Annual Report
08–09

Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

CONTENTS

Preamble to the Constitution

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

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

May God protect our people.

Nkosi Sikelel' iAfrika. Morena boloka setjhaba sa heso.
God seën Suid-Afrika. God bless South Africa.
Mudzimu fhatutshedza Afurika. Hosi katekisa Afrika.

Reputation promise of the Auditor-General of South Africa

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

Letter to the Speaker

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

September 2009

Dear Mr Sisulu

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

In terms of the provisions of section 10(2) of the Public Audit Act of 2004, it is an honour to submit my annual report, including the audited financial statements, for the financial year ended 31 March 2009.

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

The report deals with the financial matters affecting the affairs of the AGSA, 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 2009. 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

Terence Nombembe
Auditor-General

Comment of the Auditor–General

It gives me great pleasure to present my third annual report on the Supreme Audit Institution of South Africa. This 2008-09 annual report reflects our strategic thrust and absolute commitment to fulfil our constitutional mandate, raise our performance and output to a higher level and engender a higher degree of public confidence in our organisation as a chapter 9 institution.

The Auditor-General of South Africa (AGSA) is South Africa's Supreme Audit Institution (SAI) and, as such, has the constitutional responsibility to audit 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 us. The ultimate purpose is to uphold and strengthen the country's democracy by enabling oversight, accountability and good governance in the public sector through auditing, thereby building public confidence.

We pay meticulous attention to detail in all areas of our work given that we are an institution charged with scrutinising the performance of others, especially those dealing with public finances. We strive to measure the success of all our undertakings by evaluating them in terms of both timeliness and quality. Where we identified critical areas of weakness in our performance, we have adopted appropriate measures to address such weaknesses and improve our performance in those areas.

PFMA and MFMA 2007-08 audit cycle

During this performance year we continued our efforts to influence the achievement of unqualified reports in all spheres of government, which is central to the realisation of our constitutional mandate. We strive to communicate with simplicity, clarity and relevance at all times. This ideal is now also embodied in the revised vision of the organisation: "To be recognised by our stakeholders as a relevant supreme audit institution that enhances public sector accountability". The ultimate aim is for the messages in our reports to be meaningful and comprehensible to all.

Over the past two years, our revised approach represented a whole new turn where positive, interactive engagement with stakeholders laid the foundation for addressing our findings. During the year under review the initiatives that we implemented became even more apparent among our stakeholders when I presented the audit outcomes to the targeted audience in the various provinces during the PFMA and MFMA roadshows. For further exposure to the public, as a major stakeholder, these interactions were covered by the media.

PFMA STAKEHOLDER CONSULTATION

Consultation and dialogue with the Joint Committee of Chairpersons took place in Cape Town on 18 November 2008.

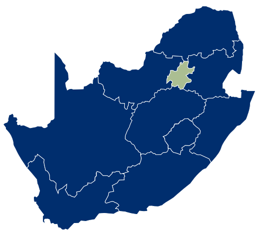
Presentation to Cabinet took place in Pretoria on 15 October 2008.

Consultation with Provincial Speakers and dialogue with Provincial Legislature.

Eight provinces covered except for Freestate

MFMA STAKEHOLDER CONSULTATION

Consultation with Provincial Premiers and dialogue with Premier's Consultation Forums



Eight provinces covered except for Gauteng

The Provincial Premiers and MECs for Local Government and Finance have embarked, in particular, on initiatives to respond to the audit matters raised in the financial period. The nature and extent of these initiatives varied from one province to the next, as did their impact on the audit outcomes for the year ended 30 June 2008 (2007-08 period). The full impact of initiatives in some provinces had not been realised for the 2007-08 financial year as the initiatives were either only partly implemented or were introduced too late to have a significant influence on the audit outcomes.

In the case of municipalities, the Executives made certain commitments in respect of financial management during March and April 2009. If these commitments and the beneficial effects of past initiatives are enhanced, sustained and supported, it is expected that the financial management and resulting audit outcomes of municipalities will be positively impacted. The AGSA undertakes to monitor and report on the impact that the various initiatives will have on future audit outcomes.

Human Resources

Given the scope and volume of our auditing work, the development of a competent and relevant skills base for current and future requirements remains a challenge. Indeed, the skills challenge is one that affects the country as a whole.

Within our audit environment, particular emphasis has been placed on the comprehensive trainee auditors' scheme which now forms the cornerstone of our skills pipeline and leadership succession strategy. Since the implementation of the trainee auditor programme in 2001, we have accumulatively retained 55% of our qualified trainees.

In this regard, we are becoming increasingly successful in developing a critical mass of auditing and leadership skills. This is mainly as a result of the experience we have built up over the years in which we have been running the scheme and also, especially during this reporting period, our increasing success in attracting some of the best young graduates into our organisation. The statistical breakdown of the incoming talent pool when compared to previous cycles clearly demonstrates this.

Funding Model

The perpetual flux within our operating environment, combined with our own projections, made it critical to adopt and implement a new funding model. The model that we crafted and adopted was one which, we sincerely believed, will ensure the stability of our margins and cash flow.

During the year under review, we continued proactive steps to secure our organisational livelihood. Although refinement is ongoing, we are convinced that the financial position of the organisation is on a sustainable trajectory that will engender higher levels of confidence in our wellbeing and performance.

Transformation

During the year under review, the AGSA set itself a significant employee workforce target to achieve employment equity goals. A ratio in favour of employees from targeted groups as opposed to those from non-targeted groups was maintained, in line with the economically active population. The challenge regarding the future focus is to ensure that this is reflected at the senior levels of the organisation.

In implementing transformational developments, the AGSA developed a BBBEE strategy which includes all the Codes of Good Practice. The strategy has been aligned to the Chartered Accountants (CA) charter. To achieve BBBEE targets, the AGSA placed renewed emphasis on developing an empowered supplier database and on issuing tenders to BEE-compliant suppliers. Further to this, as part of Corporate Strategic Investment (CSI), we have entered into partnerships with the schools so that we can actively eradicate poverty and strengthen our communities.

As an organisation, we have made significant improvements towards transformation holistically and we remain committed to driving and focussing on the transformation agenda of the AGSA.

AFROSAI and INTOSAI

The AGSA continued to be an active member of the International Organisation of Supreme Audit Institutions (INTOSAI) and of the African Organisation of Supreme Audit Institutions (AFROSAI). The Auditor-General of SA was appointed as the first vice-chair of INTOSAI and continued as President of AFROSAI in this reporting year.

The AGSA also participated actively in nine working committees and remotely in the other 18 working groups of the INTOSAI Participation Framework.

The AGSA hosted representatives from audit offices of Nigeria, Ethiopia, Brazil and Angola to further the coordination of audits and to exchange information on audit methods and findings.

AFROSAI held its 11th General Assembly in Pretoria, South Africa from 13 to 17 October 2008. The assembly was hosted by the AGSA and was attended by delegates and observers from 51 countries.

In turn, this has invigorated us in preparing ourselves and the rest of the country to host the next big event in November 2009, namely the Governing Board Meeting of INTOSAI to be held in Cape Town. This will pave the way for the grand finale of all auditing events worldwide – our hosting of the 2010 International Conference of Supreme Audit Institutions in Sandton.

Conclusion

We have said this in the past and find the need to say it once again: In response to the confidence and trust bestowed upon us by Members of Parliament representing our citizens, we are inspired to raise the bar for our performance and become even more proficient in our operations. This includes identifying the impact of the findings of our reports on those we audit and ensuring that our audit reports are relevant, simple, clear and more usable. In this way, we will not only enable our stakeholders to understand the critical issues affecting delivery but also empower taxpayers to engage their elected public representatives from a more informed position. Once again, and in the final analysis, this is where our relevance as a supreme audit institution rests.

Terence Nombembe
Auditor-General

Corporate Governance

The Constitution of the Republic of South Africa, 1996 establishes the Auditor-General of South Africa 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, the Constitution provides the corporate governance framework with which the institution must comply.

Corporate governance is furthermore defined in the Public Audit Act (PAA). The PAA facilitates the establishment and defines the functions of the parliamentary oversight mechanism, the Standing Committee on the Auditor-General. The PAA also establishes and defines other key governance structures of the AGSA. These structures are the Audit Committee, the Remuneration Committee, the Executive Committee and the Quality Control Assessment Committee.

Collectively, the AGSA's corporate governance arrangements and structures are formalised in the Corporate Governance Framework, which has been in place since October 2007 and is reviewed annually to ensure its relevance.

Standing Committee on the Auditor-General (SCoAG)

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

Table 1: Members of the National Assembly who served on the Standing Committee on the Auditor-General in 2008-09

Political party	Representatives
ANC	Mr V Smith – Chairperson (as of 18 November 2008)
	Mr DM Gumede – Acting Chairperson (7 October – 18 November 2008)
	Ms B Hogan – Chairperson (1 April 2008 until 25 September 2008)
	Mr PS Gabanakgosi
	Mr M Johnson
	Mr TL Mahlaba
	Mr MJ Nene
	Rev. NW Ngcobo
	Mr P Zulu
Democratic Alliance	Mr M Stephens
	Mr EW Trent
National Alliance	Mr S Simmons
National Democratic Convention	Dr GG Woods
African Peoples Convention	Mr MT Likotsi*
* Alternate member	

Overview of activities

During the year ended 31 March 2009, SCoAG held four meetings and two workshops to discuss matters such as the AGSA's Governance Framework, its Strategic Plan and Budget for 2009 to 2012 and the funding model option best suited to ensuring that the AGSA has sufficient funding to fulfil its constitutional mandate.

Each meeting or workshop was convened with a specific purpose:

- The two-day workshop held on 8 and 9 April 2008 focused on issues around the AGSA's efficiency and effectiveness, ongoing financial sustainability and relevance to stakeholders. More specifically, the Committee considered the policy and procedure for complaints against the AGSA, the audit standards, restructuring of Corporate Services, the Financial Turnaround Plan, vacancies and people retention, the funding model, contract work ratios and the media policy of the AGSA.

- On 12 June 2008, the Committee met to discuss funding options to secure the AGSA's long-term financial sustainability.
- The purpose of the meeting on 20 August 2008 was to review the AGSA's 2007-08 annual report. The annual report was tabled in Parliament on 12 September 2008.
- On 7 October 2008, the Committee met to review the AGSA's Strategic Plan and Budget for 2009 to 2012. This document sets out the AGSA's five-year strategy, together with a three-year strategy implementation plan.
- On 18 November 2008, the Committee met to elect a new Chairperson and to discuss the appointment of external auditors.
- The aim of the workshop held on 20 January 2009 was to review and confirm the AGSA's Governance Framework and to discuss the options available to mitigate the risk of the AGSA being without external auditors for the 2009-10 financial year and beyond. This was a three-way discussion involving SCoAG, the AGSA and the Audit Committee.
- On 21 October 2008, SCoAG also met with the Audit Committee and AGSA management to discuss a sustainable process for appointing an external auditor for the AGSA.

In addition, SCoAG and the AGSA agreed to enhance accountability and oversight by holding annual meetings with governance structures of the AGSA.

Audit Committee

The Audit Committee of the AGSA was established in terms of section 40(6)(a) of the PAA. The Committee exercises independent oversight and does not perform or assume any management responsibilities in discharging its duties. These duties, set out in section 43, are to maintain effective, efficient and transparent systems of financial management, risk management and internal control, and to maintain an effective internal audit function.

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

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

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 AGSA's financial statements.

The Audit Committee may, in terms of section 40(6)(b), communicate any concerns it may have to the AGSA, the external auditors of the AGSA and SCoAG.

The Audit Committee reviews its approved terms of reference annually to ensure that they remain relevant and are in compliance with applicable legislation.

The evaluation of the Committee against its terms of reference is contained in the report of the Chairperson of the Audit Committee on pages 27 to 30 of this report.

Composition of the Audit Committee

The Audit Committee that was in place during 2008-09 consisted of four independent non-executive members and was in the third year of its three-year term. On completing its term, which coincided with the resignation of one member, it was decided that the Audit Committee should consist of three members with at least one additional member being rotated annually. With this in mind, the three remaining members of the Audit Committee were reappointed for a second term. Further details of the Committee's membership and meeting attendance 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 (AG) is responsible for setting the terms and conditions of employment of all employees in the organisation. The Remuneration Committee was established to provide the AG with specialised advice on remuneration and related issues. The Committee plays a professional advisory role and the final decision-making power rests with the AG.

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 AGSA may wish to table for discussion.

Composition of the Remuneration Committee

The Remuneration Committee has three independent non-executive members and three executive members, and is chaired by an independent non-executive member. The executive members are the Deputy Auditor-General, the Chief Operating Officer and the Head of Audit.

During the year under review, one non-executive member, Mr D Edwards, resigned in line with the good governance practices set out in the Committee's terms of reference. The remaining two external members were reappointed.

The Committee held two meetings during the year, one on 8 July 2008 and the other on 17 March 2009. Attendance is shown in the table below.

Table 2: Attendance record of the Remuneration Committee in 2008-09

Members	08/07/2008	17/03/2009
Dr M Bussin (Chairperson)	Yes	Yes
Ms M Moloi	Apology	Yes
Mr TK Makwetu	Yes	Yes
Ms L Jabavu	Yes	Yes
Mr D Edwards	Yes	Resigned
Mr JE van Heerden	Yes	Retired
Ms J Bailey	Not Appointed	Yes

Overview of Activities

The Remuneration Committee, in alignment with its terms of reference, makes recommendations on remuneration policy matters that have a strategic impact on the organisation, such as the following:

a) Amendments to remuneration policies
b) Performance Audit Committee reports
c) Annual increase and variable pay principles
d) Proposals for voluntary severance packages and their impact on the organisation
e) Remuneration-related disputes at executive level

The committee has fulfilled the mandate as prescribed by its terms of reference and no material issues were dealt with during the 2008-09 year.

Quality Control Assessment Committee

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

The Committee consists of an external member, the AG and the DAG. The Head of Audit (HoA) is the alternative member for the AG and DAG.

The Quality Control Assessment Committee's rescheduled meeting took place on 11 May 2009. The delay was due to the change in the performance year which required additional audits having to be reviewed.
Quality control reviews are conducted by the Practice Review Department of the Independent Regulatory Board for Auditors (IRBA), together with the AGSA Quality Control Unit. All review reports are submitted to the Quality Control Assessment Committee, which is professionally assisted by the IRBA and is responsible for the following:

- Approving the AGSA's Quality Control Strategy
- Setting quality control review criteria
- Determining the outcome of individual review findings
- Communicating overall review results to Exco
- 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

Should any disputes arise regarding the findings of quality control reviews, such cases are referred to the Difference of Opinion Committee. The Difference of Opinion Committee decides on the outcome of each case by considering the validity and preliminary risk rating of the finding, along with the written responses received regarding the case.

The Difference of Opinion Committee has been reconstituted to include external members of the accounting professional bodies, with the aim of strengthening the independence, objectivity and credibility of its adjudication. The reconstituted Committee consists of the Head of Audit of the AGSA and two external members, one from the IRBA and one from the South African Institute of Chartered Accountants (SAICA). The Committee is chaired by one of the external members.

The Difference of Opinion Committee did not meet during 2008-09 as its meeting was rescheduled for 30 April 2009 to allow for the review of additional audits, due to the change in the performance year.

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 contained in the AGSA's Management Approval Framework, an Executive Committee assists the Deputy Auditor-General in managing the business and affairs of the organisation.

Composition of the Executive Committee and its meetings

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

During the period under review, the Head of Audit Mr JE van Heerden retired after 40 years of service to the AGSA and Corporate Executive Ms L Zondo resigned. They were replaced by Ms J Bailey and Mr E Zungu, respectively.

Exco has the power to establish sub-committees to assist it in carrying out its obligations. During the year under review, Exco established the Vacancy Committee to manage the filling of vacancies within the AGSA. This brings to three the number of Exco sub-committees in operation. The two existing sub-committees are the Technical Committee and the Tender Committee. All three sub-committees have clearly defined terms of reference and are chaired by an Exco member.

Exco meets monthly and holds special meetings when necessary. Exco meetings focus on reviewing and directing the implementation of the AGSA's business and strategic plans throughout the year.

Tender Committee

The Tender Committee is a sub-committee of Exco. Its main focus is to ensure fair and consistent application of all procurement policies and procedures, thereby promoting a fair tender culture. The Tender Committee consists of two executive members and five staff members and is chaired by an executive member. The Committee has an evaluation working group, whose key function is to promote a transparent, fair and effective evaluation process.

For the period under review, the Committee met five times, as shown in the table below.

Table 3: Attendance record of the Tender Committee

Members	13 May 2008	2 July 2008	12 August 2008	13 January 2009	21 January 2009
Ms L Zondo[1]	Yes	Yes	Yes	Resigned	Resigned
Ms A Muller[2]	Yes	Yes	Apology	Yes	Yes
Ms T Dube	Yes	Yes	Yes	Yes	Yes
Ms M Masemola	Yes	Yes	Yes	Yes	Yes
Ms E Manichand[3]	Yes	Yes	Yes	Yes	Yes
Ms L Jabavu	Yes	Yes	Apology	Apology	Apology
Mr M Mthimkhulu (Secretariat)	Yes	Yes	Yes	Yes	Yes
Mr T Harban (Legal Adviser)	Yes	Yes	Yes	Yes	Apology

1. Chairperson up to 12 August 2008
2. Chairperson from 13 January 2009
3. Initially non-voting member, status changed to voting member at the third meeting

The Committee met to ensure that all tenders issued and transactions undertaken reflected the organisation's strategic intent to support BEE-compliant businesses and were in line with all policies.

Vacancy Management Committee

Exco approved the formation of the Vacancy Management Committee in November 2008 to oversee the filling of vacant support positions needed for business continuity within the AGSA. The Committee evaluates motivations from business units submitting requests to fill vacancies.

The Committee meeting is chaired by the Chief Operations Officer. The other members are the Head of Audit, two Corporate Executives and the Business Executive: Human Capital. The latter communicates the outcomes of the evaluations to the relevant business units for further action.

Four meetings were held between the inception of the Vacancy Management Committee and the end of the financial year, during which 23 vacancies were approved for the following levels:

- Job level C: 3
- Job level D: 9
- Job level E: 11

Technical Committee

The Technical Committee functions as a sub-committee of Exco. It was established in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) to give effect to the requirements of section 13 of the PAA.

The role and functions of the Committee are as follows:

- Consider developments in auditing standards and best practices and make recommendations to Exco.
- Consider developments in applicable accounting standards and make recommendations to Exco.
- Consider the relevance of audit reporting by the AGSA and recommend to Exco the most appropriate product mix, nature and scope of audits.
- Guide the work schedule of Audit Research and Development.
- Consider the processes underpinning the finalisation of all technical development.
- Consider at a process level the audit outcomes of audit quality assurance processes.
- Guide the technical learning curricula for auditing staff.

The Committee is chaired by an Exco member, and comprises three members from the audit business units and one each from Special Audit Services, Audit Research and Development, Information Systems Auditing, Organisational Learning, Quality Control and the Independent Regulatory Board.

The Committee met twice during the report year.

