ANNUAL REPORT 2009 | 2010

Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

PREAMBLE TO THE Constitution

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

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

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

OUR Mission

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

OUR Vision

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

We have improved our financial position from a deficit to a

Surplus

60%

passed the Independent Regulatory Board of Auditors (IRBA) qualifying examinations

Key Controls tool introduced to influence positive audit outcomes

Centenary of the AGSA in 2011

Staff turnover dropped to

6,6%

in the year under review

Demographic profile improving

Improvement of audit outcomes still marginal

Hosting global congress of auditors - general in 2010

Preferred Employer Award by *Top Magazine* in 2010

10 years

as auditors to the United Nations

Leadership visibility taking centre stage

Municipality debt collection deteriorating

We received above-industry-average quality scores from independent reviewers

First-year implementation of revised tariff model

Our published audit reports trigger action by the leadership of the auditees to improve audit opinions

333 Chartered Accountants and

224 Registered Government Accountants on board

OUR VALUES

We value, *respect* and *recognise* our people

Our *accountability* is clear and personal

We are *performance* driven

OUR Values

We value and own our *reputation* and *independence*

We work effectively in *teams*

We are *proud to be South African*

LETTER TO THE Speaker

Requirements in terms of sections 10(2) and 41(5) of the Public Audit Act of 2004

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

August 2010
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 2010.

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 2010. The act also requires me to simultaneously submit a copy of this report to the Standing Committee on the Auditor-General (SCoAG). It would therefore be appreciated if the report could be referred to this committee for its consideration.

Yours sincerely

Terence Nombembe
Auditor-General

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REPORT OF THE Auditor-General

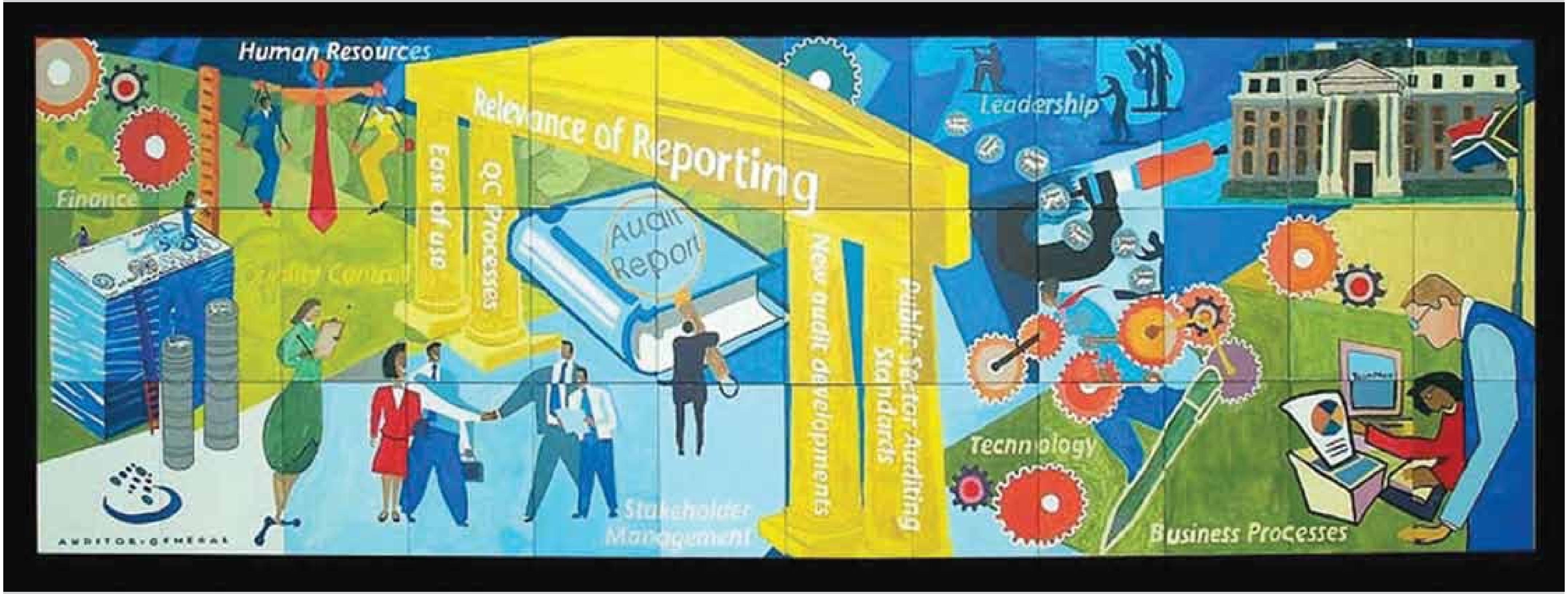
As an institution charged with providing assurance and confirming credibility in respect of how public funds have been utilised, we pay critical attention to the role our leadership plays in facilitating common understanding of the Auditor-General's mandate among both internal and external stakeholders. The ultimate goal is to achieve clean administration, with good governance characterised by clean audit findings. To fulfil the noble mandate of supporting our democracy, we have to improve our business processes continuously so that we can lead by example in the field of public accountability. Leading by example epitomises the value and benefits of supreme audit institutions in changing the lives of ordinary citizens.

Public and Municipal Finance Management Acts: 2008-09 audit cycles

In keeping with our promise of continuously communicating audit findings in a simple, clear and relevant manner, we have embarked on roadshows to present audit outcomes and enter into dialogue with the leadership. Furthermore, key controls were presented to the majority of ministers, premiers and mayors as a tool to exercise oversight.

Our focus has been on encouraging full involvement by the executive leadership to achieve clean audit results. This is in line with previous recommendations on audit outcomes, which clearly stipulated that any intervention for clean audit outcomes would require an effort from executive leadership. Interaction with those charged with governance has been elevated to the level of impressive commitment, which is truly encouraging.

Executive leadership in all three spheres of government have committed to action on transversal audit findings that require collective effort. This applies specifically to areas such as assets (infrastructure, land, property and movable assets) which have proven to pose the biggest challenges to government. The heightened level of interaction with oversight mechanisms has been evident during accountability hearings in legislatures and Parliament and its standing committees. We are indeed anticipating a significant improvement towards clean audit results in the coming audit cycles due to the level of active participation by leadership.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Stakeholder Management
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AUDITOR-GENERAL

Human resources

As we value active participation by leadership in improving good governance, we increasingly build our leadership skills to reflect a professional institution that enables good governance to enhance public accountability. Thus, we pay particular attention to the Trainee Auditor Scheme at different levels of qualification through academic and financial support. This has stabilised our vacancy levels and improved leadership succession. The monitoring of our occupancy levels and the retention and motivation of our staff were measures that strengthened our human capital. We value the importance of our people in ensuring the professionalism of the organisation.

Funding model

The implementation of the funding model focused on stabilising our cash flow. The improved business processes and several initiatives, such as debt collection and visibility of our leadership, have significantly contributed to improved margins. The local government debts remain a challenge; however, the matter is receiving attention from the relevant ministries. We pay particular attention to continuous improvement with a view to financial sustainability.

Leading by example

We are becoming increasingly successful in building a leadership who will live up to the challenge we have issued to those charged with governance. We continuously strive to achieve a clean audit report with stringent internal controls and stable governance structures.

We have committed to and achieved the desired results regarding employment equity targets. These results have been sustained for the last four years. The broad-based black economic empowerment agenda is at the centre of transforming the organisation, with a particular focus on implementing the codes of good practice. We have merged skills development and corporate social investment by empowering learners from previously disadvantaged schools with life skills and awareness of the importance of career choices. This has enabled learners with potential to become beneficiaries of the AGSA's undergraduate bursary scheme which feeds into the TA Scheme.

