



Annual Report 2007 | 2008



A U D I T O R - G E N E R A L

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Letter to the Speaker

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

September 2008

Dear Madam Speaker

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

In terms of the provisions of section 10(2) of the Public Audit Act of 2004, it is an honour to submit my annual report, including the audited financial statements, for the financial year ended 31 March 2008.

It gives me great pleasure to announce that the Audit Committee, which is established in terms of section 40 of the act, is satisfied with the audited financial statements, which once again contain an unqualified audit opinion.

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

I respectfully draw your attention to section 41(5) of the Public Audit Act of 2004, requiring submission within six months, and therefore request that this report be tabled in Parliament by 30 September 2008. The act also requires me to simultaneously submit a copy of this report to the Standing Committee on the Auditor-General. It would therefore be appreciated if the report could be referred to this committee for its consideration.



Yours faithfully
Terence Nombembe
Auditor-General

"The Auditor-General exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector, thereby building public confidence.

This is our constitutional mandate and our promise to the people of South Africa."

Terence Nombembe

Auditor-General



Comment of the Auditor-General

I am pleased to present the 2007-08 annual report.

This annual report reflects our strategic thrust and commitment to fulfil our constitutional mandate, raise our performance to a higher level and engender public confidence in our organisation as a chapter 9 institution.

As the country's supreme audit institution, the Auditor-General is responsible for the auditing of national and provincial state departments and administrations, all municipalities and any other institution or accounting entity required by national and provincial legislation to be audited by the Auditor-General. The purpose is to uphold and strengthen the country's democracy by enabling oversight, accountability and governance in the public sector, thereby building public confidence.

We are pleased with the positive outcome of our report. As an institution that is charged with scrutinising the performance of others, we are constantly striving to lead by example when dealing with public finances. We know that there are still critical areas on which we need to improve and have put measures in place to better our performance in these areas.

The environment within which the Auditor-General functions is becoming more demanding and requires ever-increasing levels of professionalism. We have embraced this challenge and in the past year implemented a number of initiatives to achieve higher standards of professionalism.

During this reporting period, we embarked on the strategic path of making our audit reports more relevant to our stakeholders so that they better understand our functions and audit outcomes. Messages to our stakeholders centre on our independence and objectivity as stipulated in our constitutional mandate and the manner in which we contribute towards the accountability chain to ensure good governance of public funds.

Our audit coverage continues to respond innovatively to the needs and requirements of stakeholders. In addition, we continue to invest in the development of excellent leaders

and professionals at all levels and in making a constructive contribution to the accounting and auditing profession, which will ultimately ensure that we effectively fulfil our duty of strengthening South Africa's democracy.

Being at the pinnacle of transformation in South Africa, we are committed to supporting and accelerating transformational developments. We recognise that the implementation of a broad-based black economic empowerment (BBBEE) strategy is an essential mechanism for meeting the objectives of achieving sustainable and inclusive economic development, social stability and labour-absorbing economic growth. Thus, the Auditor-General aims to empower all audit firms so that they can build capacity within the auditing profession and, especially, develop more black accountants and auditors.

Our measurable strategic objectives have ensured that we deliver on our constitutional mandate. These measures and targets were the key drivers for the Auditor-General during the year under review and aimed to ensure that our constitutional mandate was fulfilled in a cost-effective manner while at the same time value was added to the audit services we provided.

Promoting accountability and governance

From 6 October 2007, I embarked on a country-wide roadshow presenting our overview of the 2006-07 national and provincial government audits to the various legislatures. The emphasis was on how government departments had performed in that financial year, and on identifying areas where they should focus their efforts to improve public sector financial management. This initiative, which proved to be quite successful, will be repeated in the new financial year and will include local government.

Towards greater professionalism

The Auditor-General embraced the challenge of achieving

higher levels of professionalism by undertaking a number of initiatives to achieve this. Among others, we implemented strategies to improve the quality of audits, such as incorporating the new auditing standards into the processes used prior to finalising key audit reports. We also continued implementing our reputation management model and a records and document management strategy.

Auditing and relevance of reporting

The relevance of our reporting was a strategic theme for 2007-08, with the emphasis on adding greater value to our stakeholders. The formalisation of root cause reporting represents a significant step forward in this regard as it allows the Auditor-General to drill down to the real cause of issues contained in audit qualifications. In this way, both management and oversight mechanisms are able to determine the key drivers of the audit findings, deal with these issues constructively and move towards clean audit opinions, which is clear confirmation of good governance in the public sector.

Facilitating transformation

The accounting and auditing profession is one of the most under-represented sectors for BBBEE. In line with government's drive to change the face of the mainstream economy, the Auditor-General is committed to contributing towards making this profession more representative of the country's demographics. In this regard the Auditor-General again allocated substantial audit work to those audit firms that comply with stringent BBBEE criteria. In addition, we made substantial progress in further improving our own demographics. As an example, we succeeded in raising the representation of designated groups to the ratio of 86:14 across the organisation.

Furthermore, the Auditor-General was a member of the BEE charter negotiating forum of the South African Institute of Chartered Accountants (SAICA), whose work culminated in the chartered accounting profession's BEE charter adopted on 30 November 2007. Since SAICA is the dominant accounting and auditing professional body in South Africa at present, this charter is expected to expedite the transformation objectives within this sector. The Auditor-General continues to be a member of SAICA's BEE Charter Council, which replaced

the negotiating forum, and considers this positioning relevant to leverage and promote further transformation in the broader auditing profession.

The Auditor-General as a chapter 9 institution

In his remarks at the launch of the *Report of the Ad hoc Committee on the Review of Chapter 9 Institutions and Associated Institutions* on 21 August 2007, the honourable Professor Kader Asmal, MP and Chairperson of the Committee, broadly highlighted the following, among others:

The Auditor-General is one of the South African institutions whose effectiveness is recognised and appreciated internationally. These bodies are not part of government and do not have a duty to be part of the mechanisms of cooperative government. As such, the independence of these bodies is to be respected and strengthened.

As an organisation, our response has reflected our appreciation of the recognition given to our role and our singleminded efforts to fulfil that role. In other words, and I repeat, as South Africa's supreme audit institution, we are constantly striving to make a meaningful contribution in helping to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector, in order to build public confidence. That is our constitutional mandate and it is encouraging and heart-warming to observe that our efforts are being noticed by those who are charged with governing this country.

AFROSAI and INTOSAI

The Auditor-General of SA continued to be an active member of the International Organization of Supreme Audit Institutions (INTOSAI) and the African Organisation of Supreme Audit Institutions (AFROSAI).

At the International Congress of Supreme Audit Institutions (INCOSAI) held in Mexico in November 2007, the Auditor-General of SA re-confirmed its commitment to hosting INCOSAI 2010. This event is strategically

important to the establishment of world-class public sector accounting and auditing practices. The Auditor-General of SA was appointed as the second vice-chair of INTOSAI at the Governing Board meeting held in Mexico 2007.

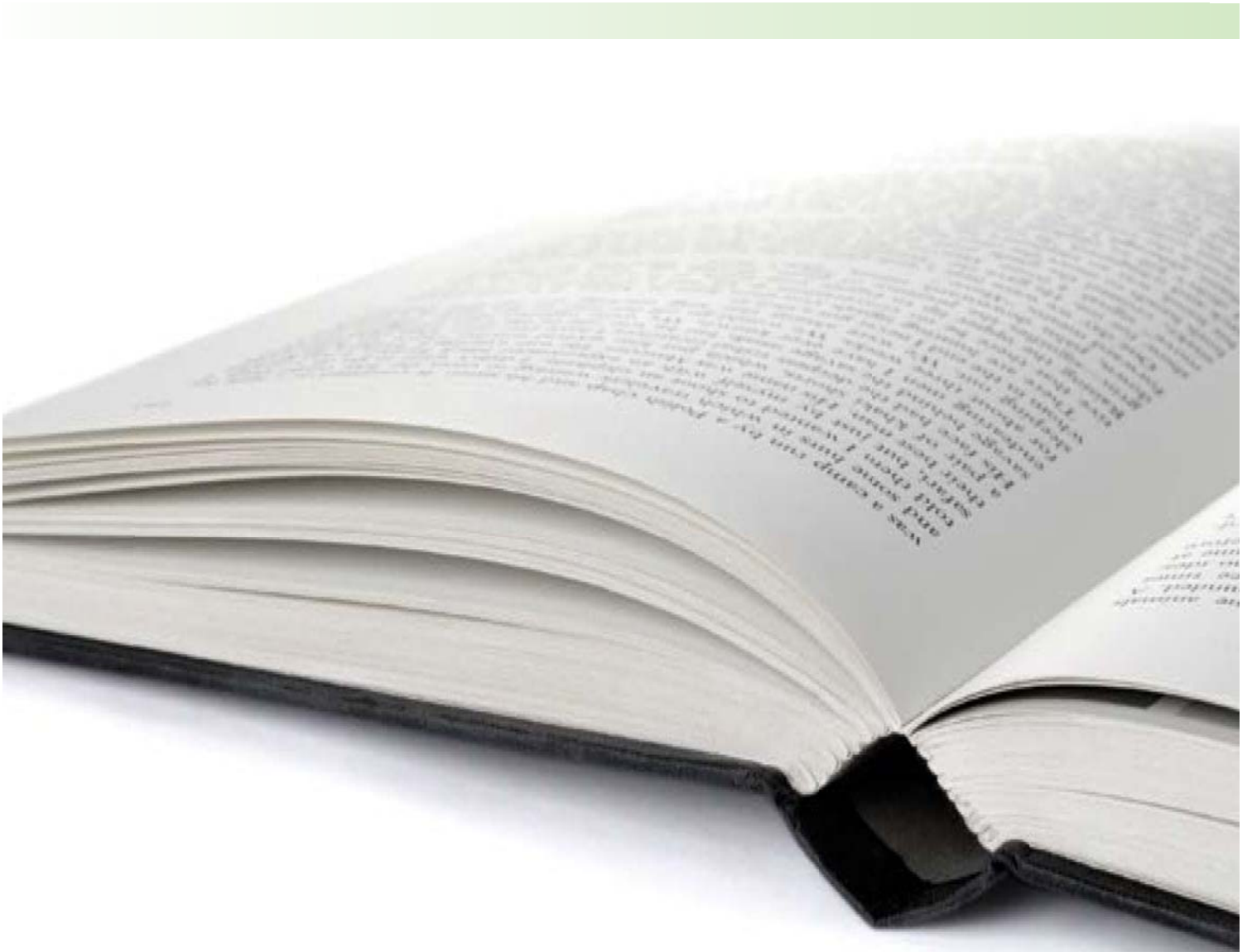
The AFROSAI Governing Board of which the Auditor-General of SA is a member, adopted the Framework of Strategic Priorities for the period 2007 to 2011 at the strategy formulation meeting in Gambia during August 2007. The progress made in the implementation of this strategic initiative will be tabled at the AFROSAI Governing Board meeting to be hosted in South Africa in October 2008.

Conclusion

The confidence shown by Members of Parliament in our work highlights the challenges we face – to continuously raise the bar for our performance and to become even more proficient in our operations. This includes identifying the impact of the findings of our reports on those we audit, and we are working hard to ensure that our audit reports are relevant, simpler, clearer and more usable. This will not only enable our stakeholders to easily understand the critical issues affecting delivery but will also empower taxpayers to engage their elected public representatives from an informed position. Herein lies our relevance as an audit institution.



Terence Nombembe
Auditor-General of South Africa



Corporate governance

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

Corporate governance is furthermore defined by the Public Audit Act (PAA). The PAA facilitates the establishment and defines the functions of the parliamentary oversight mechanism and other key structures of the Auditor-General, which include an audit committee.

The Auditor-General's corporate governance arrangements and structures have been formalised in the Corporate Governance Framework document, which was prepared and discussed with the Standing Committee on the Auditor-General (SCoAG) in October 2007. In terms of the framework, the Auditor-General (as the organisation) operates according to a one-person unitary board system, with the Auditor-General (the person) reporting to Parliament through the oversight of SCoAG. The framework also outlines the roles and functions of key corporate governance structures of the Auditor-General.

Standing Committee on the Auditor-General

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

Outputs

- During the year ended 31 March 2008, the committee held five meetings on the following dates: 17 January 2007, 19 January 2007, 22 May 2007, 25 May 2007 and 22 June 2007. On 15 October 2007, the committee met for a hearing on the 2006-07 Annual Report of the Auditor-General, as well as its Budget and Strategic Plan for 2007-08.
- In addition, the committee held a number of workshops on auditing standards, predetermined objectives and the funding model of the Auditor-General, received progress reports on the Financial Turnaround Plan for the Auditor-General, and discussed the retention of surplus funds and audit tariffs.
- The committee also met with the Audit Committee and

management team of the Auditor-General to discuss the Governance Framework.

Table 1: Members of the National Assembly who serve on the Standing Committee on the Auditor-General

Political party	Representatives
African National Congress	Ms BA Hogan (chairperson)
	Mr M Johnson
	Mr ML Mahlaba
	Mr J Nene
	Mr P Gabanakgosi
	Mr P Zulu
	Rev N Ngcobo
	Mr D Gumede
	Mr V Smith (alternative member)
Democratic Alliance	Mr E Trent
	Mr M Stephens
United Party of South Africa (now Democratic Alliance)	Mr S Simmons
National Democratic Convention	Dr G Woods
Pan African Congress of South Africa	Mr P Likotsi

Audit Committee

The Audit Committee of the Auditor-General was established in terms of section 40(6)(a) of the Public Audit Act. The committee acts as a control body and does not perform or assume any management responsibilities. It assists the Deputy Auditor-General in discharging his duties, as set out in section 43, relating to:

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

In addition, the committee assists the Deputy Auditor-General in overseeing the following:

- The approval of the criteria and procedures to be followed in the selection and appointment of external auditors, after

which the committee makes its recommendation on the appointment of the auditors to the Standing Committee on the Auditor-General for approval.

- The approval of the appointment of internal auditors and all activities relating to the internal audit function.
- The examination and review of the preparations made to ensure accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.
- The review of reports from both internal and external auditors on the effectiveness of the risk management processes and procedures.

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

The Audit Committee may, in terms of section 40(6)(b), communicate any concerns it may have to the:

- Auditor-General
- external auditors of the Auditor-General
- oversight mechanism.

The Audit Committee has terms of reference that are reviewed annually to ensure they remain relevant and are in compliance with applicable legislation. The evaluation of the committee against its terms of reference is reflected in the report of the Chairperson of the Audit Committee.

Composition of the Audit Committee and meetings

In line with the requirements of the PAA, the Audit Committee consists of four non-executive members, from whom the chairperson is selected.

The Audit Committee holds at least three meetings a year and any special meetings as and when necessary. For the period under review, the committee held three meetings and one special meeting. The internal auditors (Deloitte) and external auditors (BDO Spencer Steward) attended all committee meetings and held closed sessions with the committee without the presence of management. Management representatives

who attended committee meetings included the Deputy Auditor-General, Chief Operations Officer, Acting Chief Financial Officer, Head of Audit, Business Executive of the Governance Business Unit and the Risk Manager. The names of committee members and the details of meetings held appear in the report of the Chairperson of the Audit Committee.

Remuneration Committee

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

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

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

Overview of activities

During the year under review, the Remuneration Committee met to review the Remuneration Policy, the Performance Management Policy and the results of the job evaluation and salary benchmarking project, among others. In addition, an information workshop was held to update the committee on the Auditor-General's organisational structure, conditions of service, human capital structure and balanced scorecard and policies.

Remuneration Committee membership and attendance

The committee consisted of three non-executive members and two executive members, the latter being the Deputy Auditor-General, Mr K Makwetu, the Chief Operations Officer, Mrs L Jabavu and the Head of Audit, Mr JE van Heerden, who served as an alternate member. The committee was chaired by a non-executive member.

The committee met twice, on 4 September 2007 and 10 December 2007, and held an information workshop on 5 June 2007.

Attendance of the meetings and workshop is shown in table 2 below. It should be noted that Ms M Moloi, a non-executive member, was appointed later than other members and assumed office on 5 June 2007. The Deputy Auditor-General and the Chief Operations Officer were appointed from 1 July 2007 and 1 August 2007, respectively.

Table 2: Attendance record of the Remuneration Committee

Members	5/6/07	4/9/07	10/12/07
Dr M Bussin (Chairperson)	Yes	Yes	Yes
Mr D Edwards	Yes	Yes	Yes
Ms M Moloi	Yes	Yes	Yes
Mr JE van Heerden	Yes ¹	Yes	Yes
Mr TK Makwetu	Not applicable ²	Yes	Yes
Mrs L Jabavu	Not applicable ³	Yes	Yes

Executive Committee

The PAA authorises both the Auditor-General and the Deputy Auditor-General to delegate any power and duty assigned to them to any member of staff. In terms of the delegation of authority as contained in the Auditor-General's Management Approval Framework, an Executive Committee (Exco) was established to assist the Deputy Auditor-General in managing the business and affairs of the organisation.

Composition of the Executive Committee and meetings

The Executive Committee comprises the Deputy Auditor-General, the Chief Operations Officer, Head of Audit and five Audit Corporate Executives. Exco is chaired by the Deputy Auditor-General.

During the period under review, the Executive Committee reviewed the organisational functions of the Auditor-General. The objective was to build and strengthen operational capacity across all areas by realigning certain functions so as to reinforce the core audit business. The realignment of functions led to the creation of the position of Head of Audit, whose role is to lead and coordinate all strategic initiatives within the broader audit base.

The realigned functions also led to the creation of an Audit Development and Innovation portfolio, consisting of four existing business units, and headed by a Corporate Executive.

During the period under review, Mr S Cele, a member of the Executive Committee, resigned from the organisation and was replaced by Mr P Serote. Mr JE van Heerden was appointed as the Head of Audit. Two new Corporate Executives were appointed. Mr B Wheeler and Ms A Muller assumed duty with effect from 1 March 2008.

The Executive Committee has the power to establish sub-committees to assist it in fulfilling its obligations. Two sub-committees have been created, namely:

- the Technical Committee and
- the Procurement Committee.