The following items, with resolutions and the way forward, were tabled at these two meetings:

- Performance audit guidelines
- Quality control manual and policy on the monitoring of quality control compliance
- ISQC1 progress
- Public Audit Manual (PAM)/audit guidance for 2009
- Technical learning strategy
- Horizontal auditing
- Sector approach to auditing
- Quality control model
- INTOSAI commitments
- Key application guides on risk assessment and risk response
- Auditing of performance information readiness report
- ISA methodology framework
- Compliance audit opinion.

Executive Committee

Back row (left to right): Barry Wheeler (Corporate Executive); Pramesh Bhana (Corporate Executive); Paul Serote (Corporate Executive); Alice Muller (Corporate Executive); Eugene Zungu (Corporate Executive)

Front row (left to right): Jillian Bailey (Head of Audit); Terence Nombembe (Auditor-General of South Africa); Thembekile Kimi Makwetu (Deputy Auditor-General); Lindelwa Jabavu (Chief Operations Officer)

Risk management

Section 43 of the PAA requires the AGSA to establish and maintain a system of risk management and internal control, including an effective internal audit function. In the year under review, the AGSA continued to follow a multi-faceted approach to risk management:

- Significant risks are identified against the organisation's strategic goals and objectives. Annual risk assessments are conducted and the results are incorporated into the internal and external audit coverage plans. Risks identified during the auditing process are added to the organisational risk profile.
- The individual business units and the organisation monitor compliance with key controls designed to mitigate identified risks.
- The internal auditors regularly provide independent assurance to management and the Audit Committee on the management of key risks.

Some of the key initiatives around risk management during the 2008-09 financial year included the approval of the Risk Management Policy and Framework by Exco and thereafter by the Audit Committee. This paved the way for the policy to be rolled out to the rest of the organisation.
The AGSA's risks are divided into three key categories, namely operational risks, strategic risks and financial risks.

Operational risks

The AGSA's operational risks are all linked to key business processes and have been grouped into 16 risk areas. Depending on the level of their maturity in terms of the Capability Maturity Model, these risks are monitored through a self-assessment monitoring mechanism by business units.

Strategic risks

The AGSA continuously identifies risks against its strategic objectives as part of the strategic/business planning process. The aim is to ensure that key risks associated with the achievement of strategic objectives are regularly identified and monitored. During the year under review, the Executive monitored the following top two strategic risks on a quarterly basis:

- Declining margins: Over-dependence on contract work as a result of the high vacancy rate places strain on the organisation's margins. Initiatives to address this risk include reducing the organisation's reliance on contract work by aggressively addressing the vacancy rate.

- Failure to attract and retain auditing talent: Scarcity of skills in the audit profession is a reality. Provinces without tertiary infrastructure have challenges in providing trainee auditors for the AGSA graduate intake programme and it remains a major obstacle because the AGSA trainee auditor scheme programme targets accounting/auditing graduates. Due to the lack of graduates in these provinces, the AGSA embarked on a pilot programme in partnership with Deloitte to obtain the required human capital from India on a 24-month secondment programme.

Financial risks

The key financial risks identified and monitored include the following:

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

- *Liquidity risk*

  The AGSA continues to face growing liquidity challenges, including limitations in the funding model primarily relating to the determination of tariffs. (This has subsequently been rectified with effect from 1 April 2009).

  The liquidity challenges facing the organisation have been compounded by ongoing and escalating difficulty in collecting audit fees from local municipalities.

- *Credit risk*

  Most of the auditees do not settle their debt within the prescribed period. Nevertheless, the organisation assesses the adequacy of the provision made for bad and doubtful debts by regularly monitoring the historic collection patterns of auditees and arrear amounts, as well as by engaging with the National and Provincial Treasuries.

- *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 a substantial portion of the funds to be invested in money market instruments and the balance in cash. There is no significant exposure in instruments that may pose higher-than-normal risks to the AGSA.

- *Foreign exchange risk*
  The AGSA delivers a relatively small component of its services to the United Nations Board of Audit portfolio (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.

State institutions supporting constitutional democracy

During the report year the AGSA was active in developing and finalising the Memorandum of Understanding (MoU) with the Public Protector and the Office of the Public Service Commission.

Further to the above we will continue to pursue mutually beneficial relationships with other chapter 9 institutions.

Principles of good practice

The AGSA adheres to ISSA[1] 21, the principles of transparency and accountability standardised by the International Organisation of Supreme Audit Institutions (INTOSAI). ISSA 21 advances nine major principles of transparency and accountability in order to assist SAIs to lead by example in their own governance and practices.

Principle 1

SAIs perform their duties under a legal framework that provides for accountability and transparency:

- The AGSA's function is enshrined in the South African Constitution.
- Detailed functioning of the South African SAI is described in the PAA.
- The detailed approach to audits per cycle is contained in a directive that is published in terms of the PAA.

Principle 2

SAIs make public their mandate, responsibilities, mission and strategy:

- The AGSA has compiled documents explicitly setting out these aspects. All these are public documents and are available on the AGSA's website at www.agsa.co.za.
- The organisation's strategy is tabled in Parliament.
- All documentation originating from the AGSA contains key references to these aspects in the form of the reputation promise and pay-off line.

Principle 3

SAIs adopt audit standards, processes and methods that are objective and transparent:

- These standards, processes and methods are confirmed in a directive that is published in terms of the PAA.
- The AGSA has adopted all International Federation of Accountants (IFAC) auditing pronouncements. Mention is also made of the context created by the current International Standards of Supreme Audit Institutions (ISSAI) developments.
- Specialist functions are handled in terms of either the IFAC or the ISSAI standards.
- Methodology processes and methods are defined and described in the Public Audit Manual (PAM). This is updated for each audit cycle through appropriate technical development governance processes, supported by in-depth technical learning processes.

Principle 4

SAIs apply high standards of integrity and ethics for staff at all levels:

- The AGSA's adoption of the IFAC auditing pronouncements implies a commitment to integrity and ethics as outlined in these standards.
- In addition, the South African SAI subscribes in full to the guidance of INTOSAI in this regard.
- The AGSA has revised its entire Quality Control Manual to emphasise guidance on ethics and integrity.
- All training curricula include ethics training as a basic requirement.
- The AGSA completed a round of ethics-specific training for all audit staff during the 2008-09 financial year.

1 The International Standards of Supreme Audit

Principle 5

SAIs ensure that these accountability and transparency principles are not compromised through outsourcing activities:

- The AGSA handles contracting through an independent tendering process that takes cognisance of issues such as quality and requirements for rotation.
- The AGSA remains responsible for signing off all audit reports that are contracted out.
- All contract firms are expected to commit to a stringent set of requirements that focus, among others, on the key elements of the auditing standards, including accountability and transparency.
- All reports handled through contracting are made public through the AGSA's standard processes.

Principle 6

SAIs manage their operations economically, efficiently, effectively and in accordance with laws and regulations and report publicly on these matters:

- The AGSA's strategy and balanced scorecard results are tabled in Parliament through SCoAG.
- The strategy contains specific references to the economy, efficiency and effectiveness of the AGSA's operations, as well as its compliance with laws and regulations.
- The AGSA's performance against its strategy and balanced scorecard results are reported in its annual report.

Principle 7

SAIs report publicly on the results of their audits and on their conclusions regarding government activities:

- All the AGSA's reports are made public through a process of tabling in Parliament or relevant legislatures.

Principle 8

SAIs communicate timeously and widely on their activities and audit results through the media, websites and by other means:

- The AGSA presents the annual audit outcomes on the PFMA and Municipal Finance Management Act (MFMA) to all stakeholders in the legislatures, as well as to AGSA staff, the National and Provincial Treasury and members of the media.
- PFMA and MFMA consolidated general reports are published and tabled in the respective legislatures. These reports contain a synopsis of the audit reports, along with summaries of financial reporting results, performance reporting results and issues driving audit results.
- Audit outcome presentations and tabled general reports are also published on the AGSA's website.
- The AGSA conducts annual roadshows to inform the media about the audit outcomes, thus enhancing public awareness and understanding of the AGSA's mandate and vision.

Principle 9

SAIs make use of external and independent advice to enhance the quality and credibility of their work:

- The IFAC and ISSAI standards (as above) that the AGSA has adopted go hand in hand with adherence to this principle.
- Specific technical quality management and governance processes have been instituted to ensure comprehensive consultation with all appropriate role players, internally and externally. Independent auditing advice is provided by the Independent Regulatory Board for Auditors (IRBA), while consultation on accounting matters takes place with the Accounting Standards Board (ASB), the National Treasury and, where applicable, the South African Institute of Chartered Accountants (SAICA). All these relationships are approached through formal structures and processes.
- Formal policies on consultation and differences of opinion are an integral part of the audit methodology.

Association of Public Accounts Committees

The Association of Public Accounts Committees (APAC) was established in 1997 as a voluntary association aimed at promoting the effectiveness of the work performed by PACs and facilitating the exchange of information and views relating to such in South and Southern Africa. APAC was established based on the Supreme Audit Institution's (SAI) benchmark research on similar associations internationally.

The Organisation for Economic Cooperation and Development (OECD) views the relationship between the SAIs and PACs as symbiotic: On the one hand, the work of PACs ensures a logical conclusion to the work of the SAI, while the SAIs ensure that PACs have access to the relevant information required for effective oversight. The OECD also asserts that the SAI should establish dedicated liaison units to support the relationship between the SAI and the legislature.[2]

2 Relations between Supreme Audit Institutions and Parliamentary Committees, SIGMA Project Paper 33, 2002

...to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

APAC's support actualises our commitment to effective oversight and accountability and encapsulates the reputation promise of the South African SAI.

Since the inception of APAC, the relationship between the SA SAI and APAC has been very positive, and in many ways mutually beneficial. The relationship between the SA SAI and APAC was recently formalised and is further governed by a memorandum of understanding that covers support at three levels: secretariat, capacity building (for example, training programmes) and strategic collaboration.

APAC, by its own acknowledgement, has to date been a success because of the significant support of the SA SAI. This support included assistance with the development of a constitution for APAC and the arrangements for the inaugural conference in 1997.

In 1999 the SA SAI was formally requested to provide advice and support to APAC in order to ensure maximum operational efficiency and a properly functioning secretariat, and it has been doing so ever since.

This has provided APAC with stability and continuity to such an extent that the association was able to celebrate its 10th year of existence in 2007. In a celebratory publication entitled Overseers of the Public Purse, APAC outlined its formation, growth and achievements and recognised the "invaluable contribution" made by the SA SAI in respect of this success.

There are a number of collaborative projects between the SA SAI and APAC, including sharing of information on the latest developments in respect of external accountability reporting and new approaches to financial scrutiny practices. Specific joint capacity-building initiatives have been implemented in the past, such as the orientation of new PAC members as well as the development of best practice material on the work of PACs.

At APAC's annual conference, where key role players from government and the regulatory and standard-setting bodies are present, the SA SAI is given an opportunity to share high-level perspectives on key governance and accountability challenges and solutions.

Another exciting project was the survey of PAC practices carried out in 2007 which provided South African PACs with a baseline for their key oversight or scrutiny practices. The survey, *inter alia,* confirmed the extent of the PACs' dependence on the accountability information provided by the SAI. Therefore, the SA SAI will continuously work at improving the user-friendliness and, more importantly, the relevance of its reports in terms of providing enabling information that can facilitate robust scrutiny and informed governance processes.

APAC and the SA SAI were instrumental in facilitating the establishment of the Southern African Development Community Organisation of Public Accounts Committees (SADCOPAC) in 2002 and the SAI has been supporting its development ever since by participating in training and practice-sharing events, as well as the annual conferences. The SA SAI also provides input towards the annual position paper that APAC submits to the SADCOPAC annual general meeting on possible projects and other initiatives to optimise the impact of SADCOPAC in the region and on the continent.

The SA SAI has also supported SADCOPAC by making human, financial and other resources available for specific projects and programmes. Another support initiative as part of an AFROSAI-E programme related to the development of a training course for SAI parliamentary liaison staff aimed at ensuring effective and appropriate interaction with, and support to, legislative committees.

Through these strategic partnerships, a platform for regional collaboration and discussion will add value to good governance, compliance, financial oversight practices and the strengthening of democracy, not only in South Africa but within the region and, it is envisioned, ultimately on the continent.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Report of the Chairperson of the Audit Committee

We are pleased to present the Audit Committee Report for the financial year ended 31 March 2009, 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

Introduction

The Audit Committee exercises independent oversight and does not perform or assume any management responsibilities in discharging its duties. The Audit Committee assists the AGSA in maintaining effective, efficient and transparent systems of financial management, risk management, internal control and internal audit. As such, the Committee is composed exclusively of non-executive members, ensuring the Committee's objectivity and independence in carrying out its obligations. During 2008-09, the Audit Committee applied itself comprehensively to the task of strengthening the AGSA's internal control environment.

Overview of Activities

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

- Review and approval of the Risk Management Policy and Framework;
- Review and approval of the Organisational Risk Profile for the 2009-10 financial year;
- Ensured the appointment of the AGSA's external auditors for the 2008-09 financial year, through making appropriate recommendations to SCoAG;
- Conducted preparatory work for the appointment of external auditors for the 2009-10 financial year and beyond through, among other things:
    - strategising with SCoAG on initiatives to be implemented in order to attract appropriate external auditors for the AGSA; and
    - revisiting and amending the selection criteria for the future appointment of external auditors.
- Approval of the External Audit Coverage Plan and budget for the 2008-09 financial year;
- Approval of the reappointment of Deloitte as the AGSA's internal auditors for the 2009-10 financial year;
- Approval of the Internal Audit Coverage Plan and budget for the 2009-10 financial year;
- Meeting with SCoAG; and
- Review and oversight of the implementation of the Financial Turnaround Plan.

Effectiveness of Internal Controls

Section 43(3)(b) of the PAA requires the AGSA 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 analysis of periodic internal and external audit reports, and the analysis of information and feedback received from management, the Audit committee is satisfied that management has displayed the correct attitude in putting in place the necessary controls and initiatives to address any identified internal control challenges. The Audit Committee could thus rely on the internal control environment of the AGSA.

Evaluation of the annual financial statements

The Audit Committee has:

- reviewed and discussed the audited financial statements in this report with the external auditors and the Deputy Auditor-General;
- reviewed changes in accounting policies and practices;
- reviewed significant adjustments resulting from the audit; and
- reviewed the external auditors' management letter and management's response to it.

Following our review of the financial statements for the period ended 31 March 2009, we are of the opinion that they comply with the relevant requirements of the PAA and fairly present the state of affairs of the AGSA, including operations, financial results and financial position.

Committee membership and attendance

During the year under review, the Audit Committee comprised four external members, one of whom, Ms NP Mbele, resigned in November 2008.
Five 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)	5	-
Mr RJ Biesman-Simons	5	-
Prof K Barac	3	2
Ms NP Mbele	2	1

Meetings were also attended by representatives of the internal auditors (Deloitte) and external auditors (BDO Spencer Steward), as well as by some members of the AGSA'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 AGSA's internal control environment.

Mthandazo Peter Moyo
Chairperson of the Audit Committee

Thembekile Kimi Makwetu
Deputy Auditor-General

Review of the Deputy Auditor-General

The Deputy Auditor-General (DAG) is the head of administration of the institution. As such, he is the accounting officer, accountable to the Auditor-General, and performs his duties in terms of sections 32 and 43 of the PAA.

The Auditor-General has described the organisation's performance on the key areas of commitment for the past financial year, while the DAG's review contains an elaborate assessment that expands on how the organisation has mobilised its people and resources towards fulfilling the AGSA's commitments and constitutional mandate.

The 2008-09 strategic plan sets out the organisation's main focus areas as follows:

- *Auditing* to ensure that the AGSA delivers on its mandate.
- *Transformation*
  - *Employment equity* to achieve the target set for transformation of the workforce.
  - *Broad-based black economic empowerment (BBBEE)* to ensure transformation of the organisation and to serve as an example to other institutions on matters of transformation.
- *Leadership* that is visible to both external stakeholders and audit teams, thus deepening understanding of the environment in which the AGSA operates, and ultimately ensuring that it effectively fulfils its mandate of strengthening South Africa's democracy.
- *Reputation* as the indicator of whether the AGSA fulfils its mandate effectively.
- *People* as important assets in whose professional development the AGSA continuously invests.
- *Processes* to ensure that the AGSA leads by example in terms of its internal controls so that its credibility and reputation remain intact.
- *Financial performance,* with the emphasis on ensuring that the AGSA, which is a self-funding organisation, focuses strategically on remaining financially sustainable.

A total of fifteen objectives for the eight focus areas were set for improvement to enable the AGSA to achieve its strategic goals. Overall, nine (60%) of the fifteen targets for 2008-09 were met, compared to six in the previous reporting year. These issues are elaborated on further in the report.

Auditing

- *Quality:* Overall, the AGSA achieved 93% of its targets based on the "excellent" (80%) and "good" (20%) performance categories. This was an improvement on last year's achievement of 90%. The AGSA continues to refine its structures and processes with a view to achieving ongoing quality improvements. This has included setting up two additional audit business units and introducing product champions within business units to ensure that changes in the auditing standards are appropriately disseminated to the audit teams.

  The ongoing challenge is to ensure that we maintain excellent performance above the 80% achievement for the year while we strive to eliminate poor performance outcomes entirely.

- *Cost of auditing:* The gross contribution to fixed and operating costs was 22% against the target of 31%. The main contributors to the shortfall were the following:
  - Increase in contract work due to high vacancy rates
  - Lower recovery rates than budgeted for
  - Decrease in own audit hours compared to budget.

  During the course of the year under review, we agreed on a sustainable funding model which will be effected in the 2009-10 financial year. This will ensure that the remaining challenges with regard to the funding of the office are effectively addressed. We remain committed to keeping public auditing costs low and affordable. This imposes an obligation on all our staff and service providers to work efficiently and to focus on managing the risks relating to government finance through auditing

- *Timeliness of audits:* The AGSA has addressed all reasons given by auditees for late submission of annual financial statements in conjunction with the National and Provincial

Treasuries. This contributed positively to the achievement of the targets set.

The milestones achieved on the timely delivery of audits will enable those charged with governance to exercise their oversight with speed. We believe that this will allow us to move closer to the ideal of achieving clean administration and financial accountability.

- *Auditing of performance information:* The target was not met due to late submission of performance reports by audited entities.

- *Performance auditing:* 6% of total audit revenue earned in this report year compared to the target of at least 10%. The AGSA is implementing a plan to address this strategic objective, which is in line with government's overall drive for policy implementation and service delivery.

  We are accelerating the effort to focus on critical service delivery challenges through performance auditing. Over the next three years, it will be evident that the area of performance auditing is a growth area to align with ongoing assessment of service delivery. The AGSA is geared to build the required capacity in order to meet this challenge.

- *International auditing:* The AGSA continues to ensure that it participates in international auditing, which impacts positively on its reputation as the Supreme Audit Institution of South Africa, and offers its employees international experience without detracting from the organisation's local mandate. International auditing contributed 2% to the total audit income, which is within the set target of less than 5%.