AFROSAI and INTOSAI

To maintain the level of professionalism, we have actively participated in the professional bodies that govern the disciplines of supreme audit institutions worldwide. To facilitate public accountability on the broader African continent, the Auditor-General will serve as President of the African Organisation of Supreme Audit Institutions (AFROSAI) until 2012. We are host to the International Congress of Supreme Audit Institutions for 2010, where the reins of the International Organisation of Supreme Audit Institutions (INTOSAI) will be handed to the Auditor-General of South Africa as its President. These platforms have enabled us to impart knowledge on public sector auditing to enhance public accountability as we uphold the democracy of our country.

Conclusion

We will lead by example by inculcating the culture of a high-performance organisation subscribing to good governance in all that we do. Our visibility will always be in response to the trust bestowed upon us by our Parliament. This will typically include simplifying and clarifying our messages. Dialogue with our stakeholders on the impact of findings enhances public accountability in a way that will improve the lives of ordinary South Africans. This will define our relevance as the Supreme Audit Institution of South Africa.

Below is a statement from the Auditor-General, reiterating the importance of auditing to build public confidence:

> Instead of being concerned only with financial information, auditors should help to establish to what extent communities enjoyed their rights as citizens. Improving quality of life has to be at the forefront of auditors' responsibilities.

DEPUTY AUDITOR-GENERAL

Photo supplied by Magnet Communications

DEPUTY AUDITOR-GENERAL'S Review

Mr TK Makwetu, the Deputy Auditor-General, is the head of administration of the institution. As such, he is the accounting officer, reporting to the Auditor-General and performing his duties in terms of sections 32 and 43 of the Public Audit Act (PAA). The Auditor-General of South Africa is a chapter 9 institution that has a mandate to strengthen constitutional democracy in the Republic. The AGSA is independent and accountable to the National Assembly. It is expected to exercise its powers and perform its functions without fear, favour or prejudice, and must report on its activities and the performance of its functions to the Assembly once a year.

The strategic vision and direction that the Auditor-General has set for the organisation centres around the five areas of commitment detailed below. As the AGSA's leadership, we have operationalised these commitments by aligning our human capital and financial resources to ensure that we meet our commitments and fulfil our constitutional mandate.

The 2009-10 strategic plan sets out the organisation's key commitments as follows:

Commitment 1: Ensuring simplicity, clarity and relevance of the messages contained in all our reports

General reports

Our commitment towards encouraging clean administration is demonstrated in the general reports that we publish for all spheres of government. In the 2009-10 financial year, we continued to focus on making our general reports simple, clear and relevant so as to facilitate understanding of our audit findings and ensure that our audit recommendations are actioned. The primary aim of this is to ensure that those charged with governance develop an intimate understanding of our findings. Once clearly understood, our message will hopefully trigger the right actions that will influence a speedy migration towards achieving clean administration and accountability in the public sector.

The key messages in the general reports centre around three focus areas: financial management skills and capacity, governance effectiveness and the role of leadership in implementing our recommendations. In 2009-10, we reiterated the importance of key controls in achieving clean administration. The Auditor-General and the rest of our leadership continued to communicate these messages during roadshows, door-to-door municipality visits and the newly instituted quarterly visits to ensure that our auditees meet their commitments to implement key controls.

Auditing of performance information

In the 2009-10 financial year, we intensified the implementation of the auditing of performance information. The aim is to ensure that we are in a position to express an audit conclusion on performance information in the financial year commencing on 1 April 2011. Table 1 below details our achievement on all measures under this commitment.

We succeeded in meeting the target of achieving 100% of the predetermined milestones for the PFMA audits. This implies that all PFMA audits were audited in full in accordance with the auditing of performance information guidelines during the PFMA audit cycle.

We failed, however, to meet the target of achieving 100% of the milestones for auditing predetermined objectives for MFMA audits for the year ended 30 June 2009. In total, 70% of the MFMA audits complied with the required milestones as per the guidelines. Non-achievement of the target was due to some auditees either not reporting on their annual performance information or submitting the required information late. In 2008-09, we conducted a preliminary assessment of auditees' readiness for expressing conclusions on performance information. We agreed to defer such opinions to future years as most auditees needed more time to get ready for this significant milestone.

Performance auditing

Over the past few years, we started a process to grow our resource investment in performance auditing. This growth is reflected in the achievement of our target. We set a target to earn R49,7 million from performance audits in the year ended 31 March 2010. Actual earnings amounted to R52,1 million, which included R10,5 million from investigations. As a result of the continued focus on performance auditing, we separated investigations from performance auditing by establishing two dedicated business units. The performance audit function concentrated on delivering the agreed areas of focus, as well as building a firm foundation for this important branch of our audit mandate to grow in future. These audits have attracted considerable public attention and scrutiny, which is important in cementing the relevance of our work. Public attention gives rise to greater accountability in the public sector and enables us to focus even more strongly on the effectiveness and efficiency of achieving our set objectives.

Relevance index

The AGSA's strategy for 2009-10 also challenged us to set a baseline for evaluating our relevance against predetermined requirements of the International Organisation of Supreme Audit

Table 1: Summary of actual performance against predetermined objectives

AGSA commitment	Performance measure	Target 2009-10	Actual performance	Comments
Simplicity of our reports	% compliance with predetermined audit coverage milestones as defined in the AoPI plan	100% achievement of milestones set for the year	100%: PFMA	Achieved
			70%: MFMA	Not achieved
	Audit income from performance audits (R million)	R49,7 million	R52,1 million	Achieved
	% improvement on the relevance index survey	Establish baseline and targets for future measurement	87% baseline (target is 100%)	Achieved

Institutions (INTOSAI). In a survey conducted in partnership with INTOSAI, we reported a score of 87%, which is a very solid result, especially considering the reported compliance score of 88% for all participating SAIs.

Commitment 2: Improving the visibility of our leadership through clear communication in championing the implementation of audit recommendations

The reputation survey conducted in 2006 indicated that we need to improve communication with our stakeholders, so as to improve our reputation. We started with this in 2008 and targeted our priority stakeholders, who are auditees, employees and prospective employees.

In the 2009-10 financial year, we continued delivering on the undertaking to improve the visibility of our leadership. Achieving clean audit reports depends on how effectively our leaders engage our stakeholders to enhance understanding of our messages, findings and recommendations. The three key areas that we continue to highlight to our stakeholders are financial management, governance and the role of leadership in driving governance and financial management. Also, this year we followed up on the commitments that our stakeholders made in 2008-09, and highlighted the key controls that need to be in place to achieve clean administration. As at year-end, most executive authorities and mayors had been engaged on the key controls specific to their operational environment and had agreed to implement them. Our leadership team have taken on the responsibility of performing ongoing reviews to assess whether progress is being made in improving control of key areas that are susceptible to higher-than-normal audit risk. We will reflect on this in our next general report when we analyse audit outcomes for 2010-11.

Internally, we continued with our efforts to align our staff with the organisational commitments so that we are able to achieve our vision of auditing to build public confidence. Another step towards this was enhancing the professionalism reflected in our documents and environment. At the same time, the leadership continued to be visible to the audit teams to ensure that findings and recommendations are appropriate and to follow through on issues emanating from interaction with the leadership of government. See Table 2 below for details on our achievement.