Each of the sub-committees has terms of reference which are approved by the Executive Committee. The sub-committees are chaired by a member of the Executive Committee. The Technical Committee and the Procurement Committee have been in existence for a period of time.

The sub-committees consist of staff at various levels and the Technical Committee includes external representatives.

¹ In his capacity as acting Chief Operations Officer and later in his capacity as Head of Audit
² Not appointed at the time
³ Not appointed at the time

The Executive Committee holds monthly meetings and special meetings as and when necessary. In the period under review, the committee held twelve meetings.

Quality Control Assessment Committee

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

Such reviews are conducted by the Practice Review Unit of the Independent Regulatory Board for Auditors (IRBA), together with the Quality Control Unit of the Auditor-General. All review reports are submitted to the Quality Control Assessment Committee, which is professionally assisted by the IRBA and is responsible for:

- approving the quality control strategy of the Auditor-General
- setting quality control review criteria
- determining the outcome of individual review findings
- communicating overall review results to the Executive Committee of the Auditor-General
- setting criteria for positive recognition and a framework for addressing non-compliance with professional standards
- considering the consistency and quality of review reports and recommendations
- providing guidance when problems and difficulties are encountered during quality control reviews.

In the event of any disputes arising in quality control review findings, the committee deals with these by referring such cases to a Difference of Opinion Committee, which was established specifically to address these circumstances. The membership of this committee has since been reconstituted to include external members of the accounting professional bodies only, in order to strengthen the independence, objectivity and credibility of its adjudication.

⁴ Attended as alternate member on behalf of the Deputy Auditor-General, who joined the meeting at a later stage

Committee membership and attendance

The Quality Control Assessment Committee comprised three members. They were the Auditor-General, Mr T Nombembe, the Deputy Auditor-General, Mr K Makwetu and Prof K Barac, an external member. The Head of Audit, Mr JE van Heerden, served as an alternate member.

This committee meets only once a year and during the year under review, the meeting was held on 14 February 2008. Attendance is shown in table 3 below.

Table 3: Attendance record of the Quality Control Assessment Committee

Members	14 February 2008
Mr TM Nombembe (Chairperson)	Yes
Mr TK Makwetu	Yes
Mr JE van Heerden ⁴	Yes
Prof K Barac	Yes

Ad hoc Committee on the Review of Chapter 9 and Associated Institutions

The *Report by the ad hoc Committee on the Review of Chapter 9 Institutions* was submitted to the National Assembly of the Parliament of South Africa on 31 July 2007.

The mandate of this committee was to assess whether the current and intended constitutional and legal mandate of chapter 9 institutions, of which the Auditor-General forms part, was suitable for the South African environment. The committee's mandate included considering whether the utilisation of resources by these institutions was justified in relation to their outputs and contribution to democracy, and whether a rationalisation of function, role or organisation was desirable. The committee was further tasked to conduct its review with reference to collaboration and duplication of functions of the said institutions.

Executive Committee

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Terence Nombembe, Auditor-General of South Africa



Thembekile Kimi Makwetu, Deputy Auditor-General



Wally van Heerden, Corporate Executive, Head of Audit



Lindelwa Jabavu, Chief Operations Officer



Lilly Zondo, Corporate Executive



Pramesh Bhana, Corporate Executive



Paul Serote, Corporate Executive



Alice Muller, Corporate Executive



Barry Wheeler, Corporate Executive

Review findings and/or recommendations

The important conclusions reached by the committee are set out below. These conclusions, together with the recommendations made, were analysed by the Auditor-General. Where necessary, remedial steps will be proposed to ensure that the Auditor-General complies unconditionally and contributes optimally to

the strengthening of South Africa's constitutional democracy.

In general, the committee considered the functioning of the Auditor-General to be consistent with its constitutional mandate. In addition, the committee concluded that international recognition of the standards established by the Auditor-General reflected well on the institution. In order to further strengthen the efficiency and effectiveness of the Auditor-General, the committee made the following recommendations:

Recommendation by ad hoc committee	Auditor-General's strategy to address recommendations
The legal mandate for the international work performed by the Auditor-General should be clarified by legislation.	When the Auditor-General in future embarks on changes to the PAA, the need for conducting international work will also be given clear and sufficient legal support.
The Auditor-General should continue to develop its capacity to conduct performance audits of all national and provincial government departments and municipalities.	In the strategic plan, the Auditor-General continues to place more emphasis on performance auditing by ensuring that resources allocated for performance auditing are increased year-on-year. One initiative already taken is that the management of the performance audit function has been centralised to improve streamlined, focused attention and commitment to this discipline. For 2008-09, the Auditor-General expects to spend 10% of its resources on performance audits, and this includes value-for-money themes currently undertaken in the normal course of regularity auditing. Furthermore, consultations have taken place with SCoAG to define the longer-term practical parameters relating to the Auditor-General's readiness for increased performance audit coverage.
The Auditor-General and the Standing Committee on Public Accounts should bring persistent disregard for the Auditor-General's recommendations by government departments and other public institutions to the special attention of the National Assembly.	The Auditor-General will continue its interaction with the Association of Public Accounts Committees (APAC) to ensure that the Auditor-General's recommendations are actioned by the auditees. In addition to the APAC engagement, the general report roadshows on the audits conducted in all three spheres of government will continue to be used as a basis for raising awareness among the executive, oversight bodies and general public (through the media) about pertinent matters that need attention in order to achieve clean audit reports. This process is further formalised through the tabling of the general reports in the National Assembly and in each of the provincial legislatures.
The Auditor-General should continue its efforts to increase public awareness of its activities.	The Auditor-General has embarked on a number of broad stakeholder initiatives that will increase public awareness.
There should be a formal agreement with the other chapter 9 institutions to deal with any possibility of duplication or overlap of function. This is particularly necessary where cases or complaints are referred to another body. Specifically, the committee recommends that the Auditor-General should formalise its relationship with the Public Protector and establish mechanisms to track and monitor referred matters. In addition, the Auditor-General should include details of the number of complaints investigated and their outcomes.	The Auditor-General has embarked on a process of establishing a referral mechanism between itself and the other chapter 9 institutions whose responsibilities are complementary to that of the Auditor-General. This mechanism is being formalised by way of a memorandum of understanding or service level agreement (SLA) to avoid any possible duplication or overlap and ensure that all referred complaints are coordinated.

Risk management

Section 43 of the PAA requires the Auditor-General to establish and maintain a system of risk management and internal control, including an effective internal audit function. In the year under review, the Auditor-General followed a multi-pronged approach to risk management:

- During the annual strategic planning and budgeting process, all significant risks were assessed and incorporated into the plan. Risks were determined by assessing the organisation's strategic goals and objectives, and identifying significant risks which could impede the achievement of these goals and objectives. For each significant risk identified, a detailed plan with responsibilities and timelines was prepared. These plans were then monitored and reported on monthly. The risks were re-assessed during the periodic financial rolling forecast process.
- All business units submitted a monthly report, including a detailed section on external and internal risk action plans, to the Executive Committee.
- The Auditor-General used the Control Self-Assessment Tool (the CSA), a web-based measurement tool, to monitor the institution's compliance on a monthly basis, with key controls designed to prevent, detect and monitor key operational risks.
- The internal auditors provided independent assurance to management and the Audit Committee regarding management of these risks.

Risk management in the Auditor-General also continued to be closely linked to internal and external auditing. The results of annual risk assessments have been fed into the internal and external audit coverage plans, and risks identified during the auditing process were added to the organisational risk profile.

The Auditor-General's risks are divided into three key categories, namely:

Operational risks

All the Auditor-General's operational risks are linked to key business processes of the organisation and have been grouped into 18 risk areas. Depending on the level of their maturity in terms of the Capability Maturity Model, these risks are monitored on a monthly basis through the CSA Tool.

The Auditor-General is required to practise exemplary financial management by virtue of its mandate and role. However, during the year under review, the need was identified to strengthen certain controls and disciplines in the financial management unit. Executive management initiated corrective actions early on in the year and the situation has been addressed and appropriately actioned. The Standing Committee on the Auditor-General and the Audit Committee, including the external auditors and internal auditors, have been regularly apprised of the status of the action taken. Management is confident that the situation has been appropriately dealt with and that satisfactory controls have been restored.

The improvements and risk management are being closely monitored under the auspices of a financial turnaround project team to ensure that the changes and further planned improvements are sustainable.

Strategic risks

The Auditor-General also continually identifies risks in terms of its strategic/business planning process. The aim is to ensure that key risks associated with the achievement of strategic objectives are identified and monitored on a monthly basis. Examples of these risks are:

- Power failures

Current ongoing power outages may have a negative impact on the Auditor-General's ability to meet its statutory audit deadlines. Although part of the head office currently has a back-up generator, the Auditor-General is investigating the possibility of installing additional back-up generators for the entire head office complex and at the other business units in the provinces so as to minimise the impact of load shedding.

- Scarcity of skills

Scarcity of skills is also a concern, with the main problem being external poaching of skilled staff members and difficulty in attracting skilled staff, especially to provinces such as Limpopo and the Northern Cape. Initiatives to mitigate this risk included the abolition of fixed-term contracts at Band D (management level) for targeted

groups and extending the duration of fixed-term contracts at senior management level for targeted groups. The period has been extended from five years up to a maximum of 10 years, while contracts for non-targeted groups are for five years, but renewable based on predetermined criteria.

- Changing legislative landscape

The rapidly changing legislative landscape within which the Auditor-General operates can pose compliance risks. To mitigate this risk, a legislative monitoring system has been put in place to assist with the early identification of legislation that could have an impact on the organisation.

Financial risks

The key financial risks identified and monitored include the following:

- o Liquidity risk
- o Credit risk
- o Investment risk
- o Foreign exchange risk
- o Internal control risk

- Liquidity risk

The Auditor-General continues to face growing liquidity difficulties. There are a number of limitations in the current funding model primarily relating to the determination of tariffs, the amounts of the allowed surplus and the significant timing mismatch between cash inflows and outflows.

The limitations have been compounded as a result of:

- the significant growth of the Auditor-General, which is mainly driven by the implementation of International Auditing Standards, the increasing scope and risk relating to audits, the number of new audits being performed and the phased introduction of performance auditing

- increasing difficulty in collecting audit fees from local municipalities
- increasing difficulty in recruiting and retaining skilled audit staff.

During October 2007, SCoAG requested the Auditor-General to submit a proposal detailing a preferred funding model to address the current funding challenges and provide a sustainable solution for the future. In November 2007, the Auditor-General submitted a request to the National Treasury for relief funding, as provided for in section 36(1)(e) of the PAA, to alleviate its immediate funding position. The National Treasury was presented with a substantive report on all the available options for comment.

Further consultations regarding the funding model options have been held with SCoAG and the National Treasury. Best practice funding model options have also been researched through a joint initiative with the South African Institute of Chartered Accountants, as well as through the Auditor-Generals' network. A number of funding model options are currently being advanced and selection should be concluded during the 2008-09 year. The new model should become effective from the commencement of the 2009-10 financial year.

- Credit risk

The Auditor-General presents invoices for payment of the cost of its services to the auditees after the services have been rendered. Credit risk with respect to trade receivables is limited to some degree due to the constitutionally entrenched audit mandate of the Auditor-General. Certain provisions of the PAA protect the Auditor-General by enabling the National Treasury to provide for both ongoing and once-off relief. Historic collection patterns of auditees and arrears amounts, as well as the results of engagement with the provincial and national treasuries, are monitored on a regular basis to assess the adequacy of the provision made for bad and doubtful debts.

- Investment risk

Investments comprising cash and cash equivalents are only made with financial institutions of high credit quality. The investment under the management of the Public Investment Corporation is governed by the investment strategy which requires 95% of funds to be invested in money market instruments and the balance in cash.

- Foreign exchange risk

The Auditor-General delivers a relatively small component of its services (less than 5% of its total income) based on fixed-price contracts denominated in US dollars. Transaction and balance exposures are monitored on a monthly basis. The value of these transaction flows is not considered to be material and hence no forward cover is taken out on foreign exchange transactions.

Report of the

[illegible]

Chairperson of the Audit Committee

"We are pleased to present the annual report for the financial year ended 31 March 2008 as required by section 40(6) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA). Among other things, the PAA requires us to report on the effectiveness of internal controls and on our evaluation of the annual financial statements.

In addition to complying with the above statutory responsibilities, the committee has adopted appropriate formal terms of reference as its audit committee charter and has regulated its affairs in terms of this charter."

Mthandazo Peter Moyo
Chairperson of the Audit Committee

Overview of activities

Key activities undertaken by the committee during the financial year and the period leading up to the date of this report included the following:

- Reviewing and approving the organisational risk profile on which the internal and external audit coverage plans were based.
- Approving the external audit coverage plan and budget for the 2007-08 financial year.
- Approving the internal audit coverage plan and budget for the 2008-09 financial year.
- Assisting SCoAG with the re-appointment of BDO Spencer Steward as the Auditor-General's external auditors for the 2007-08 financial year.
- Meeting with SCoAG.
- Overseeing the development and roll-out of the Financial Turnaround Strategy.

Effectiveness of internal controls

Section 43(3)(b) of the PAA requires the Auditor-General to establish and maintain an effective, efficient and transparent system of financial and risk management and internal control.

The system of internal control and risk management is designed to provide cost-effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In line with the requirements of the PAA and best practices in corporate governance, internal audit regularly provides the committee and management with assurance as to the adequacy and effectiveness of the internal control system.

Based on the information received from management and the internal and external auditors, the Audit Committee is satisfied with the efforts and initiatives being put in place to enhance the level of internal control, and could thus rely on the controls relating to the preparation of the annual financial statements.

Evaluation of the annual financial statements

The Audit Committee has:

- reviewed and discussed the audited financial statements in this report with the external auditors, the Deputy Auditor-General and the Auditor-General
- reviewed changes in accounting policies and practices
- reviewed significant adjustments resulting from the audit
- reviewed the external auditors' management letter and management's responses to it
- reviewed significant matters reported by the internal and external auditors and the adequacy of corrective action taken in response to audit findings.

Following our review of the financial statements for the period ended 31 March 2008, we are of the opinion that they comply with the relevant requirements of the PAA and fairly present the state of affairs of the Auditor-General, including operations, financial results and financial position.

Committee membership and attendance

During the year under review, the committee comprised four external members. Four meetings were held during this period. Attendance is shown in table 4 below:

Table 4: Attendance record of the Audit Committee

Members	Attendance	Apology
Mr MP Moyo (Chairperson)	4	-
Mr RJ Biesman-Simons	3	1
Prof K Barac	3	1
Ms NP Mbele	3	1

Meetings were also attended by representatives of our internal auditors (Deloitte) and external auditors (BDO Spencer

Steward), as well as by some members of the Auditor-General's management team. Both management and the auditors (internal and external) were regularly afforded opportunities to discuss their concerns without the others being present.

Appreciation

On behalf of the Audit Committee, I would like to thank the Auditor-General, Terence Nombembe, the Deputy Auditor-General, Kimi Makwetu, and their management team for their support in improving the Auditor-General's internal control systems. I would also like to acknowledge and pay tribute to the Standing Committee on the Auditor-General for the cooperation, support and guidance received during the financial year.



Mithandazo Peter Moyo
Chairperson of the Audit Committee



Review of the Deputy Auditor-General

The Deputy Auditor-General is the head of administration of the institution. As such, he is the accounting officer, accountable to the Auditor-General and performing his duties in terms of sections 32 and 43 of the PAA. Mr TK Makwetu was appointed Deputy Auditor-General on 1 July 2007.

The purpose of this review is to report on the Auditor-General's performance in 2007-08 in achieving improvements in its primary and secondary focus areas.

It should be noted that the Auditor-General has structured its strategic intent into two distinct areas: primary focus areas, which are linked to the service delivery elements of the institution, and secondary focus areas.

There are five primary focus areas, these being public sector auditing, employment equity, broad-based black economic empowerment, leadership and reputation. The three secondary focus areas are people, process and financial performance.

In the year under review, as in previous years, the Auditor-General placed strong emphasis on continual improvement in the primary focus areas, as well as in the secondary focus areas. For this purpose, targets were again set for improvements in both the primary and secondary focus areas.

Among many key challenges faced by the Auditor-General in the past year have been the following:

- Filling significant vacancies within the audit environment.
- Strengthening the leadership focus on operational and strategic focus areas.
- Improving the operating environment and positioning the Auditor-General as an example of accurate and transparent reporting on both qualitative and quantitative aspects of our work.

Sterling efforts were put into all the above areas by all staff, with varied levels of success. In this report we reflect comprehensively on these achievements and draw attention to some of the remaining challenges required to continuously strengthen the environment in which the mandate of the Auditor-General is carried out.

There have been improvements in operations, and key areas of management focus have been identified to build on these successes. We continue to be inspired by the core challenge of identifying good talent and strive to nurture and grow our people internally as we grapple with the key vacancy challenges.

Performance in the primary focus areas

In 2007-08, a total of 10 targets were set for improvement in the primary focus areas. Six of these targets were linked to public sector auditing and one target each to the other primary focus areas.

Overall, four of the ten (40%) primary focus area targets for 2007-08 were met. The six areas in respect of which the targets were not met were the following:

- Quality: overall, the Auditor-General achieved 90% of its target based on "excellent" (75%) and "good" (25%) performance. The target for improving on "poor" performance was not met, which can be attributed to:
 - o Lack of experienced audit staff.
 - o High audit staff turnover.

Although the institution had to overcome the audit staffing constraints, a marked improvement in quality has been noted in 2007-08.

- Cost of auditing: the gross contribution to fixed and operating costs was 25% against the target of 34%. The main contributors to the shortfall were the following:
 - o An 8% decrease in own hours, from a budgeted 3.24 million hours to 2.98 million hours, due to higher-than-expected vacancies.
 - o Tariffs increased by 1% due to alignment with market-related salaries, additional overtime and the premium paid for temporary staff.
 - o A 67% increase in contract work due to actual audit staff vacancies and higher staff turnover.
- Timeliness of audits: the factors that contributed to the underperformance against the targets, which relate to the meeting of auditing deadlines, were the following:
 - o The general public service strike in June 2007, which caused delays in the submission of supporting documentation in a number of the bigger departments and resulted in the postponing of the reporting date to 31 August, so as to allow sufficient time for internal

consistency and quality review of report findings.

