affairs
CPD	Continuing professional development
CTA	Certificate in the Theory of Accounting
CWC	Contract work creditors

D

DAG	Deputy Auditor-General
DHET	Department of Higher Education and Training
DPSA	Department of Public Service and Administration

E

EAP	Employee assistance programme
EE	Employment equity
ERP	Enterprise resource planning
EXCO	Executive committee

F

FET	Further education and training
FTC	Fixed-term contract

G

GHG	Greenhouse gas
GRAP	Generally Recognised Accounting Practice
GRI	Global Reporting Initiative

I

ICT	Information and communications technology
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
INTOSAI	International Organisation of Supreme Audit Institutions
IR	Integrated reporting
IRBA	Independent Regulatory Board for Auditors
ISA	International Standards on Auditing
ISQC1	International Standard on Quality Control
ISSAIs	International Standards of Supreme Audit Institutions
ITC	Initial Test of Competence

M

MECs	Members of executive council
MFMA	Local Government: Municipal Finance Management Act
MIS	Management information system
MPAC	Municipal public accounts committee
N	
NA	National Assembly
NCOP	National Council of Provinces
NT	National Treasury

O

OHS	Occupational health and safety

P

PAA	Public Audit Act
PAC	Public accounts committee
PC	Portfolio committee
PCF	Premiers' Coordinating Forum
PDO	Predetermined objectives
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

SAI	Supreme audit institution
SAICA	South African Institute of Chartered Accountants
SAIGA	Southern African Institute of Government Auditors
SALGA	South African Local Government Association
SMIS	Stakeholder Management Information System
SOC	State-owned company
SCoAG	Standing Committee on the Auditor-General
SCOPA	Standing Committee on Public Accounts

T

TA	Trainee auditor
TBF	Thuthuka bursary fund

ANNEXURE 1:
GLOBAL REPORTING INITIATIVE GUIDELINE

The Guidelines for sustainable reporting of the Global Reporting Initiative (GRI) G4 informed the content and format of the report and it meets the information and reporting requirements in accordance with the 'Core' version.

GENERAL STANDARD DISCLOSURES

GRI	DESCRIPTION	PAGE #
	STRATEGY AND ANALYSIS	
G4-1	Statement from the most senior decision maker of the organisation about the relevance of sustainability to the organisation.	12-13
	ORGANISATIONAL PROFILE	
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G4-4	Primary products and services of the AGSA	30
G4-5	Location of head office	36
G4-6	National footprint of the AGSA	36
G4-7	Nature of ownership and legal form	28
G4-8	Geographic breakdown, types of customers and beneficiaries	36
G4-9	Scale of the organisation including • Number of employees • Number of operations • Net revenue • Quantity of services / products offered	36
G4-10	Workforce profile • Total number of employees (Permanent) • Total number of employees (Contract) • Workforce by region and gender • Workforce by occupation group and gender • Workforce by employment contract and gender • Workforce profile by race and age • New employee hires • State whether a substantial portion of the organisation's work is performed by con-tractors	36, 82-83
G4-11	Percentage of employees covered by collective bargaining agreements	91
G4-12	Description of AGSA's supply chain	39-40
G4-13	Report any significant changes during the reporting period regarding the organisation's size, structure or supply chain	40

GRI	DESCRIPTION	PAGE #
G4-14	Report on whether and how the precautionary approach or principle is addressed by the organisation	56-57, 102-103
G4-15	External charters, principles and initiatives that we subscribe to or endorse	48
G4-16	Memberships maintained at an organisational level	48, 97
G4-18	Process for defining the report content and the Aspect boundaries	52
G4-19	Material aspects identified in the process for determining the content of this report	52
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G4-25	Basis for identification and selection of stakeholders	68
G4-26	Organisation's approach to stakeholder management (Pursuing high-quality interactions – creating, owning, managing and sustaining relationships)	69-71
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	REPORT PROFILE	
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G4-29	Date of the most recent report	
G4-30	Reporting cycle	52
G4-31	Contact details for enquiries	53
G4-32	Reporting principles, policies and practice	52
G4-33	Organisation's policy and practice on seeking external assurance	53
	GOVERNANCE	
G4-34	Governance structures within the AGSA	41
	ETHICS AND INTEGRITY	
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	SPECIFIC STANDARD DISCLOSURES	
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G4-LA6	Occupational health	91
G4-LA9	Average hours of training, per employee and by employee category	85
G4-LA12	Diversity and equal opportunity • Workforce by region and gender • Workforce by grade, race and gender • Workforce by employment contract and gender • Workforce profile by race and age • Executive committee by race group	36, 82-83
G4-LA16	Labour practices and grievance mechanisms	91

GRI	DESCRIPTION	PAGE #
G4-SO1	Local communities • Socio-economic development (corporate social responsibility initiatives)	101-102
G4-EN3	Energy consumption within the organisation	35
G4-EN15	Direct greenhouse gas emissions	35
G4-EN16	Indirect Greenhouse Gas Emissions	35

INTEGRATED REPORTING

INDEX

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Organisational Overview and External Environment	• The Auditor-General's message • The Deputy Auditor General's Overview of performance • Who we are • Value Creation process • Strategic Risks • Conditions under which we operate
Governance	• Corporate Governance • The Governance Chain • External Charters, principles and initiatives that we subscribe to or endorse
Business Model	• Business Model • Our Value Creation Model • Value & Benefits of Supreme Audit Institutions
Risks and Opportunities	• Strategic Risks • Our Value Creation Model
Strategy and Resource Allocation	• The Auditor-General's message • The Deputy Auditor General's Overview of performance • Who we are • Value Creation process
Performance	• Organisation's performance against predetermined objectives - Value-Adding auditing - Visibility for impact - Viability - Vision and Values driven
Outlook	• The Deputy Auditor General's Overview of performance • Value-Adding auditing • Visibility for impact • Viability • Vision and Values driven
Basis of Preparation and Presentation	• Reporting profile

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