Table 2: Summary of actual performance against predetermined objectives

AGSA commitment	Performance measure	Target 2009-10	Actual performance	Comments
Visibility of leadership	% improvement on the overall reputation index	Measure and track compliance with communication, stakeholder relationship management and branding milestones for the year	The survey will be conducted in 2010-11 by an independent firm	Not applicable
	% improvement on the reputation index per identified/key stakeholder group	60-79,9% achievement of all milestones in identified action plans	88,5% achievement of all milestones in identified action plans	Achieved
	% compliance with reputation promise and key messages in identified documents	100% compliance on specifics	100% compliance	Achieved
		45-79,9% where contextualisation is required	88,7%	Achieved
	% compliance with all 2D printed material requirements	100% compliance	100%	Achieved
	% compliance with all 3D office environment branding requirements	60-79,9%	Top leadership deferred this measure due to budgetary constraints	Not applicable

Commitment 3: Strengthening the human resource strategy, with particular emphasis on the comprehensive Trainee Auditor Scheme

Our strategy is to strengthen our human resources by building a skilled, motivated, high-performing and diverse workforce. We continued to drive effective implementation of our values and human resources strategy, ensuring that we grow talent from within, especially from our Trainee Auditor Scheme (TA Scheme), and aggressively recruit and retain staff. Our values revolve around respecting and recognising people, taking clear and personal accountability, being performance driven, valuing and owning the AGSA's reputation and independence, working effectively in teams and being proudly South African.

During 2009-10, we implemented all the identified drivers of our culture index. Specifically, we implemented leadership development and management programmes for senior managers and managers, respectively. We also continued to invest in the TA Scheme as the AGSA's contribution towards transformation and growing our own talent. In support of the TA Scheme, we implemented a number of policies, including the academic progress policy, the trainee auditor study leave policy and the external bursary policy. To expedite the recruitment process for Manager positions and below, the process was decentralised to all business units.

In a number of other steps taken in 2009-10 to strengthen our human resources we:

- successfully implemented the awareness programme of our revised organisational culture and values
- redesigned and implemented the performance management system and processes
- achieved a success rate of 60% (2009: 44%) for the trainee auditors who wrote IRBA exams. Since the pass rate of trainee auditors who were still studying towards the final qualifying exam was low, we provided ongoing support to

Table 3: Summary of actual performance against predetermined objectives

AGSA commitment	Performance measure	Target 2009-10	Actual performance	Comments
Strengthen human resources	Number of unqualified staff reduced	5% reduction in number of unqualified staff from baseline	32,4% (93 unqualified staff) Baseline = 287 unqualified (2009) Actual = 194 unqualified (2010)	Achieved
	% retention of trainee auditors who completed trainee contracts	10% improvement in retention of trainee auditors who completed trainee contracts from baseline per year	100% retained from a baseline of 100% (2008-09) - 46 CAs - 1 RGA	Achieved
	% improvement in labour turnover per category	8,2% industry norm	6,6% AGSA labour turnover	Achieved
		20% turnover reduction for band D from baseline per year	43% turnover reduction for band D from baseline per year Baseline = 9,7% Target = 7,8% Actual = 5,5%	Achieved
		25% turnover reduction for band E from baseline per year	50% turnover reduction for band E from baseline per year Baseline = 13,1% Target = 98% Actual = 65%	Achieved
	% improvement in the culture index	Implement all actions that are drivers of the culture index	Implemented all actions	Achieved

our staff to ensure continuous improvement in throughput

- recorded an overall total annual labour turnover of 6,6%, compared to 11% in 2008-09. This is a significant improvement from an industry average of 8,2%
- retained 100% of the trainee auditors who passed the CA qualifying examinations or qualified as RGAs
- reduced labour turnover for band D (manager level) by 43% against the target of 20%; and for band E (assistant manager level) by 50% against the target of 25%
- reduced the number of unqualified staff by 32% with a view to professionalising the auditing environment. In total, 94% of our audit staff met the minimum qualification requirement, compared to 90% in 2008-09.

Commitment 4: Focusing on the funding model with a view to stabilising our margins and cash flow situation

We are committed to running the organisation economically, efficiently and effectively to ensure our financial sustainability. Having implemented the funding model in the 2009-10 financial year, we are now closely monitoring our margins and working capital, including debt collection, and optimising our contract work mix.

Audit income and efficiencies

The budgeted total audit income for government was R1,682 billion in the year under review. The actual amount recovered was R1,613 billion. We remain committed to making public sector auditing costs more and more affordable while retaining our own financial independence. The fees generated from audit services, which escalate at a reasonable rate, are sufficient to meet our operational needs.

Efficiency gains (net surplus)

In the year 2009-10, we implemented the revised tariffs without capping, enabling us to achieve operating margins that are sufficient to fund our fixed operating costs. In this way, we are establishing a sustainable funding base, bearing in mind that the collection of outstanding fees is the major risk for the future. Due to the deteriorating collection of cash from municipalities, we decided to review certain overhead costs and managed expenditure very tightly. This was achieved through the cancellation and postponement of certain expenditures.

Debt collection

The management of working capital and liquidity is crucial for our financial sustainability, and the most important element of working capital is debt collection. We have implemented

Table 4: Summary of actual performance against predetermined objectives

AGSA commitment	Performance measure	Target 2009-10	Actual performance	Comments
Funding model	Gross profit ratio	34%	30%	Not achieved
	% net surplus	4%	6%	Achieved
	Compliance of debtors with payment terms	30 days: National government	19 days	Achieved
		30 days: Provincial government	59 days	Not achieved
		90 days: Local government	162 days	Not achieved
	% compliance with creditor payment terms	80%	70%	Not achieved
	Limit audit resources for international audits to a set % of total audit resources and ensure that international audits break even	No more than 5% of total audit income	Income from international audits makes up 2% (R32,6 million) of total audit income, which is well within the target range	Achieved

numerous debt collection improvement strategies, which include engaging the National Treasury, Department of Cooperative Governance and Traditional Affairs (CoGTA) and provincial government officials to assist in collecting outstanding debt.

Local government debt increased to R140 million in 2009-10 (2008-09: R105 million), while debtors' days outstanding totalled 162 days (2008-09: 104 days) against a target of 90 days. This is a significant deterioration and will require firmer action to avoid the risks associated with non-recovery of outstanding fees by statutory auditors.

Creditors

We aim to meet creditor payment terms within 45 days of their invoices being authorised. However, our debt collection challenges have affected our ability to pay our creditors on time. During the year under review, our rate of compliance with creditors' payment terms was 70%, which is below the target of 80%. On the other hand, there was some improvement in the average time taken to pay creditors, which fell from 40 days to 38 days.

International audits

International auditing continues to be self funding and contained within the set limits of 5% of overall revenue.

Commitment 5: Leading by example on matters of risk management, internal controls and transformation, including producing timely, quality audit products and services

We remain committed to leading by example on matters of quality and timeliness of our reports, risk management, internal controls and transformation, as reflected in our results below.

Quality

Overall we achieved 100% of our targets based on the "excellent" (75%) and "good' (25%) performance categories. In the process, we outperformed the industry benchmark of 75%. The latest performance was a strong improvement on the prior year's achievement of 93%. We surpassed even our own expectations and realise that it will be a steep challenge to maintain quality outputs at this level. Even so, we aspire to achieving this by emphasising quality in everything we do.

Timeliness of PFMA and MFMA reports

In the 2009-10 financial year, we completed 86,6% of all PFMA audits within two months of receiving the financial statements, against a target of 80%. We finalised 88% of MFMA audit reports within three months of receiving the financial statements, against a target of 70%. . The milestone achieved for the timely delivery of audits will allow those charged with governance to speed up their oversight and will advance our goal of influencing the achievement of clean administration and financial sustainability in all three tiers of public administration.

Transformation

Broad-based black economic empowerment (BBBEE)

We continue to support the national transformation agenda. During the 2009-10 financial year, we affirmed the BBBEE strategy, focusing holistically on all the codes of good practice.

In the 2009-10 financial year, we spent R81 million (2008-09: R58 million) on growth and development of accounting and auditing for emerging firms. We will continue to ensure that we procure the required resources from a diverse base of audit practitioners.

Employment equity

We had set a workforce target ratio of 80:20 for the year and achieved an actual ratio of 89:11, compared to last year's ratio of 88:12. The future focus is to ensure that equity is stabilised at all levels within the AGSA.