- o Material changes to entities' annual financial statements, as well as lack of audit staff in addressing backlogs.
- Auditing of performance information: the target was not met due to late submission of performance reports by entities.
- Leadership: the Auditor-General's overall Culture Index improved by 1% from a baseline of 14% to 15% in 2007-08. Although lower than the target of 2-3% increase from baseline, the improvement achieved shows that various initiatives implemented to improve leadership effectiveness have started to show the desired effect.
- Reputation: an increase of 1% from the baseline of 19% was targeted for the overall Reputation Index, but actual performance was 16%, which is 3% lower than the 2006-07 performance of 19%. The decrease in the overall

Reputation Index was largely due to the deterioration in employees' perceptions of the Auditor-General. However, the perceptions of external stakeholders such as professional bodies and the general public showed an excellent improvement.

Performance in the secondary focus areas

In the case of the secondary focus areas, a total of five targets were set. Of these, two related to people, one to process and two to financial performance.

Two of the five (40%) secondary focus area targets were met. The three targets that were not met were the following:

- Retention of staff.
- Efficiency gains, linked to the financial performance of the organisation.
- Debt collection from provincial departments, local governments and statutory bodies.

Summary of actual performance against the targets for the year ended 31 March 2008

Table 5: Performance against predetermined objectives

Primary focus area			
Main focus area	Sub-focus areas	Target	Actual performance
1. Auditing	1.1 Quality	Excellent performance (C2 and C3): 75%	Excellent performance (C2 and C3): 70%
		Good performance (R1): 25%	Good performance (R1): 20%
		Poor performance (R2): 0%	Poor performance (R2): 10%
	1.2 Cost of auditing	Additional 1% on the projected efficiency ratios of 33%	25% efficiency ratio
	1.3 Timeliness ⁵	100% achievement of all audit deadlines:	45%: PFMA organisations
		100%: PFMA organisations	75%: other PFMA organisations
		100%: other PFMA organisations	
		100%: MFMA organisations	48%: MFMA organisations
	1.4 Auditing of performance information	100% achievement of milestones set per annum	85%: PFMA 70%: MFMA
	1.5 Performance auditing	At least 8% of total audit resources allocated to performance auditing, including value-for-money focus areas	8% of total audit resources

⁵ Refer to commentary on timeliness of audit reports

Primary focus area			
Main focus area	Sub-focus areas	Target	Actual performance
	1.6 International audits	Not more than 5% of total audit income	Income from international audits makes up 2% (R22m) of total audit income, which is within the target's range.
2. Employment equity		80% from targeted groups and 20% from non-targeted groups	86% from the targeted groups and 14% from non-targeted groups
3. Broad-based black economic empowerment (BBBEE)		100% compliance with BEE criteria per annum	100% compliance with BEE criteria
4. Leadership	4.1 Leadership effectiveness	2 - 3% increase from baseline	1% increase from baseline of 14% Actual performance = 15%
5. Reputation	5.1 Overall reputation index	1% increase from baseline	3% decrease from baseline of 19% Actual performance = 16%
Secondary focus areas			
Main focus area	Sub-focus areas	Target	Actual performance
6. People	6.1 Learning and growth	Minimum of 20 qualified audit professionals per annum	32 Chartered Accountants (CA) 65 Registered Government Auditors (RGA) 3 Certified Information System Auditors (CISA) 2 Association of Chartered Certified Accountants (ACCA)
	6.2 Retention of staff	Less than 12% staff turnover rate	20% staff turnover rate
7. Process	7.1 Operational excellence	Level of maturity of business process at least: 0% at level 1 75% at level 2 25% at level 3	Level of maturity of business process at least: 6% at level 1 81% at level 2 13% at level 3
8. Financial performance	8.1 Efficiency gains (net surplus)	Additional 3% on projected efficiency gains	0% on efficiency gains Deficit amounting to R8 million
	8.2 Debt collection	National and provincial not more than 30 days Local government not more than 90 days	National = 10 days Provincial = 34 days Local government = 111 days

Primary focus areas

Auditing

Relevance of reporting

Relevance of reporting was introduced as a strategic theme in 2007-08 to drive audit product development and focus the outcomes of the annual audit processes. This concept implies achieving a balance between assuring the quality of auditing, which is the more traditional way of measuring the success of audit activities, and enhancing the value of each report to the stakeholder. Bringing together these two requirements reflects the Auditor-General's commitment to be responsive to stakeholders' needs and to advance the transformation of public finance management within the parameters of the auditing standards.

The definition of reporting relevance is multi-faceted, encompassing measurable objectives and short- and longer-term development goals. The measurable objectives set for the year under review were to improve the quality and timeliness of the audit product. In terms of development, the short-term goal has been to improve the ease of use of audit reports and enhance the impact of general reports. In the longer term, the intention is to define a clearly differentiated audit product mix.

The relevance of reporting featured prominently during the Auditor-General's Senior Management Workshop in April 2007, where the outcome of extensive research and benchmarking on the audit reporting process was reviewed. This led to the launch of a reworked reporting framework for the 2006-07 audit process in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). The new framework incorporated the latest developments in the profession in the areas of internal control, reporting formats and communication with those charged with governance.

The formalisation of root cause reporting has been the cornerstone of the changed format. By introducing this concept, the Auditor-General aimed to drill down to the real cause of issues contained in its audit qualifications. This would enable both management and oversight mechanisms

to deal with these issues constructively and move towards clean audit opinions, as a clear confirmation of good governance in the public sector. Root causes were defined against the background of the internal control requirements in the International Standards on Auditing, focusing on the following components:

- Control environment (structural deficiencies)
- Risk assessment processes (including readiness issues)
- Information systems, including business processes relevant to financial reporting and communication (often included as part of control environment or control activities)
- Control activities
- Monitoring of controls

Root cause analysis was backed by a reflection on governance issues, which in the initial phase of implementation has focused on the functioning of internal audit and audit committees.

It is accepted that the introduction of a new reporting format has served as a trigger for a process that will evolve over the coming years. By providing more context to audit findings, financial managers in government will be empowered to improve financial oversight. This was already evident in the 2006-07 cycle in terms of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), which saw a vastly improved and cleaner implementation of the new reporting principles introduced earlier that year.

The new formats used at individual entity level also had positive implications for the compilation of the Auditor-General's general reports (the annual reflection of the state of financial management in government, per audit cycle). The 2006-07 PFMA cycle saw the introduction of a totally reworked format for the general report, with extensive reflections on the environment within which the audits were conducted, root cause analysis, matters of governance, good practices observed and audit outcomes.

The new-look general reports were introduced to stakeholders through an extensive roadshow programme that allowed for interaction with the Executive at national and provincial levels, as well as with the National Assembly and the National Council of Provinces, Legislatures, media, audit staff and

other stakeholders. These interventions were well received and prompted further refinements to the process, along with more extensive stakeholder interaction and more constructive debates on public finance management. This has in turn added further momentum to the refocusing of the Auditor-General's product activities to optimise the relevance and impact of reporting.

Audit quality

As the supreme audit institution within the public sector, the Auditor-General determines the method of work for public sector auditing. This begins with the application of the auditing standards that the Auditor-General must determine in terms of the PAA and is carried through to the training strategy to ensure consistency not only in auditing but also in the quality of the final audit product.

The focus on improving the quality of audits is at the heart of professionalising the Auditor-General as it assists in cultivating a culture conducive to delivering on the constitutional mandate of strengthening democracy by enabling accountability in the public sector.

The quality process that the Auditor-General follows is one of the key measures used to establish whether audits are conducted in terms of the International Standards on Auditing, and whether there is a need for further improvement in quality from one auditing period to the next. The credibility of this process is enhanced by the annual quality review process performed by an external review entity, the Independent Regulatory Board for Auditors (IRBA). Together with the Auditor-General's own quality review component, IRBA performs reviews of auditing work done both internally and externally, through outsourcing arrangements. IRBA also undertakes independent quality reviews of private sector partners performing audits on behalf of the Auditor-General. These independent reviews are conducted on a rotational basis to determine whether the audits undertaken comply with the International Standards on Auditing.

The Auditor-General has implemented effective strategies to improve the quality of audits significantly. These include the quality control strategy and the incorporation of the new auditing standards into electronic working papers, pre-issuance reviews prior to finalisation of identified audit reports and consistency reviews.

Audit developments to further enhance the quality, clarity and consistency of reporting include the implementation of root cause reporting on financial management and greater involvement of technical support staff with the audit business units.

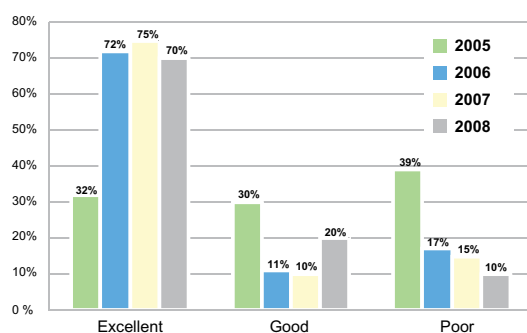
The reporting year's results only depict the annual quality control reviews conducted in the 2007-08 financial year and are shown in table 6 below.

Table 6: Annual quality control results

Target 2007-08	Performance 2007-08
Excellent performance: 75%	Excellent performance: 70%
Good performance: 25%	Good performance: 20%
Poor performance: 0%	Poor performance: 10%

The rates of "excellent" and "good" performance were lower than expected. The fact that the achievement of quality on audits was lower than targeted can be attributed to audit resource constraints, which had a negative impact on own hours; vacancies, particularly in the training department; low trainee pass rates and lack of experience due to staff rotation. Staff had to work considerable amounts of overtime to compensate for these limitations. To address overall performance on quality more holistically, the Auditor-General has taken urgent action to fill the many vacancies throughout the organisational structure, thereby relieving undue pressure to perform quality audits with limited resources. Specific action has also been taken in response to quality issues identified in the Limpopo Province.

Despite the under-performance on quality in the year under review, there has been an incremental improvement in the rate of "poor" performance, as compared to previous years since 2005-06. The improvement particularly in "poor" performance, as shown in figure 1 below, reflects the positive impact of the quality initiatives implemented over the past three years and the dedication of auditing and support services staff.

Figure 1: Annual quality control results

Cost of auditing

The cost of auditing to the government is driven by a combination of factors: those which are controllable and those which are not. The factors over which the Auditor-General has significant control and which drive the cost of auditing include the following:

- The span of control within the audit business units and audit teams.
- The ratio between work performed by the Auditor-General's own staff (own hours) and that contracted out to private audit firms (contract work).
- The recovery-of-time ratio of individuals within the audit teams.
- The tariff structures for own staff and those of private audit firms.
- The operational efficiency of the audit methods and administration systems used by the Auditor-General.

The largely uncontrollable factors include the following:

- The scope, size and complexity of the entity being audited.
- The inherent risks relating to the nature of activities of the entity.
- The maturity of financial management capability within the entity.

The Auditor-General, through its interaction with the Audit Committee, Standing Committee on Public Accounts and Standing Committee on the Auditor-General, endeavours

wherever possible to influence improvements and reduce risk in these cost drivers.

All the controllable cost factors are taken into account in calculating the measurable cost-of-auditing target. This target consists of the percentage of gross contribution margin to fixed and operational costs. The gross contribution margin is the result of audit income less direct costs such as audit staff salaries, contract work costs and audit subsistence and travel costs, but before non-audit staff salaries and other overheads.

The Auditor-General's business model is designed to minimise the cost of auditing. The emphasis is on ensuring that the income derived primarily from audit work is not excessive for the public sector, but is nevertheless sufficient to meet the necessary expenditure of the institution in carrying out its constitutional mandate.

The total cost of auditing increased from R893.8 million in 2006-07 to R1 109 million in 2007-08. The increase exceeded the 2007-08 budget by R95.7 million or 9.4%.

Included in the total cost of auditing of R1 109 million is an actual gross contribution margin of R279 million for 2007-08. This margin fell short of the budgeted target of R330 million by R51 million or 15%.

Table 7 below shows that the Auditor-General achieved an efficiency ratio of 25%. This compared to the target of an additional 1% on the budgeted figure of 33%.

Table 7: Percentage of contribution to gross profit margin

Target 2007-08	Performance 2007-08
Additional 1% on the projected efficiency ratios of 33%	25% efficiency ratio

The deterioration in efficiency ratio of 25% against the prior year's 27% was mainly due to:

- the increasing impact of tariff capping and the growing loss of contribution as increased audit hours were redirected

to contract work owing to new audits and scope and risk increases, and

- the growing impact of audit staff vacancies at certain levels due to the increasing scarcity and cost of skills in the market.

The main contributors to the shortfall in the achieved 25% efficiency ratio for 2007-08, when compared with the targeted 34%, were the following:

- Available own audit hours decreased by 8% to 2.98 million hours from a budgeted 3.24 million hours. This occurred as a result of higher-than-expected vacancies.
- Tariffs per own hour increased by an additional 1% as a result of higher-than-anticipated market pressures on salaries, additional overtime and the premium paid for temporary staff.
- The actual recovery percentage for all own audit staff was 69.5%, which was lower than the 70.9% budgeted for. The standard annual recoverable hours were not achieved due to higher-than-budgeted study leave for trainees and additional management time for senior levels.
- Contract work increased by 67% as a result of the actual

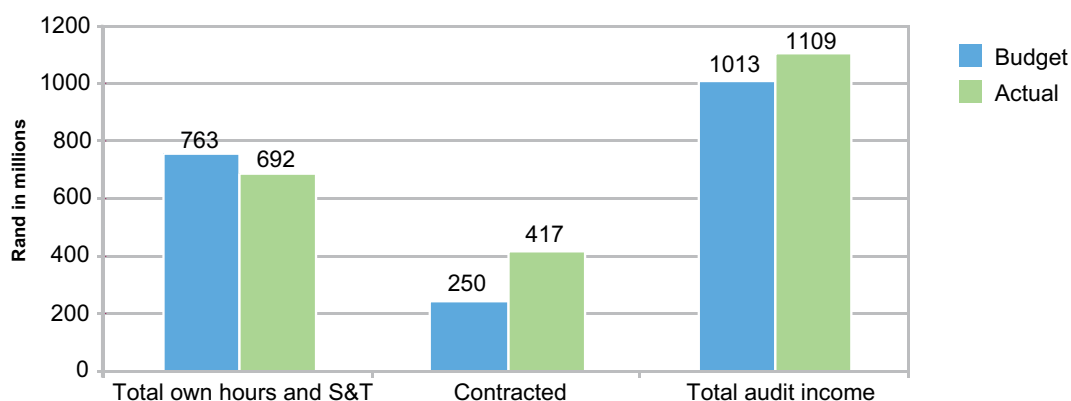
audit staff vacancies and staff turnover being higher than anticipated. The contracting-out strategy assists the Auditor-General in managing workload during peak periods and limits idle time during low periods. The additional level of contract work was required to accommodate vacancies in excess of an assumed level of 5%. The additional contract work should also be viewed in the context of the staff turnover rate (*refer to Retention of staff*) and the challenge of attracting and retaining qualified candidates in a highly competitive market. Hourly tariffs for contract work are higher than those for own hours due to the profit incentive and overhead structures of private audit firms. In addition, these fees do not contribute to the gross margin of the Auditor-General.

- Contract work tariffs exceeded budget because private audit firms' staff increases were higher than anticipated and availability was limited to staff more senior than required due to unplanned contract work demand.

Table 8 below details the percentage of gross contribution margin to fixed and operational cost.

Table 8: Percentage of gross contribution margin to fixed and operational cost

	Year-on-year % change	2007-08 Budget		2007-08 Actual		2006-07 Actual	
		Rm.	%	Rm.	%	Rm.	%
National departments	24%	238	23%	241	22%	194	22%
Provincial departments	24%	299	29%	292	26%	235	26%
Local government	22%	249	25%	313	28%	256	29%
Listed and other entities	26%	191	19%	241	22%	191	21%
International audits	17%	36	4%	22	2%	18	2%
Audit income	100%	1,013	100%	1,109	100%	894	100%
Audit staff expenses	15%	371	36%	371	33%	323	36%
Contract work – audit related	39%	250	25%	417	38%	301	33%
S&T – audit related	27%	62	6%	42	4%	33	4%
Direct expenditure	100%	683	67%	830	75%	657	73%
Efficiency ratio	18%	330	33%	279	25%	237	27%

Figure 2: Comparison of actual to budgeted audit income for 2007-08

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Timeliness of audit reports

The PFMA, the MFMA and the PAA set stringent reporting requirements for all auditees and it is evident that not all of them managed to meet their deadlines. The deadlines of the Auditor-General are directly affected by the internal deadlines of auditees. Receiving financial statements after the prescribed deadline not only impacts on the ability of the Auditor-General to perform its function in this regard, but could ultimately hamper the ability of the auditees to perform within the accountability framework.

Table 9 below sets out the results of the Auditor-General's reporting timelines in relation to the legislated deadlines.

Table 9: Reporting timeliness by the Auditor-General (within two months of receipt of the financial statements)

Despite the Auditor-General having taken a proactive approach in dealing with auditees by increasing the number of audits, planning for audits and tracking audit progress in order to meet all legislative deadlines, delays did occur. However, the reasons for non-achievement of reporting timelines were not always within the control of the Auditor-General.

The reasons for the delayed completion of PFMA audit reports within the timelines as required by legislation related mainly to:

- audit capacity constraints in dealing with the finalisation of backlogs
- material changes by the auditees to annual financial statements after submission of such statements

Target 2007-08	Performance 2007-08	Subsequent status as at:	
		31/08/2007	31/03/2008
100% achievement of all audit deadlines	Of financial statements submitted as per the legislated dates, the following were finalised within the prescribed deadline:	Of financial statements submitted as per the legislated dates, the following were finalised:	
	45% PFMA organisations ⁶ 75% other PFMA organisations ⁷ 48% MFMA organisations ⁸	99% 100% -	- - 79%

⁶ Includes national and provincial departments and listed public entities

⁷ Includes Circular 1 entities, constitutional institutions, other entities, statutory bodies, trading entities and unlisted entities

⁸ Includes municipalities, consolidated municipal financial statements and municipal entities

- the general public service strike in June 2007
- delays in the submission of supporting documentation by the auditees as a result of the general public service strike, as well as postponed internal consistency reviews of report findings.