  Through our involvement in the UN Board of Auditors, we will continue to position ourselves to participate in international public sector auditing even after the expiry of our mandate after 2012. Steps have already been taken to attend to this important aspect of our work.

Transformation

- *Employment equity:* The AGSA has performed well against the target set for transformation of the workforce, which was as a result of our Trainee Auditor Scheme reflecting the numbers of the economically active population. The future focus is to ensure that equity is achieved at senior level within the AGSA.

  We will continue to intensify our efforts to grow our talent from within our respective business units in order to maximise on the equity profile already achieved.

- *BBBEE:* The AGSA scored 100% in terms of compliance with the Procurement Policy BBBEE criteria in a standardised and consistent manner.

  There remains a challenge to assist emerging accounting and auditing firms in the area of auditing. Our efforts in the future will go towards ensuring that the office continues to access the required resources from a diverse base of audit practitioners.

Leadership

The AGSA adopted a number of initiatives to address the effectiveness of its leadership. These initiatives included revising its strategic intent (vision, mission and values), developing its leadership skills, such as the Communicating Leader Programme, improving the performance management system and exploring a culture that would be appropriate for an organisation such as the AGSA.

As the public sector continues to transform, our leadership who is in the forefront of implementing our core mandate will need to remain abreast of all developments within the sector in order to respond appropriately through our audit engagements.

Reputation

The AGSA also adopted a number of initiatives aimed at addressing its reputation, including branding and plans for key stakeholders.

As we implement our initiatives, it remains our primary responsibility to ensure that the reputation of the AGSA remains intact. This informs how we treat our people, how we handle the resources at our disposal and the auditees and various stakeholders that assist in transmitting our key messages to the rest of the public.

People

For learning and growth, the focus was on the retention of trainee auditors. On the retention of staff in general the AGSA achieved a staff turnover rate of 11% against the target of 16%, which is the industry average. This is a significant improvement from the 20% staff turnover rate recorded in the previous year.

Since the implementation of the trainee auditor programme in 2001, we have accumulatively retained 55% of our qualified trainees.

The AGSA has invested significantly in the area of growing talent for its own purposes as well as for the broader public sector and economy. We are proud of our achievements in this regard and shall continue to ensure that we provide maximum exposure to finance and audit professionals in the areas in which we operate. This can only be beneficial for growing the talent pool for South Africa.

Process

For operational excellence the organisation is committed to addressing the key processes that have an impact on the strategic risks identified. As a result, there are no processes at level 1 (the lowest level) of the Capability Maturity Model. With regard to processes within key strategic risk areas, 44% are at level 2 and 56% at level 3.

As the Supreme Audit Institution of the country, we are duty bound to lead by example in the area of clean administration and financial management. Continuous improvement remains our central challenge as we build our capacity to remain exemplary.

Financial performance

Targets were set for efficiency gains and debt collection:

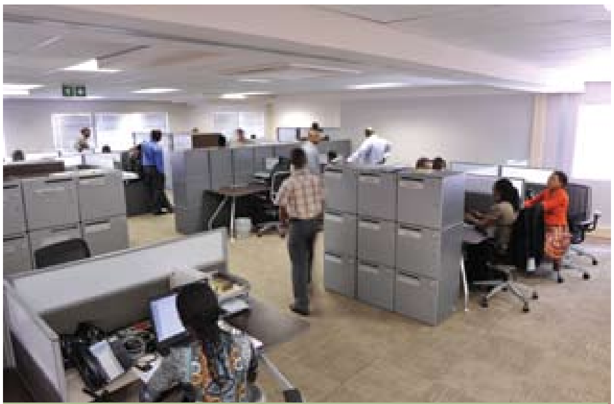
- *Efficiency gains:* The AGSA's liquidity remains an area of concern. A deficit of R16,1 million was recorded for the year under review. Contributing factors included a high vacancy rate which led to an increase in contract work and an increase in provision for accumulated leave benefits.

- *Debt collection:* The ability of provincial and local governments to settle their accounts on time remains a concern. The AGSA will continue to engage the National Treasury on this matter as it impacts the organisation's working capital.

  The annual financial statements set out our achievements for the year. There were many challenges; however, all our business units acquitted themselves very well despite difficult odds. We trust that the AGSA will remain financially sustainable and independent as we entrench our preferred funding model.

Appreciation

I would like to express our appreciation to the AGSA staff who have ensured that we remain on course and are able to deliver on our constitutional mandate. Many long-serving employees have recently taken well-deserved retirement after an illustrious career at the AGSA. We can assure them, in particular the former Head of Audit, Wally van Heerden, that those many years of service to this prestigious institution will be remembered as we advance towards our centenary in 2011. Lastly, many thanks to all the members of our oversight structures for excellent guidance and direction. Thanks to their counsel, we can only grow from strength to strength.



Trainee auditors - Nelspruit

Summary of actual performance against the targets for the year ended 31 March 2009

Table 5: Performance against predetermined objectives

Main focus area	Sub-focus areas	Target	Actual performance
1. Auditing	1.1 Quality	Excellent performance (C2 and C3): 80%	Excellent performance (C2 and C3): 84%
		Good performance (R1): 20%	Good performance (R1): 9%
		Poor performance (R2): 0%	Poor performance (R2): 7%
	1.2 Cost of auditing	Additional 1% on the projected efficiency ratios of 30%	22% efficiency ratio
	1.3 Timeliness	95%: PFMA organisations	99%: PFMA organisations
		95%: Other PFMA organisations	98%: Other PFMA organisations
		80%: MFMA organisations	92%: MFMA organisations
	1.4 Auditing of performance information	100% achievement of milestones set for the year	93%: PFMA 90%: MFMA
	1.5 Performance auditing	At least 10% of total audit revenue allocated to performance auditing, including value-for-money focus areas	6% of total audit revenue
	1.6 International audits	Not more than 5% of total audit income	Income from international audits makes up 2% (R28m) of total audit income, which is within the targeted range.
2. Employment equity		80% from targeted groups and	88% from the targeted groups and
		20% from non-targeted groups	12% from non-targeted groups
3. Broad-based black economic empowerment (BBBEE)		100% compliance with BBBEE criteria set for the year	100% compliance with BBBEE criteria
4. Leadership	4.1 Leadership effectiveness	100% achievement of milestones set for the year	Achieved 100% of milestones set for the year
5. Reputation	5.1 Overall reputation index	100% achievement of milestones set for the year	Achieved 100% of milestones set for the year
6. People	6.1 Learning and growth	Retain 30% of trainees that qualified	100% of qualified trainees retained
	6.2 Retention of staff	Less than 16% staff turnover rate	11% staff turnover rate
7. Process	7.1 Operational excellence	Level of maturity of business process at least: 0% at CMM level 1[1] 75% at CMM level 2[2] 25% at CMM level 3[3]	Level of maturity of business process achieved: 0% at CMM level 1 44% at CMM level 2 56% at CMM level 3
8. Financial performance	8.1 Efficiency gains (net surplus)	Additional 1% on projected efficiency gains	0% on efficiency gains Deficit amounting to R16,1 million
	8.2 Debt collection	National and provincial not more than 30 days Local government not more than 90 days	National = 18 days Provincial = 37 days Local government = 104 days

1 Absence of documented and standardised processes.
2 Although processes are standardised, they are either not documented or not communicated.
3 Processes are documented, standardised and communicated.

Auditing

Quality

As the supreme audit institution within the public sector, the AGSA determines the method of work for public sector auditing. The method begins with the application of the auditing standards that the Public Audit Act (PAA) requires the AGSA to determine and is then carried through to the training strategy. This ensures consistency, not only in auditing activities 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 organisation and assists in developing a culture of delivery. In this context, the emphasis is on realising the AGSA's constitutional mandate to strengthen democracy through world-class and value-adding audit products and services that enable accountability in the public sector.

The quality process that the AGSA 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 AGSA's Governance Quality Control Unit, the IRBA performs a predetermined allocation of reviews on both in-house and outsourced work. The IRBA also undertakes independent quality reviews of private sector partners performing audits on behalf of the AGSA. These independent reviews are conducted on a rotational basis to determine whether the audits undertaken comply with the International Standards on Auditing.

To assess compliance, the AGSA uses the results of quality control reviews conducted by the Governance Quality Control Unit, in conjunction with the IRBA, as the measure.

The AGSA has implemented effective strategies to significantly improve the quality of audits. 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.

However, the factor that had the greatest positive impact on audit quality during the year was organisational change. The following organisational changes were pertinent:

- The creation of two additional national audit business units to perform the audits of national departments and public entities.
- The appointment of operational leaders in the larger provincial audit business units, which has helped to improve the supervision and review of engagements and the quality of the audit reports.
- The appointment of product champions at senior management level at all audit business units. This has resulted in the improved application of audit standards and guidance at ground level within the audit business units. For this reason, the individual needs and contentious issues dealt with by the audit business units are also being addressed more appropriately and effectively.
- Dedicated technical training was revived in the year of this review.

Audit quality during 2008-09

The performance results of the 2008-09 year are exceptionally good, especially considering that ever-growing stakeholder expectations have led to an escalation in the scope and timeliness of audit deliverables.

Over the past few years, the AGSA has continuously raised the bar in setting performance targets. Nevertheless, when compared to the results of the four prior years, the 2008-09 period delivered the best results in all three of the performance rating categories, namely "excellent", "good" and "poor".

Firstly, the results for the category "excellent" performance not only exceeded all the results of prior years, but also surpassed the demanding set target of 80%. This performance exceeds the norms of the auditing profession.

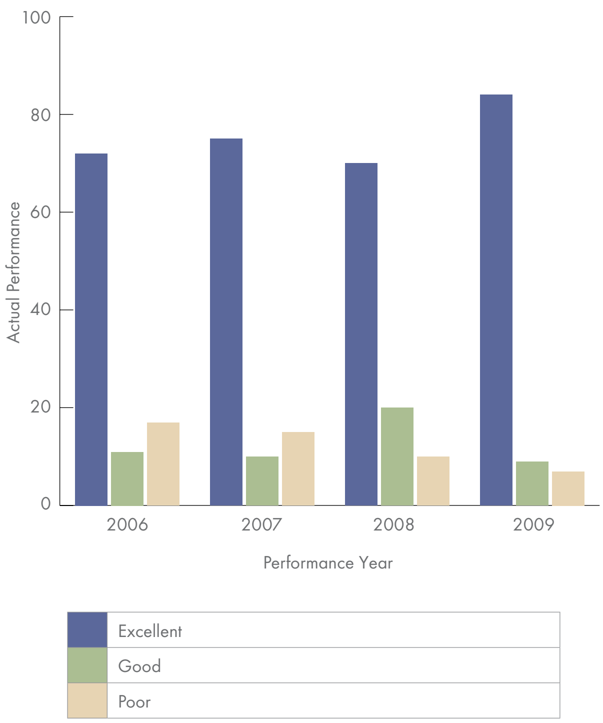
Secondly, although still not meeting the exacting target set for the 2008-09 financial year, the results for the category "poor" performance demonstrate a dramatic reduction compared to the prior year results. Plans are in progress to eradicate poor performance.

These results, shown in table 6 and figure1 below, reflect the positive impact of the quality and organisational initiatives implemented over the past year and the dedication of auditing and support services staff.

Table 6: Annual quality control results

Target 2008-09	Performance 2008-09
Excellent performance: 80%	Excellent performance: 84%
Good performance: 20%	Good performance: 9%
Poor performance: 0%	Poor performance: 7%

Figure 1: Annual quality control results



Cost of auditing

The cost of auditing is the total audit fee charged to all three spheres of government, namely national, provincial and local. The following factors under the control of the AGSA influence the audit fee:

- The management of the span of control on audits
- The management of the ratio of the work contracted out to private firms to the work performed in-house
- The management of the ratio of recoverable work to non-recoverable work
- The measures taken to reduce audit fees by optimising audit methods
- Maintaining a market-related audit fee structure without compromising operational efficiency

These controllable factors, as well as uncontrollable factors, are taken into account when determining the measurable cost of auditing target (table 7). Uncontrollable factors include the size and complexity of the entities being audited, the maturity of the entities' financial management and the nature of their activities.

The underlying principle of the AGSA's cost of auditing model is to generate sufficient funding for its operations without placing an excessive burden on the public sector.

Cost of auditing in 2008-09

The total cost of auditing for government increased from R1 109 million in 2007-08 to R1 376 million in 2008-09. The increase exceeded the 2008-09 budget by R84 million or 7%.

For the year under review, the actual gross contribution margin was R307 million or 22%. The contribution fell short of the target by R86 million or 7%.

Table 7 on the next page shows that an efficiency ratio of 22% was achieved.

Table 7: Percentage of contribution to gross profit margin

Target 2008-09	Performance 2008-09
Additional 1% on the projected efficiency ratios of 30%	22% efficiency ratio

The deterioration in the efficiency ratio from 25% in the prior year to 22% in 2008-09 was mainly due to the following:

- A 10,7% decrease in available own audit hours, from a budgeted 3,71 million hours to 3,31 million hours, as a result of higher-than-expected vacancies.
- The actual recovery of 67,4% was lower than the budget of 68,2%. The recoverable hours were not achieved due to higher-than-budgeted study leave commitments.
- Tariffs per own audit hours increased by 1,2 % due to alignment with market-related salaries and the premium paid for temporary staff.
- A 67% increase in contract work, which stemmed from higher-than-expected vacancies. The additional contract work was required to account for vacancies in excess of an assumed level of 5%. In addition, recruiting and retaining qualified audit staff remained a challenge. It is important to note that the increase in contract work did not contribute to the gross profit margin as no mark-up is applied to contract work.

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

Table 8: Cost of auditing – actual performance in 2008-09 compared to 2007-08

Description	Year-on-year % change	2008-2009 Budget		2008-2009 Actual		2007-2008 Actual	
		Rm	%	Rm	%	Rm	%
National departments	22%	297	24%	293	21%	241	22%
Provincial departments	21%	352	27%	352	26%	292	26%
Local government	31%	329	25%	410	30%	313	28%
Listed and other entities	22%	283	22%	293	21%	241	22%
International audits	27%	32	2%	28	2%	22	2%
Audit income	24%	1 293	100%	1 376	100%	1 109	100%
Audit staff expenses	25%	464	36%	465	34%	371	33%
Contract work – audit related	32%	369	28%	551	40%	417	38%
S&T – audit related	26%	67	6%	53	4%	42	4%
Direct expenditure	29%	900	70%	1069	78%	830	75%
Gross contribution to fixed and operational costs	10%	393	30%	307	22%	279	25%

Table 9: Comparison of actual to budgeted audit income for 2008-09

Category	Budget	Actual
Total own hours and subsistence and travel	R924m	R825m
Contracted	R369m	R551m
Total audit income	R1 293m	R1 376m

Timeliness of audit reports

The timely submission of audit reports is dealt with in sections 21(1) and 21(2) of the PAA, as well as in sections 8(1), 19(2) and 40(2) of the PFMA and section 126(4) of the MFMA. In the absence of specific regulations, the PAA allows the AGSA a reasonable amount of time to submit its audit reports.

Receiving annual financial statements (AFS) from auditees after the legislated submission dates has a negative impact on the AGSA's performance, as was reported in the previous year's annual report. During 2008-09, the AGSA addressed the reasons given for the non-achievement of the AFS submission in 2007-08 as follows:

- Contracting in the resources of private audit firms
- Organising roadshows where auditees had the opportunity to interact with the Auditor-General
- Planning more interim audit work
- Revising the audit reporting guide used by audit staff and contracted firms
- Organising PFMA and MFMA update workshops for audit staff
- Attending to audit queries earlier by agreeing on mutually acceptable timelines

These initiatives, which were undertaken with the support of the National Treasury and Provincial Treasuries, received a positive response from auditees and produced excellent results. In the case of PFMA annual financial statements (excluding other PFMA organisations), there was a 50% improvement in the timeliness of submission for MFMA annual financial statements (excluding municipal entities) improved by 36%.

These improvements had a direct impact on the AGSA's completion rates, especially for MFMA reports. The timely completion rate of these reports improved by 13,5% to reach 92,5%. In the case of PFMA audit reports, the AGSA maintained its solid track record of completing 99% of reports within legislated deadlines. The achievement of these timeline targets augur well for oversight of financial management in the public sector. This achievement also enables timely corrective measures to be taken by those charged with governance before problems escalate to unmanageable systemic risks. Our efforts will remain focused on this area, as we contribute to the continued effort to strengthen financial oversight and accountability in the systems of government in all three spheres.

The tables below show the AGSA's performance against target in both categories.

Table 10: PFMA reporting timeliness (within two months of receiving financial statements)

Target 2008-09	Performance 2008-09
95% achievement of all audit deadlines	99,1%

Table 11: MFMA reporting timeliness (within three months of receiving financial statements)

Target 2008-09	Performance 2008-09
80% achievement of all audit deadlines	92,5%

Table 12: The AGSA's PFMA performance in meeting legislated reporting timelines in relation to the submission of financial statements

Entities	Submission of financial statements as prescribed by the PFMA as a percentage of total audits performed		Completion of the audit within the statutory deadlines where financial statements were submitted in accordance with PFMA requirements	
	%	Number	%	Number
PFMA organisations	95%	340	99%	338
Other PFMA organisations	90%	99	98%	97

Table 13: The AGSA's MFMA performance in meeting legislated reporting timelines in relation to the submission of financial statements

Entities	Submission of financial statements as prescribed by the MFMA as a percentage of total audits performed		Completion of the audit within the statutory deadlines where financial statements were submitted in accordance with MFMA requirements	
	%	Number	%	Number
Municipalities	84%	225	92%	206
Municipal entities	81%	42	98%	41

Auditing of performance information

The auditing of performance against predetermined objectives is subject to sections 20(2)(c) and 28(1)(c) of the PAA. Furthermore, section 13 of the PAA requires the AGSA to determine the standards to be applied in performing such audits. In the absence of specific audit standards at this stage, the AGSA has adopted a phased-in approach for compliance with the relevant sections of the PAA. This approach will apply until the necessary standards have been developed and auditees have raised performance information reporting to a level of maturity conducive to reasonable audit assurance in the form of an audit opinion or conclusion.

The year 2008-09 was the third year of the phasing-in approach, which has the following advantages:

- The National Treasury has the time and opportunity to provide structure and discipline to the processes used by the management of public sector institutions to measure and report on performance information, as well as to facilitate the implementation of the necessary systems.
- It provides an appropriate level of assurance on the quality of reported performance information in each phase of the implementation.
- It enables the AGSA to provide ongoing advice and encouragement for continuous improvement in the quality, value and use of performance information. This is in line with the AGSA's commitment to play a constructive and, where appropriate, supportive role in the South African public service.

- The audit report will not be qualified in respect of performance information during the phasing-in period (until the 2008-09 financial year). This has given the management of the auditees the opportunity to set up the necessary internal policies, structures, systems and processes to manage and report on performance information.

In view of this approach, the measure used to monitor performance is the percentage compliance with predetermined audit coverage milestones.

The audit approach and procedures

As was the case in the previous reporting period, the phased-in approach to the auditing of performance information involved a gradual increase in the scope and extent of audit procedures performed on performance management and reporting practices, as well as performance management systems. The procedures for auditing the performance information of the financial year from April 2008 to March 2009, which was the third year of the phasing-in approach, are indicated in *General Notice 616 of 2008*, issued per *Government Gazette 31057 of 2008*.