Process

We are committed to leading by example in the area of clean administration and financial management. In the year under review, we focused on improving our human resources and finance processes and on upgrading our information and communication technology (ICT) systems. As a result, we achieved a maturity level of 2,89 against a target of 3. Continuous improvement of processes will remain a key focus area. As evidenced by our internal audit reports, there are gaps that require urgent attention in ICT and other internal operations. More focused actions have already been identified and prioritised for the next financial year.

2010 Soccer World Cup expenditure

At the XIX INCOSAI in Mexico in 2007, the Auditor-General extended an invitation to other Auditors-General to attend the festivities of the Soccer World Cup. This was intended to encourage exposure to the country prior to our hosting the XX INCOSAI in South Africa in November 2010. We subsequently hosted a number of Auditors-General, predominantly from the continent, during the World Cup. The expenditure incurred was exclusively for match tickets, which totalled R771 000 for 50 tickets. Some members of the AGSA Executive joined them as hosts in the respective cities.

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 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.

Table 5: Summary of actual performance against predetermined objectives

AGSA commitment	Performance measure	Target 2009-10	Actual performance	Comments
Lead by example	% compliance with Quality Review Standards	75%	100% (86%: Excellent performance 14%: Good performance)	Achieved
	% compliance with statutory and legislative guidelines	80%: PFMA organisations	86,6%: PFMA organisations	Achieved
		70%: MFMA organisations	88,0%: MFMA organisations	Achieved
	Ensure compliance with BBEEE legislation	Level 5 rating	Not applicable. A comprehensive rating will be conducted in 2011 by an external service provider. The procurement spend achieved our BBBEE objectives of ensuring that SMME firms are allocated sufficient audit work, to promote the SMME sector	Not applicable
	% compliance with AGSA EE plan	80% from targeted groups and 20% from non-targeted groups	89% from the targeted groups and 11% from non-targeted groups	Achieved
	Capability maturity model (CMM) level for key non-audit processes	Level 3 rating	Level 2,89 rating	Not achieved
	Achievement of identified capability maturity level (technology)	Level 3 rating	Not rated. The focus was on upgrading our ICT systems.	Not applicable

ORGANISATIONAL LEADERSHIP

ORGANISATIONAL Leadership

Our Corporate and Business Executives

Top row: from left to right
Paul Serote (CE), Barry Wheeler (CE), Hermanus Van Zyl, Francois Joubert, Lourens Van Vuuren, Kevish Lachman, Gerhardus Joubert, Graham Randall, Edward Pelcher.

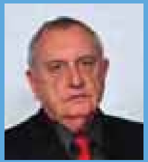
Second row: from left to right
Latief Kimmie, George Lourens, Eugene Zungu (CE), Jan Van Schalkwyk, Barend Van Niekerk, Bryant Madliwa, Paul Mosaka, Siyakhula Vilakazi.

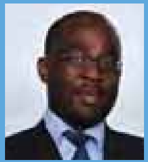
Third row: from left to right
Carol Thomas, Pramesh Bhana (CE), Justin Diedericks, Thembekile Makwetu (DAG), Obadiah Khwinana, Alice Muller (CE), Corne Myburgh.

Fourth row: from left to right
Thabile Dube, Musawenkosi Hlongwa, Lindelwa Jabavu (COO), Singa Ngqwala, Jillian Bailey (Head of Audit), Rajesh Mahabeer, Caroline Mampuru.

Our provincial leaders


Eastern Cape BE
Singa Ngqwala


Free State BE
Barend Van Niekerk


Gauteng BE
Siyakhula Vilakazi


KwaZulu-Natal BE
Hermanus Van Zyl


Mpumalanga BE
Bryant Madliwa


Northern Cape BE
Latief Kimmie


Western Cape BE
Justin Diedericks


North West BE (Acting)
Schalla van Schalkwyk


Limpopo BE
Dirk Strydom

CORPORATE Governance

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

Standing Committee on the Auditor-General

The National Assembly established the Standing Committee on the Auditor-General (SCoAG) in June 2006 to maintain oversight of the AGSA as required by the Public Audit Act (PAA). In terms of the PAA, the committee is tasked with assisting and protecting the AGSA to ensure its independence, impartiality, dignity and effectiveness. The committee also advises the National Assembly on a range of matters relating to the AGSA.

Audit Committee

The Audit Committee of the AGSA was established in terms of section 40(6) (a) of the PAA. The committee acts as an oversight body and does not have any management responsibilities. It assists the Deputy Auditor-General in discharging his duties, as set out in section 43, with regard to:

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

In addition, the 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.

The committee then refers its recommendation on the appointment of the auditors to SCoAG for approval.

- The appointment and approval of the AGSA's internal auditors, supervision of all internal audit activities and delivery on an agreed internal audit coverage plan.
- The examination and review of the preparations made to ensure accurate financial reporting.
- The review of reports from the internal and external auditors on the effectiveness of the risk management processes and procedures.

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

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

Table 6: Dates and purpose of SCoAG meetings held in 2009-10

Dates of meetings	Purpose of meeting
28 May 2009	Election of Chairperson
17 June 2009	Orientation overview of AGSA operations by the Deputy Auditor-General
13 August 2009	Induction of SCoAG
19 August 2009	Briefing by Audit Committee on the appointment of external auditors for the AGSA
18 September 2009	Continuation of SCoAG induction, appointment of external auditors and report on AGSA funding model
9 October 2009	Presentation of 2008-09 Annual Report of the Auditor-General
16 October 2009	Presentation and tabling of AGSA Strategic Plan 2010-2013
30 October 2009	Briefing by Deputy Auditor-General on the Strategic Plan and Budget targets, as well as audit directive, including materiality and risk management processes
6 November 2009	Briefing by the AGSA on audit tariffs and standards, attended by the South African Institute of Chartered Accountants (SAICA) and the National Treasury at the invitation of SCoAG
12 November 2009	Reports on the 2008-09 Annual Report and the Strategic Plan and Budget 2010-2013
24 February 2010	Preparation of five-year plan for SCoAG
30 – 31 March 2010	Five-year strategic plan for SCoAG workshop

Members of the National Assembly who served on SCoAG in 2009-10

African National Congress (ANC)

Masutha, Adv. MT (Chairperson)
Matshoba, Mr JM
Ndabandaba, Prof. LBG
Nonkonyana, Mr M
Nxumalo, Ms D M
Sosibo, Ms JE (ANC members whip)
Tlake, Ms FM
Tsebe, Ms SR

Congress of the People (COPE)

Mashiane, Ms LM

Inkatha Freedom Party (IFP)

Singh, Mr N
Lebenya, Mr PS (Alt)

Democratic Alliance (DA)

George, Dr DT
Steele, Mr MH

The Audit Committee's terms of reference are reviewed every year to ensure that they remain relevant and comply with applicable legislation.

Composition of the Audit Committee

The committee consists of three external independent members. One member will retire during the next financial year (2010-11). Two new external independent members will then be appointed to restore the committee's membership to four and ensure smooth succession in the future.

Details of the Audit Committee's members and attendance are found in the Report of the Chairperson of the Audit Committee on pages 69 to 71 of this report.

Remuneration Committee

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

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

- General trends and practices regarding employment benefits, including the structuring of conditions of employment and remuneration packages.
- The framework or broad policy for the remuneration of executive and senior management.
- Targets and rules for any performance-related pay schemes, whether already in operation or yet to be instituted.
- General salary increases.
- Any other human resource management issue which the Auditor-General may wish to table for discussion.

Overview of REMCO activities

In accordance with its terms of reference, the committee made recommendations on the following issues:

- Annual salary adjustments of AGSA employees, excluding trainee auditors, for 2009-10.
- Performance bonuses for the 2009-10 financial year. The committee supported the Executive Committee's recommendation to pay performance bonuses for 2009-10.
- The annual increase for AGSA employees on which the committee chairperson advised SCoAG.
- The appointment of two new committee members, namely Bernard Nkomo and Nazlie Samodien.
- Its terms of reference and annual work plan.