The reasons for the delayed completion of MFMA audit reports within the timelines as required by legislation related mainly to:

- audit report backlogs, of which approximately 89% has been eliminated
- submission and re-submissions of multiple sets of annual financial statements by some auditees/provinces
- audit capacity constraints the Auditor-General had to deal with due to the scarcity of accounting professionals in the country
- factors which delayed the PFMA audits also delayed the commencement and finalisation of the MFMA audits and complicated the scheduling of resources for the various types of audits.

The Auditor-General has continued to monitor remedial steps already taken by auditees, in conjunction with the National Treasury, to ensure ongoing improvement in the quality and submission of financial statements. The National Treasury is commended for its efforts in supporting particularly the local level of government in this regard. Their assessment of readiness at local government level resulted in more relevant accounting requirements for the 2006-07 financial period.

It is also evident that the national and provincial treasuries understand the need to continually assess readiness at all levels of government and are committed to improve their guidance and support in response thereto.

Table 10 below illustrates the performance of the Auditor-General in relation to the auditing of submitted financial statements, as required by legislation for the different types of organisations.

Table 10: Performance of the Auditor-General in meeting reporting timelines of organisations

	Submission of financial statements as prescribed by the PFMA/MFMA as a percentage of total audits performed		Completion of the audit within the statutory deadlines where financial statements were submitted in accordance with PFMA/MFMA requirements		Subsequent status as at:			
					31/08/2007		31/03/2008	
	%	Number	%	Number	%	Number	%	Number
PFMA organisations	90%	316	45%	143	99%	312	-	-
Other PFMA organisations	68%	110	75%	83	100%	110	-	-
MFMA organisations	78%	265	48%	127	-	-	79%	210

Since the implementation of the PFMA compliance requirements in 1999, institutions in the national and provincial spheres of government have shown a steady improvement in submitting financial statements on time. Local government, too, has significantly improved its ability to submit financial statements timeously. This improvement has been ongoing since 2004-05 when the MFMA was first implemented.

Auditing of performance information

The information on the Auditor-General's performance against predetermined objectives is subject to audit in terms of section 20(2)(c) and section 28(1)(c) of the PAA. Both provisions stipulate that an audit report must reflect such opinions and statements as may be required by any legislation applicable to the auditee who is the subject of the audit, but must at least reflect an opinion or conclusion on the reported information relating to the auditee's performance against predetermined objectives.

Section 13 of the PAA furthermore requires the Auditor-General to determine the standards to be applied in performing such audits. Consequently, the Auditor-General has adopted a phased approach to complying with sections 20 and 28 of the PAA until such time as the environment is conducive to providing reasonable assurance in the form of an audit opinion or conclusion⁹. It is anticipated that the audited entities will only reach the required maturity level during the 2009-10 financial year, at which time the Auditor-General may be in a position to issue an opinion on performance information.

Results

Following the phased approach to the auditing of performance information involves a gradual increase in the scope and extent of audit procedures performed on performance management and reporting practices, as well as performance management systems.

In this regard, auditors were assisted with comprehensive guidance in the form of detailed audit procedures and programmes, along with practical training, in preparation for the relevant PFMA and MFMA audit cycles. During 2007-08, the audit programmes constituted the audit milestones for measurement purposes.

⁹ As per General Notice 646 of 2007, Government Gazette No. 29919 of 25 May 2007 issued by the Auditor-General

Overall the Auditor-General did not meet the target of achieving 100% of the predetermined audit milestones, which implies that not all audit business units audited performance information in full accordance with the Audit Research and Development (ARD) guidance. In total, 85% of the PFMA and 70% of the MFMA audits complied with the required milestones as per the ARD guidance, as shown in table 11 below.

Table 11: Percentage of compliance with predetermined audit coverage milestones in the auditing of performance information

Target 2007-08	Performance 2007-08
100% achievement of milestones set per annum	85% for PFMA audits 70% for MFMA audits

Reasons for the variance between planned and actual target

The non-achievement of the target can be ascribed to the following:

- The requirements as per the ARD guidance for achieving the target were more onerous than in the previous reporting period, as more audit work was required. This is also relevant in respect of the audit requirements, which necessitated an extensive validation process for the actual reported performance results.
- Late submission and/or non-submission of annual performance information reports by audited entities, preventing the Auditor-General from being able to execute all the relevant audit programmes as per the ARD guidance.

Actions to be taken

To ensure that the required target is achieved in future, the Auditor-General has already started promoting wider awareness of and training in the audit requirements for performance management and reporting. This process not only includes further training of the Auditor-General's staff, but also of auditors in private practice and relevant managers and staff at audited entities, including internal auditors and audit committee members.

The Auditor-General is also continually involved in discussion forums with the National Treasury, the Presidency and other relevant role players regarding the audit requirements for the auditing of performance information.

It is of critical importance that the National Treasury embarks on a comprehensive training and awareness programme to communicate the requirements of good performance management practices and systems to all auditees at the three tiers of government. This will ensure that all tiers of government are informed and aware of the principles as contained in the National Treasury's *Framework for Managing Programme Performance Information*¹⁰.

Performance auditing

Performance auditing focuses on evaluating the measures implemented by an auditee's management to ensure that allocated resources are used to procure the necessary goods and services economically and also that they are applied efficiently and effectively.

The Auditor-General has made a concerted effort to give greater attention to performance auditing, in line with government's overall drive to strengthen policy implementation and service delivery. For this reason, the Auditor-General has identified specific performance audit themes for performance audits.

During the year under review, the following three performance audit themes (value for money) were executed as part of the annual financial audits (also referred to as category 1 performance audits) and the results were included in the regularity audit reports:

- Human resource management in all national and provincial departments
- Supply chain management in all national and provincial departments and public entities
- The management of HIV/Aids programmes in all provincial departments of Health and Education

Performance audits focusing on the following transversal audit themes were executed and separate performance audit reports were issued for them (also referred to as category 3 performance audits):

- Infrastructure delivery process at all provincial departments

of Public Works, Health and Education

- Conflict of interest at selected national and provincial departments

The auditors conducting the category 1 and 3 performance audits received specific guidance in the form of audit programmes and procedures. The primary purpose of this guidance was to ensure a consistent approach to the audits and to facilitate comparability of performance audit findings.

Other performance audits focusing on specific entity-related themes (referred to as category 2 performance audits) were also conducted and the results included in the regulatory audit report.

Results

Overall, the Auditor-General achieved the target of an 8% ratio of performance audits to regularity audits as shown in table 12 below. In total, R85 million was generated through all three categories of performance audits.

Future developments

More category 3 performance audits on transversal audit themes will be conducted to ensure a continual increase in the focus on performance audits.

The Auditor-General is also preparing for an international peer review of performance auditing, under the auspices of INTOSAI. In preparation for this review, the *Performance audit manual* was revised and updated during 2007-08 to ensure alignment with the relevant INTOSAI standards and practices for performance audits.

Table 12: Percentage of resources allocated to performance audits

Target 2007-08	Performance 2007-08
At least 8% of total audit resources allocated to performance audits	8% of total audit resources

¹⁰ Published and issued by the National Treasury, May 2007, RP86/2007

International audits

Over the past decade, the Auditor-General has made a concerted effort to promote good governance and contribute constructively to the auditing profession, not just in South Africa but globally. This contribution continued throughout 2007-08 through the Auditor-General's membership of leading international and African public sector auditing bodies and selective involvement in international audits.

Since 1995, with the audit of INTOSAI, and followed in 1996 by the appointment as external auditor of the World Health Organization, the Auditor-General has made a substantial contribution to public sector auditing internationally.

The most significant international commitment to date has been the Auditor-General's position as a member of the United Nations Board of Auditors (UNBoA) since 2000. In July 2006, the Auditor-General commenced a second six-year term after being reappointed by the General Assembly of the United Nations. Furthermore, the Auditor-General has chaired the UNBoA on two occasions, in 2002 and 2004, and during 2007-08 served as Vice Chair of the Panel of External Auditors of the United Nations.

In his role as a member of the UNBoA, the Auditor-General is the lead auditor responsible for a number of United Nations entities. On the African continent, this includes the audits of two of the largest United Nations Peacekeeping Missions, namely the Peacekeeping Mission in the Democratic Republic of Congo (DRC), known as MONUC, and the Peacekeeping Mission in the new West African democracy of Liberia, known as UNMIL. The Auditor-General is also responsible for auditing the United Nations' Peacekeeping activities in Kosovo and Haiti.

In addition, the Auditor-General is the lead auditor of the United Nations Development Program (UNDP), the largest development agency under the United Nations umbrella. Other responsibilities include the following:

- The United Nations Relief and Works Agency for Palestinian Refugees (UNRWA), which is the largest UN operation in the Middle East with over 25 000 staff members

- The United Nations Population Fund (UNFPA)
- The United Nations Office for Project Services (UNOPS)
- The United Nations Joint Staff Pension Fund (UNJSPF)
- The United Nations Fund for International Partnerships (UNFIP)

Care is taken to ensure that participation in international audits does not compromise the Auditor-General's ability to fulfil its local constitutional mandate. In addition, the Auditor-General has given the assurance that international audit participation will not take place at the expense of the local taxpayer. With this commitment in mind, the Auditor-General has stipulated that income from international audits should not exceed 5% of total audit income, a target that was again comfortably achieved in the 2007-08 financial year as shown in table 13 below.

Table 13: Percentage of total audit income from international audits

Target 2007-08	Performance 2007-08
Income from international audits should not make up more than 5% of total audit income	Income from international audits makes up 2% (R22m) of total audit income

Employment equity

Employment equity is one of the primary focus areas of the Auditor-General, demonstrating the commitment to being a role model for transformation in the accounting and auditing profession. During the year under review, the Auditor-General further improved its already representative workforce profile and implemented several interventions designed to enhance the management of diversity. This commitment to employment equity is in accordance with the respective legislation that has been set out by government.

To ensure compliance with the Employment Equity Act of 1998, the Auditor-General implements an employment equity plan and policies that focus on four strategic areas: affirmative action, the equalisation of opportunities, the management of diversity and the elimination of unfair discrimination.

The 2007-08 financial year saw the Auditor-General reaching a number of employment equity milestones, including:



The AG is committed to transformation in the accounting and auditing profession

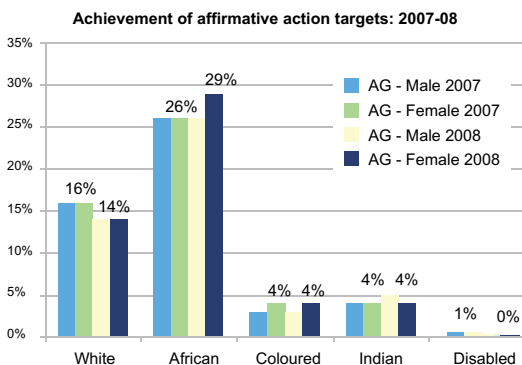
- developing and implementing the Discrimination Policy, as well as the Guidelines on Disability
- exceeding the target set for improving the representation of designated employees in the organisation. Where the target was to achieve a ratio of 80:20 in favour of designated groups, the Auditor-General ended the year with a ratio of 86:14
- holding an intensive programme of diversity awareness workshops for all staff in support of the Auditor-General's Diversity Statement.

Table 14 provides the analysis of the Auditor-General's employment equity performance against the targets set for 2007-08.

Table 14: Ratio of employees from designated groups to employees from non-designated groups

Target 2007-08	Performance 2007-08
80% from targeted groups and 20% non-targeted groups	86% from the targeted groups and 14% non-targeted groups

Figure 3: Achievement of affirmative action targets



Broad-based black economic empowerment (BBBEE)

As with other elements of transformation such as employment equity, the Auditor-General strives to be a role model in promoting BBBEE. Although it has been pursuing empowerment objectives for some time, notably in the allocation of work to audit firms and other service providers, there has been a need to revisit the strategy in step with the changes occurring in the legislative sphere.

During the year under review, the Auditor-General developed a draft BBBEE strategy designed to ensure long-term compliance with the *Code of Good Practice* as stipulated in the BBBEE Act of 2003. Once the consultation process has been completed during 2008-09, the next step will be implementation, scheduled for 2009-10.

The Auditor-General's BBBEE strategy addresses the following areas:

- Management control
- Employment equity
- Skills development
- Enterprise development
- Preferential procurement
- Social investment

During the 2007-08 financial year, the following areas of BBBEE were emphasised:

- Creating awareness of the BBBEE strategy. The Auditor-General continues to be a member of SAICA's BEE Charter Council, which replaced the negotiating forum, and considers this positioning relevant to leverage and promote

further transformation in the broader auditing profession.

- Developing a monitoring tool for compliance with preferential procurement.
- Enhancing the Auditor-General's social development initiatives and contribution to corporate social investment.
- Integrating employment equity and skills development initiatives.

Annually, the Auditor-General allocates no less than 20% of its audit budget to private audit firms, with a view to providing additional resources during peak times. This work is allocated to audit firms that have:

- the necessary proficiency and technical knowledge as reflected in quality control results, and
- a BEE profile that meets the minimum threshold as determined by the Auditor-General and agreed upon in advance with audit firms.

The allocation and weighting procedures for private auditing work are shown in table 15 below.

Table 15: Allocation criteria and weighting

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

The capacity of firms is a key criterion for work allocation. The size of the firm and measures to avoid potential conflict of interest are the primary factors in determining the final allocation.

Table 16 below reflects the basis for such allocation, using the budgeted and actual allocation for 2007-08.

Table 17 outlines the BEE targets set for the Auditor-General in 2007-08 and performance against these.

Table 17: Ratio of compliance with BEE criteria for contract work and centralised procurement

Target 2007-08	Performance 2007-08
100% compliance with BEE criteria per annum	100% compliance with BEE criteria per annum

Leadership effectiveness

Improving on leadership effectiveness is a strategic focus area of the Auditor-General. The belief is that effective leadership is the only way to elevate and sustain organisational performance to a level of excellence.

The measure used to evaluate the effectiveness of the Auditor-General's leadership is the annual Culture Index survey, which is conducted by an independent, external research house. A happy, motivated staff corps is regarded as the ultimate outcome of effective leadership.

In the previous financial year, the Culture Index baseline was set at 14%, with the results providing a platform for identifying specific actions that could be implemented in 2007-08 to improve staff morale and the internal climate. These actions

Table 16: Allocation of audit work to private audit firms for 2007-08

Size of firms	Allocation targets %	Budget Rm	% of budgeted total	Actual Rm	% of actual total
Big and large	45%	110.2	44%	143.7	36%
Medium	35%	90.2	36%	112.8	28%
Small	20%	50.1	20%	140.7	35%
	100%	250.5	100%	397.2	100%

included a number of initiatives.

During the 2007-08 financial year, a number of initiatives and actions were put in place to enhance leadership effectiveness and, in turn, improve the overall Culture Index results.

These initiatives were targeted at the organisational, leadership and business unit levels.

Initiatives on an organisational level

The five most important culture drivers were identified, based on the 2006 Culture Index results. These drivers were staff morale, compensation, performance management, corporate social responsibility and organisational enablers. For each driver, a number of organisational issues that were negatively affecting the drivers were identified, and initiatives developed to address these.

Morale driver

The most critical morale-driving issues that were addressed in 2007-08 included the following:

- The fixed-term contract policy and process, which was revised to address the concerns of staff.
- The high vacancy rate, which Human Capital addressed by implementing a more focused and aggressive recruitment and selection intervention.
- The Human Capital strategy, which was developed to give impetus to the development of a succession planning and career management policy and system from 2008-09.
- The Minimum Qualifications Framework (MQF) policy, the requirements of which were relaxed to facilitate manager-level audit appointments, provided that the staff appointed meet the minimum requirements.

Compensation driver

The Auditor-General's Remuneration and Reward Policy was presented to the Executive Committee for input and approval. This policy was also referred to the Remuneration Committee for additional input. The 2007-08 general salary increase was granted on the basis of this policy. Pending further input and

benchmarking, the remuneration policy will be reviewed during 2008-09.

In addition, the overtime policy was reviewed and the outcome communicated to all staff.

Performance management driver

The Individual Performance Contracts (IPCs) for 2007-08 were reviewed for the various salary levels for implementation in 2008-09. The next step is to align the indicators to correspond with the repositioned Performance Management System and Process, which is to be implemented in 2009-10.

Corporate social responsibility driver

A number of Employee Wellness Programme (EWP) initiatives were implemented during 2007-08. Utilisation of this programme has increased and a more focused and strategic EWP process is being mapped out for the entire organisation.

Enablers driver

Enablers are tools that empower the Auditor-General's staff to perform their duties more effectively and efficiently, and to interact more meaningfully with stakeholders and each other. There are three main categories of enablers, namely Information and Knowledge Management, Information and Communications Technologies (ICTs) and Process enablers.

In February 2007, the Executive Committee approved the implementation of the proposed records and document management strategy. The purpose of the project is to promote information sharing, collaboration and retention of knowledge in a secure environment that will enable the Auditor-General to provide a better service to its stakeholders. The first phase of the strategy covered the creation and implementation of key records management documents, a file plan, policy and procedures and manual. The second phase involves the automation of records management activities and is scheduled for 2008-09.

Other initiatives undertaken in 2007-08 to enhance collaboration and information exchange included the following:

- The launch of a more interactive staff intranet that facilitates

document-sharing and promotes constructive dialogue through user forums and blogs.

- The implementation of the PeopleSoft training module, an online tool that enables leaders to proactively request and schedule training for their staff.
- The roll-out of electronic learning tools, with the aim of providing just-in-time training.
- The upgrading of the AGNet, the knowledge-sharing tool between the Auditor-General and other supreme audit institutions.
- Preliminary development of a stakeholder database.
- The development of an eLibrary system that will enable users to select and request books from the eCatalogue.