No separate opinion on performance against predetermined objectives was included in the audit reports. Reporting in this regard formed part of the regularity audit process. Material shortcomings in the process, systems and procedures of reporting against predetermined objectives that came to the attention of the auditor during the audit and that may impact on the public interest, were reported in the audit reports. Specifically, these shortcomings were contained in the *Other reporting responsibilities* section of the audit reports.

Overall, the AGSA did not meet the target of achieving 100% of the predetermined audit milestones. This implies that not all audit business units had audited performance information in full accordance with the Audit Research and Development (ARD) guidelines. In total, 93,33% of the PFMA audits (2007-08: 85%) and 90% of the MFMA audits (2007-08: 70%) complied with the required milestones, as shown in the table entitled 'Reporting on performance information'.

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

- The ARD requirements for achieving the target were more onerous than in the previous reporting period, as more audit work was required. This applied especially to the audit requirements necessitating the validation of the actual reported performance results.
- Late submission and/or non-submission of annual performance reports by audited entities prevented the AGSA from executing all the relevant audit programmes as per the ARD guidelines. This applied particularly to the MFMA audits.

Action being taken

The AGSA continued with the plan of action implemented in the previous financial year to educate and train auditees on auditing performance information. These initiatives were conducted within forums such as the Association of Public Accounts Committees (APAC), Chief Financial Officer forum meetings and senior management and staff meetings at audited entities, as well as by engaging with internal auditors and audit committees.

In addition, the AGSA continued to highlight the audit requirements for the auditing of performance information by taking part in discussion forums with the National Treasury, the Presidency and other relevant role players.

The impact of these initiatives can already be seen in the performance improvement that the AGSA achieved against the 2008-09 target compared to the target in the previous year. Awareness and training initiatives will continue in the year to come to ensure even broader coverage of all audited entities.

Table 14: Reporting on performance information

Target 2008-09	Performance 2008-09
100% achievement of milestones set for the year	93,33% for PFMA audits 90% for MFMA audits

Performance auditing

The AGSA has made a concerted effort to pay increased attention to performance auditing, which is in line with government's overall drive for policy implementation and service delivery. It is a strategic imperative for the AGSA to incrementally increase the resources used for performance auditing, based on the priorities determined by its stakeholders.

Over the past three years, a number of performance audits have been independently reviewed as part of the AGSA's quality control process. The senior managers concerned received the highest possible quality rating. Performance auditing capacity has also been strengthened through training. Three performance auditing training sessions were presented during the financial year and to date 90% of employees within the Performance Auditing Unit have been trained up to at least the level of the basic course in performance auditing.

Performance auditing for 2008–09

The management of performance auditing was centralised as from 1 April 2008. A Strategic Plan for the period 2008 to 2011 has been drafted and covers strategic goals such as the following:

- Creating sufficient capacity to meet strategic objectives and deliver high-impact performance audits
- Refining the process of identifying transversal performance audit themes
- Refining quality assurance processes to ensure compliance with standards and to maintain the high quality of performance audits
- Improving stakeholder consultation and communication to address the relevant stakeholders' needs and expectations in a timely fashion
- Creating capacity within the AGSA to perform environmental audits

A Performance Audit Advisory Committee (PAAC) was established within the AGSA in July 2008. Its role is to guide the work of the performance audit unit, consider the impact of performance audit reports issued and approve future performance audit focus areas. The PAAC consists of the Auditor-General (Chair), Deputy Auditor-General, Head of Audit, Corporate Executive for Audit Development and Innovation and the Business Executive for Performance Auditing.

The PAAC approved three areas as potential transversal performance audit areas for the 2009-10 financial year. These areas are poverty reduction (with specific emphasis on education sector services), the use of consultants by government departments, and governance and oversight over public entities.

On 18 August 2008, in an important capacity-building development, the AGSA became a member of the Performance Audit Sub-Committee (PAS) of INTOSAI. Membership will enable the AGSA to benchmark its performance auditing standards against global peers and keep abreast of the latest international trends and developments in performance auditing.

Still in the international arena, the AGSA continued preparing for the international peer review it will undergo in 2010 on its performance audit practice. As part of the preparation, the performance audit manual has been revised, quality assurance processes refined and all performance audit staff trained.

In respect of environmental audits and related environmental projects, the AGSA made certain commitments to the INTOSAI working group on environmental auditing (WGEA). These commitments include volunteering to play the leading role in the preparation of guidance material on the auditing of sea fisheries for the INTOSAI WGEA and to play a supportive role in preparing guidance material on the auditing of:

- climate change
- government's management of natural resources and the related impact on the environment of the forestry sector
- government's management of natural resources and the related impact on the environment for the minerals and mining sector.

In addition, the AGSA volunteered to participate in the design and performance of a multi-regional parallel audit on climate change. This level of involvement is expected to be invaluable in building organisational capacity in environmental auditing, which is growing in importance worldwide.

Performance audit reports issued

The following is a summary of performance audit reports tabled or which were in progress as at 31 March 2009:

Table 15: National departmental performance reports

Department	Report	Actual or planned tabling date
Correctional Services	Repair and maintenance of correctional centres	August 2008
Health	Forensic Chemistry Laboratories	September 2009
Minerals and Energy	Rehabilitation of derelict and ownerless mines	August 2009
Provincial and Local Government	Management of the municipal infrastructure grant	August 2008
South African Police Service	Service delivery at police stations and 10111 call centres	April 2009
Transversal performance audit	Entities that are connected with government employees doing business with national departments	April 2009

Table 16: Public entity performance audits

Public entity	Report	Actual or planned tabling date
National Development Agency	Projects or programmes aimed at meeting the development needs of poor communities	August 2009
National Prosecuting Authority	Appointment of consultants	Included in the annual report of the auditee

Table 17: Provincial performance audits

Province	Department	Report	Actual or planned tabling date
Gauteng	Education	Investment in infrastructure	September 2009
	Health	Investment in infrastructure	September 2009
	Transversal	Entities that are connected with government employees doing business with departments	May 2009
KwaZulu-Natal	Education	Investment in infrastructure	September 2009
	Health and Social Welfare	Investment in infrastructure	September 2009
Mpumalanga	Education	Investment in infrastructure	September 2009
	Health	Investment in infrastructure	September 2009
	Transversal	Entities that are connected with government employees doing business with departments	May 2009

Province	Department	Report	Actual or planned tabling date
Limpopo	Education	Investment in infrastructure	September 2009
	Health and Social Welfare	Investment in infrastructure	September 2009
	Housing	Allocation of housing subsidies to municipal employees and the administration of low-cost housing projects by the department	June 2008
	Transversal	Entities that are connected with government employees doing business with departments	May 2009
North West	Agriculture, Conservation and Environment	Procurement of agricultural equipment	November 2008
	Education	Investment in infrastructure	September 2009
	Health	Investment in Infrastructure	September 2009
	Transversal	Entities that are connected with government employees and doing business with departments	May 2009
Free State	Education	Investment in infrastructure	September 2009
	Health	Investment in infrastructure	September 2009
	Housing	Allocation of housing subsidies to municipal employees and the administration of low-cost housing projects by the department	July 2008
	Transversal	Entities that are connected with government employees and doing business with the departments	May 2009
Northern Cape	Housing	Administration of low-cost housing projects by the department	July 2008
	Transversal	Entities that are connected with government employees and doing business with departments	May 2009
Eastern Cape	Education	Investment in infrastructure	September 2009
	Health	Investment in infrastructure	September 2009
	Transversal	Entities that are connected with government employees and doing business with the department	May 2009
Western Cape	Education	Investment in infrastructure	September 2009
	Health	Investment in infrastructure	September 2009
	Local Government and Housing	Allocation of housing subsidies to municipal employees and the administration of low-cost housing projects by the department	May 2008
	Environmental Affairs and Tourism	Handling of confiscated abalone	July 2009
	Transversal	Entities that are connected with government employees doing business with the department	May 2009

Table 18: Percentage of revenue allocated to performance audit

Target 2008-09	Performance 2008-09
At least 10% of total audit revenue allocated to performance audit	6,4 % of total audit revenue allocated to performance audit

Table 19: Performance audit revenue

Audit type	Performance audit revenue Rm	Percentage of total audit revenue
Performance audit	32,2	2,3%
Value for money	41,6	3,1%
Forensic	13,9	1,0%
Total	87,7	6,4%

Investigations

In clearly prescribed circumstances, the AGSA has the authority to investigate financial misconduct, maladministration and impropriety and to ensure probity in the accounts, financial statements and financial management of certain public sector institutions. These institutions are referred to in section 4(1) and (3) of the PAA, while section 5(1)(d) defines an investigation as an independent and objective process where procedures are performed in accordance with guidelines issued by the AGSA. According to the PAA, an investigation may result in legal proceedings for adjudication and may be performed where the AGSA:

- considers it to be in the public interest,
- receives a complaint relating to such institution or its affairs, or
- receives a request relating to such institution or its affairs, and
- deems it appropriate.

The International Standards on Auditing (ISA), which the AGSA has adopted, do not provide for investigations as envisaged in the PAA. Thus, the AGSA deemed it necessary to compile a policy, standards and guidelines for investigations conducted by it or on its behalf. These are minimum standards to which all investigations and parties conducting investigations must adhere.

Investigation audit reports issued

The following is a summary of investigation reports which had been tabled or were in progress as at 31 March 2009:

Table 20: National departmental investigations

Department	Report	Actual or expected date of tabling or status of management report
Housing	Special audit of the N2 Gateway project	April 2009
Justice and Constitutional Development	Investigation into procurement	September 2008
National Treasury	Investigation into the appointment of service providers and transfers to the Northern Cape Youth Commission	The investigation was requested by the Accountant-General, to whom a report was submitted during July 2009
Home Affairs	Investigation into the procurement of the "Who am I Online?" system	Report was issued to the Minister for Home Affairs during February 2009
Public Works	Appointment of service providers for the asset verification process	Report was issued to the Minister for Public Works during April 2009
Pubic Service and Administration	Procurement of business process management services	Report was issued to the SITA Board and the Minister for Public Service and Administration during December 2008

Table 21: Departmental investigations in Limpopo

Department	Report	Actual or expected date of tabling or status of the management report
Public Works	Investigation into procurement	The investigation was requested by the Portfolio Committee on Public Works and a report was submitted to them during May 2008

In addition, investigations were conducted at the following municipalities:

- Modimolle: Investigation into a reservoir in Mabatlane/ Vaalwater. The report was discussed with the Finance Committee of the District Council during October 2008.
- Bela-Bela: Investigation into the appointment of service providers. The report is still in progress.

Table 22: Public entity investigations in North West

Public entity	Report	Actual or expected date of tabling or status of the management report
North West Parks and Tourism Board	Possible conflict of interest on the part of officials in the procurement of goods and services	September 2008

In addition, an investigation was conducted into an alleged illegal contract and possible irregular expenditure at Ngaka Modiri Mollema District Municipally. The report is still in progress.

Table 23: Departmental investigations in the Northern Cape

Department	Report	Actual or expected date of tabling or status of the management report
Health	Investigation into procurement	The investigation was requested by the Accountant-General and a report was submitted during July 2009

Investigations into various issues at the Kouga Municipality and Nkonkobe in the Eastern Cape were still in progress at financial year-end.

Overall, investigations by the AGSA during 2008-09 cost R13,97 million, as reflected in the following table.

Table 24: Investigations audit resources

Audit type	Audit resources (Rm)	Percentage of total
Investigations	13,97	1%

International audits

Having entered its second decade of international audit experience, the AGSA continues to maintain a prestigious portfolio of international audits and has further enhanced its global reputation through leadership and participation in international audits and global forums.

The AGSA's international audit activities are designed to provide opportunities for South African auditors to obtain invaluable international audit experience and insights, along with exposure to international public sector best practices. These opportunities and experience result in a cross-pollination of work methods and practices that are applied immediately to real South African and international audit situations. Matters of oversight, accountability and governance are as relevant to the global community as they are to South Africa, whether these relate to new developments in accounting standards for the public sector, or to ways of ensuring the independence and quality of audit committees. In tackling the issues facing international audit clients, the AGSA's international auditors are contributing to the global body of knowledge while enhancing their own ability to discharge their mandate back in South Africa.

During 2008-09, the international audit portfolio remained relatively stable with no significant changes in terms of profile or the leadership dedicated to delivering on international audit commitments.

The AGSA's most significant international contribution remains its involvement in the United Nations Board of Auditors, and with effect from 2009 the Auditor-General assumed the rotating chairmanship.

The composition of the United Nations Board of Auditors now includes the Heads of the SAIs of China and France, and provides an unequalled opportunity for the three countries to collaborate and share knowledge and experiences. The Auditor-General also serves as vice chairman of the Panel of External Auditors, an association of 10 SAIs involved in the auditing of entities and specialised agencies associated with the United Nations.

The current members of the Panel of External Auditors of the United Nations are as follows:

- Federal Court of Auditors of Germany – Chair of panel
- Auditor-General of South Africa – Vice chair of panel
- Auditor-General of Canada
- Auditor-General of China
- First President of the Court of Accounts of France
- Comptroller and Auditor-General of India
- Auditor-General of Pakistan
- Chairman, Philippine Commission on Audit
- Director, Swiss Federal Audit Office
- Comptroller and Auditor-General of the United Kingdom of Great Britain and Northern Ireland.

In addition, the Auditor-General has continued to maintain a high-profile involvement in the following institutions:

- International Organisation of Supreme Audit Institutions (INTOSAI)
- African Organisation of Supreme Audit Institutions (AFROSAI)
- African Organisation of English Speaking Supreme Audit Institutions (AFROSAI-E)

In participating in international audits during 2008-09, care was again taken to ensure that this participation did not take place at the expense of the AGSA's ability to effectively carry out its local mandate. To this end, the organisation continued to fulfil its commitment that no more than 5% of total audit income should be earned from international audits. The AGSA also monitored the International Division's financial performance to ensure that it did not go below break-even point and create a cost for the local office.

The 5% income limit is regarded as a relevant and appropriate measure for an organisation of this size as it ensures a balance between the AGSA's constitutional mandate and its international involvement.

Table 25: Percentage of income from international audits

Target 2008-09	Performance 2008-09
Income from international audits should not make up more than 5% of total audit income	International audit contributed 2% of income in the amount of R28m

Transformation

Employment equity

Historically, the accounting and auditing professions have been among the least representative of South African workplace demographics. As a significant employer of trainees and qualified professionals, as well as a major client of private sector services, the AGSA has for some years been contributing to the transformation of the accounting and auditing professions. This emphasis, demonstrated by the status of employment equity as a primary focus area, has gained momentum to the point where the AGSA is a clear leader in employment equity within the financial services sector. This leadership was strengthened further during 2008-09 when the AGSA substantially exceeded its own employment equity targets, achieving its best results to date.

During the year under review, the AGSA set itself a formidable employee workforce target ratio of 80:20 in favour of employees from targeted groups (white females, Africans, coloureds and Indians and people with disabilities). At financial year-end, actual performance against this target was 88:12, which was an achievement.

Another important focus, in compliance with various legislative requirements, was on identifying and removing barriers to employment equity, equalising opportunities, managing diversity and eliminating unfair discrimination.

- One of the main reasons for the AGSA's excellent employment equity record during the year was its consistent attention to raising awareness about the organisation's employment equity plans. Awareness sessions were conducted with all business units, the aim being to offer them guidance and assist them in interpreting and implementing the plans. An essential aspect of these sessions was clarifying the manner in which the business units were expected to achieve the employment equity baseline of 80:20.

The following tables reflect the AGSA's performance against the employment equity targets set for 2008-09, and the progress made compared to the previous year.

Table 26: Ratio of employees from target groups to employees from non-target groups

Target 2008-09	Performance 2008-09
80% from target groups and 20% non-target groups	88% from target groups and 12% non-target groups

Table 27: Achievement of affirmative action targets

Level	2009				2008			
	Target: Designated Group	Actual: Designated Group	Target: Non-Designated Group	Actual: Non-Designated Group	Target: Designated Group	Actual: Designated Group	Target: Non-Designated Group	Actual: Non-Designated Group
Band B	80%	89%	20%	11%	80%	75%	20%	25%
Band C		68%		32%		65%		35%
Band D		75%		25%		70%		30%
Band E&F		100%		0%		99%		1%
Band G	90%	98%	10%	2%	90%	98%	10%	2%

Table 28: Achievement of affirmative action targets in respect of trainee auditors (levels A to G)

Groups	2009		2008	
	Male	Female	Male	Female
African	28%	32%	26%	29%
Coloured	2%	3%	3%	4%
Indian	5%	4%	5%	4%
White	13%	12%	14%	14%
Disabled	0,5%	0%	0,5%	0%

Figure 2: Achievement of affirmative action targets in respect of trainee auditors (levels A to G)

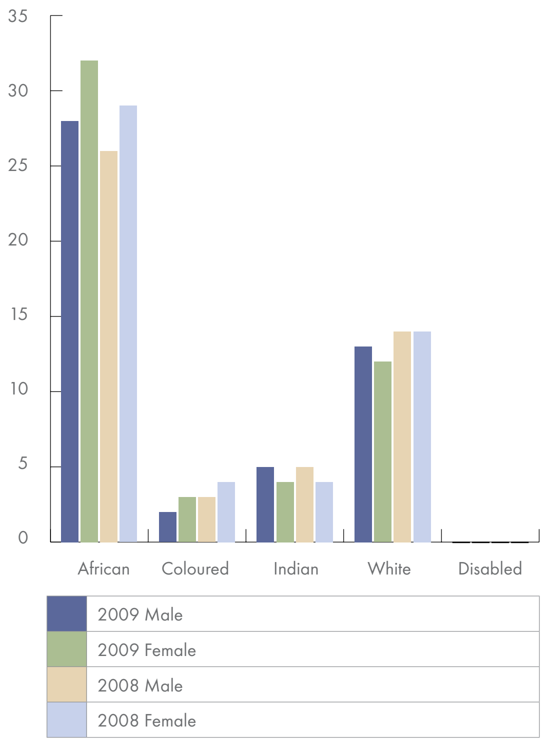


Table 29 reflects the performance of the organisation, excluding trainee auditor level. Employment equity at manager and senior levels still remain a challenge. The figures below do not adequately reflect the economically active population. Hence, the AGSA plans to continue to drive equity in skills development and succession plans.

Table 29: Achievement of affirmative action targets, excluding trainee auditors (levels A to F)

Groups	2009		2008	
	Male	Female	Male	Female
African	18%	21%	18%	20%
Coloured	3%	5%	3%	4%
Indian	7%	5%	6%	4%
White	19%	19%	22%	22%
Disabled	0%	0%	0%	0%

Broad-based black economic empowerment (BBBEE)

BBBEE is an important component in the transformation machinery of the AGSA, who is a powerful force for transformation by virtue of its influence in the broader auditing and accounting profession and its commitment to being an empowerment role model. The organisation, which is a member of the BEE Charter Council of the South African Institute of Chartered Accountants (SAICA), has an empowerment strategy that encompasses all applicable pillars of empowerment, including preferential procurement, skills development, employment equity and corporate social investment.