For the year under review, REMCO has fulfilled all the responsibilities and functions set out in its terms of reference.

Table 7: Attendance record of the REMCO in 2009-10

Members	Meeting of 11 June 2009	Induction on 22 October 2009	Internal and external members
Dr M Bussin (Chairperson)	Attended	Attended	External
M Moloi	Attended	Not required to attend	External
B Nkomo	Not yet appointed	Attended	External
N Samodien	Not yet appointed	Attended	External
K Makwetu	Apology	Attended	Internal
L Jabavu	Attended	Attended	Internal
J Bailey*	Attended	Apology	Internal
* Appointed as an ex officio member			

Executive Committee

The PAA gives both the Auditor-General and the Deputy Auditor-General the authority to delegate any power and duty assigned to them to any member of staff. The body that assists the Deputy Auditor-General to manage the business and affairs of the organisation is the Executive Committee (Exco). It operates under the delegation of authority as per the Auditor-General's Management Approval Framework.

Composition of Exco and its meetings

The Deputy Auditor-General is the chairperson of Exco and the Corporate Executives are its members. Exco meets every month and holds special meetings at regular intervals. It focuses on reviewing and directing the implementation of the AGSA's business and strategic plans throughout the year.

Exco has the power to establish sub-committees to assist it. Existing sub-committees are the Tender Committee and the Technical Committee:

- The Tender Committee promotes a fair tender culture by ensuring that all procurement policies and procedures are correctly and consistently applied. The committee has an evaluation working group whose key function is to promote a transparent, fair and effective evaluation process.
- The Technical Committee gives effect to the requirements of section 13 of the PAA, which deals with confirmation of auditing standards and the development of related audit methodology. This committee also plays an oversight role in technical learning which we offer to all of our stakeholders.

Quality Control Assessment Committee

The Quality Control Assessment Committee (QCAC) is an oversight body that assists the Auditor-General and the Deputy Auditor-General to fulfil their responsibilities for implementing a quality control system. These responsibilities include conducting quality control reviews in accordance with the International Standards on Auditing (ISA).

The quality control reviews are conducted by the Practice Review Unit of the Independent Regulatory Board for Auditors (IRBA), together with the Quality Control Unit of the AGSA. All review reports are submitted to the Quality Control Assessment Committee, which meets once a year to:

- review the quality control results for the PFMA and MFMA audits
- review and approve the policy on monitoring quality control compliance of the AGSA
- assess the quality control review reports of the engagement managers
- consider the impact of findings on policies and processes in the AGSA.

Membership and attendance record of the QCAC for 2009-10

The meeting on 28 April 2010, which was about matters pertinent to the year under review, was attended by the following members

TM Nombembe (Auditor-General),
K Makwetu (Deputy Auditor-General),
J Bailey (Head of audit) and
K Barac (external member).

At its annual meeting on 28 April 2010, the committee accomplished the following:

- Assessed the performance of the engagement managers.
- Reviewed the results of the disciplinary process followed to deal with poor performance during the 2008-09 financial year, and considered the appropriateness of the disciplinary codes in the AGSA.
- Gave positive recognition for excellent results.
- Considered the status of firm-level review readiness of the AGSA.
- Noted the feedback from the Difference of Opinion Committee meeting held on 23 April 2010.
- Considered the overall analysis and possible root causes of the quality control review results for 2009-10.
- Approved the quality control review process to be followed for 2010-11.

COMMITMENT 1

COMMITMENT 1
Simplicity, clarity and relevance of messages

Simplicity, clarity and relevance of all AGSA reports and messages refer to the ease of use of these documents. The easier it is for our stakeholders to understand our audit reports, the easier it will be for them to address the audit findings. Being able to action audit findings is critical for progress in the transformation of public finance and performance management in the country, as well as to move all entities in the public sector towards clean administration.

Clean administration is, in turn, a prerequisite for proper service delivery and for ensuring the growth and continued strength of the young South African democracy.

Regularity audit reports

At the heart of a regularity audit, we find an opinion on the fairness of presentation of financial information. This is fairly similar to external auditing in the private sector. What is unique to the public sector is that audit coverage extends to performance information (dealing with aspects of service delivery), as well as compliance with laws and regulations, governance and internal controls.

The principle underpinning all of this is root cause analysis – the ability to identify the core of what went wrong and to define what should be done to address audit findings and by whom – in simple, easy-to-understand language. The process of root cause analysis originated in 2007 and has matured to the current consolidated reflections under three headings: the importance of leadership, good financial and performance management, and good governance and oversight as the basis for improving audit outcomes.

General reports

The audit reports form the basis of our general reports that are prepared in each audit cycle. The general reports identify certain broad themes and highlight specific trends that were detected during an audit cycle. These reports are used to stimulate dialogue on the audit findings, ideally to a point where both the executive and senior management are able to commit to specific actions and interventions to address the findings.

Instead of using the traditional medium of written communication, visual presentations are the trigger for these discussions and the written media are reserved for formalising such commitments. This also allows for reporting on the success of acting on these commitments. Both of these objectives were achieved in the past year.

A critical element in moving towards clean administration is the ability to ensure that the minds of key role players continue to be focused on the commitments made. While the Auditor-General's roadshows have by now been institutionalised as the trigger for these commitments, the continued interaction by our leadership became far more formalised towards the end of the period under review.

Specifically, our leadership made a commitment to focus on these issues through a review and discussion of key internal controls, as often as quarterly, with all auditees. The focus of these stakeholder engagements has also shifted over the past year. Now, more strongly than ever, they emphasise the critical role that the executive can play in enabling and monitoring basic financial and performance discipline at entities. During the recent MFMA roadshows and the Auditor-General's door-to-door visits to certain municipalities, we received an extremely positive response to this type of interaction. In some instances, it has already led to improvements in basic financial discipline.

The actual audit outcomes are contained in our general reports and can be accessed via our website address www.agsa.co.za

Developments within regularity auditing

It is also important to reflect on three key developments within the normal regularity audit process. These are the auditing of performance information (to be known as auditing of reporting against predetermined objectives), sector audits and horizontal audit themes.

Promote understanding

The content of the general reports, the broad themes and specific trends of an audit cycle are used during visual, interactive presentations with the auditees to encourage discussions and consequently motivate them to make commitments and draw up action plans to address the findings.

The Auditor-General's roadshows and door-to-door visits, as well as the continued interaction by the AGSA's leadership, ensure that the auditees keep their focus on their commitments.

Each year the important role of the Auditor-General is reinforced during the audit process. This role is key to the Department of Agriculture, Western Cape, to assess the processes, systems and policies as well as to give an opinion on the governance and management of the financial year under scrutiny. In this process of giving an opinion, the Auditor-General adds value to the department's ultimate aim to improve governance and to take service delivery to an even higher level. Cooperation and collaboration form the backbone of our working relationship but this does not mean there are no disagreements and heated debates; instead, for us at the department, working together means respect, healthy debate, calibration and sharing of knowledge. The Auditor-General assists the department to move forward in its endeavours to improve governance and year-on-year services to clients. The Auditor-General fulfils its role and is appreciated. - Ms Isaacs, HoD: Department of Agriculture, Western Cape

To do my job well, I need to know specifically what my office needs to do in response to the AGSA's reports - whether it is to render support to an entity, issue guidance, etc. The audit reports need to reflect well-considered root causes and be very direct about what is required. - Mr Freeman Nomvalo, Accountant-General, in a quote solicited in anticipation of the 2008 Senior Management Workshop (SMW)

The auditing of reporting against predetermined objectives started a good five years ago as an initiative for confirming the validity, completeness and accuracy of an entity's reflection on its service delivery. At the AGSA, we have now reached the point where the next step in the phasing-in process will be the public expression of an audit opinion on the report against predetermined objectives, subject to auditee readiness.