In the area of process enablers, the main focus was on the Operational Excellence project, designed to improve internal service delivery processes in the Auditor-General's ICT environment. As a result, there was a noticeable improvement

in ICT service levels, as measured in the annual Customer Needs Analysis survey.

Initiatives on a leadership level

Human Capital developed a Leadership Development Framework to provide guidelines on how management and leadership development should be pursued. This framework will form the basis for compensation enhancement for leaders during 2008-09.

Initiatives on a business unit level

Each business executive and his/her senior management team developed their own action plans for improving staff morale within their own business units, using their individual business unit Culture Index results and drivers as a basis. It is encouraging to note that a number of business units achieved improvements during the 2007-08 performance year, as shown in table 18 below.

Table 18: Business units' Culture Index

Business unit	Culture Index 2006	Culture Index 2007	Progress
Mpumalanga	5 %	30 %	↑
Northern Cape	15%	27%	↑
KwaZulu-Natal	13%	17%	↑
National Audit Business Units (overall)	8%	11%	↑
Corporate Services Business Units (overall)	3%	13%	↑
North West	9%	9%	↔
Limpopo	6%	6%	↔
Free State	34%	28%	↓
Eastern Cape	29%	7%	↓
Gauteng	17%	7%	↓
Western Cape	11%	7%	↓

Achieving successful culture change while significantly enhancing leadership effectiveness is a long-term goal that, according to research done, is normally only achievable on a multi-year basis. Within this context, the Auditor-General's overall Culture Index improved by 1% (from 14% to 15%) in 2007-08. Although this was lower than the target set for the year, the improvement achieved indicated that the various initiatives implemented were beginning to have the desired effect as shown in table 19 below.

Table 19: Baseline for leadership effectiveness

Target 2007-08	Performance 2007-08
2% - 3% increase from index baseline of 14%	1% increase from baseline of 14% Actual performance = 15%



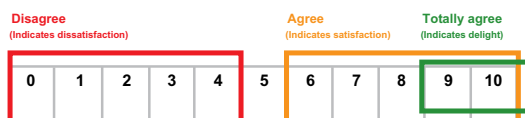
3D brand application reinforces the core principle of transparency

Reputation

Improving the reputation of the Auditor-General is a strategic focus area. The thinking is that the organisation will know whether it has successfully delivered on its strategic mandate when all stakeholders understand and recognise that the Auditor-General is making a relevant contribution to strengthening South Africa's democracy by enabling oversight, accountability and governance in the public sector.

For this reason, it is important for the Auditor-General to gauge the collective opinion of its stakeholders and to determine their perceptions of its delivery against its constitutional mandate. The first Reputation Index survey was conducted in 2006-07 by an independent, external research house to set the baseline for stakeholders' perceptions.

In that year, the Reputation Index of 19% represented only the top two-box or the delight scores (see graph below). This means that, on average, 19% of the stakeholders and employees surveyed strongly agreed with the statements made about the Auditor-General effectively delivering on its constitutional mandate.



The industry benchmark for an index based on the top two-box or delight score is 40%. The Auditor-General has set the objective of reaching this industry benchmark over time. During the year under review, several initiatives were implemented to

enable the Auditor-General to continue moving towards the benchmark. One of these was implementation of the Auditor-General reputation model that was developed in 2006-07.

The Auditor-General model

Corporate reputation



This model consists of three elements, namely desired reputation /vision, culture and image. The goal is to conceptualise and implement a range of strategies to ensure that there are no discernible gaps among the various elements. It is only when such synergy has been achieved that a positive reputation will result.

While the final outcome is measured through the Reputation Index survey, all the key areas related to the reputation of the Auditor-General need to be managed simultaneously to enable a strong reputation to be built.



Happy employees are the foundation of the AG's reputation

During the 2007-08 financial year, the following initiatives were implemented in line with the reputation model:

Desired reputation element

This element of the model represents what the Auditor-General wants to become (ideal), in relation to its vision and constitutional mandate.

The Constitution of South Africa establishes the Auditor-General as a chapter 9 institution with a unique role in promoting democracy. Since this has not necessarily been clearly understood by all stakeholders, it has been necessary to develop a reputation promise that clearly explains how the Auditor-General wants to be perceived by its stakeholders. After wide consultation with both internal and external stakeholders, the reputation promise, accompanied by key messages to guide or facilitate a better understanding of the content, was developed for the Auditor-General in 2007-08. This promise – or its meaning – should guide all communication that the Auditor-General has with its stakeholders.

The reputation promise that has been established during 2007 is as follows:

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

In 2007-08, for the first time, a specific target was set in the balanced scorecard regarding the Auditor-General's desired

reputation. Specific communication items were identified on which all business units were scored. As this was a new measure, the items measured were limited but will be expanded in future to ensure compliance in all communication.

Compliance was measured by an independent content auditor. Out of a total of 31 business units measured, 23 received a "comply" measure.

During the year under review, increased focus was also placed on media management. A new media policy was developed and implemented to manage communication via this critical channel, and workshops were held with many media houses and role players to explain the Auditor-General's role and mandate and build positive working relationships.

Culture element

The culture element in the reputation model represents how the Auditor-General is (reality), both in terms of the current culture or behaviour and in how the organisation visually represents itself in all aspects. These aspects, which range from its documents to its office environment and signage, are considered in relation to the values and desired reputation of the organisation.

- **Behaviour**

Changing the behaviour of employees so that they act in alignment with the Auditor-General's reputation promise and values is the most critical factor in building a strong reputation. It is for this reason that a significant focus is placed on addressing the culture and climate in the organisation, with the goal of becoming an employer of choice.

The progress report on the work done in this regard is explained in greater detail in the section on *Leadership effectiveness* of this annual report.

- Corporate identity and branding

In closing the gap between the desired reputation and culture, the corporate identity of the Auditor-General was a focal point during the year under review. The consistent use of the corporate identity was included in the balanced scorecard for the first time.

In line with the phased approach being adopted, specific items were identified on which all business units across the organisation were measured. Initially, these items have been limited to printed and electronic applications. More items will be identified for measurement purposes in future balanced scorecards, until all material used by staff is fully brand compliant.

A visual audit was conducted by an independent auditor contracted for this purpose. Of a total of 31 business units measured for compliance, 30 units received a "comply" score. A new corporate identity manual was developed to direct the application of the corporate identity in all future print and electronic applications.

The Auditor-General believes that the culture of the organisation should also be carried through to the physical environment. For this reason, environmental branding principles were established for consistent application in all office environments across the country and a complete furniture manual was established. These principles were implemented in two new building developments during the year under review and will form the basis of all office developments going forward.

Image element

Based on the 2006 Reputation Index, the results for each stakeholder group were analysed and detailed action plans developed to address each group's issues so as to improve the overall Reputation Index.

While some of the actions were successfully implemented in 2007-08, it should be noted that many of these actions stretch over a multi-year period. Building a strong reputation takes time and requires long-term solutions in many instances.

Reputation Index 2007-08

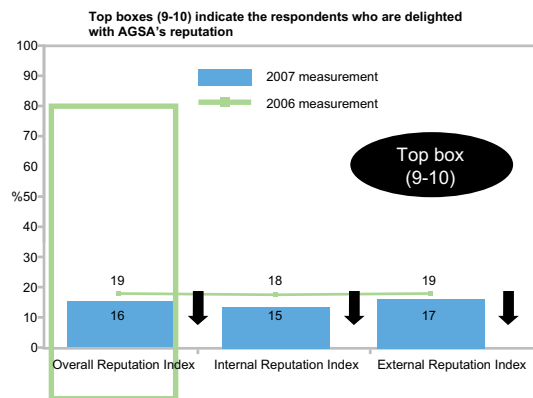
It should be noted that the Reputation Index is used to measure perceptions of all stakeholders (employees and external stakeholders) about the Auditor-General's reputation, while the Culture and Climate Index measures the internal work environment of the Auditor-General amongst employees (see more about the Culture Index on page 57). Although these are two separate measures, the Culture Index has a statistically significant impact on the Reputation Index, and should be taken into account when looking at the overall performance of the Reputation Index.

In preparation for the 2007-08 Reputation Index survey, the list of Auditor-General stakeholders was revised and integrated. A representative sample of each of the identified stakeholder groups was then surveyed during the year under review. Each stakeholder group contributed proportionally to the overall rating, which represents a weighted average.

Based on the Reputation Index survey conducted in October 2007, the Auditor-General did not achieve the target of a 1% improvement on the overall top-two box score. The top-two box (or 9-10) score achieved was 16%, which was 3% lower than the 2006-07 top-two box baseline score of 19% as shown in table 21 below. The decrease in the overall Reputation Index was largely due to deterioration in employees' perceptions of the Auditor-General.

Figure 4a: Reputation Index

Totally agree (top two-box) scores (9-10)

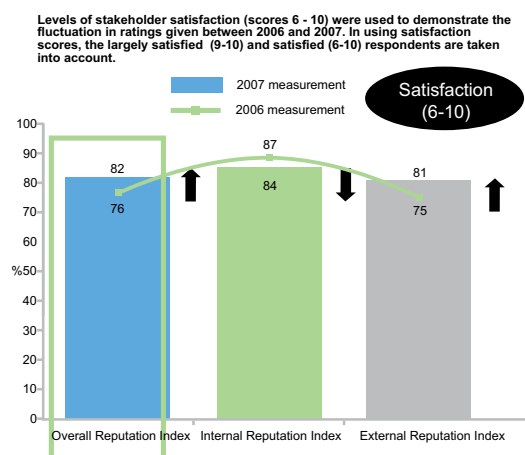


Although the overall reputation rating based on the top-two box scores dropped, the 6-10 scores have increased, which

clearly indicates that there has been a marked improvement in how stakeholders perceive the Auditor-General and that the trend is moving in the right direction, which is to ultimately achieve an increase in the 9-10 scores.

Figure 4b: Reputation Index – stakeholders

Agree (satisfaction) scores (6-10)



It takes time to build a good reputation, particularly to move stakeholders from dissatisfaction (0-4) or mere satisfaction levels (6-10) into the “delighted” or “very satisfied” level or top two-box score (9-10), which would represent high levels of loyalty to the AG.

The summary below indicates the general movements made during the year under review as shown in table 20.

Table 20: Reputation Index performance 2006 - 2007

	9-10 delight score in 2006	9-10 delight score in 2007	6-10 satisfaction score in 2006	6-10 satisfaction score in 2007
Overall Reputation Index measure	19%	16%	76%	82%

Table 21: Reputation Index for baseline

Target 2007-08	Performance 2007-08
1% increase from 2006 Reputation Index baseline	3% decrease from baseline of 19% Actual performance = 16%

In the Auditor-General’s strategic plan for 2008-2011, the target for the Reputation Index has been revised by aiming for a 2% improvement on delight (top two-box score) by 2010. This would represent a shift from 19% to 21%.

The emphasis in 2008-9 and 2009-10 will be on implementing focused action plans in all the key areas to make this improvement possible by 2010.

Secondary focus areas

People

The Auditor-General relies on its people to achieve its strategic objectives and so focuses strongly on key processes that promote a culture of high performance. During 2007-08, the Auditor-General initiated a number of people-management practices designed to attract, motivate and retain talent.

These initiatives included the following:

- Developing a Human Capital strategy, the content of which formed part of the balanced scorecard for 2007-08.
- Implementing a more focused and aggressive recruitment and selection intervention to address the high vacancy rate.
- Developing an orientation and induction programme framework as part of the recruitment and selection strategy.
- Revising a number of conditions of employment, including the fixed-term employment procedure.
- Refining the functional structure of Corporate Services, followed by implementation.
- Successfully filling vacancies at the level of Corporate Executive.

Employee Wellness Programme

The Auditor-General reviewed the focus and scope of its Employee Wellness Programme (EWP) during the year. To facilitate service delivery to employees, the Careways Group was appointed as a partner in providing guidance and counselling services. Other initiatives that were implemented during the year included:

- Voluntary Counselling and Testing (VCT)



Through the EWP the AG promotes a healthy work-life balance

- Total Health Risk Assessment
- Promoting the concept of home-work balance
- Holding health days focusing on specific employee wellness topics

During the year, approximately 35% of the Auditor-General's employees made use of counselling and support services, and participated in most EWP activities offered. It should be noted that this participation covered a diverse group of employees, representing all levels and work categories.

An analysis of the most common issues and problems addressed by the EWP highlighted the need for a more aggressive and strategic approach to employee wellness initiatives. The Auditor-General thus commenced development of a strategy and plan to improve the responsiveness of its EWP initiatives.

Learning and growth

The Human Capital strategy has been developed to facilitate the implementation of an integrated people-development approach to competence enhancement. This approach is aimed at positioning the Auditor-General to attract appropriately skilled people to the organisation and to ensure that once employed, they remain motivated and are retained.

A number of initiatives are currently being pursued, key to which is the focus on capacity-building through the trainee accountant scheme, technical training, on-the-job training and professional development and attendance of various relevant courses and seminars.

To facilitate competence and skills development, the Auditor-General offers numerous financial assistance tools, including bursaries and study support for trainee accountants, and facilitates registration for membership with professional institutions.

One of the skills development successes was the number of audit professionals who qualified during the year, as shown in table 22 below:

Table 22: Number of qualified professionals

Target 2007-08	Performance 2007-08
Minimum 20 qualified audit professionals per annum	32 Chartered Accountants (CA) 65 Registered Government Auditors (RGA) 3 Certified Information System Auditors (CISA) 2 Association of Chartered Certified Accountants (ACCA)

To further improve on this number, the Auditor-General initiated processes to recruit, train and develop employees with other professional qualifications, such as RGA and ACCA.

Furthermore, the current Minimum Qualifications Framework policy is being revised and will be aligned with the National Qualifications Framework so as to continue promoting the objective of professionalising the organisation.



Training session for young and aspirant professionals

Retention of staff

The Auditor-General operates in an environment where skills are scarce and there is high mobility among professionals with those required skills. To address this challenge, a number of measures were implemented in 2007-08 to assist and facilitate the retention of personnel. Specific initiatives included:

- retaining 62 trainee accountants who had completed their articles
- conducting an intensive salary benchmarking exercise, which resulted in a salary market correction for managers and assistant managers in the audit environment
- revising the employment terms of employees under fixed-term contracts
- using a staff rotation system to pool resources for international work, giving broader exposure to young and aspirant professionals.

In the new financial year, the Auditor-General will continue to explore other creative and innovative methods of retaining employees with scarce and critical skills for its operations.

Staff retention is a major challenge for the organisation, as was clear from the high staff turnover recorded in 2007-08. The Auditor-General achieved an average labour turnover rate of 20% which was well above the financial service sector (including audit firms) average turnover rate of 16% as shown in table 23.

To proactively address the high labour turnover trend, the Auditor-General intends implementing various mechanisms to complement those already in place. New mechanisms planned include the following:

- The development of a focused staff retention policy and strategy, as well as a recognition and reward policy and strategy.
- Repositioning the performance management system and processes.
- Focused skills development and competence enhancement strategy and processes.
- Reviewing and realigning the remuneration and related practices in line with the Auditor-General's strategic objectives.

Table 23: Turnover per job grade April 2007 To March 2008

Turnover excluding trainees/temporary staff			
Job grade	Turnover %	Turnover	Average strength
B	9%	3	32
C	9%	11	123
D	15%	53	349
E	29%	138	478
F	4%	3	68
Grand total	20%	208	1050



Ample training opportunities develop and equip staff

Table 24: Staff turnover

2005-06	2006-07	2007-08
13%	16%	20%

Table 25: Retention of staff

Target 2007-08	Performance 2007-08
Less than 12% staff turnover rate	20% staff turnover rate

Process

Operational excellence

Operational excellence is a focus area for the Auditor-General, which continually strives to improve its business processes to ensure that they are efficient, cost effective and supportive of good risk management and effective decision-making. The quest for operational excellence is focused on achieving integration between business processes and proven Information and Communications Technology (ICT) systems, with the aim of further improving the quality of management information systems. The Capability Maturity Model (CMM) is currently used to measure the maturity

level of the Auditor-General's processes. These processes are implemented when they reach level 3 of the CMM – meaning that the processes have been documented, standardised and communicated throughout the organisation through training. The Control Self-Assessment (CSA) Tool is then used to monitor compliance and to detect and minimise operational risks. The latest assessment of the maturity of processes within 16 key strategic risk areas, which were initially identified in 2005-06, was conducted between October 2007 and March 2008 as shown in table 26 below. This assessment resulted in certain processes being re-prioritised, as outlined in the Auditor-General's 2008-09 – 2010-11 strategic and budget planning document.

Table 26: Capability Maturity Model index

Risk category	Sub-risk category	Focus area	CMM level	Action plans to improve the CMM level
Relevance of the Auditor-General	Product innovation	Non-audit service	Level 2	Although processes and procedures in these areas have been standardised, the documentation and communication have not been finalised Target: CMM level 3 by 2009-10 financial year
		Audit product	Level 2	
Quality of product	Quality control	Quality control of non-audit services	Level 2	Current initiatives to improve the overall ranking of this process to CMM level 3 will be finalised during the 2008-09 financial year
		Quality control of audit services	Level 3	The internal auditors are currently assessing the adequacy of these areas, after which key processes around these areas will be monitored through the CSA Tool
	Human Capital	Resource availability	Level 2	Human Resources initiatives are in place to address these areas, and these will improve the maturity level of processes in the areas Target: CMM level 3 by the 2009-10 financial year
		Competencies of staff	Level 2	
		Productivity	Level 2	
Internal process	Business continuity	Technology availability	Level 2	Action plans are in place to improve this area to CMM level 3 by the 2010-11 financial year.
		HIV/Aids	Level 1	Action plans are in place to improve this area to CMM level 2 by end of the 2008-09 financial year
		Financial stability	Level 2	Although processes around this area were initially ranked at CMM level 2, certain processes and controls regressed during the financial year. The Financial Turnaround Strategy will assist in ensuring that weaknesses in these processes are addressed during the 2008-09 financial year.
Reputation and image	Leadership	Leadership	Level 2	Action plans are in place to improve this area to CMM level 3 by the 2010-11 financial year
	Corporate governance	Structural design adequacy	Level 2	Action plans are in place to improve corporate governance area to CMM level 3 by the 2009-10 financial year
		Monitoring and compliance adequacy	Level 2	
	Stakeholder relationships	Knowledge management	Level 2	Action plans are in place to improve this area to CMM level 3 by 2010-11
		Effectiveness		
	Transformation	Employment equity	Level 3	The next step is to monitor compliance with key processes around this area through the CSA Tool
		Black economic empowerment	Level 2	Action plans are in place to improve this area to CMM level 3 by the 2010-11 financial year

CMM level 1
CMM level 2
CMM level 3

Absence of documented and standard processes
Although processes are standardised, they have neither been documented nor communicated yet
Processes are documented, standardised, communicated



A streamlined ICT infrastructure enables daily business to run smoothly

In terms of this assessment, 13% of processes for risk focus areas are at CMM level 3, with 81% at CMM level 2 and 6% at CMM level 1.