During the 2008-09 financial year, the AGSA placed renewed emphasis on developing an empowered supplier database and on issuing tenders to BEE-compliant suppliers. This entailed monitoring the preferential procurement practices and procedures, and working with the Tender Committee to ensure that BEE criteria are used when evaluating and awarding tenders, and when allocating work to private firms.

Two other focal points were corporate social investment (CSI) and skills development. In the CSI arena, the AGSA worked closely with partners such as the Department of Education and the Department of Finance to reach out to high school learners in Gauteng, especially in Midrand, and in Mpumalanga.
A framework to facilitate skills development is ready to be implemented.

The criteria as set out in table 30 are utilised when allocating work to private audit firms.

Table 30: Allocation criteria and weighting

Criteria	Weights
Quality control results (as reviewed by IRBA)	30%
BEE (as defined in the AGSA'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 31 below reflects the basis for such allocation, using the budgeted and actual allocation for 2008-09.

Table 31: Allocation of audit work to private audit firms for 2007-08

Size of firms	Allocation targets %	Budget R million	% of budgeted total	Actual R million	% of Actual total
Big and large	45%	101	45%	146	47%
Medium	35%	78	35%	107	34%
Small	20%	45	20%	58	19%
	100%	**224**	**100%**	**311**	**100%**

The next table outlines the BEE targets set for the AGSA in 2008-09 and its performance against these targets

Table 32: Compliance with BEE criteria for contract work and centralised procurement

Target 2008-09	Performance 2008-09
100% compliance with BEE criteria per annum	100%

Leadership

During the past few years, the AGSA has viewed leadership competence and effectiveness as a strategic imperative for running a successful organisation. The annual reputation and culture surveys were conducted to assist in identifying specific areas to target, resulting in a number of initiatives designed to build the required leadership competence and promote effective and efficient people management practices. Most of these initiatives have been approached from a human resource management perspective.

One such initiative, undertaken during 2008-09, was to review the span of control in audit business units to allow equitable distribution of workload. This review resulted in the appointment of operational leaders and product champions at audit business units. Operational leaders were appointed in the larger provincial audit business units, while product champions were assigned to audit business units across the board to focus on the technical aspects of the work. In another development, the majority of the job descriptions were reviewed and job levels determined through an objective evaluation process.
To improve the AGSA's ability to attract high-quality trainee auditors, a number of marketing and branding initiatives were undertaken at universities. Staff retention guidelines were also implemented, specifically for retaining candidates who acquire a professional qualification.

On the human capital front, the AGSA approved several critical policies to guide the leadership and the organisation in following efficient and effective people management practices. Further work on this will continue during the next financial year.

As an important step in mobilising the whole organisation towards a common future, the senior leadership embarked on a process of reviewing, sharing and articulating the AGSA's vision, mission and newly developed values for the organisation.

The AGSA's mission statement, which is its revised reputation promise, describes the unique role that the organisation fulfils as a supreme audit institution and the contribution it makes to strengthening South Africa's democracy. The mission statement was amended during 2008-09 to make the AGSA more relevant in terms of its mandate as a chapter 9 institution. The revised mission statement reads as follows:

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

Again, this mission speaks more directly to the reason for the AGSA's existence, and clearly articulates what the organisation is, its mandate and its objectives. In essence, the revised mission is an updated version of the reputation promise, which was finalised in 2007-08 after extensive consultation with stakeholders and employees.

The vision was also revised to be more succinctly linked to the constitutional mandate, with the aim of ensuring that the AGSA retains and increases its relevance as the SAI of South Africa.

The revised vision is: "To be recognised by all our stakeholders as a relevant Supreme Audit Institution that enhances public sector accountability." This vision not only speaks more directly to the AGSA's role as the public sector auditor, but also underlines the organisation's commitment to delivering quality products and services that are relevant and easy to use. In other words, the impact that the AGSA has should be so positive and visible that all stakeholders will recognise its value.

The organisational culture and values have also been aligned with the vision and mission. The AGSA adopted a performance-driven culture where each individual employee is accountable for his or her performance and is appropriately recognised.

The adopted values with their behavioural indicators are indicated on the next page.

Value	Behavioural Indicators
We value, respect and recognise our people	We value and encourage diversity We respect all individuals We listen to and consider each other's contribution We recognise talent and effort
Our accountability is clear and personal	We execute our functions with integrity and honesty We make a difference in all that we do We understand our roles and responsibilities We are responsible for our individual and collective actions
We are performance driven	We achieve our deadlines within given time frames Our performance is key to the success of the AGSA We produce products of a high quality
We value and own our reputation	We are impartial, independent, transparent and objective We demonstrate professionalism at all times We all contribute to strengthening the democracy of SA
We work effectively in teams	We value and embrace teamwork Our teams lead by example Through knowledge sharing, we impart knowledge to all and respect confidentiality, and innovate, lead and develop relationships We celebrate our achievements
We are proud to be South African	We are passionate and care about South Africa We are ambassadors of South Africa We build and strengthen strategic partnerships

The AGSA also adopted a pay-off line that succinctly captures the organisation's mandate. The pay-off line, or slogan, is "Auditing to build public confidence".

The AGSA continued to train and empower its leadership to better understand their leadership communication role. To support the development of a high-performance culture within the organisation, a two-day Communicating Leader training and orientation programme was presented to assist the leadership to become effective communicating leaders in their day-to-day interaction with their teams. Communicating leadership is expected to contribute significantly to the AGSA's objective of communicating clearly and meaningfully with all stakeholders, including employees.

The review, alignment and training process was completed in October 2008, after which the revised reputation promise/ mission, vision, values and strategic objectives of the AGSA were communicated to all internal stakeholders, using the leadership as the main channel of communication.

These developments were important milestones in the organisation's drive to communicate its role, purpose and results with simplicity, clarity and relevance. In turn, those attributes are critical in raising stakeholders' awareness and understanding of the AGSA's constitutional mandate and in influencing its reputation among stakeholders.

Reputation index

The reputation of the AGSA is the collective opinion, established over time, of all its internal and external stakeholders as to its ability to meet its constitutional mandate and deliver on its reputation promise. This collective opinion is measured annually through an independently conducted reputation survey, resulting in a reputation index that allows for comparisons from year to year.

While the results of the 2007-08 survey show that the AGSA is highly regarded by certain stakeholders, they also show that there is room for improving the organisation's reputation among three key stakeholder groupings: AGSA employees, prospective employees and auditees. Thus, during 2008-09, action plans were implemented to address these groups' perceptions of the organisation's delivery on its mandate and reputation promise.

Corporate identity and branding

The AGSA brand is closely linked to its reputation and therefore continued to receive focused attention during the year under review. The level of compliance by all business units was again measured through a visual audit, conducted by an independent auditor.

To enable the AGSA to align with the brand and meet the requirements, the corporate identity manual was updated and made available to all business units. Furthermore, guidance was given on specifically identified two-dimensional (2D) collateral to ensure that the brand is consistently carried across in documents produced by the organisation.

The visual audit was limited to the 2D collateral, where each business unit was required to provide proof of 100% adherence to the specified requirements. Of a total of 39 business units evaluated, 13 achieved a "comply" rating.

The physical work environment has a direct impact on the culture and image of the organisation. For this reason, the AGSA focused on applying the established environmental branding principles (EBP) to specifically identified office developments. The EBP was successfully implemented in four provincial offices and regional offices and the executive suite of the Head Office in Pretoria.

Environmental brand application - Nelspruit office

A specific target was again set to measure compliance in the use of the reputation promise, key messages and pay-off line in specifically identified documents. As with the visual audit, the level of compliance was measured by an independent content auditor. Of the 39 business units measured, 34 received a "comply" score.

Media interaction

The media play an important role in promoting accountability by contributing to public understanding of financial management in government. The main objective of the 2008-09 media strategy was to proactively convey the AGSA's messages as follows:

- Build and manage mutually beneficial relationships with all identified relevant media (print, radio, television and electronic)
- Positively position the organisation in the media
- Effectively use media tracking/monitoring to anticipate issues and trends that could affect or enhance the organisation's corporate reputation and image

Media activities to profile the AGSA and its leadership were focused on the following key projects:

- PFMA and annual report roadshows to inform journalists of the AGSA's audit findings and it own performance. In a series of closed media briefings, the AGSA and his executive team took journalists through the presentations before addressing national or provincial legislators. In-depth, post-presentation, one-on-one interviews were also organised. As a result of these activities, positive media coverage of the AGSA peaked during the PFMA and audit outcomes roadshow periods.
- Media and reputation management policies were developed, approved and communicated to all employees. The primary objective of these policies is to effectively manage and facilitate the smooth flow of information between the AGSA, the news media and the general public.
- Media/stakeholder relationship management workshops were held throughout the country to inform journalists about the AGSA's audit processes. The aim of these relationship-building sessions was to enable the media to gain a full understanding of the organisation's public sector auditing mandate as compared to private sector auditing processes.

People

Learning and growth

The AGSA annually invests a considerable amount of time and money in the development of auditing professionals in three distinct qualification streams: Chartered Accountants CA(SA), Registered Government Auditors (RGA) and Certified Information System Auditors (CISA). The development investment made in 2008-09 resulted in 30 trainees qualifying as CA professionals, 105 receiving RGA recognition and two achieving CISA status. These figures are on par with those delivered in the previous financial year, enabling the AGSA to replenish its skills pipeline and leadership succession pool.

At this point, most of the development investment is channelled towards the qualification of chartered accountants. This entails a two-tier qualification process, with the South African Institute of Chartered Accountants (SAICA) overseeing the first examination and the Independent Regulatory Board for Auditors (IRBA) the second qualification examination. After successfully completing both examinations, together with a period of practical experience, the successful candidates may register as chartered accountants with SAICA and, if they wish, as registered auditors with the IRBA.

During the 2008-09 financial year, 30 candidates from the AGSA successfully completed the SAICA examination while 30 passed the IRBA examination. The table below shows the number of successful AGSA candidates in the SAICA and IRBA examinations of 2009.

Table 33: SAICA and IRBA examination results

Examinations	Success rate
SAICA examination	30 successful candidates
IRBA examination	30 new professionals

The RGA stream represents a more recent investment that started about five years ago with an initial process of mentoring, which was then followed up with a process of recognition of prior learning. The latter enables AGSA staff with certain qualifications and experience to write recognition of prior learning examination to obtain an RGA qualification.

During the 2008-09 financial year, 105 AGSA staff members received RGA recognition after successfully writing the recognition of prior learning examination. This is almost 17% more than in the previous year, when 65 successful candidates received RGA recognition. In addition, from January 2009, 40 trainee auditors joined the AGSA as part of the newly introduced trainee auditor scheme, which is aligned with the South African Institute of Government Auditors (SAIGA).

In the third development stream, two candidates from the AGSA passed the final examination and qualified as CISA professionals.

Pass rates

In working towards these three professional qualifications, the following pass rates were reported:

Table 34: Pass rates for professional qualifications

Category	2008-09
CTA trainees	11,2%
Non-CTA trainees	21,2%
All trainees	15,2%
Other staff	36,3%
All AGSA staff	18,8%

Although at face value these pass rates appear rather disappointing, they are in line with national averages for similar qualifications achieved on a part-time basis. (For example, at CTA level the national average for part-time studies was just 7%.)

Over and above the initiatives that the profession and universities are putting in place to address the low pass rates, the AGSA instituted the following key initiatives in 2008-09:

Members of Exco
in discussion with employees

- Ensuring that all post-graduate students (78% of the total student population within the organisation) have access to formal study support opportunities.

- Using process management to promote study discipline by monitoring study, assignment, test and examination results, and taking action against poor performers.

In addition, the AGSA is totally revamping its trainee auditor scheme, focusing on refining structures to further improve results and strengthening policies to deal with non-performance. Given the shortage of skills in the accounting and auditing profession in South Africa, the trainee auditor scheme is aimed at building this capacity in-house, reflecting not only the competency requirements for auditing professionals in the broader market, but also a very necessary public sector context. The aim is to make the AGSA self-sufficient in terms of public sector external auditing professionals entering its junior management ranks and also to meet to some degree the need for professionals in the broader public sector. The process focuses on assisting trainees to complete their academic studies and meet the relevant experience requirements set by a number of external professional bodies, through focused study support, training courses and experience opportunities. The AGSA is also implementing a revised training strategy to improve on its return on investment in training.

A total of 928 incumbents have been enrolled in the AGSA trainee auditor scheme. The group of incumbents were selected from a diverse pool of individuals across all provinces, ensuring that representation is multi-racial and consists of both male and female candidates.

Table 35: Trainee Auditor Scheme representation by province

Province	No	%
Eastern Cape	92	9,91%
Free State	46	4,96%
Gauteng	86	9,27%
ISA	23	2,48%
KZN	94	10,13%
Limpopo	44	4,74%
Mpumalanga	37	3,99%
National A	57	6,14%
National B	74	7,97%
National C	64	6,90%
National D	55	5,93%
National E	29	3,13%
National F	51	5,50%
North West	33	3,56%
Northern Cape	47	5,06%
SAS	21	2,26%
Western Cape	75	8,08%
	928	**100%**

Table 36: Trainee Auditor Scheme representation by race

	SAICA	SAIGA	ISACA	TOTAL
African	759	33	20	812
Coloured	38	0	0	38
Foreign	3	0	0	3
Indian	44	0	1	45
White	25	1	2	28
Other	2	0	0	2
Total	**871**	**34**	**23**	**928**

Table 37: Trainee Auditor Scheme representation by gender

Male	410	20	12	442
Female	461	14	11	486
Total	**871**	**34**	**23**	**928**

Since the implementation of the trainee auditor programme in 2001, we have accumulatively retained 55% of our qualified trainees. During this reporting year R15 million was invested on training programme against a budget of R12 million.

During the 2008-09 period, a total of 68 trainees wrote the SAICA Board 2 examination, of whom 30 trainees passed. All 30 successful candidates are still in the employ of the AGSA.

Table 38: Qualified professionals retained

Target 2008-09	Performance 2008-09
Retain 30% of trainees that qualified	100% of qualified trainees retained

Staff turnover and retention

In the previous year's annual report, the Auditor-General expressed concern about the organisation's high labour turnover rate and the loss of strategic skills. The good news in 2008-09 was that the labour turnover percentage had decreased sharply, falling from 20% in the previous year to 11%. This reflects the success of the various initiatives undertaken to improve staff retention, ensuring that the AGSA has the skills and competencies to fulfil its constitutional mandate. This may, however, also be linked to the tough economic environment where there are limited opportunities for mobility within organisations.

These initiatives revolved around repositioning the AGSA as an employer of choice by pursuing people management strategies and processes that are responsive to the needs of potential and current employees, as well as to changes in the labour market.

A critical intervention was to realign remuneration with market practices by conducting salary benchmarking studies and implementing the resulting recommendations. The market correction exercise brought the salaries of employees in critical positions and those with scarce skills into line with what the market actually pays. Financial incentives were also offered to employees who attained professional qualifications and progressed steadily in their academic studies.

Similarly, the performance management processes enabled the AGSA to reward and compensate employees who performed well above the requirements. The AGSA also continued to encourage and support employees to improve their qualifications and competence levels, and ensured that the financial support for employees who study further is geared towards retaining talent.

Apart from improving its remuneration structure, the AGSA reviewed the human capital processes that enable employees to manage and improve their career prospects within the organisation. As a result, policies on career development and succession planning were finalised and approved.

In addition, the internal recruitment process was streamlined to enable employees to explore advancement and promotional opportunities within the organisation. In fact, the majority of vacant positions filled during 2008-09 were filled by promoting existing employees to these positions.

All these strategic interventions contributed to the improvement in the labour turnover percentage from 20% in the previous year to 11% in the year under review. This figure was well below the previous industry average of 16%. Going forward, the AGSA will further streamline and implement interventions aimed at retaining staff, especially those with scarce and critical skills.

Table 39: Staff turnover in 2008-09

Target 2008-09	Performance 2008-09
Staff turnover should not exceed the industry average of 16%	11% staff turnover

Table 40: Staff turnover from 2006-07 to 2008-09

2006-07	2007-08	2008-09
16%	20%	11%

Employee wellness programme (EWP)

In the fast-paced environment of the AGSA, with its strict auditing deadlines and emphasis on productivity, it is vital to look after the health and wellbeing of employees. During the period under review, a total of 202 employees accessed the Care Centre for assistance. This represented an annualised utilisation rate of 11% for the year, which is far above the industry benchmark of 8% per year. The high utilisation rate is a clear indication that the service is well known and positioned within the organisation, and that employees have confidence in the service provider's ability to help address and resolve personal and work-related issues that can affect employees' performance.

Most employees who sought counselling during the year wanted support in dealing with emotional issues such as stress, depression, trauma and mood disorders, stemming largely from environmental stressors affecting employees and their families.

A total of 113 employees took part in the voluntary counselling and testing for HIV/Aids drive during 2008-09.

Process

Operational excellence

Operational excellence, meaning the ability to conduct business in a manner that achieves ongoing quality improvements, is a focus area for the AGSA. The aim is to attain higher service levels by making business processes more efficient and cost-effective, and by ensuring that they support effective risk management and decision-making.

Information and communication technology

The value of technology as an enabler of operational excellence has come strongly to the fore at the AGSA in the past few years. After being established as a separate business unit in the previous financial year, Information and Communication Technology (ICT) was well placed in 2008-09 to lead the organisation in extracting maximum returns from its technology investments. The focus has been on delivering services that support the efficiency and productivity of the AGSA's operations,

EWP laughing therapy session

across all business units and further strengthen the organisation's business continuity capacity. An underlying theme throughout the year was the use of governance models to ensure ICT projects were delivered on time, with minimal downtime and as little impact as possible on the AGSA's core and support operations.

Greater organisational efficiency

During 2008-09, ICT improved the AGSA's capacity to manage financial risks by successfully upgrading the PeopleSoft Finance system. The quadruple upgrade resulted in enhanced financial controls and, because the upgraded software allows for annual mini-upgrades, will reduce the time and expense required for future upgrades. In parallel with the upgrade, ICT delivered on the promise made in the AGSA Strategic Plan to deliver e-learning tools. An e-learning tool was utilised to deliver training for the upgraded PeopleSoft Finance system, and is now available for other digital learning requirements across the organisation.

Following a review in the previous financial year to identify legacy systems in need of upgrading or replacement, ICT commenced the replacement programme. To ensure the best value for money with regard to server equipment, it conducted in-depth research and testing. This clearly indicated that virtualisation was the most appropriate choice of technology as it would yield the best return on investment, while also providing a "greener" solution and reducing the administrative workload for the regional offices. Virtual servers were therefore installed in all regional offices, allowing for centralised control over backups and remote management of the equipment from Head Office in Pretoria. The replacement of equipment at the smaller satellite offices will be completed during March/April 2009.