A closely related issue is our initiative to deal with audits on a sector basis. To truly add value to the nation as a whole, it makes sense to handle risk assessments and reflections on internal control on a sector-by-sector basis, acknowledging, for example, the combined impact of policy-setting and delivery entities.

Sector auditing also presents a unique opportunity to reflect holistically on service delivery. As such, future development will see the full integration of this approach with the auditing of reporting against predetermined objectives. After the initial success of sector audits in health and education, we have now expanded such audits to other sectors including public works, social development and housing.

The implementation of horizontal audit themes, although originally intended as an initiative to improve audit efficiencies, has a huge impact on improving the relevance of the audit messages. A good indication of this impact was the fact that various human resource-related findings formed the basic root causes of a number of audit findings in the 2008-09 PFMA cycle, when this approach was originally piloted.

During the latter months of the period under review, the themes of human resource management and compensation were further reinforced as a more permanent feature of the regularity audit process. At the same time the next pilot, which deals with procurement and ongoing contract management issues, was introduced.

The last two developments featured very prominently in the 2008-09 PFMA and MFMA general reports.

Auditors working on our behalf

Auditors doing work on behalf of the AGSA have always closely aligned their working method to our methodology and requirements. However, the changes being made to the auditing of reporting against predetermined objectives necessitate a far more intensive investment in the training presented to these firms. For this reason, we have started offering key training programmes to those auditors who function on our behalf. These programmes include the preparation sessions for the audit cycles and Generally Recognised Accounting Practice (GRAP) training.

Those auditors in charge of auditing public entities that we opt not to audit (section 4(3) audits) used to function far more

New auditing initiatives improve efficiencies

The concept of sector auditing allows the AGSA to add real value, as this permits its auditors to plan the audit together, assess the risks and agree on a common approach sector by sector. This produces more consistency and a stronger focus in audit reporting.

The success of this integrated approach in the health and education sectors has encouraged us to expand sector auditing to public works, social development and housing.

The second initiative, the implementation of horizontal audit themes, has had a huge impact on improving the relevance of the audit message.

The challenge therefore is to provide a report that inspires and motivates focused action, or reaction, by presenting the identified key issues in a clearly defined context. - Mr Brian Zimba, Specialist in Audit Research and Development, AGSA independently. This prompted Parliament, and more specifically the Standing Committee on Public Accounts (SCOPA), to request us to stay closer to these audits and to ensure better flow of information between these entities, ourselves and committees of Parliament/Legislatures.

The Audit Directive that was developed towards the end of 2009 required all audit reports of section 4(3) entities to be aligned with our requirements. It also formalised the flow of information as envisaged above. This led to detailed interaction with the auditors, as well as the Boards and senior management of these entities, to ensure understanding and alignment. This preparation was completed in the period under review and we anticipate a vastly different and more relevant flow of information in the 2009-10 PFMA cycle.

Performance audits

Over the past few years, we have started growing our resource investment in performance auditing. This is because performance auditing is a specialist stream within the auditing field. It deals specifically with auditors reflecting on the economical, efficient and effective utilisation of resources at public sector entities whilst using the services of experts.

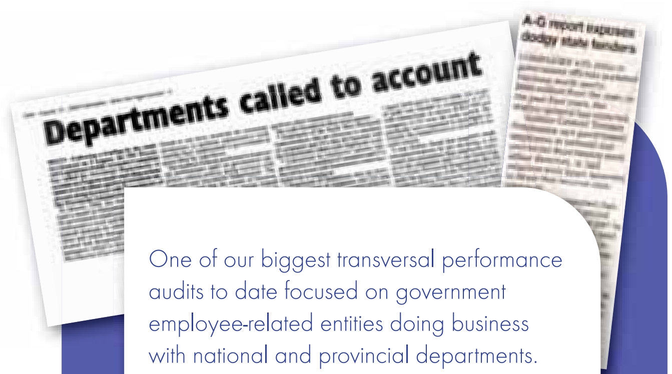
In November 2009, we took performance auditing a significant step forward by dividing our performance auditing and investigations activities into two distinct units. Until then, the staff responsible for performance audits had also been conducting investigations. Although this dual focus made it difficult for us to place more emphasis on performance auditing in 2009-10, the overall revenue generated by this combined grouping amounted to R52,1 million.

At the beginning of the financial year, we completed one of the biggest transversal performance audits to date, focusing on government employee-related entities doing business with national and provincial departments. Then, on 20 April 2009, we tabled the report to Parliament. In addition to this report, which covered 36 national departments, including the Presidency and Parliament, we tabled similar reports in several provincial legislators in May and June 2009.

These reports received the most media coverage in our history and have been discussed in much detail in the oversight committees of the relevant legislators. The reports have prompted widespread reforms and legislation to prevent recurrences.

Other reports include conclusions on the rehabilitation of abandoned mines and service delivery at police stations and 10111 call centres of SAPS.

In keeping with our stated intention of ensuring the credibility and relevance of our key products, an independent review was conducted on how closely we adhere to quality standards of performance auditing. The results achieved the highest possible rating. We believe this adds to the level of confidence our stakeholders have in our ability to strengthen democracy through auditing.



One of our biggest transversal performance audits to date focused on government employee-related entities doing business with national and provincial departments. The subsequent reports received the most media coverage in our history and were discussed in much detail in the oversight committees of the relevant legislatures.

Performance audit on the handling of confiscated abalone

Another performance audit with a significant impact was the one on the Department of Environmental Affairs and Tourism's handling of confiscated abalone. Tabled in July 2009, the report revealed the absence of a policy for handling cases of confiscation and the ineffective communication among the role players concerned. The report, which SCOPA discussed at length in September 2009, is regarded as the catalyst that prompted the role players to improve coordination and follow a more integrated approach. This, in turn, had a positive impact on the handling of confiscated abalone and combating of abalone poaching.

Investigations

We may of our own accord, or on receiving a complaint, conduct an investigation into financial misconduct, maladministration and impropriety in public sector institutions.

The most publicised investigation was that at the South African Broadcasting Corporation (SABC), conducted in record time under challenging circumstances. Tabled in Parliament in September 2009, the report had a significant impact. It led to detailed engagement at the level of the SABC Board, the executive authority and Parliament. The new and interim SABC leadership found a lot of value in our report in resolving the leadership and governance issues that the report identified.

There has been an increase in demand for our investigations. In response, we improved our investigation capacity in several respects in 2009-10. Firstly, as mentioned earlier, we created a dedicated investigations unit. Secondly, we amended our engagement letters to include the timelines agreed upon for completing investigations and issuing investigation reports. Lastly, briefing sessions with relevant role players have been introduced to ensure they understand the findings and implications of our investigations.

We are also very proud that a newly updated policy and related guidance for the execution of investigations were approved during this period. This creates a solid basis to further grow the quality and relevance of what is planned in this area.


AUDITOR-GENERAL PROBES THE SABC

Action over SABC fraud expected within days, MPs told

SABC board to act on 'shocking' report

The investigation at the South African Broadcasting Corporation (SABC) was conducted in record time under challenging circumstances and led to detailed engagements.

High-profile investigations concluded during the year under review:

- An investigation into financial mismanagement, abuse of power and procurement irregularities was conducted at the SABC. The report was tabled on 22 September 2009.
- An investigation into the appointment of a consultant was conducted at the Gauteng Department of Health. The report was tabled on 18 November 2009.

The barometer of a relevant report is its usage value. In other words, if our audit reports can be optimally used by all our various stakeholders, then only can we consider those reports to be relevant. This means that our reports should contain the appropriate quantity and quality of information, be technically correct, but also practically useful. - Mr Pramesh Bhana, Corporate Executive responsible for Specialised Audit Services and the chair of the AGSA Technical Committee

Relevance index

Our strategy for 2009-10 challenged the organisation to set a baseline for evaluating our relevance. This was achieved in partnership with INTOSAI. Specifically, South Africa's Auditor-General served as the chairperson of the INTOSAI Working Group on the Value and Benefits of Supreme Audit Institutions (SAIs).