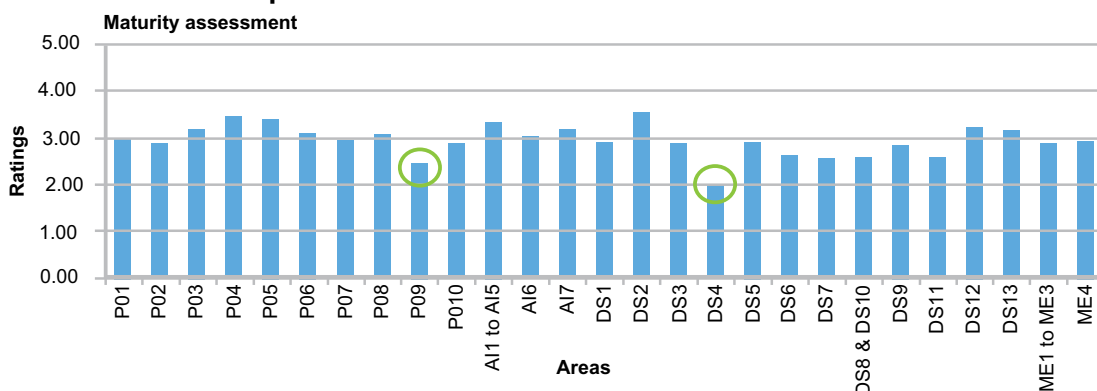
In addition to these, there are certain existing processes that will have to be re-engineered to enhance their maturity levels. These processes fall into the ICT, Finance and Human Capital operational areas.

Information and Communications Technology (ICT)

ICT was consolidated into a single business unit during 2007-08 to improve service delivery to the organisation. A governance framework was implemented to clarify delivery expectations and minimise and mitigate ICT-related risks. Furthermore, a number of ICT-related processes were reviewed and redesigned early in 2007-08 and a review was undertaken of legacy systems requiring upgrading or replacement.

Towards the end of the financial year, a CobiT (Control Objectives for Information and related Technology) Maturity Assessment was conducted. The results of the maturity assessment are reflected in the following diagram.

Figure 5: CobiT Maturity Assessment of the Auditor-General's ICT processes



The average process maturity obtained for ICT through this assessment was 2.84. Two processes were highlighted as being low in maturity, these being the assessment and management of ICT risks (referred to as P09) and the continuous availability of ICT services (known as DS4). Both areas are being addressed in the 2008-09 budget through the implementation of in-house disaster recovery processes and the application of ICT project management principles.

Table 27: Level of maturity of business processes

Target 2007-08	Performance 2007-08
0% at level 1	6% at level 1
75% at level 2	81% at level 2
25% at level 3	13% at level 3

Finance

Various initiatives aimed at achieving operational excellence in Finance were initiated during the second half of the 2007-08 financial year. These initiatives are included in the Finance Turnaround Plan, and will involve improving key financial processes to ensure that they reach level 2 of the CMM. They will be fully implemented during the 2008-09 financial year.

Table 29: Summary of financial performance

	2007- 08 Budget		2007-08 Actual		Deviation	
	Rm	%	Rm	%	Rm	%
Audit income	1,013	100%	1,109	100%	96	9%
Direct expenditure	683	67%	830	75%	147	22%
Gross contribution to fixed and operational costs	330	33%	279	25%	-51	-15%
Other income	12		16		4	33%
Support staff expenses	122	12%	108	10%	-14	-11%
Other expenditure	206	21%	195	17%	-11	-5%
Total overheads	328	32%	303	27%	-28	-8%
Total income	1,025		1,125		97	10%
Total expenditure	1,011	100%	1,133	100%	119	12%
Net (deficit) / surplus	14		-8		-22	

Debt collection

The management of working capital and liquidity is of the utmost importance owing to the Auditor-General's not-for-profit business model. The most critical element of working capital is debt collection which, given the ongoing problems experienced in collecting outstanding debt, has highlighted the need to review the current funding model and consider alternative models.

Table 30 below reflects the Auditor-General's debt collection position in the 2007-08 financial year. It shows that the debtors days outstanding for national departments was well within the target of 30 days as defined in the PAA. However, collections from provincial departments deteriorated from 27 days as at 31 March 2007 to 34 days as at 31 March 2008.

Local government collection rates showed an even sharper deterioration, with debtors days rising from 75 days in the previous financial year to 111 days in 2007-08.

The ability of local government and statutory bodies to settle their accounts on time continues to be a significant concern. It should be noted, however, that the payment record of statutory bodies, although still well below target, improved marginally during the year following the collection of some significant, long-overdue amounts.

The Auditor-General continues to engage with the National Treasury on the impact of working capital bottlenecks on the organisation's financial performance. Full details of this engagement can be found in the section on *Liquidity risk* of this annual report.

Table 30: Ageing for major categories of debtors

	Target of outstanding days	31 March 2008		31 March 2007 - Restated [N1]	
		Rm	Days outstanding	Rm	Days outstanding
National government	30	33.7	10	21.3	9
Provincial government	30	53.1	34	32.2	27
Local government	90	92.7	111	74.3	75
Statutory bodies	30	27.6	58	26.9	89

[N1] - During the year under review the Auditor-General embarked on a process to ensure the accuracy of the debtors ageing. This resulted in the matching of a material amount of previously unallocated receipts and credit notes to the correct invoice thereby removing the invoice from the debtors ageing. In prior periods debtors days outstanding were calculated based on the assumption that credit amounts are aged from the accounting date of the entry. Matching the credit entry to the specific invoice therefore resulted in a significant decrease in the average debtors days outstanding. In order to ensure the comparability of information, comparative debtors days have been recalculated and restated above. Table 31 depicts debtors days outstanding reported in the prior year.

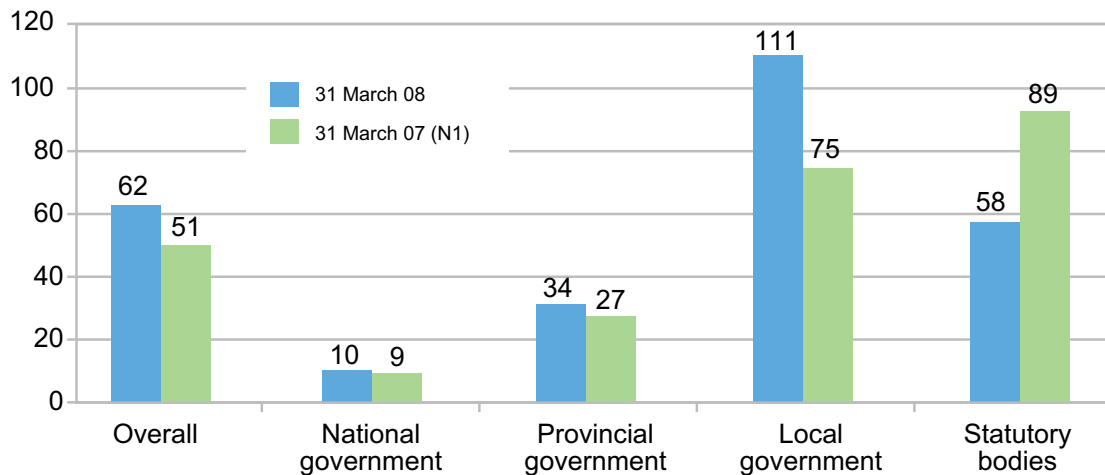
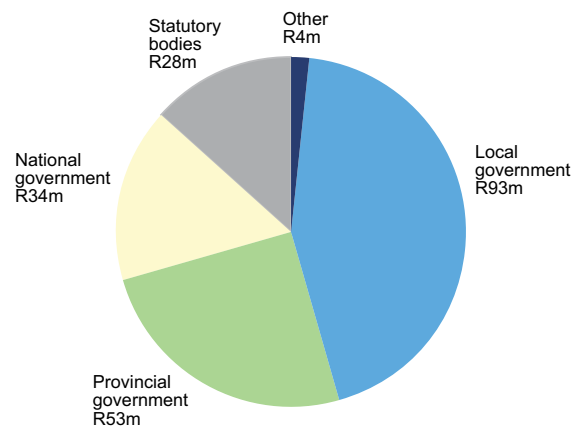
Table 31: Debtors days outstanding restated

	31 March 2007	
	Restated in 2008	Reported in 2007
Local government	75	116
Statutory bodies	89	165
National and provincial government	-	17 ¹¹
National government	9	-
Provincial government	27	-

Overall, debtors days for 2007-08 increased from 55 to 69 days, as shown in the bar chart graph in figure 6 below.

Figure 6: Debtors days outstanding

Figure 6a below shows a breakdown of the debt outstanding from major categories of debtors as at 31 March 2008.

**Figure 6a: Split of debtors by category as at 31 March 2008**

¹¹ The split for debtors days outstanding between national and provincial government was not performed in 2007, the consolidated debtors days outstanding was reported in the Annual Report 2006-07



Annual financial statements

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

Deputy Auditor-General's responsibilities and approval	56
Report of the independent auditors	58
Balance sheet	60
Income statement	61
Statement of changes in equity	62
Cash flow statement	63
Accounting policies	64
Notes to the annual financial statements	69

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

Comparison of actual results with the approved budget	96
Explanation of material differences in actual results compared with the approved budget	97

Deputy Auditor-General's responsibilities and approval

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

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

The Deputy Auditor-General acknowledges that he is ultimately responsible for the system of internal financial control established by the Auditor-General and places considerable importance on maintaining a strong control environment. To enable the Deputy Auditor-General to meet these responsibilities, the Auditor-General, after consultation with the Standing Committee on the Auditor-General, sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Auditor-General and all employees are required to maintain the highest ethical standards in ensuring the Auditor-General's business is conducted in a manner that in all reasonable circumstances is above reproach.

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

The Deputy Auditor-General is of the opinion, based on the information and explanations given by management, that the system at internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Deputy Auditor-General has reviewed the Auditor-General's cash flow forecast for the year to 31 March 2009 and, in the light of this review and the current financial position, he is satisfied that the Auditor-General has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The annual financial statements set out on pages 60 to 95, which have been prepared on the going concern basis, were approved and signed by the Deputy Auditor-General on 31 August 2008 on behalf of the Auditor-General.



Thembekile Kimi Makwetu
Deputy Auditor-General

Report of the independent auditors

We have audited the accompanying financial statements of the Auditor-General, which comprise the Deputy Auditor-General's report, the balance sheet as at 31 March 2008, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 60 to 95. In addition we have audited the reported information relating to the performance of the Auditor-General against predetermined objectives set out in table 5 on pages 27 to 28 for the year ended 31 March 2008.

Deputy Auditor-General's responsibility for the financial statements and performance information

The Deputy Auditor-General is responsible for the preparation and fair presentation of these financial statements and performance information in accordance with International Financial Reporting Standards, and in terms of section 41 of the Public Audit Act, 2004 (Act No. 25 of 2004). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements and performance information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and performance information. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements and performance information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements and performance information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Deputy Auditor-General, as well as evaluating the overall presentation of the financial statements and performance information.

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

Opinion

Financial statements

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Auditor-General as at 31 March 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Public Audit Act, 2004 (Act No. 25 of 2004).

Performance information

In our opinion, the performance information presents fairly, in all material respects, the performance of the Auditor-General against predetermined objectives for the year ended 31 March 2008 in the manner required by the Public Audit Act, 2004 (Act No. 25 of 2004).



BDO SPENCER STEWARD



Registered Auditors
Pretoria
31 August 2008

Tel: (012) 348-2000
Fax: (012) 348-2010
P. O. Box 95436
Waterkloof
0145

Balance sheet	Note	2008 R'000	2007 R'000
ASSETS			
Non-current assets		50,235	49,438
Property, plant and equipment	2	38,492	33,603
Intangible assets	3	11,743	15,835
Current assets		362,527	316,484
Trade and other receivables	4	245,209	177,890
Cash and cash equivalents	5	117,318	138,594
Total assets		412,762	365,922
EQUITY AND LIABILITIES			
Equity		124,958	133,259
General reserve	6	129,412	116,701
Special audit services reserve	7	4,964	5,270
(Accumulated loss)/retained earnings	8	(9,418)	11,288
Liabilities			
Non-current liabilities		75,083	75,503
Obligation under instalment sale agreements	9	10,278	13,938
Retirement benefit obligations	10	64,805	61,565
Current liabilities		212,721	157,160
Trade and other payables	11	198,781	146,417
Provisions	12	1,541	231
Current portion of obligations under instalment sale agreements	9	12,399	10,512
Total equity and liabilities		412,762	365,922

Income statement	Note	2008 R'000	2007 R'000
Revenue	13	1,108,899	893,750
Local services rendered		1,087,382	875,538
International services rendered		21,517	18,212
Direct audit cost		(829,829)	(658,136)
Recoverable staff cost	14	(370,658)	(324,172)
Contract work	15	(417,274)	(301,201)
Subsistence and travel		(41,897)	(32,763)
Gross profit		279,070	235,614
Other income		2,314	1,496
Foreign exchange gain		995	621
Contribution to overheads		282,379	237,731
Support staff cost	14	(162,245)	(130,120)
Depreciation expense	16	(15,158)	(15,928)
Amortisation expense	17	(5,853)	(4,778)
Other operational expenditure	18	(112,980)	(92,069)
Retirement benefit obligations	10	(5,155)	(6,665)
Deficit from operations		(19,012)	(11,829)
Interest received		13,416	11,940
Finance charges	22	(2,705)	(1,889)
Net deficit for the year		(8,301)	(1,778)

Statement of changes in equity	General reserve R'000	Special audit services reserve R'000	Staff development reserve R'000	Retained earnings R'000	Total R'000
Opening balance at 1 April 2006	116,701	5,270	355	12,711	135,037
Staff development reserve utilised	-	-	(355)	355	-
Net deficit for the year	-	-	-	(1,778)	(1,778)
Balance at 31 March 2007	116,701	5,270	-	11,288	133,259
Special audit services reserve utilised	-	(306)	-	306	-
Transfer of retained income to reserves	12,711	-	-	(12,711)	-
Net deficit for the year	-	-	-	(8,301)	(8,301)
Balance at 31 March 2008	129,412	4,964	-	(9,418)	124,958
Note	6	7		8	

Cash flow statement	Note	2008 R'000	2007 R'000
Cash flows from operating activities			
Revenue collected from auditees	26.1	1,037,906	858,904
Direct audit cost payments	26.2	(807,463)	(651,486)
Operating expenditure payments	26.3	(240,523)	(227,053)
Interest received		13,416	11,940
Finance charges		(2,705)	(1,889)
Realised foreign exchange loss		(225)	(605)
Net cash inflow / (outflow) from operating activities		406	(10,189)
Cash flow from investing activities			
Additions to property, plant and equipment	26.4	(21,686)	(26,258)
Additions to intangible assets	26.5	(1,761)	(2,966)
Proceeds from sale of property, plant and equipment	2	2,524	350
Net cash outflow from investing activities		(20,923)	(28,874)
Cash flow from financing activities			
Payment on obligations under instalment sale agreement		(11,914)	(10,005)
Increase in instalment sale agreement borrowings		10,140	20,883
Net cash (outflow) / inflow from financing activities		(1,774)	10,878
Net decrease in cash and cash equivalents		(22,291)	(28,185)
Cash and cash equivalents at beginning of the year		138,594	165,431
Exchange differences in cash and cash equivalents		1,015	1,348
Cash and cash equivalents at end of the year	26.6	117,318	138,594

Accounting policies

1. Presentation of annual financial statements

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

a) Amendments to published standards effective in 2008

IFRS 7, Financial Instruments: Disclosures, introduces new requirements aimed at improving the disclosure of information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. Where those risks are deemed to be material to the Auditor-General, it requires disclosures based on the information used by key management. It replaces the disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS.

b) Standards, amendments and interpretations effective in 2008 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2007 but are not relevant to the Auditor-General's operations:

- IAS 1 (Amendment), Presentation of Financial Statements
 - Capital Disclosures
- IAS 1 (Revised), Presentation of Financial Statements
- IAS 21 (Amendment), Net Investment in a Foreign Operation

- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- IAS 39 (Amendment), The Fair Value Option
- IAS 39 and IFRS 4 (Amendments), Financial Guarantee Contracts
- IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
- IFRS 6, Exploration for and Evaluation of Mineral Resources
- IFRIC 5, Rights to Interest Arising From Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6, Liabilities Arising From Participating in a Specific Market – Waste Electrical and Electronic Equipment
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies

c) Interpretations of existing standards that are not yet effective and not relevant for the Auditor-General's operations

- IAS 32 (Amendment), Put Options
- IFRS 2, Share-based Payments: Vesting Conditions and Cancellations
- IFRS 3, Business Combinations
- IFRS 3 (Revised), Business Combinations
- IFRS 8, Operating Segments
- IFRIC 8, Scope of IFRS 2
- IFRIC 9, Reassessment of Embedded Derivatives
- IFRIC 10, Interim Financial Reporting and Impairment
- IFRIC 11 and IFRS 2, Group and Treasury Share Transactions
- IFRIC 12, Service Concession Arrangements
- IFRIC 13, Customer Loyalty Programmes
- IFRIC 14 and IAS 19, The Limit On A Defined Benefit Asset Minimum Funding Requirements And Their Interaction

d) Interpretations of existing standards that are not yet effective but relevant for the Auditor-General's operations

- IAS 23, Borrowing Costs

1.1 Significant judgements and accounting estimates

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

Revenue recognition

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

Post-employment medical care benefits

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

Provision for impairment of receivables

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

Annual evaluation of property, plant and equipment and intangibles

In order to review property, plant and equipment and intangibles for possible impairment, changes in useful life and

changes in residual values at the end of each financial year in accordance with notes 2 and 3, reference is made to historical information and intended use of assets.