Virtualisation is also being incorporated into the AGSA's disaster recovery strategy. Specifically, a disaster recovery site established at the Gauteng office during the year was equipped with virtual servers that give this regional office the same disaster recovery functionality as the other regions. Similarly, the infrastructure at the Head Office data centre was upgraded and preparations were made to replace a number of stand-alone servers with virtualised server architecture.

Promoting cost containment

Most of the ICT projects initiated or completed during the year have either already resulted in cost savings for the AGSA or have positioned the organisation for future savings.

Savings and performance improvements are also expected to flow from a number of other ICT initiatives. These include the new Voice-over Internet Protocol communications equipment that has been installed in a number of the regional offices, as well as a project aimed at enhancing the user experience of 3G equipment. The 3G project, aimed at assisting the auditors who are largely mobile, was approved and initiated towards the end of the financial year.

Another project that will provide opportunities for considerable savings, this time on printing costs, is the replacement of multi-function printer devices.

Mitigating risk and strengthening governance

The ICT governance framework implemented in the prior year was used successfully during 2008-09 to manage the AGSA's investments in ICT and to ensure that ICT tools and technology provided value for money.

As a logical extension of this government framework, ICT also began the lengthy process of developing enterprise architecture for the organisation. Enterprise architecture consists of the principles, standards and processes that will guide the purchase, design and deployment of technology within the AGSA, and is therefore inextricably linked to governance.

In addition, a risk framework for ICT was developed and incorporated into the overall Risk Framework of the AGSA to ensure that ICT risks are effectively controlled. The success of risk management was evident in the internal audit report showing that all items raised in the previous year had been satisfactorily resolved.

The AGSA also focused intensively on communication about ICT and ongoing user education around the use of technology and information security. This is an ongoing initiative that will be carried forward to ensure that users benefit from the technology enhancements being introduced.

Information and Knowledge Management (IKM)

Effective knowledge management enables the AGSA to preserve its intellectual capital and manage the life cycle of its records and documents, which in turn facilitates transparency and accountability in the sharing of information and knowledge with stakeholders. During 2008-09, the focus shifted from developing an integrated records and document management strategy to implementing level one of the strategy, meaning the basics of document management.

A key step in implementing the first level of the strategy, which includes a file plan that has been approved by the National Archivist, was to commission the stakeholder information management database and the reports database:

- The stakeholder information management database contains pertinent information on internal and external stakeholders, including auditees. This database was commissioned during 2008-09 and is continually refreshed with up-to-date information on external stakeholders.

- The reports database that was implemented in 2008-09 was uploaded with current and historical audit reports dating back to 2001 and now allows easy access for internal users.

Good progress was also made in enhancing the AGSA's records and document management to reflect the diversity of South African society and to comply with legislation on storing and accessing of information:

- Warehoused records and documents were updated in compliance with the Promotion of Access to Information Act of 2000 (PAIA) and the National Archives and Records Service Act of 1996.

- The PAIA was translated into Sepedi and Afrikaans and published on the AGSA's website.

- The AGSA submitted its 2008-09 report on section 32 of the PAIA to the South African Human Rights Commission (SAHRC).

- A strategic plan for records management policy was developed to meet the requirements of International Standards on Quality (ISQC1). This initiative, which will be implemented in May-June 2009, will facilitate transparency, accountability and democracy as envisaged in legislation such as the PAA, PAIA, the Promotion of Administrative Justice Act and the National Archives and Records Service Act.

The AGSA continued to improve the content layout of its electronic publications on the intranet and Internet. As an organisation that takes pride in its transparency, the AGSA regards the electronic publishing domain as an important medium for promoting information and knowledge sharing with all its stakeholders.

Capability Maturity Model (CMM)

During 2008-09, the maturity of processes within 16 key strategic risk areas was assessed, delivering the following CMM scores:

Table 41: CMM scores

Risk category	Sub-risk category	Focus area	2007-08 CMM level	2008-09 CMM level
Relevance of the AGSA	Product innovation	Non-audit service	Level 2	Level 2
		Audit product	Level 2	Level 3
Quality of product	Quality control	Quality control – non-audit services	Level 2	Level 2
		Quality control - audit	Level 3	Level 3
	Human capital	Resource availability	Level 2	Level 2
		Competencies of staff	Level 2	Level 3
		Productivity	Level 2	Level 2
Internal process	Business continuity	Technological availability	Level 2	Level 3
		HIV/Aids	Level 1	Level 2
		Financial stability	Level 2	Level 3
Reputation and image	Leadership	Leadership	Level 2	Level 2
	Corporate governance	Structural design adequacy	Level 2	Level 3
		Monitoring and compliance adequacy	Level 2	Level 3
	Stakeholder relationships	Knowledge management effectiveness	Level 2	Level 2
	Transformation	Employment equity	Level 3	Level 3
		BEE	Level 2	Level 3

Key:

CMM Level 1 – absence of documented and standardised processes.
CMM Level 2 – although processes are standardised, they are either not documented or not communicated.
CMM Level 3 – processes are documented, standardised and communicated.

Table 42: Number of business processes by maturity level

Description	Level 2		Level 3	
	%	No. of business processes	%	No. of business processes
Target 2008-09	75%	12	25%	4
Performance 2008-09	44%	7	56%	9

In terms of this assessment, 44% of identified processes are at CMM level 2, while 56% are at CMM level 3.

Financial performance

Efficiency gains

The AGSA is not profit driven but has a duty to ensure that it operates with maximum efficiency. Key to the successful running of the organisation is the ability to compile, manage and achieve budget. In the 2008-09 financial year, the AGSA set itself the target of achieving an additional 1% on the budgeted surplus of R8 million. However, as shown in table 43 below, a deficit of R16,1 million was recorded for the year.

Table 43: Target on projected net surplus

Target 2008-09	Performance 2008- 09
Additional 1% on projected net surplus of R8 million	0% on net surplus Deficit amounting to R16,1 million

The table below shows the R24 million deviation in the context of the AGSA's overall financial performance in 2008-09.

Table 44: Summary of financial performance

Description	2008-09 Budget		2008-09 Actual		Deviation	
	Rm	%	Rm	%	Rm	%
Audit income	1,292	100%	1,376	100%	84	7%
Direct expenditure	901	70%	1,069	78%	168	19%
Gross contribution to fixed and operational costs	391	30%	307	22%	-84	-21%
Other income	9		54	-	45	-
Support staff expenses	209	16%	199	14%	-10	-5%
Other expenditure	183	14%	178	13%	-5	-3%
Total overheads	392	30%	377	27%	-15	- 4%
Total income	1,301	-	1,430	-	129	-
Total expenditure	1,293	100%	1,446	105%	153	12%
Net (deficit) / surplus	8	-	-16	-	-24	-

As the table shows, one of the main reasons for the net deficit was that direct expenditure was 19% higher than budgeted for. This can be attributed to the higher-than-budgeted-for volume of contract work awarded because of vacancies. Where R368 million was budgeted for contract work, based on a projected vacancy rate of 10%, the actual vacancy rate was approximately 11%. This reflected the ongoing scarcity of audit professionals and trainees and resulted in the actual value of contract work increasing to R552 million.

- Included in other income of R54 million are the following:
  - R33 million grant from the National Treasury not budgeted for in 2008-09
  - R15 million interest received
  - R3 million foreign exchange gains
  - R3 million sundry income and training expenses recovered

- Support staff expenses were R10 million less than budget due to vacancies.

- Other expenditure was under budget by R5 million net. This included under-spending on auxiliary services, recruitment and technological services. Also included in other expenditure is the increase in the provision for bad debts of R5 million due to slow/non-payment by municipalities with arrears in excess of 180 days. Provision was also made for R6 million in accumulated leave benefits due to an increase in salaries and leave days accrued.

- Capital expenditure was deferred, reducing depreciation expenses to R17, 5 million (budget R21, 8 million).

Mitigation

While completing the 2008-09 budget, the AGSA recognised certain inadequacies in its funding model in the determination of charge-out rates. The primary problem was that tariff increases were capped to 4% per annum while cost increases exceeded this percentage. In October 2008, the AG made a presentation to SCoAG detailing the problem and proposing a revised funding model.

Key to the new funding model are the following principles:

1. The capping was removed and all future increases will be linked to salary increases. This will be based on applying a mark-up factor of 2,22% on the cost of staff.
2. The limitation on introducing additional tariff intervals was removed.

During the 2009-10 budget, the application of these principles resulted in a one-off adjustment to tariffs of 35%, which was invoked in April 2009.

The other key driver for the deficit was the high vacancy rate. However, since April 2009 there has been a steady trend of building capacity.

Debt collection

Owing to the not-for-profit business model used by the AGSA, the management of working capital and liquidity is of utmost importance, and the most crucial element of working capital is debt collection. Given the ongoing problems experienced in collecting outstanding debt, it has become imperative to review the collection policy with a view to improving collections. Some of the policy changes proposed during the year under review were that the AGSA charge interest and take legal action against auditees.

For the year ended 31 March 2009, the debtor days outstanding for national government were within the target of 30 days. However, collections deteriorated from an average of 10 days as at 31 March 2008 to 18 days as at 31 March 2009. Collections from provincial government deteriorated from 34 days as at
31 March 2008 to 37 days as at 31 March 2009. Debtor days outstanding for local government and statutory bodies improved from 111 days (31 March 2008) to 104 days and from 58 days to 38 days, respectively.

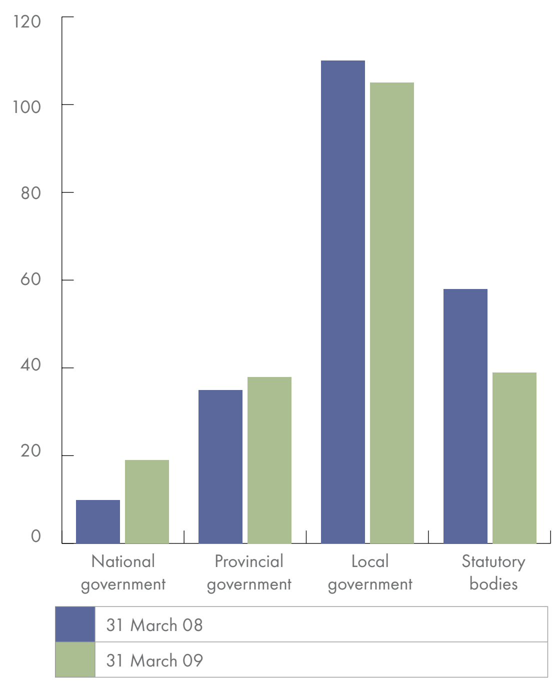
As at 31 March 2009, outstanding debt had increased to R272 million from R206 million as at 31 March 2008, indicating a deterioration in payments. The ability of local and provincial government to settle their accounts on time continues to be a concern. By contrast, the payment record of the statutory bodies is within the target of 30 days.

The table and graph below reflect the debt collection position of the AGSA for the 2008-09 financial year.

Table 45: Ageing for major categories of debtors

Entities	Target of outstanding days	31-Mar-09		31-Mar-08	
		Rm	Days outstanding	Rm	Days outstanding
National government	30	61	18	34	10
Provincial government	30	76	37	53	34
Local government	90	98	104	92	111
Statutory bodies	30	37	38	27	58

Figure 3: Debtor days outstanding



Financial support

The AGSA continued to engage with the National Treasury regarding the impact of working capital challenges on the organisation's financial performance. As stated in our submission to SCoAG for consideration of the funding model, there is clearly a need for capital injection to fund ongoing activities. This funding shortage was largely occasioned by continued erosion of our margins over the past four years. SCoAG carefully reviewed and thereafter supported our application to the National Treasury for a one-off non-refundable grant with no conditions attached. During the year, a non-refundable grant of R90 million was received from National Treasury which we prioritised for the following commitments:

- R50 million for the INTOSAI Governing Board and INCOSAI conference to be hosted by the AGSA in November 2009 and November 2010, respectively
- R35 million for contract work payments and other liabilities
- R5 million for capital expenditure.

Conclusion

The AGSA generally operates in a highly challenging environment. All the initiatives implemented are geared towards ensuring not only that our own mandate is carried out efficiently and effectively, but also that we deliver products that ultimately lead to appropriate actions being taken by those charged with governance in the three spheres of government. All positive outcomes as a result of our endeavours further strengthen our democracy.

The AGSA will continue to face future challenges with a positive attitude and continue along its path to success.

List of abbreviations and acronyms

Term	Description
2D	2-Dimensional
AFROSAI	African Organisation of Supreme Audit Institutions
AFROSAI-E	African Organisation of English Speaking Supreme Audit Institutions
AFS	Annual Financial Statements
AG	Auditor-General
AGSA	Auditor-General South Africa
APAC	Association of Public Accounts Committees
ARD	Audit Research and Development
ASB	Accounting Standards Board
BBBEE	Broad Based Black Economic Empowerment
BEE	Black Employment Equity
CISA	Certified Information System Auditors
CMM	Capability Maturity Model
CSI	Corporate Social Investment
DAG	Deputy Auditor-General
EBP	Environmental Branding Principles
Exco	Executive Committee
HoA	Head of Audit
ICT	Information and Communication Technology
IFAC	International Federation of Accountants
IKM	Information and Knowledge Management
INCOSAI	International Congress of Supreme Audit Institutions
INTOSAI	International Organisation of Supreme Audit Institutions
IRBA	Independent Regulatory Board for Auditors
ISA	International Standards on Auditing
ISQC1	International Standards on Quality
ISSA	International Standards of Supreme Audit
ISSAI	International Standards of Supreme Audit Institutions
MEC (8)	Member of the Executive Committee
MFMA	Municipal Finance Management Act
MoU	Memorandum of Understanding
NA	National Assembly
NCOP	National Council of Provinces
OECD	Organisation for Economic Cooperation and Development
PAA	Public Audit Act
PAAC	Performance Audit Advisory Committee
PAC	Public Accounts Committee
PAIA	Promotion of Access to Information Act
PAM	Public Audit Manual
PAS	Performance Audit Sub-Committee
PFMA	Public Finance Management Act
RGA	Registered Government Auditors
SA	South Africa
SADCOPAC	Southern African Development Community Organisation of Public Accounts Committees
SAHRC	South African Human Rights Commission
SAI	Supreme Audit Institution
SAICA	South African Institute of Chartered Accountants
SCoAG	Standing Committee on the Auditor-General
WGEA	Working Group on Environmental Auditing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Annual financial statements

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

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

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 of South Africa (AGSA) 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 on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

Deputy Auditor-General's responsibilities and approval

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

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

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

The Deputy Auditor-General has reviewed the AGSA's cash flow forecast for the year ended 31 March 2010 and, in the light of this review and the current financial position, he is satisfied that the AGSA 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 107, which have been prepared on the going concern basis, were approved and signed by the Deputy Auditor-General on 31 July 2009 on behalf of the Auditor-General.

Thembekile Kimi Makwetu
Deputy Auditor-General

Independent auditor's report

To the Standing Committee on the Auditor-General

We have audited the annual financial statements of the Auditor-General of South Africa, which comprise the balance sheet as at 31 March 2009, 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 63 to 103. In addition we have audited the reported information relating to the performance of the Auditor-General of South Africa against predetermined objectives set out on page 28 for the year ended 31 March 2009.

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 the manner required by 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.

Auditor's 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 that 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 auditor's judgement, including 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

Independent auditor's report (continued)

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 of South Africa as of 31 March 2009, and of its financial performance and 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 of South Africa against predetermined objectives for the year ended 31 March 2009 in the manner required by the Public Audit Act, 2004 (Act No. 25 of 2004).

Supplementary information

Without qualifying our opinion, we draw attention to the supplementary information set out on pages 104 to 107 which do not form part of the annual financial statements and are presented as additional information. We have not audited this information and accordingly we do not express an opinion on them.

BDO Spencer Steward

BDO SPENCER STEWARD
Per: J Lemmer

BDO

Registered Auditors
Pretoria
31 July 2009

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0145

Balance sheet	Note	2009 R'000	2008 R'000
ASSETS			
Non-current assets		64,796	50,235
Property, plant and equipment	2	55,373	38,492
Intangible assets	3	9,423	11,743
Current assets		490,565	362,527
Trade and other receivables	4	309,727	245,209
Cash and cash equivalents	5	180,838	117,318
Total assets		**555,361**	**412,762**
EQUITY AND LIABILITIES			
Equity		108,861	124,958
General reserve	6	129,412	129,412
Special audit services reserve	7	4,964	4,964
Accumulated loss	8	(25,515)	(9,418)
Liabilities			
Non-current liabilities		111,826	75,083
Finance lease obligation	9	7,726	10,278
Retirement benefit obligations	10	63,532	64,805
Deferred income	11.1	40,568	-
Current liabilities		334,674	212,721
Trade and other payables	11	303,462	198,781
Provisions	12	3,784	1,541
Deferred income	11.1	15,915	-
Finance lease obligation	9	11,513	12,399
Total equity and liabilities		**555,361**	**412,762**

Income statement

	Note	2009 R'000	2008 R'000
Revenue	13	**1,375,925**	**1,108,899**
Local services rendered		1,347,577	1,087,382
International services rendered		28,348	21,517
Direct audit cost		**(1,069,668)**	**(829,829)**
Recoverable staff cost	14	(464,644)	(370,658)
Contract work	15	(551,621)	(417,274)
Subsistence and travel		(53,403)	(41,897)
Gross profit		**306,257**	**279,070**
Other income	13.1	3,898	2,314
Other income – National Treasury	13.2	33,516	-
Retirement benefit obligations	10	1,273	-
Foreign exchange gain		3,395	995
Contribution to overheads		**348,339**	**282,379**
Support staff cost	14	(198,998)	(162,245)
Depreciation expense	16	(17,504)	(15,158)
Amortisation expense	17	(3,060)	(5,853)
Other operational expenditure	18	(148,045)	(112,980)
AFROSAI – Conference	18.1	(9,024)	-
Retirement benefit obligations	10	-	(5,155)
Deficit from operations		**(28,292)**	**(19,012)**
Interest received	22	14,862	13,416
Finance charges	22	(2,667)	(2,705)
Net deficit for the year		**(16,097)**	**(8,301)**

Statement of changes in equity

	General reserve R'000	Special audit services reserve R'000	Retained earnings/ accumulated loss R'000	Total R'000
Opening balance at 1 April 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**
Net deficit for the year	-	-	(16,097)	(16,097)
Balance at 31 March 2009	**129,412**	**4,964**	**(25,515)**	**108,861**
Note	6	7	8	

Cash flow statement	Note	2009 R'000	2008 R'000
Cash flows from operating activities			
Total revenue from auditees	26.1	1,307,845	1,037,906
Total direct audit cost payments	26.2	(974,034)	(807,463)
Operating expenditure payments	26.3	(302,156)	(240,523)
Interest received		14,862	13,416
Finance charges		(2,667)	(2,705)
Realised foreign exchange gain / (loss)		2,624	(225)
Net cash inflow from operating activities		**46,474**	**406**
Cash flow from investing activities			
Additions to property, plant and equipment	26.4	(37,827)	(21,686)
Additions to intangible assets	26.5	(2,571)	(1,761)
Proceeds from sale of property, plant and equipment	2	3,648	2,524
Net cash outflow from investing activities		**(36,750)**	**(20,923)**
Cash flow from financing activities			
Payment on obligations under instalment sale agreement		(13,442)	(11,914)
Deferred government grant	11.1	56,483	-
Increase in instalment sale agreement borrowings		9,983	10,140
Net cash inflow / (outflow) from financing activities		**53,024**	**(1,774)**
Net increase / (decrease) in cash and cash equivalents		**62,748**	**(22,291)**
Cash and cash equivalents at beginning of the year		117,318	138,594
Exchange differences in cash and cash equivalents		772	1,015
Cash and cash equivalents at end of the year	**26.6**	**180,838**	**117,318**

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.