This working group has spent the last two years developing a framework to define and promote the relevance of SAIs at an international level, with input from a variety of very prominent SAIs. This framework sets out 13 fundamental requirements for evaluating relevance under two headings. The first heading is to be recognised as an institution that makes a difference to the lives of citizens. The second is to be an independent, model institution. A lot of the work and experience referred to above could be filtered into this process. At the same time, the views of other SAIs on this topic provided an excellent basis for further improvement in this area. The framework will be presented to the INTOSAI community for consideration and adoption during XX INCOSAI, a meeting of SAI heads world-wide, to be held in November 2010 in Johannesburg.

Independently of the working group, we have also participated in an initial survey to test the level of implementation of the 13 fundamental requirements in the INTOSAI framework. A five-point scale was used, with "4" being partial compliance with planned actions to move towards full compliance within three years, and "5" being full and demonstrable compliance. We reported a score of 87%, which is on par with the reported compliance score of 88% for all participating SAIs.

International audits

Our involvement in the United Nations Board of Auditors (UNBOA) is still our most significant international auditing contribution, and in 2009-10 the Auditor-General assumed the rotating chairmanship. Since the UNBOA audit assignment will end in June 2012, we drafted a revenue replacement strategy to translate the current UNBOA experiences into our competitive advantage of the future. Our main aim is to identify international institutions of suitable size and strategic fit, and to propose the AGSA as a suitable and preferred provider of external audit services. This strategy is receiving strategic support from the South African Department of International Relations and Cooperation.

The result of the relevance index of our products and services in 2009-10

Target

Establish baseline and target for future measurement

Performance

87%

baseline was established (target is 100%)

Relevance at international level

An INTOSAI working group, of which the South African Auditor-General is chairperson, developed a framework that defines and promotes the value and benefits of Supreme Audit Institutions (SAIs). The framework consists of 13 fundamental requirements under two headings, namely to be recognised as an institution that makes a difference to the lives of citizens, and to be an independent, model institution.

Relevance of reporting is like the bow and arrow of an archer:
The archer will not hit the target if the arrow is blunt and has not been honed to perfection and the string of the bow is not tight enough. If our message is the arrow, its relevance is its cutting edge, our processes hone it and our mindset is the bow that launches it. Hitting the target requires synergy between these elements! - Senior Management Workshop 2007

Our international involvement

The AGSA was appointed the external auditor of the International Centre for Genetic Engineering and Biotechnology (ICGEB) for the financial period from 2005 to 2007. The AGSA was reappointed for another three-year term from 2008 to 2010.

The Piazza Unita d'Italia is the municipal building in Trieste, Italy where the ICGEB is located.

UNBOA now includes the Heads of the SAIs of China, France and South Africa, and provides an unequalled opportunity for the three countries to collaborate and share knowledge and experience. The Auditor-General is also vice chairman of the Panel of External Auditors, an association of 10 SAIs which audits entities and specialised agencies associated with the United Nations.

Global positioning in the past 10 years

In the nine years since we started with international audits, we have received resoundingly positive feedback from stakeholders for the contribution we have made, especially for our work with UNBOA. Our involvement in the international arena is a significant mark of achievement and entrenches our profile and reputation among global stakeholders. This has led to strategically useful opportunities to advise on and influence the governance and operational arrangements of international organisations. The following is another statement from a UNBOA stakeholder:

We would like to take this opportunity to emphasise the Secretariat's commitment to the full and timely implementation of Board of Auditors' recommendations and note the positive contribution that the implementation of the recommendations makes to improve the efficiency and effectiveness of the Organisation.
- Ms Neeta Tolani, Director's Office of the Under-Secretary-General for Management Department on the implementation of the Board of Auditors' recommendations concerning United Nations peacekeeping operations for the financial period ended on 30 June 2009.

The G77 and China attach great importance to the work carried out by the Board of Auditors as an external financial audit body of the United Nations. We highly commend their hard work and the quality of their reports under consideration ...
- Statement on behalf of the Group of 77 and China by Mr Waleed Alshahari, permanent mission of the Republic of Yemen to the United Nations at the 64th session of the fifth Committee of the General Assembly (3 May 2010)

COMMITMENT 2

COMMITMENT 2
Visibility of leadership

Our experience has taught us that when the country's political leadership sets the right tone and acts on our audit findings and recommendations, the results tend to be positive. Hence, we make a point of visibly interacting with our stakeholders when sharing our audit insights to encourage clean administration. The visibility of our leadership is informed by the drive to deepen the understanding of our stakeholders on root causes of the audit findings and recommendations as means of enabling them to achieve clean administration.

We firmly believe that by regularly sharing audit insights, our leaders are facilitating better foresight among our stakeholders.

The citizens of South Africa are not likely to have confidence in an institution that they cannot see or hear. If we are to inspire their confidence, we have to be visible. This was highlighted in the last reputation survey conducted two years ago among our stakeholders, who made it clear that we needed to raise our public profile.

Since the last survey, we have implemented targeted stakeholder action plans to intensify our relevance and visibility. The aim is to project the right image and be seen and heard for the right reasons. This is why we attach so much importance to consistency in the attitudes, values and actions we display internally and externally.

Interaction with internal stakeholders

As a people-orientated organisation, our leadership conducted quarterly sessions on vision achievement and organisational alignment. Communicating our strategic direction to all our staff members ensures that they understand the exciting challenges of public sector auditing. In this way, we build pride and professionalism in our institution and keep staff motivated and passionate about fulfilling their role in building public confidence through auditing.

Our senior leadership have also increased their visibility to audit teams on site at auditees. This enables them to provide

"When the Auditor-General, Mr Terence Nombembe, encouraged us to use our knowledge of the clients to engage proactively with the strategic leadership on matters that will make a difference and ultimately result in better audit outcomes, the KwaZulu-Natal business unit took up the challenge and together with our 120 audit clients committed to lend every possible support to the '2009-2014 Operation Clean Audit Programme'. This has called for the continued dedication of all staff engaged on the audits and an increased visibility and involvement of senior management at all our audit clients.

We believe our continued success will be built on the commendable support we get from the political leadership within the province which has been outstanding and has willingly embraced the actions toward obtaining clean audit outcomes. They consistently afford guidance and support to their teams which has resulted in an atmosphere of cooperation and mutual respect. The tone at the top has set the stage for all concerned to strive together towards a common goal.

As each role player heeds the call to join the '2009-2014 Operation Clean Audit Programme' and the AGSA offers assistance at every stage of the audit process, the relationship between 'auditor' and 'auditee' is strengthening and the goal which lies ahead is not a dream but a definite possibility.

As business unit leader I am experiencing a significant positivity towards the way we now approach our constitutional mandate. In KZN our stakeholder relationships have flourished from an image of fear to that of a partnership adding value to the community we serve. In KZN we approach our stakeholders on the basis that, 'We speak to them before we speak about them'."

Hermanus van Zyl, AGSA KwaZulu-Natal Business Executive

real-time direction and supervision to ensure that findings and recommendations are appropriate and to follow through on issues emanating from our interaction with the leadership in government.

Contracted private firms

Private audit firms that do work on our behalf are our agents and must be seen to share our business ethics, auditing standards and corporate values. To this end, we conducted training workshops for the audit firms that we have contracted, which resulted in their deepened understanding of the public sector environment. We also ensured that they participated in the countrywide roadshows that we conducted with our stakeholders during this period.