1.2 Property, plant and equipment

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

Item	Useful life 2008	Useful life 2007
Computer equipment	3 - 6 years	3 years
Notebooks	3 years	3 years
Motor vehicles	5 years	5 years
Furniture and fittings	6 - 15 years	6 years
Office equipment	3 years	3 years
Leasehold improvements	Over the period of the lease	Over the period of the lease

The depreciation charge for each period is recognised in profit or loss.

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

The gain or loss arising from derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from 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. 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
Enterprise resource management system - PeopleSoft	10 years
Other software	3 years

Expenditure on research is recognised as an expense when it is incurred. Development cost is capitalised when all the conditions for capitalisation have been met. Internally generated brands are not recognised as intangible assets.

1.4 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable at balance sheet date. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

years. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in profit or loss.

1.5 Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, trade and other receivables, trade and other payables and borrowings. These instruments are carried at their amortised cost.

Financial assets

The Auditor-General classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Auditor-General has not classified any of its financial assets as held to maturity. The accounting policy for each category is as follows:

Loans and receivables

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

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

The loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet. Cash and cash equivalents include cash in hand and deposits held at call.

Financial liabilities

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

Gains and losses

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

1.6 Cash and cash equivalents

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

1.7 Leases

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

Finance leases – lessee

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

in the balance sheet as a finance lease obligation.

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

Operating leases – lessee

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

1.8 Employee benefits

Pension plan

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

Post-employment medical care benefits

The Auditor-General provides post-retirement medical care benefits to certain employees and their legally recognised spouse (and/or dependants) at time of death. The entitlement to post-retirement medical benefits is based on the employee being on the *Staff rules, terms and conditions*, remaining in

service up to retirement age of 65 (or when reaching 50 in the case of early retirement) and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using the project unit credit method. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to profit or loss in the period in which it occurs. Valuations of these obligations are carried out annually by independent, qualified actuaries.

1.9 Provisions and contingent liabilities

Provisions are recognised when the Auditor-General has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognised or disclosed in the financial statements, could have a material effect on the institution's financial position. Application of these accounting principles to legal cases requires the management to make determinations about various factual and legal matters beyond its control. The Auditor-General reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions and disclosures in its financial statements.

Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience in similar cases and any decision by management as to how it will respond to the litigation, claim

or assessment.

1.10 Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue arising from rendering of audit services consists of the net invoiced value charged net of value-added tax. Revenue arising from fixed-sum contract audits where the outcome can be estimated reliably is recognised by reference to the stage of completion of the contract activity at balance sheet date. Revenue arising from fixed sum contract audits where the outcome cannot be estimated reliably, is recognised to the extent of costs incurred.

1.11 Interest received

Interest is recognised on a time proportion basis which takes into account the effective yield on the asset over the period it is expected to be held.

1.12 Foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Unrealised differences on monetary assets and liabilities are recognised in the income statement in the period in which they occur.

1.13 Irregular or fruitless and wasteful expenditure

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

1.14 Losses through criminal conduct

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

Notes to the annual financial statements

2 Property, plant and equipment

The Auditor-General has operating leases for all of the premises occupied by its regionally based staff in the major centres of the country (refer to note 23.1)

2008	R'000 Cost	R'000 Accumulated depreciation	R'000 Carrying amount
Computer equipment	65,408	(42,009)	23,399
Motor vehicles	3,729	(2,631)	1,098
Office equipment	2,589	(1,838)	751
Furniture and fittings	18,604	(10,170)	8,434
Leasehold improvements	11,428	(6,618)	4,810
	101,758	(63,266)	38,492
Assets under instalment sale agreements included above comprise:			
Computer equipment (refer to note 9)	42,336	(24,970)	17,366

The carrying amounts can be reconciled as follows:	R'000 Opening carrying amount	R'000 Additions	R'000 Disposals	R'000 Depreciation charge	R'000 Closing carrying amount
Computer equipment	23,573	13,121	(1,420)	(11,875)	23,399
Motor vehicles	984	531	(106)	(311)	1,098
Office equipment	592	503	(58)	(286)	751
Furniture and fittings	2,212	6,690	(47)	(421)	8,434
Leasehold improvements	6,242	841	(8)	(2,265)	4,810
	33,603	21,686	(1,639)	(15,158)	38,492

Assets under instalment sale agreements included above comprise:

Computer equipment (refer to note 9)	19,693	8,896	(470)	(10,753)	(17,366)
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	2008 R'000
Proceeds on disposal of property, plant and equipment	2,524

Property, plant and equipment (continued)

2007

	R'000 Cost	R'000 Accumulated depreciation	R'000 Carrying amount
Computer equipment	65,402	(41,829)	23,573
Motor vehicles	3,727	(2,743)	984
Office equipment	2,288	(1,696)	592
Furniture and fittings	12,716	(10,504)	2,212
Leasehold improvements	10,603	(4,361)	6,242
	94,736	(61,133)	33,603

Assets under instalment sale agreements included above comprise:

Computer equipment (refer to note 9)	45,144	(25,451)	19,693
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The carrying amounts can be reconciled as follows:	R'000 Opening carrying amount	R'000 Additions	R'000 Disposals	R'000 Depreciation charge	R'000 Closing carrying amount
Computer equipment	16,579	19,830	(619)	(12,217)	23,573
Motor vehicles	1,376	-	-	(392)	984
Office equipment	260	572	-	(240)	592
Furniture and fittings	3,100	405	(15)	(1,278)	2,212
Leasehold improvements	2,601	5,451	(9)	(1,801)	6,242
	23,916	26,258	(643)	(15,928)	33,603

Assets under instalment sale agreements included above comprise:

Computer equipment (refer to note 9)	10,670	18,320	(657)	(8,640)	19,693
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2007
R'000

Proceeds on disposal of property, plant and equipment	350
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3 Intangible assets

2008			R'000 Cost	R'000 Accumulated amortisation charge	R'000 Carrying amount		
Computer software – purchased:							
Enterprise resource management system - PeopleSoft			16,036	(9,322)	6,714		
Other software			28,043	(23,014)	5,029		
			44,079	(32,336)	11,743		
The carrying amounts can be reconciled as follows:			R'000 Opening carrying amount	R'000 Additions	R'000 Disposals	R'000 Amortisation charge	R'000 Opening costing amount
Computer software – purchased:			8,318	1,761		(1,604)	6,714
Enterprise resource management system - PeopleSoft			7,517	1,761		(4,249)	5,029
Other software			15,835	1,761		(5,853)	11,743
Accumulated depreciation of R14 000 was reallocated from computer equipment to software							
2007			R'000 Cost	R'000 Accumulated amortisation charge	R'000 Carrying amount		
Computer software – purchased:							
Enterprise resource management system - PeopleSoft			16,036	(7,718)	8,318		
Other software			26,268	(18,751)	7,517		
			42,304	(26,469)	15,835		

Intangible assets (continued)

The carrying amounts can be reconciled as follows:	R'000 Opening carrying amount	R'000 Additions	R'000 Disposals	R'000 Amortisation charge	R'000 Closing carrying amount
Computer software:					
Enterprise resource management system - PeopleSoft	9,921	-	-	(1,603)	8,318
Other software	7,726	2,966	-	(3,175)	7,517
	17,647	2,966	-	(4,778)	15,835

4 Trade and other receivables

	2008 R'000	2007 R'000
Trade receivables [1]	255,204	184,005
Provision for impairment of receivables [2]	(20,290)	(13,520)
Net trade receivables	234,914	170,485
Staff debtors	5,109	4,097
Prepayments	4,800	2,935
Other debtors	386	373
	245,209	177,890

[1] Included in trade receivables are amounts, the collectability of which may be dependent on the assistance of the Government (refer to note 25.2).

[2] Provision for impairment of receivables:

Opening balance	(13,520)	(13,582)
Utilised during the year	-	194
Additional provision for impairment of receivables	(6,770)	(132)
Closing balance	(20,290)	(13,520)

5 Cash and cash equivalents

	2008 R'000	2007 R'000
Call account at Public Investment Corporation:		
Investment reserved for specific liabilities (PIC 1) [3]	86,111	87,982
Investment to fund working capital requirements (PIC 2)	1,621	6,418
Current bank account	20,266	35,190
Foreign bank account (USD)	9,320	9,004
	117,318	138,594
[3] Investment reserved for specific liabilities		
The investment is earmarked for the following liabilities:		
Post-retirement benefits: medical care contributions (refer to note 10)	64,805	61,565
Bonus accrual (refer to note 11)	3,192	2,392
Leave pay accrual (refer to note 11)	24,690	22,476
The National Treasury for salary over-payments in the former TBVC states	3,395	3,321
Advances from the National Treasury for assistance on the local authority debtors (refer to note 11)	6,363	6,363
Payments made by staff in terms of the Auditor-General's notebook ownership policy	1,072	2,033
	103,517	98,150
The future service liability for post-retirement benefit: medical care contributions totalling R17 101 000 (2007: R22 276 760) is not included in the investment reserved for specific liabilities.		

6 General reserve

Opening balance	116,701	116,701
Transfer of retained income to reserves – Additional reserves approved	12,711	-
Closing balance [4]	129,412	116,701

- [4] The general reserve was approved by the Minister of Finance (in terms of section 38(4) of the Public Audit Act, 2004 (Act No. 25 of 2004)) for purposes of recapitalising the Auditor-General.

7 Special audit services reserve

	2008 R'000	2007 R'000
Opening balance	5,270	5,270
Utilisation of reserve	(306)	-
Closing balance	4,964	5,270

A fund set aside to finance special investigations or audits for which the Auditor-General may not be able to recover the cost from a specific auditee. The former Audit Commission instructed that the reserve should not be increased before further guidance is provided by the oversight mechanism established in terms of section 55(2)(b)(iii) of the Constitution.

8 (Accumulated loss) / retained earnings

Opening balance	11,288	12,711
Transfer of retained income to reserves	(12,711)	-
Staff development reserve utilised	-	355
Special audit services reserve utilised	306	-
Net deficit for the year [5]	(8,301)	(1,778)
Closing balance	(9,418)	11,288

[5] Retained income, if achieved, is available to fund the Auditor-General's ongoing activities and is subject to approval by the Minister of Finance (in terms of section 38(4) of the Public Audit Act, 2004 (Act No. 25 of 2004)) for the surplus to be retained.

9 Instalment sale agreements

	2008 R'000	2007 R'000		
Wesbank - A division of FirstRand Bank Limited	22,677	24,450		
Less: Current portion included in current portion of obligation under instalment sale agreements	(12,399)	(10,512)		
	10,278	13,938		
Liabilities under instalment sale agreements payable over periods from 1-3 years at an effective interest rate of between 10.5% and 13% (2007: 10.5% and 11.5%). Secured by computer equipment with a carrying value of R17 366 000 (2007: R19 693 000) (refer to note 2).				
2008	Up to 1 year	1 to 3 years	More than 3 years	Total
Minimum lease payments	14,255	10,946	-	25,201
Finance cost	1,856	668	-	2,524
Present value	12,399	10,278	-	22,677
2007				
Minimum lease payments	12,551	15,072	-	27,623
Finance cost	2,039	1,134	-	3,173
Present value	10,512	13,938	-	24,450

10 Retirement benefit obligations

	2008 R'000	2007 R'000
Post-retirement benefits: medical care contribution	64,805	61,565
The liability can be reconciled as follows:		
Opening balance	61,565	56,640
Current year provision	5,155	6,665
Current service cost	1,497	1,446
Actuarial (gain) / loss	(1)	1,102
Interest adjustment	3,659	4,117
<u>Less: Payments made</u>	(1,915)	(1,740)
Closing balance (refer to note 5)	64,805	61,565
The amounts recognised in profit or loss are as follows:		
Current service cost	1,497	1,446
Actuarial (gain)/loss	(1)	1,102
Interest cost	3,659	4,117
Total	5,155	6,665

The obligation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was performed on 31 March 2008 by Alexander Forbes using the Projected Unit Credit Method.

The valuation is based on the following principal actuarial assumptions:

The discount rate reflects the timing of benefit payments and is based on market bond yields

Subsidy increase rate

Expected retirement age

Number of continuation members

Number of in-service members

No explicit assumption was made about the mortality or health care cost due to HIV/AIDS.

2008

9.3%

6.3%

63

159

325

2007

7.8%

4.8%

63

145

341

Sensitivity analysis

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

Below is the recalculated liability showing the effect of:

A one percentage point decrease or increase in the discount rate.

A one percentage point decrease or increase in the CPI inflation rate.

A one year decrease or increase in the expected retirement age.

Discount rate	Assumption 9.25%	31 March 2008		Assumption 7.75%	31 March 2007	
		-1%	+1%		-1%	+1%
Accrued liability	64,805	77,240	55,174	61,565	74,021	52,011
% Change	-	19.2%	-14.9%	-	20.2%	-15.5%
CPI inflation	Assumption 6.25%	-1%	+1%	Assumption 4.75%	-1%	+1%
Accrued liability	64,805	55,002	77,297	61,565	51,832	74,088
% Change	-	-15.1%	19.3%	-	-15.8%	20.3%
Expected retirement age	Assumption 63 years	1 year younger	1 year older	Assumption 63 years	1 year younger	1 year older
Accrued liability	64,805	66,863	62,866	61,565	63,582	59,705
% Change	-	3.2%	-3.0%	-	3.3%	-3.0%

11 Trade and other payables

	2008 R'000	2007 R'000
Trade payables	96,923	73,981
Accruals	49,573	31,185
Bonus accrual (refer to note 5)	3,192	2,392
Accrued leave pay and deferred compensation (refer to note 5)	24,690	22,476
Performance bonus accrual	7,882	-
Staff creditors	4,810	4,571
Value-added tax	5,348	5,449
Advance on local authority debtors (refer to note 5)	6,363	6,363
	198,781	146,417

Ageing of trade payables:

2008	Total	Current	30 - 120	120+
Trade payables	66,134	39,035	25,629	1,470
Straight-lining of operating leases	13,701	1,142	4,567	7,992
United Nations contract - prepaid income	17,088	4,441	1,155	11,492
	96,923	44,618	31,351	20,954
2007	Total	Current	30 - 120	120+
Trade payables	53,001	33,700	18,862	439
Straight-lining of operating leases	6,386	532	2,129	3,725
United Nations contract - prepaid income	14,594	4,706	1,550	8,338
	73,981	38,938	22,541	12,502

12 Provisions

2008	Government Employees Pension Fund R'000	Accommodation R'000	Total R'000
Opening balance	-	231	231
Written back during the year	-	(231)	(231)
Additional provision [6]	1,541	-	1,541
Closing balance	1,541	-	1,541

2007	Accommodation R'000	Total R'000
Opening balance	231	231
Closing balance	231	231

[6] A provision has been made for penalties, relating to early retirements, payable to the Government Employees Pension Fund.

13 Revenue

	2008 R'000	2007 R'000
Local services rendered	1,087,382	875,538
Own hours	634,680	549,545
Contract work	417,747	299,743
Subsistence and travel	34,955	26,250
International services rendered [7]	21,517	18,212
Own hours	14,154	10,098
Contract work	-	129
Subsistence and travel	7,363	7,985
	1,108,899	893,750

[7] International revenue comprises income from the audit of certain United Nations accounts, funds and programmes. International revenue has been reduced by R2 722 141 (2007: R4 706 178), being the difference between the time billed based on the Auditor-General chargeout rates and the amount based on the fixed fee contract.

14 Staff cost

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

Management position	Name	Appointment date	Termination date	2008 R'000	2007 R'000
Auditor-General	SA Fakie	1 December 1999	30 November 2006	-	2,070
Auditor-General	TM Nombembe	1 December 2006	-	1,778	550
Deputy Auditor-General	TM Nombembe	1 June 2000	-	-	1,000
Deputy Auditor-General	T Makwetu	1 July 2007	-	1,200	-
Chief Operations Officer	L Jabavu	1 August 2007	-	800	-
Corporate Executive	P Bhana	1 October 2006	-	1,213	572
Corporate Executive	IS Cele	15 November 2005	31 December 2007	1,002	1,249
Corporate Executive	JE van Heerden	1 September 1991	-	1,130	1,066
Corporate Executive	DEL Zondo	1 November 2005	-	1,380	1,302
Corporate Executive	IKM Alexander	16 April 1999	31 October 2006	-	1,726
Corporate Executive	AH Muller	1 March 2008	-	81	-
Corporate Executive	BR Wheeler	1 March 2008	-	76	-
				8,660	9,535
				[8]	
Compensation to management is summarised as follows:					
Short-term employee benefits				8,482	8,418
Long-term benefits				178	116
Termination benefits				-	1,001
				8,660	9,535

[8] This includes all remuneration paid to management, no performance bonuses were paid out in 2008 and 2007.

Staff cost - Other staff	2008 R'000	2007 R'000
Management salaries	8,660	9,535
Support staff salaries	76,985	71,133
Other staff expenditure	22,689	4,086
Performance bonus	14,136	58
Group life scheme	2,914	1,004
Other employer contributions (UIF, workmen's compensation, long service awards, early retirement penalties – Government Employees Pension Fund, etc)	5,639	3,024
Course fees and study assistance	45,397	34,613
Accrued leave pay provision	8,514	10,753
Total support staff cost	162,245	130,120
Recoverable staff salaries	370,658	324,172
Total staff cost	532,903	454,292
Average number of staff	1,839	1,782
15 Contract work recoverable	417,274	301,201

This represents work done by external audit firms on behalf of the Auditor-General. The income is included in revenue at no additional margin.