Standards, amendments and interpretations not yet effective

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2009:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: Measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting IFRS for the first time.
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Plan to sell the controlling interest in a subsidiary (effective first annual period commencing on or after 1/7/2009).
- IFRS 7 Financial Instruments: Disclosures and presentation of finance costs (effective first annual period commencing on or after 1/1/2009).
- IAS 1 Presentation of Financial Statements: Amendments to structure of financial statements and current/non-current classification of derivatives. This statement was released in September 2007 and redefines the primary statements and expands on certain disclosures within these. Once adopted the Auditor-General's primary statements will be amended to reflect the presentation required (effective first annual period commencing on or after 1/1/2009).
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Status of implementation guidance (effective first annual period commencing on or after 1/1/2009).
- IAS 10 Events after the Reporting Period – Dividends declared after the end of the reporting period (effective first annual period commencing on or after 1/1/2009).
- IAS 16 Property, Plant and Equipment – Recoverable amount and sale of assets held for rental (effective first annual period commencing on or after 1/1/2009).
- IAS 18 Revenue – Costs of originating a loan (effective first annual period commencing on or after 1/1/2009).
- IAS19 Employee Benefits – Curtailments and negative past service costs, plan administration costs, replacement of term 'fall due' and guidance on contingent liabilities.
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance – Government loans with a below-market rate of interest and consistency of terminology with other IFRS (effective first annual period commencing on or after 1/1/2009).

- IAS 23 Borrowing Cost – Amendment requiring capitalisation only model and components of borrowing costs (effective first annual period commencing on or after 1/1/2009).

- IAS 32 Financial Instruments – Presentation: Certain financial instruments will be classified as equity whereas, prior to these amendments, they would have been classified as financial liabilities (effective first annual period commencing on or after 1/1/2009).

- IAS 36 Impairment of Assets – Disclosure of estimates used to determine recoverable amount (effective first annual period commencing on or after 1/1/2009).

- IAS 38 Intangible Assets – Advertising and promotional activities and unit of production method of amortisation (effective first annual period commencing on or after 1/1/2009).

- IAS 39 Financial Instruments – Recognition and Measurement: Reclassification of derivatives into or out of the classification of at fair value through profit or loss, designating and documenting hedges at the segment level and applicable effective interest rate on cessation of fair value hedge accounting (effective first annual period commencing on or after 1/1/2009).

- IAS 39 Financial Instruments – Recognition and Measurement: Classifies two hedge accounting issues: Inflation in a financial hedge item and a one-sided risk in a hedge item (effective first annual period commencing on or after 1/7/2009).

- IFRIC 11 IFRS 2 Group and Treasury Share Transactions (effective first annual period commencing on or after 1/3/2007).

- IFRIC 12 Service Concession Arrangements (effective first annual period commencing on or after 1/1/2008).

- IFRIC 13 Customer Loyalty Programmes (effective first annual period commencing on or after 1/7/2008).

- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – This statement clarifies when refunds and reductions in future contributions would be regarded as available in determining the appropriate defined benefit asset to be recognised under IAS 19 – Employee Benefits. It further clarifies the impact of minimum funding requirements (effective first annual period commencing on or after 1/2/2008).

- IFRIC 15 Agreements for the Construction of Real Estate (effective first annual period commencing on or after 1/1/2009).

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective first annual period commencing on or after 1/10/2008).

- IFRIC 17 Distribution of Non-cash Assets to Owners (effective first annual period commencing on or after 1/7/2009).

- IFRIC 18 Transfer of Assets from Customers (effective first annual period commencing on or after 1/7/2009).

The Executive Committee anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the AGSA other than requiring additional disclosure.

1.1 Significant judgements and accounting estimates

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. In addition, management is required to exercise its judgement in the process of applying the AGSA's accounting policies. Use of available information and the application of judgement are 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 the following:

Loans and receivables

The AGSA assesses its loans and receivables for impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the income statement, the company makes a judgment as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

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 in respect of 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 regarding 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 AGSA will not be able to collect all amounts due according to the original terms of receivables. The calculation of the amount to be provided for impairment of receivables requires the use of estimates and judgements (refer to note 4).

Annual evaluation of property, plant and equipment and intangibles

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

Government grant

Grants are recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. Grants receivable as a compensation for costs already incurred or for immediate financial support with no future related costs are recognised as income during the period in which they are receivable. The AGSA estimates the deferred portion based on budgeted expenditure.

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 those incurred initially to acquire an item of property, plant and equipment and those incurred subsequently to add to, replace part of, or service it if it is probable that future economic benefits associated with the replacement will flow to the AGSA and the cost can be measured reliably. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. The AGSA is not asset intensive and estimates are mainly based on historical information relating to use of the asset. Depreciation is calculated on the straight-line method to write off the cost, less residual value, of each asset over their estimated useful lives as follows:

Description	Useful life 2009
Computer equipment	3 - 6 years
Notebooks	3 years
Motor vehicles	5 years
Furniture and fittings	6 - 15 years
Office equipment	3 years
Leasehold improvements	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 the 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 the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.3 Intangible assets

Acquired computer software licences are carried at cost less any accumulated amortisation and any impairment losses. The AGSA is not asset intensive and estimates are mainly based on historical information relating to use of the asset and all residual values are nil. Amortisation on these costs is provided to write down the intangible assets, on a straight line basis, over their useful lives as follows:

Description	Useful life	
	2009	2008
Enterprise resource management system – PeopleSoft	14 years	10 years
Other software	3 years	3 years

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

1.4 Impairment of non-financial assets

Assets are 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 AGSA 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 AGSA classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The AGSA 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 AGSA 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 at net value, 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.

- *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. Cash and cash equivalents include cash in hand and deposits held at call.

1.7 Leases

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

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the 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 on 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 – Defined contribution plan

Contributions to a pension plan of the employee's choice in respect of service in a particular period are included in the employee's 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 AGSA has no legal or constructive obligation in respect of normal retirements to pay further contributions if the GEPF does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. In respect of early retirements, the AGSA is required to incur the cost of early retirement penalties.

Post-employment medical care benefits – Defined benefit plan

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

1.9 Provisions and contingent liabilities

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

Provisions are measured at the present value of the expenditure, taking risks and uncertainties into account, discounting the provisions where time value of money is material using a rate that reflects current market assessments of the time value of money and those risks specific to the liability that have not been reflected in the best estimate of the expenditure.

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

1.10 Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue arising from rendering of audit services consists of the 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 statement of financial position 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 Government grants

Government grants are accounted for through the balance sheet and income statement. The grants received in respect of compensation for expenses incurred are recognised through the income statement. Grants related to future obligations are presented as deferred income on the balance sheet. This will be amortised as and when the expenses are incurred.

1.15 Losses through criminal conduct

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

Notes to the Annual Financial Statements

2. Property, plant and equipment

The AGSA 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).

2009	R'000 Cost	R'000 Accumulated depreciation	R'000 Carrying amount
Computer equipment	77,718	(53,069)	24,649
Motor vehicles	3,963	(2,763)	1,200
Office equipment	3,344	(2,313)	1,031
Furniture and fittings	28,190	(10,871)	17,319
Leasehold improvements	18,322	(7,148)	11,174
	131,537	(76,164)	55,373
Assets under instalment sale agreements included above comprise:			
Computer equipment (refer to note 9)	**48,567**	**(34,770)**	**13,797**

2009 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	23,399	16,402	(415)	(14,737)	24,649
Motor vehicles	1,098	420	(73)	(245)	1,200
Office equipment	751	890	-	(610)	1,031
Furniture and fittings	8,434	12,513	(2,363)	(1,265)	17,319
Leasehold improvements	4,810	7,602	(591)	(647)	11,174
	38,492	**37,827**	**(3,442)**	**(17,504)**	**55,373**
Assets under instalment sale agreements included above comprise:					
Computer equipment (refer to note 9)	17,366	8,579	(62)	(12,086)	13,797

	2009 R'000
Proceeds on disposal of property, plant and equipment	3,648

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

2008
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

	2008 R'000
Proceeds on disposal of property, plant and equipment	2,524

3. Intangible assets

2009	R'000 Cost	R'000 Accumulated amortisation	R'000 Carrying amount
Computer software – purchased			
Enterprise resource management system – PeopleSoft	17,997	(10,117)	7,880
Other software	14,835	(13,292)	1,543
	32,832	(23,409)	9,423

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 – purchased					
Enterprise resource management system					
– PeopleSoft	6,714	1,961	-	(795)	7,880
Other software	5,029	610	(1,831)	(2,265)	1,543
	11,743	2,571	(1,831)	(3,060)	9,423

2008	R'000 Cost	R'000 Accumulated amortisation	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:	Opening carrying amount	Additions	Disposals	Amortisation Charge	Closing carrying amount
Computer software					
Enterprise resource management system – PeopleSoft	8,318	-	-	(1,604)	6,714
Other software	7,517	1,761	-	(4,249)	5,029
	15,835	1,761	-	(5,853)	11,743

4. Trade and other receivables

	2009 R'000	2008 R'000
Trade receivables [1]	323,305	255,204
Provision for impairment of receivables [2]	(25,000)	(20,290)
Net trade receivables	298,305	234,914
Staff debtors	6,359	5,109
Prepayments	4,571	4,800
Other debtors	492	386
	309,727	245,209

[1] The government assists the AGSA in collecting outstanding amounts of debtors by writing to the debtors and in certain instances paying on behalf of certain debtors who are financially challenged

[2] Provision for impairment of receivables

Opening balance	(20,290)	(13,520)
Utilised during the year	46	-
Additional provision for impairment of receivables	(4,756)	(6,770)
Closing balance	(25,000)	(20,290)

5. Cash and cash equivalents

	2009 R'000	2008 R'000
Call account at Public Investment Corporation:		
Investment reserved for specific liabilities (PIC 1) [3]	74,762	86,111
Investment to fund working capital requirements (PIC 2)	50,827	1,621
Current bank account	50,434	20,266
Foreign bank account (USD)	4,815	9,320
	180,838	117,318

[3] Investment reserved for specific liabilities		
The investment is earmarked for the following liabilities:		
Post-retirement benefits: medical care contributions (refer to note 10)	63,532	64,805
Bonus accrual (refer to note 11)	3,340	3,192
Leave pay accrual (refer to note 11)	31,075	24,690
The National Treasury for salary over-payments in the former TBVC states	3,507	3,395
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 AGSA's notebook ownership policy	1,329	1,072
	109,146	103,517

The future service liability for post-retirement benefits: medical care contributions totalling R13 859 000 (2008: R17 101 000) are not included in the investment reserved for specific liabilities. Future service costs are recognised when the services are delivered by the employees during the employment terms.

6. General reserve

	2009 R'000	2008 R'000
Opening balance	129,412	116,701
Transfer of retained income to reserves – Additional reserves approved	-	12,711
Closing balance [4]	**129,412**	**129,412**

[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 AGSA.

7. Special audit services reserve

Opening balance	4,964	5,270
Utilisation of reserve	-	(306)
Closing balance	**4,964**	**4,964**

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

8. Accumulated loss

Opening balance	(9,418)	11,288
Transfer of retained income to reserves	-	(12,711)
Special audit services reserve utilised	-	306
Net deficit for the year [5]	(16,097)	(8,301)
Closing balance	**(25,515)**	**(9,418)**

[5] Retained income, if achieved, is available to fund the AGSA'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. Finance lease obligation

	2009 R'000	2008 R'000
Wesbank – A division of FirstRand Bank Limited	19,239	22,677
Less: Current portion included in current portion of obligation under finance lease obligations	(11,513)	(12,399)
	7,726	10,278

Liabilities under finance lease obligations payable over periods of one to three years in instalments of R286 670 (2008: R147 750) at an effective interest rate of between 12% and 13,5% (2008: 10.5% and 13%), secured by computer equipment with a carrying value of R13 797 000 (2008: R17 366 000) (refer to note 2).

	Up to 1 year R'000	1 to 3 years R'000	More than 3 years R'000	Total R'000
2009				
Minimum lease payments	13,044	8,394	-	21,438
Finance cost	(1,531)	(668)	-	(2,199)
Present value	11,513	7,726	-	19,239
2008				
Minimum lease payments	14,255	10,946	-	25,201
Finance cost	(1,856)	(668)	-	(2,524)
Present value	12,399	10,278	-	22,677

10. Retirement benefit obligations

	2009 R'000	2008 R'000
Post-retirement benefits: medical care contribution	63,532	64,805
The liability can be reconciled as follows:		
Opening balance	64,805	61,565
Current year provision	(1,273)	5,155
-Current service cost	1,512	1,497
-Actuarial gain	(6,565)	(1)
-Interest adjustment	3,780	3,659
Less: Payments made	-	(1,915)
Closing balance (refer to note 5)	**63,532**	**64,805**

The amounts recognised in profit or loss are as follows

	2009 R'000	2008 R'000
Current service cost	1,512	1,497
Actuarial (gain) / loss	(6,565)	(1)
Interest cost	3,780	3,659
Total	**(1,273)**	**5,155**

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 2009 by Alexander Forbes using the Projected Unit Credit Method.

	2009 R'000	2008 R'000
The valuation is based on the following principal actuarial assumptions:		
The discount rate reflects the timing of benefit payments and is based on market bond yields	9.0%	9.3%
Subsidy increase rate	5.8%	6.3%
Expected retirement age	63	63
Number of continuation members	169	159
Number of in-service members	287	325
No explicit assumption was made about the mortality or health care cost due to HIV/AIDS		

Sensitivity analysis

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

Below is the recalculated liability showing the effect of:

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

	31 March 2009			31 March 2008		
Discount rate	Assumption 9.00%	-1%	+1%	Assumption 9.25%	-1%	+1%
Accrued liability	63,532	75,028	54,640	64,805	77,240	55.174
% Change	-	18.1%	-14.0%	-	19.2%	-14.9%
Subsidy increase rate	Assumption 5.75%	-1%	+1%	Assumption 6.25%	-1%	+1%
Accrued liability	63,532	54,425	75,158	64,805	55,002	77,297
% Change	-	-14.3%	18.3%	-	-15.1%	19.3%
Expected retirement age	Assumption 63 years	1 year younger	1 year older	Assumption 63 years	1 year younger	1 year older
Accrued liability	63,532	65,447	61,758	64,805	66,863	62,866
% Change	-	3.0%	-2.8%	-	3.2%	-3.0%

The future service liability for post-retirement benefits amounts to R13 859 000 (2008: R17 101 000). Future service costs are recognised when the services are delivered by the employees during the employment terms.

11. Trade and other payables

	2009 R'000	2008 R'000
Trade payables	197,636	96,923
Accruals	50,081	49,573
Bonus accrual	3,340	3,192
Accrued leave pay and deferred compensation	31,075	24,690
Performance bonus accrual	-	7,882
Staff creditors	6,572	4,810
Value-added tax	8,395	5,348
Advance on local authority debtors	6,363	6,363
	303,462	198,781

Ageing of trade payables:

2009	Total R'000	Current R'000	30 - 120 R'000	120+ R'000
Trade payables	155,112	88,265	60,935	5,912
Straight-lining of operating leases	24,178	1,998	7,992	14,188
United Nations contract – prepaid income	18,346	18,346	-	-
	197,636	108,609	68,927	20,100

2008	Total R'000	Current R'000	30 - 120 R'000	120+ R'000
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

11.1 Deferred income

	2009 R'000	2008 R'000
Government grants received to be recognised in future [6]	56,483	-
INTOSAI	10,915	-
INCOSAI	40,568	-
Plant and equipment	5,000	-
Less deferred income to be recognised in the following year	15,915	-
INTOSAI	10,915	-
Plant and equipment	5,000	-
	40,568	**-**

[6] The non-refundable grant was received from National Treasury as part of the submission for the funding model to SCoAG. Upon receipt of the R90 million grant, part of it was used to pay contract work creditors and the remainder is allocated for the hosting of INTOSAI and INCOSAI conferences during 2009 and 2010 respectively.

12. Provisions

2009	R'000 Government Employees Pension Fund	R'000 Accommodation	R'000 Total
Opening balance	1,541	-	1,541
Additional provision	2,243	-	2,243
Closing balance	**3,784**	**-**	**3,784**

2008	R'000 Government Employees Pension Fund	R'000 Accommodation	R'000 Total
Opening balance	-	231	231
Written back during the year	-	(231)	(231)
Additional provision [7]	1,541	-	1,541
Closing balance	**1,541**	**-**	**1,541**

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

13. Revenue

	2009 R'000	2008 R'000
Local services rendered	1,347,577	1,087,382
Own hours	750,917	634,680
Contract work	551,621	417,747
Subsistence and travel	45,039	34,955
International services rendered [8]	28,348	21,517
Own hours	20,784	14,154
Subsistence and travel	7,564	7,363
	1,375,925	1,108,899

[8] International revenue comprises income from the audit of certain United Nations accounts, funds and programmes. International revenue has been increased by R2 134 673 (2008: R2 722 141), being the difference between the time billed based on the AGSA's charge-out rates and the amount based on the fixed fee contract.

13.1 Other income

	2009 R'000	2008 R'000
Sundry income	2,340	1,920
Training expenses recovered	1,258	22
Cell phone charges recovered	5	65
Telephone charges recovered	295	307
	3,898	**2,314**

13.2 Other income – Government grant [9]	33,516	-

[9] A grant of R90 million was received from National Treasury. Part of the grant was used for working capital and funding of capital expenditure. The balance will be used for the hosting of INTOSAI and INCOSAI conferences and capital expenditure. Refer to note 11.1.

14. Staff cost

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

Management position	Name	Appointment date	Termination date	2009 R'000	2008 R'000
Auditor-General	TM Nombembe	1 December 2006		2,328	1,778
Deputy Auditor-General	T Makwetu	1 July 2007		1,928	1,200
Chief Operating Officer	L Jabavu	1 August 2007		1,382	800
Corporate Executive	P Bhana	1 October 2006		1,416	1,213
Corporate Executive	IS Cele	15 November 2005	31 December 2007	-	1,002
Corporate Executive	JE van Heerden	1 September 1991	28 February 2009	1,685	1,130
Corporate Executive	DEL Zondo	1 November 2005	31 December 2008	1,157	1,380
Corporate Executive	AH Muller	1 March 2008		1,294	81
Corporate Executive	BR Wheeler	1 March 2008		1,287	76
Corporate Executive	PKK Serote	1 April 2008		1,338	-
Corporate Executive	J Bailey	1 December 2008		517	-
Corporate Executive	EM Zungu	01 February 2009		228	-
				14,560	8,660
				[10]	

[10]This includes all remuneration paid to management. No performance bonuses were paid to Executives in 2009 and 2008.

	2009 R'000	2008 R'000
Compensation to management is summarised as follows:		
Short-term employee benefits	14,348	8,482
Long-term benefits	212	178
	14,560	8,660

	2009	2008
	R'000	R'000
Staff cost		
Management salaries	14,560	8,660
Support staff salaries	101,729	76,985
Other staff expenditure	11,146	22,689
Performance bonus	1,067	14,136
Group life scheme	4,381	2,914
Other employer contributions (UIF, Workmen's Compensation, long-service awards, early retirement penalties - Government Employees Pension Fund, etc.)	5,698	5,639
Course fees and study assistance	58,227	45,397
Accrued leave pay provision	13,336	8,514
Total support staff cost	**198,998**	**162,245**
Recoverable staff salaries	464,644	370,658
Total staff cost	**663,642**	**532,903**
Average number of staff	2,074	1,839

15. Contract work recoverable

Contract work recoverable	551,621	417,274

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

Refer to note 13

16. Depreciation

	2009	2008
	R'000	R'000
Computer equipment	14,737	11,875
Motor vehicles	245	311
Office equipment	610	286
Furniture and fittings	1,265	421
Leasehold improvements	647	2,265
	17,504	15,158

17. Amortisation

Computer software		
Enterprise resource management system – PeopleSoft	795	1,604
Other software	2,265	4,249
	3,060	5,853

18. Other operational expenditure

	2009 R'000	2008 R'000
Standing Committee on the Auditor-General / Corporate Governance Board fees and expenses	345	187
Auditor's remuneration:		
Statutory audit services	1.515	2,021
Other audit services	92	161
Contract work irrecoverable	12,062	8,324
Fruitless and wasteful expenditure (refer to note 19)	1,930	769
ICT services	21,814	14,364
Internal audit fees	3.163	2,188
Legal costs	570	2,825
Other operational expenses	7,712	3,120
Operating leases – land and buildings	51,907	37,068
Operating leases -–equipment	2,047	1,935
Provision for impairment of receivables	4,710	6,770
Receivables written off as uncollectible	46	-
Recruitment costs	10,208	7,759
Stakeholder relations	7,846	8,457
Stationery and printing	5,658	3,045
Subsistence and travel irrecoverable	10,555	8,201
Telephone and postage	5,865	5,480
Utilisation of special audit services reserve	-	306
	148,045	**112,980**

18.1 AFROSAI Conference	9,024	-

AFROSAI held its 11th General Assembly in Pretoria on 13-17 October 2008. The assembly was hosted by the AGSA and was attended by delegates from 51 countries.

19. Fruitless and wasteful expenditure

	2009 R'000	2008 R'000
Ex-staff debt written off	-	757
SA Revenue Services interest and penalty [11]	562	-
Re-performance of audit work [12]	1,359	12
Other (interest charged by suppliers)	9	-
	1,930	769

[11] The interest and penalty charges relate to returns not submitted on time in prior periods, dating back 2001.

[12] Audit work had to be repeated in Limpopo, where it was found that two audit opinions had been issued with insufficient audit work performed. The fruitless and wasteful expenditure relates to the cost of repeating the required audit work. Once detected, immediate action was taken and disciplinary action was instituted against the responsible staff, who are no longer employed by the AGSA. Additional detective controls have been implemented in order to prevent a recurrence of such an incident at the AGSA

20. Notebook losses

Notebook computers stolen at carrying amount [13]	(263)	(139)

[13] No amounts have been recovered as the AGSA 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. Interest received/Finance cost

	2009 R'000	2008 R'000
Interest received on investments	14,862	13,416
Interest on obligation under instalment sale agreements	(2,667)	(2,705)

23. Commitments

23.1 Operating lease commitments

The future minimum commitments are as follows:

	2009	2008
Due within one year	38,168	32,361
Accommodation	29,354	26,364
Communication equipment	6,414	3,681
Office equipment	2,400	2,316
Between one and five years	136,648	121,121
Accommodation	122,749	112,808
Communication equipment	9,099	3,681
Office equipment	4,800	4,632
More than five years	205,173	228,560
Accommodation	205,173	228,560
	379,989	**382,042**

The office premises are leased for periods between three and ten years. The average lease payments total R2 446 165 (2008: R2 196 959) per month. The lease agreements are renewable between one month and ten years at the end of the lease term and the AGSA 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 total R534 500 (2008: R306 775) per month. The lease agreements are renewable at the end of the lease term and the AGSA does not have the option to acquire the communication equipment.

Certain items of office equipment are leased for a period of three years. The average lease payments total R199 980 (2008: R192 982) per month. The lease payments have been estimated until such time as the tender process is finalised.

24. Contingent liability

	2009 R'000	2008 R'000
Guarantees	187	243

Guarantees provided by the AGSA to various financial institutions for portions of home loans granted to seven staff members. This policy was discontinued in 1993.

Government Employees Pension Fund (GEPF)

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

25. Financial instruments

25.1 Foreign exchange risk

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

Trade accounts receivable include receivables of 14 123 USD (2008: 189 381 USD) in respect of services delivered in foreign currencies not hedged by forward exchange contracts. These balances have been translated at the year-end exchange rate of 1 USD = R9.6213 (2008: 1 USD = R8.1203).

Included in the bank balances at 31 March 2009 is an amount of 500 425 USD (2008: 1 147 727 USD). These balances have been translated at the year-end exchange rate of 1 USD = R9.6213 (2008: 1 USD = R8.1203).

It is AGSA's policy not to take out forward cover on foreign exchange transactions.

25.2 Credit risk

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

An analysis of the ageing of debtors that are 30 days and over as follows:

R102 134 000 (2008: R86 954 000) of debtors, comprising 33,7% (2008: 34,1%) of total debtors. Local Government arrears comprise R59 528 000 (2008: R53 213 000) or 58,3% (2008: 61,2%) of total arrears.

All financial assets are unsecured. The carrying amounts of financial assets included on the balance sheet represent the AGSA's exposure to credit risk in relation to these assets. Investment in the Public Investment Corporation is governed by the AGSA'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 AGSA's receivables in relation to the type of auditees is as follows:

2009 Debtor type	Total R'000	Current R'000	30 - 120 R'000	120+ R'000
National	64,642	52,235	11,114	1,293
Provincial	82,895	70,472	4,996	7,427
Local	104,651	45,123	36,514	23,014
Statutory	40,943	28,054	6,596	6,293
Other (including unallocated deposits) [14]	30,174	25,285	1,850	3,039
	323,305	221,169	61,070	41,066

[14] Other debtor types includes unlisted public entities, staff debtors, municipality entities, utility agency corporations, auditees who are struggling to pay and whose fees are partially paid by National Treasury.

Credit risk (continued)

2008 Debtor type	Total R'000	Current R'000	30 - 120 R'000	120+ R'000
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

25.3 Interest rate risk

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

31 March 2009 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%	309,727	-	309,727
Cash				
-Local				
-Current account	9.25%	50,434	-	50,434
-Call account (PIC)	9.00%	125,589	-	125,589
-Foreign	0.00%	4,815	-	4,815
Total financial assets		490,565	-	490,565

31 March 2009 Liabilities	Effective fluctuating interest rate %	1 year or less R'000	1 to 5 years R'000	Total R'000
Interest-bearing borrowings	12.5% - 13%	11,513	7,726	19,239
Trade and other payables	0%	303,462	-	303,462
		314,975	7,726	322,701
Net financial assets / (liabilities)		**175,590**	**(7,726)**	**167,864**

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 (PIC)	10.50%	87,732	-	87,732
-Foreign	2.14%	9,320	-	9,320
Total financial assets		**362,527**	-	**362,527**

31 March 2008 Liabilities	Effective fluctuating interest rate	1 year or less	1 to 5 years	Total
	%	R'000	R'000	R'000
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

25.4 Additional information in relation to financial instruments

Line items presented on the balance sheet summarised per category of financial instrument	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
	R'000	R'000	R'000	R'000
Financial assets				
At fair value through profit and loss: Financial assets held for trading				
Cash and cash equivalents (refer to note 5)	**180,838**	**180,838**	117,318	117,318
Loans and receivables				
Trade and other receivables (refer to note 4)	**309,727**	**309,727**	245,209	245,209
Financial liabilities				
Financial liabilities measured at amortised cost				
Instalment sale agreements (refer to note 9)	**19,239**	**19,239**	22,677	22,677
Trade and other payables (refer to note 11)	**303,462**	**303,462**	198,781	198,781
	322,701	**322,701**	221,458	221,458

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:

	2009	2008
Average days outstanding – receivables	86	69
Average days outstanding – payables	67	46

Sensitivity analysis

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

- A one percentage point decrease or increase in the current account interest rate.
- A one percentage point decrease or increase in the call account interest rate.
- A one 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 & call account interest rate	Current balance 2009	-1%	+1%	Current balance 2008	-1%	+1%
Net deficit	(16,097)	(17,372)	(14,653)	(8,301)	(9,732)	(6,857)
% Change	-	7.9%	-9.0%	-	17.2%	-17.4%
Current bank account balance	176,023	174,549	177,501	107,998	106,576	109,452
% Change	-	-0.8%	0.8%	-	-1.3%	1.3%

USD and Euro exchange rate	Current balance 2009	-R1	+R1	Current balance 2008	-R1	+R1
Net deficit	(16,097)	(20,137)	(12,057)	(8,301)	(7,826)	(8,776)
% Change	-	25.1%	-25.1%	-	-5.7%	5.7%
Foreign bank account balance	4,815	4,314	5,315	9,320	8,172	10,468
% Change	-	-10.4%	10.4%	-	-12.3%	12.3%
International debtor balance	136	122	150	1.538	1,348	1,727
% Change	-	-10.3%	10.3%	-	-12.4%	12.3%

Instalment sale agreement interest rate	Current balance 2009	-1%	+1%	Current balance 2008	-1%	+1%
Net deficit	(16,097)	(15,887)	(16,307)	(8,301)	(8,359)	(8,272)
% Change	-	1.3%	-1.3%	-	0.7%	-0.3%
Instalment sale agreements balance	19,239	19,239	19,239	22,677	22,660	22,682
% Change	-	0.0%	0.0%	-	-0.1%	0.0%

26. Notes to the cash flow statement

	2009 R'000	2008 R'000
26.1 Revenue collected from auditees		
Revenue	1,375,925	1,108,899
Net increase in trade receivables	(68,080)	(70,993)
	1,307,845	**1,037,906**
26.2 Direct audit cost payments		
Direct audit cost	(1,069,668)	(829,829)
Net increase in trade payables	95,634	22,366
	(974,034)	**(807,463)**

26.3 Operational expenditure payments

	2009 R'000	2008 R'000
Operational expenditure	(322,354)	(287,371)
Adjusted for:		
Straight-lining of leases	10,477	7,315
Interest received	(14,862)	(13,416)
Finance charges	2,667	2,705
Foreign exchange gain	(3,395)	(995)
Depreciation	17,504	15,158
Amortisation	3,060	5,853
Increase in provision for impairment of receivables	4,710	6,770
Increase in provision for post-retirement medical aid benefits	(1,273)	3,240
(Profit) / loss on the disposal of property, plant and equipment and intangible assets	1,625	(885)
	(301,841)	**(261,626)**
Other working capital changes	(315)	21,103
Decrease in other receivables	(1,128)	(2,890)
(Decrease) / increase in other payable	(1,430)	22,683
Increase in provisions	2,243	1,310
	(302,156)	**(240,523)**

26.4 Acquisition of property, plant and equipment	2009	2008
	R'000	R'000
Computer equipment	16,402	(13,121)
Motor vehicles	420	(531)
Office equipment	890	(503)
Furniture and fittings	12,513	(6,690)
Leasehold improvements	7,602	(841)
	37,827	**(21,686)**

26.5 Acquisition of intangible assets		
Computer software	1,961	-
- Other software	610	(1,761)
	2,571	**(1,761)**

26.6 Cash and cash equivalents		
Call account at Public Investment Corporation		
- Investment to fund working capital requirements	50,827	1,621
- Investment reserved for specific liabilities	74,762	86,111
Current bank account	50,434	20,266
Foreign bank account	4,815	9,320
	180,838	**117,318**

27. Taxation

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

28. Professional indemnity insurance

It is not the AGSA's policy to take out professional indemnity insurance cover.

Comparison of actual results with the approved budget	Note	Actual R'000	Budget R'000	Variance R'000
Revenue		**1,375,925**	**1,292,642**	**83,283**
Audit fees earned		1,375,925	1,292,642	83,283
Own hours	1	771,701	857,097	(85,396)
Contract work	2	551,621	368,302	183,319
Subsistence and travel		52,603	67,243	(14,640)
Direct audit cost		(1,069,668)	(901,273)	(168,395)
Recoverable staff cost (refer to note 14 as per AFS)		(464,644)	(465,421)	777
Contract work recoverable	2	(551,621)	(368,302)	(183,319)
Subsistence and travel recoverable	3	(53,403)	(67,550)	14,147
Gross Profit		**306,257**	**391,369**	**(85,112)**
Other income		3,898	9,282	(5,384)
Other income – National Treasury		33,516	-	33,516
Increase in post-retirement medical aid benefit provision		1,273	(6,366)	7,639
Foreign exchange gain		3,395	-	3,395
Contribution to overheads		**348,339**	**394,285**	**(45,946)**
Expenditure		**(376,631)**	**(391,354)**	**14,723**
Audit commission / Corporate Governance Board fees and expenses		(345)	(194)	(151)
Auditor's remuneration				
Statutory audit services		(1,515)	(1,900)	385
Other audit services		(92)	-	(92)
Provision for impairment of receivables	4	(4,710)	-	(4,710)
Course fees and study assistance (refer to note 14 as per AFS)		(58,227)	(58,224)	(3)
Depreciation expense	5	(17,504)	(21,828)	4,324

Amortisation expense	6	(3,060)	(7,185)	4,125
Fruitless and wasteful expenditure	7	(1,930)	-	(1,930)
Internal audit fees	8	(3,163)	(2,200)	(963)
ICT Services	9	(21,814)	(25,023)	3,209
Legal costs	10	(570)	(1,230)	660
Contract work irrecoverable	11	(12,062)	(18,329)	6,267
Subsistence and travelling irrecoverable	12	(10,555)	(7,350)	(3,205)
Bad debts written off		(46)	-	(46)
Stakeholder relations / AFROSAI conference		(16,870)	(14,830)	(2,040)
Operating leases – equipment	13	(2,047)	(3,891)	1,844
Operating leases –land and buildings	14	(51,907)	(42,322)	(9,585)
Other expenses	15	(7,712)	(11,027)	3,315
Provision for accumulated leave benefits	16	(13,336)	(5,388)	(7,948)
Recruitment costs	17	(10,208)	(12,749)	2,541
Staff expenses (normal staff exp) (refer to note 14 as per AFS)	18	(126,368)	(136,614)	10,246
Special expense: performance bonus (refer to note 14 as per AFS)	19	(1,067)	(9,000)	7,933
Stationery and printing	20	(5,658)	(5,759)	101
Telephone and postage		(5,865)	(6,311)	446
Deficit from operations		**(28,292)**	**2,931**	**(31,223)**
Interest received	21	14,862	7,944	6,918
Finance charges		(2,667)	(2,516)	(151)
Net (deficit) / surplus for the year		**(16,097)**	**8,359**	**(24,456)**

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 Auditor-General on 15 October 2007 and tabled in Parliament on 23 November 2007 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. The shortfall or variance in own hours can be explained as follows:

- Unfavourable vacancy variance of R134 million, which is equivalent to 321 787 hours lost.
- Favourable rate variance of R35 million.
- Favourable volume variance of R4 million.
- Favourable adjustment of R10 million in respect of non-audit staff.

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. Subsistence and travel recoverable

The savings are mainly due to staff vacancies and budget estimates not materialising. This was also as a result of better rates negotiated for air travel and hotel accommodation as well as consolidation of some audits.

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 government. Debtor days outstanding for provincial government have increased from 27 to 65 days and for national and local government from nine to 26 days and 75 to 90 days, respectively. The total amount outstanding as at 31 March 2009 has increased from R255 million (31 March 2008) to R323 million, signifying collection problems.

5. Depreciation

The variance is as a result of capital expenditure being less than budget and the write-off of assets during the financial year. Budgeted capital expenditure was R50 million against actual expenditure of R22 million.

6. Amortisation expense

The positive variance was due to reversal of PeopleSoft software because of a change in accounting estimate and write-off of other software during the financial year.

7. Fruitless and wasteful expenditure

The negative variance on fruitless and wasteful expenditure was due to reperformance to audit work in Limpopo and interest and penalty charges levied by SARS. This is further explained in 7.1 and 7.2 below.

7.1 Reperformance of audit work (R1 359 000)

Regrettably, audit work was required to be reperformed in Limpopo, where it was identified that two audit opinions had been issued with insufficient audit work performed. The fruitless and wasteful expenditure relates to the cost of reperforming the required audit work. Once detected, immediate action was taken and disciplinary action was instituted against the staff responsible. These staff members are no longer employed by the AGSA. Additional detective controls have been implemented in order to prevent a recurrence of such incidents at the AGSA.

7.2 SARS interest and penalty (R562 000)

The interest and penalty charge relates to SARS returns not submitted on time in prior periods, dating back to 2001.

8. Internal audit fees

The negative variance was due to 2008 invoices paid in the current financial year, which were not accrued in 2008.

9. ICT Services

A saving on PeopleSoft Finance licence fees was achieved due to negotiations with Oracle, while 3G card costs were lower than budget.

10. Legal costs

Outside legal services procured were less than anticipated.

11. Contract work irrecoverable

Not all projects were rolled out in the current year as budgeted, resulting in a saving.

12. Subsistence and travel irrecoverable

The overspending was as a result of the reorganisation of the Eastern Cape office and Human Capital's travelling costs during recruitment. Staff in East London were relocated from Mthata to East London and the costs were covered by the business unit.

13. 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.

14. Operating leases – land and buildings

The variance is due to the straightening of leases on premises per International Accounting Standard (IAS) 17 disclosure requirement. The IAS adjustment increased accommodation expenses by R10 million.

15. Other expenses

The main reason for the saving was the prudent management of expenditure on refreshments, office improvements and cleaning and contract/services by business units.

16. Provision for accumulated leave benefits

The variance is due to an increase in leave days accrued at a higher salary rate (as a result of the annual salary increases introduced in the financial year).

17. Recruitment costs

The underspending is mainly due to changes in recruitment approach from using agents to online recruitment. The vacancies not filled also contributed to the under spend. The average staff vacancy rate for the year was 268 staff members.

18. Staff expenses (normal staff expenses)

The favourable variance is largely due to decline of post retirement medical care contribution and staff vacancies which were not filled.

19. Special expenses: performance bonus

The underspending was due to non-payment of performance bonuses. The reason for non-payment of performance bonuses is the fact that the AGSA as a whole had not achieved and realised its required financial stretch target as established in the balance scorecard.

20. 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.

21. Interest received

The favourable variance was mainly due to higher-than-budget interest rates.

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