16 Depreciation	2008 R'000	2007 R'000
Computer equipment	11,875	12,217
Motor vehicles	311	392
Office equipment	286	240
Furniture and fittings	421	1,278
Leasehold improvements	2,265	1,801
	15,158	15,928
17 Amortisation		
Computer software:		
Enterprise resource management system - PeopleSoft	1,604	1,603
Other software	4,249	3,175
	5,853	4,778

18 Other operational expenditure

Standing Committee on the Auditor-General/Corporate Governance Board fees and expenses

Auditor's remuneration:

Statutory audit services

Other audit services

Contract work irrecoverable

Fruitless and wasteful expenditure (refer to note 19)

ICT services

Internal audit fees

Legal costs

Other operational expenses

Operating leases - land and buildings

Operating leases - equipment

Provision for impairment of receivables

Receivables written off as uncollectible

Recruitment costs

Restructuring cost

Stakeholder relations [9]

Stationery and printing

Subsistence and travelling irrecoverable

Telephone and postage

Utilisation of staff development reserve

Utilisation of special audit services reserve

187	191
2,021	1,646
161	235
8,324	6,374
769	13
14,364	13,282
2,188	2,825
2,825	1,112
3,120	3,702
37,068	29,926
1,935	2,427
6,770	(62)
-	194
7,759	5,277
-	181
8,457	5,719
3,045	3,886
8,201	9,335
5,480	5,451
-	355
306	-
112,980	92,069

[9] The increase of R3.5 million is mainly due to the forthcoming AFROSAI conference.

19 Fruitless and wasteful expenditure

	2008 R'000	2007 R'000
Ex-staff debt written off [10]	757	-
Other	12	13
	769	13

[10] This amount relates mainly to staff debt which has prescribed.

20 Losses through criminal conduct

Notebook computers stolen at net book value [11]	(139)	(404)
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[11] No amounts have been recovered as the Auditor-General self-insures notebook computers. Stolen notebooks are reported to the police for investigation.

21 Impact of write-offs on the deficit

Enterprise resource management system (PeopleSoft) adjustment of unbilled accounts receivable account	(2,596)	-
Subsistence and travel irrecoverable written off	(1,352)	-
	(3,948)	-

22 Finance cost

Interest on obligation under instalment sale agreements	2,705	1,889
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23 Commitments

	2008 R'000	2007 R'000
--	---------------	---------------

23.1 Operating lease commitments

The future minimum commitments are as follows:

Due within one year

Accommodation

Communication equipment

Office equipment

32,361

26,364

3,681

2,316

23,186

18,169

3,150

1,867

Between one and five years

Accommodation

Communication equipment

Office equipment

121,121

112,808

3,681

4,632

81,031

74,147

3,150

3,734

More than five years

Accommodation

Office equipment

228,560

228,560

-

109,536

109,536

-

382,042

213,753

The office premises are leased for periods between three and ten years. The average lease payments are R2 196 959 (2007: R1 514 068) per month. The lease agreements are renewable between one month and ten years at the end of the lease term and the Auditor-General does not have the option to acquire the buildings.

Certain items of communication equipment are leased for a period of two years. The average lease payments are R306 775 (2007: R262 500) per month.

Certain items of office equipment are leased for a period of three years. The average lease payments are R192 982 (2007: R155 601) per month. The lease payments have been estimated until such time as the tender process is finalised.

24 Contingent liability

	2008 R'000	2007 R'000
Guarantees	243	255

Guarantees provided by the Auditor-General to various financial institutions for portions of home loans granted to ten staff. This policy has been discontinued since 1993.

Government Employees Pension Fund (GEPF)

The Auditor-General is liable for early retirement penalties. The Auditor-General has placed a moratorium on early retirements until a research and impact analysis is completed.

25 Financial instruments

25.1 Foreign exchange risk

The Auditor-General delivers a small portion of its audit services based on fixed sum contracts in foreign currencies.

Trade accounts receivable include receivables of 189 381USD (2007: 8 046USD) in respect of services delivered in foreign currencies not hedged by forward exchange contracts. These balances have been translated at year-end exchange rate of 1 USD = R8.1203 (2007: 1 USD = R7.2363)

Included in the bank balances at 31 March 2008 is an amount of 1 147 727 USD (2007: 1 244 341 USD). These balances have been translated at the year-end exchange rate of 1 USD = R8.1203 (2007: 1 USD = R7.2363).

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

25.2 Credit risk

Financial assets which potentially subject the Auditor-General to concentrations of credit risk consist principally of cash and short-term deposits which are placed with a financial institution with a short-term bank deposit credit rating of P-2 as well as with the Public Investment Corporation. The Public Investment Corporation is wholly owned by the South African Government and invests funds on behalf of public sector entities based on investment mandates set by each client and approved by the Financial Services Board. Trade receivables are presented net of the allowance for doubtful receivables. Credit risk with respect to trade receivables is limited to some degree due to the constitutionally ensconced audit mandate of the Auditor-General. However, the Auditor-General has a significant concentration of credit risk with local government and statutory bodies. R86 954 000 (2007: R59 569 000) of debtors, comprising 34.1% (2007: 32.4%) of total debtors, is in arrears. Local Government arrears comprise R53 213 000 (2007: R35 150 000) or 61.2% (2007: 59%) of total arrears.

All financial assets are unsecured. The carrying amounts of financial assets included in the balance sheet represent the Auditor-General's exposure to credit risk in relation to these assets. Investment in the Public Investment Corporation is governed by the Auditor-General's investment strategy which requires 95% of funds to be invested in money market instruments and the balance in cash.

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

2008 Debtor type	Total	Current	30 - 120	120+
National	49,690	45,748	1,836	2,106
Provincial	68,002	48,761	11,754	7,487
Local	100,696	47,483	25,740	27,473
Statutory	35,281	26,258	5,182	3,841
Other (including unallocated deposits)	1,535	(1,518)	1,883	1,170
	255,204	166,732	46,395	42,077
2007 Debtor type	Total	Current	30 - 120	120+
National	37,915	30,951	6,927	37
Provincial	38,693	33,550	3,914	1,229
Local	72,829	37,679	17,204	17,946
Statutory	31,344	22,256	2,475	6,613
Other (including unallocated deposits)	3,224	(5,738)	(431)	9,393
	184,005	118,698	30,089	35,218

25.3 Interest rate risk

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

31 March 2008 Assets	Effective fluctuating interest rate %	1 year or less R'000	1 to 5 years R'000	Total R'000
Trade and other receivables	0%	245,209	-	245,209
Cash				
Local				
Current account	9.75%	20,266	-	20,266
Call account	10.50%	87,732	-	87,732
Foreign	2.14%	9,320	-	9,320
Total financial assets		362,527		362,527
Liabilities				
Interest bearing borrowings	10.5% - 13%	12,399	10,278	22,677
Trade and other payables	0%	198,781	-	198,781
		211,180	10,278	221,458
Net financial assets / (liabilities)		151,347	(10,278)	141,069

31 March 2007 Assets	Effective fluctuating interest rate %	1 year or less R'000	1 to 5 years R'000	Total R'000
Trade and other receivables	0%	177,890	-	177,890
Cash				
Local				
Current account	7.75%	35,190	-	35,190
Call account	8.50%	94,400	-	94,400
Foreign	4.64%	9,004	-	9,004
Total financial assets		316,484		316,484

31 March 2007 Liabilities	Effective fluctuating interest rate %	1 year or less R'000	1 to 5 years R'000	Total R'000
Interest bearing borrowings	10.5% - 11.5 %	10,512	13,938	24,450
Trade and other payables	0%	146,417	-	146,417
		156,929	13,938	170,867
Net financial assets / (liabilities)		159,555	(13,938)	145,617

25.4 Additional information in relation to financial instruments

Line items presented in the balance sheet summarised per category of financial instrument	2008		2007	
	Carrying amount R'000	Fair value R'000	Carrying amount R'000	Fair value R'000
Financial assets				
<i>At fair value through profit and loss: Financial assets held for trading</i>				
Cash and cash equivalents (refer to note 5)	117,318	117,318	138,594	138,594
Loans and receivables				
Trade and other receivables (refer to note 4)	245,209	245,209	177,890	177,890
Financial liabilities				
<i>Financial liabilities measured at amortised cost</i>				
Instalment sale agreements (refer to note 10)	22,677	22,677	24,450	24,450
Trade and other payables (refer to note 12)	198,781	198,781	146,417	146,417
	221,458	221,458	170,867	170,867

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

Average days outstanding - receivables

Average days outstanding - payables

2008	2007
69	55
46	41

Sensitivity analysis

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

A one percentage point decrease or increase in the current and call account interest rate.

A one Rand decrease or increase in the USD and Euro exchange rate.

A one percentage point decrease or increase in the instalment sale agreement interest rate.

Current and Call Account interest rate	2008			2007		
	Current balance	-1%	+1%	Current balance	-1%	+1%
Net surplus	(8,301)	(9,732)	(6,857)	(1,778)	(3,421)	(372)
% Change	-	17.2%	-17.4%	-	92.4%	-79.1%
Current bank account balance	107,998	106,576	109,452	129,590	126,642	129,691
% Change	-	-1.3%	1.3%	-	-2.3%	-0.1%
USD and Euro exchange rate	2008			2007		
	Current balance	-R1	+R1	Current balance	-R1	+R1
Net surplus	(8,301)	(7,826)	(8,776)	(1,778)	(1,477)	(2,079)
% Change	-	-5.7%	5.7%	-	-16.9%	16.9%
Foreign account bank balance	9,320	8,172	10,468	9,004	7,760	10,249
% Change	-	-12.3%	12.3%	-	-13.8%	13.8%
International debtor balance	1,538	1,348	1,727	58	50	66
% Change	-	-12.4%	12.3%	-	-13.8%	13.8%

Instalment sale agreement interest rate	2008			2007		
	Current balance	-1%	+1%	Current balance	-1%	+1%
Net surplus	(8,301)	(8,359)	(8,272)	(1,778)	(1,871)	(1,685)
% Change	-	0.7%	-0.3%	-	5.2%	-5.2%
Instalment sale agreements balance	22,677	22,660	22,682	24,450	24,424	24,476
% Change	-	-0.1%	0.0%	-	-0.1%	0.1%

26 Notes to the cash flow statement

26.1 Revenue collected from auditees

Revenue	1,108,899	893,750
Net increase in trade receivables	(70,993)	(34,846)
	1,037,906	858,904

26.2 Direct audit cost payments

Direct audit cost	(829,829)	(658,136)
Net increase in trade payables	22,366	6,650
	(807,463)	(651,486)

26.3 Operational expenditure payments

Operational expenditure	(287,371)	(237,392)
Adjusted for:		
Straightlining of leases	7,315	6,386
Interest received	(13,416)	(11,940)
Finance charges	2,705	1,889
Foreign exchange gain	(995)	(621)
Depreciation	15,158	15,928
Amortisation	5,853	4,778

	2008 R'000	2007 R'000
Increase in provision for post-retirement medical aid benefits	3,240	4,925
(Profit) / loss on the disposal of property, plant and equipment	(885)	293
	(268,396)	(215,754)
Other working capital changes	27,873	(11,299)
Decrease / (increase) in other receivables	3,880	(2,742)
Increase in other payables	22,683	(8,557)
Increase in provision	1,310	-
	(240,523)	(227,053)

26.4 Acquisition of property, plant and equipment

	2008 R'000	2007 R'000
Computer equipment	(13,121)	(19,830)
Motor vehicles	(531)	-
Office equipment	(503)	(572)
Furniture and fittings	(6,690)	(405)
Leasehold improvements	(841)	(5,451)
	(21,686)	(26,258)

26.5 Acquisition of intangible assets

Computer software:

Other software	(1,761)	(2,966)
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26.6 Cash and cash equivalents

Call account at Public Investment Corporation:

Investment to fund working capital requirements	1,621	6,418
Investment reserved for specific liabilities	86,111	87,982
Current bank account	20,266	35,190
Foreign bank account	9,320	9,004
	117,318	138,594

27 Taxation

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

28 Professional indemnity insurance

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

29 Comparative information

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

	2007	
	Restated	Originally disclosed
	R'000	R'000
Effect in the balance sheet:		
Trade and other payables	146,417	146,648
Provisions	231	-
	146,648	146,648
Effect in the income statement:		
Direct audit cost:	(658,136)	-
Recoverable staff cost	(324,172)	-
Contract work	(301,201)	-
Subsistence and travel	(32,763)	-
Staff cost	-	(454,292)
Support staff cost	(130,120)	-
Operational expenditure	(92,069)	(124,832)
Contract work recoverable	-	(301,201)
	(880,325)	(880,325)

Effect in the cash flow:

Cash flows from operating activities

Finance charges	(1,889)	-
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Cash flows from financing activities

Payment on obligations under instalment sale agreement	(10,005)	(11,894)
	(11,894)	(11,894)

Effect in the notes:**Note 13 - Staff cost**

Salaries	-	399,391
Recoverable staff salaries	324,172	-
Support staff salaries	71,133	-
Other staff expenditure	4,086	-
	399,391	399,391

Comparison of actual results with the approved budget

	Note	Actual R'000	Budget R'000	Variances R'000
Revenue		1,125,624	1,025,981	99,643
Audit fees earned		1,108,899	1,013,230	95,669
Own hours	1	648,834	700,722	(51,888)
Contract work	2	417,747	250,525	167,222
Subsistence and travel		42,318	61,983	(19,665)
Other income		2,314	2,598	(284)
Interest received	3	13,416	10,153	3,263
Foreign exchange gain		995	-	995
Expenditure		(1,128,464)	(1,006,107)	(122,357)
Audit commission / Corporate Governance Board fees and expenses		(187)	(406)	219
Auditor's remuneration				
Statutory audit services		(2,021)	(1,600)	(421)
Other audit services		(161)	(270)	109
Provision for impairment of receivables	4	(6,770)	-	(6,770)
Contract work recoverable	2	(417,274)	(250,525)	(166,749)
Contract work irrecoverable	5	(8,324)	(13,052)	4,728
Course fees and study assistance	6	(45,397)	(52,441)	7,044
Depreciation expense	7	(15,158)	(19,963)	4,805
Amortisation expense		(5,853)	(8,264)	2,411
Finance charges		(2,705)	(1,920)	(785)
Fruitless and wasteful expenditure		(769)	-	(769)
Internal audit fees		(2,188)	(2,320)	132
ICT services	8	(14,364)	(21,816)	7,452
Legal costs	9	(2,825)	(960)	(1,865)
Stakeholder relations		(8,457)	(9,543)	1,086
Operating leases - equipment	10	(1,935)	(3,664)	1,729
Operating leases - land and buildings	11	(37,068)	(32,762)	(4,306)
Other expenses		(3,120)	(5,318)	2,198
Provision for accumulated leave benefits	12	(8,514)	(3,761)	(4,753)
Recruitment costs	13	(7,759)	(14,275)	6,516
Staff expenses (normal staff exp)		(464,856)	(483,082)	18,226
Special expense: performance bonus	14	(14,136)	-	(14,136)
Stationery and printing	15	(3,045)	(4,926)	1,881
Subsistence and travel recoverable	16	(41,897)	(61,983)	20,086
Subsistence and travel irrecoverable		(8,201)	(7,098)	(1,103)
Telephone and postage		(5,480)	(6,158)	678
Net deficit for the year before abnormal or reserve items		(2,840)	19,874	(22,714)
Increase in post-retirement medical aid benefit provision		(5,155)	(5,715)	560
Special audit services reserve utilised		(306)	-	(306)
Net (deficit) / surplus for the year		(8,301)	14,159	(22,460)

The budget was submitted for approval, in terms of section 38 of the Public Audit Act, 2004 (Act No. 25 of 2004), to the Standing Committee on the Auditor-General on 21 September 2006 and tabled in Parliament on 2 October 2006 in terms of the same section.

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

1. Own hours income

The decrease in own hours income is as a result of additional audit work being awarded to private firms due to changes in audit scope, additional assignments and staff vacancies.

2. Contract work

The increase in contract work income is as a result of additional audit work being awarded to private firms due to staff vacancies.

3. Interest received

The favourable variance was mainly due to optimised cash flow and higher prevailing interest rates.

4. Impairment of receivables

The provision for impairment of receivables increased due to increased revenue and deterioration in collection of audit fees owed by local authorities.

5. Contract work irrecoverable

The variance was as a result of contracted projects by ICT - Oracle annual licence, Strategy - Study on take-over of public entities, Governance - Review of Standard Operating Procedures and Performance audit guidance and Audit Research and Development - ISA240 project which commenced later than originally planned.

6. Course fees and study assistance

The underspending is due to the study assistance policy that requires a pass in the previous year before a new bursary is awarded. The pass rate has been lower than expected and hence the favourable variance. Staff vacancies also contributed to the underspending.

7. Depreciation

The deviation is as a result of capital expenditure being less than budget, the depreciation adjustment done on computers and the write-off of assets during the financial year.

8. ICT services

The variance is mainly due to a saving on PeopleSoft licences and the cost of notebook remote communication being lower than the budget.

9. Legal costs

The overspending was due to unforeseen external legal expertise required to resolve a human capital matter.

10. Operating leases – equipment

The favourable variance is mainly due to multifunctional equipment leases being extended for the next three years at a negotiated lower rate.

11. Operating leases – land and building

The variance arose as a result of establishing two additional audit business units to address the span of control and vacancy challenges.

12. Provision for accumulated leave benefits

The deviation is due to increase in salaries and untaken leave days accrued.

13. Recruitment costs

The underspending was mainly due to the recruitment drive starting six months into the financial year.

14. Performance bonus

The amount represents the actual performance bonus for the 2006 performance year and the provision for the 2007 performance year.

15. Stationery and printing

The main reason for the saving was the prudent management of stationery by business units. This is in keeping with cost-saving initiatives through the use of multifunctional devices.

16. Subsistence and travelling recoverable

The saving is mainly due to staff vacancies and budget estimates not materialising.