Interaction with external stakeholders

Since 2007-08, the Auditor-General has personally led our leadership in dialogue with all constitutional and non-constitutional stakeholders. The constitutional stakeholders are the executive and legislative oversight bodies in all spheres of government. The dialogue has provided insights into the key audit outcomes and the related root causes, also focusing on the commitments and actions required by executive authorities to bring about improvements towards clean administration. Non-constitutional stakeholders include the audit firms that assist the AGSA in carrying out its mandate, as well as the auditing and accounting professional bodies that assist in assessing the quality of our work. We and our partners have concentrated on deepening understanding of the public sector to ensure a collective focus on providing more relevant insights.

Cabinet

Both the PFMA and MFMA audit outcomes were presented to Cabinet. The Cabinet undertook to monitor the overall performance of financial management as it relates to service delivery and accountability. The National Treasury undertook to take the lead in developing a handbook for use by the executive, accounting authorities and CFOs. This handbook aims to articulate responsibilities and commitments regarding financial and performance management. Also, a ministerial task team between Public Works and Land Affairs (now Rural Development and Land Reform) and the Accountant-General was formed to deal with the management and proper accounting of immovable assets in government.

The personal commitment of the Auditor-General

The Auditor-General considers the practice of visible leadership as a primary obligation on his calendar of priorities, and as such personally facilitates many of these interactions where he shares clearly and succinctly the perspectives gained through our various audits. These interactions have enabled the leadership of the AGSA, as one of the chapter nine institutions charged with upholding our democracy, as well as government leadership, to commit jointly to actions intended to achieve clean administration. We are paying particular attention to providing insights derived from audits that support the respective mandates of institutions of democracy.

The enviable reputation of the AGSA depends upon both the integrity of its staff and the accuracy of its reports. Members of SCOPA rely totally on the objectivity and impartiality of the information supplied to the committee when they examine the public accounts of national departments and entities. MPs have a constitutional obligation to hold the executive to account and SCOPA cannot perform this duty without the assistance of the AGSA. - MH Steele MP, member of SCOPA and SCoAG (19 May 2010)

Speakers' Forum

At this level, an overview of the national and provincial outcomes was shared with all the speakers of the legislatures and the administrative leadership. These engagements also allowed for discussions on strengthening the legislative oversight roles.

National Assembly and National Council of Provinces

Similarly, the audit outcomes were presented to the Committee of Chairpersons with the extended participation of the National Council of Provinces (NCOP). This enabled informed oversight interventions to be implemented in a timely and proactive manner.

Association of Public Accounts Committees (APAC)

Subsequently, the Auditor-General presented the audit outcomes to the APAC Council of Delegates and its executive committee. This feedback informed vigorous annual oversight intervention by public accounts committees in their legislatures. There has been continued assistance to APAC on at least two fronts, by providing secretariat support and sharing our insights at all strategic sessions, training initiatives and at the annual APAC conference. Our efforts included the orientation of Public Accounts Committees (PAC) members after the general election with regard to the fourth term of Parliament and legislatures of the country.

Provincial roadshows

Both PFMA (organised by Speakers) and MFMA (organised by Premiers' Coordinating Forum (PCF)) roadshows focused on corrective actions and commitments towards clean audits and monitoring of key controls.

Supporting legislative oversight

Our leadership's regular interaction with the various legislatures is aimed at strengthening oversight. This interaction with committees of the legislatures consists mainly of briefings to the PACs after the tabling of PFMA annual reports at the end of September every year. We also attend all public hearings of PACs in case explanations are needed on audit findings. These interactions create in-depth understanding on the part of committee members of the context and detail of the audit findings, the corrective measures required and by whom this should be done.

Interaction with portfolio committees increased sharply during the year under review. The main purpose has been to enable legislature-wide oversight that is informed and insightful. This has the potential to influence responsiveness to our findings and recommendations, thereby contributing to clean administration.

Door-to-door visits to municipalities

Since August 2008, the Auditor-General has embarked on visits to each municipality in the country. These countrywide visits should be completed before the end of 2011.

Separate visits are paid to the metropolitan municipalities on an annual basis. During the year under review, the Auditor-General and his executive team visited Mpumalanga, the Western Cape and Gauteng. This brings to four, the number of provinces that the Auditor-General has visited on this basis, including Limpopo.

The Auditor-General of South Africa remains a vanguard of accountability and good financial management in the public service and is one of the unsung heroes of our democracy. - NT Godi, MP and Chairperson of SCOPA in the National Assembly (19 May 2010)

Other role players

Prior to the two main audit cycles, namely those legislated by the PFMA and the MFMA, the National Treasury and ourselves continued to hold pre-audit-cycle preparatory sessions and post-audit-cycle sessions. The aim was to ensure that the lessons learnt during the previous cycles were addressed with a view to more efficient and effective audits.

Together with the National Treasury, we then conducted sessions jointly, interacting with chief financial officers (CFOs) to provide insights into the accounting framework of a particular year and to facilitate a common understanding. Post-PFMA cluster presentations to the CFO forums on the audit outcomes also prepared CFOs to address audit findings.

Interaction with the media

Interaction takes place regularly with the media as key disseminators of accountability information to the public. The media play an important part in any democracy and the AGSA has embarked on an extensive programme of interaction with the media to provide them with a more informed perspective on the key issues and challenges facing financial management in the South African public sector. This facilitates informed, accurate and balanced reporting.

Sharing our insights

The door-to-door visits to municipalities are intended, firstly, for us to gain insight into the challenges faced by the municipalities, and secondly, to share our insight into the audit outcomes with the municipalities, thereby providing the municipal leadership with foresight to address the issues more effectively.

International participation

Given the professional nature of the audit office, the AGSA is an active participant in the international organisations that are linked to the auditing and accounting profession. Efforts are mainly channelled through the various committees and working groups of the International Organisation of Supreme Audit Institutions (INTOSAI) which is a collective forum for 189 SAIs from all corners of the globe.

INTOSAI is a knowledge-sharing platform that enables us to contribute meaningfully on the African continent and abroad whilst at the same time learning from colleagues to address domestic challenges and opportunities.

INTOSAI has four goals handled by different committees and sub-committees, namely: Goal 1 – Professional Standards, Goal 2 – Capacity Building, Goal 3 – Knowledge Sharing, and Goal 4 – Finance and Administration. More than 27 committees and working groups fall under these four goals. The AGSA participates physically in nine committees and also contributes inputs remotely to the others.

We further participate in INTOSAI's African regional group, its Task Force on Communication and the INTOSAI Donor Steering Committee. To promote knowledge sharing and strengthening of international cooperation, we have also entered into bilateral collaboration agreements with the SAIs of China and the Russian Federation and plan to have further targeted bilateral agreements in place during the 2010-11 financial year.

The international networks hold direct benefits for South Africa as many common challenges have been addressed by other SAIs or countries. For example, our participation in the international networks enabled us to identify India as a source of information to learn how to deal with asset management challenges currently facing Public Works.

This subsequently led to a delegation from Public Works and the AGSA visiting their counterparts in India. The benefits of our international activism also extend to ensuring that we remain at the forefront of professional developments and participate in capacity building.

A leadership role

In addition to the many INTOSAI committees and working groups that the AGSA participates in, the AGSA leadership role extends to the following:

- The Auditor-General chairs the INTOSAI Working Group on the Value and Benefits of Supreme Audit Institutions under Goal 3
- The AGSA is a member of the Steering Committee of the INTOSAI Professional Standards Committee that leads Goal 1
- The AGSA chairs a reference group of a panel of experts of the Financial Auditing Standards sub-committee under Goal 1
- The AGSA is one of the project leaders in the Working Group on Environmental Auditing under Goal 3.

The Auditor-General also holds the following positions in the international auditing environment:

- Incoming chairman of the International Organisation of Supreme Audit Institutions (INTOSAI) from November 2010
- President of the African Organisation of Supreme Audit Institutions (AFROSAI)
- Member of the African Organisation of English-Speaking Supreme Audit Institutions (AFROSAI-E)

Impact of visibility on our reputation

The branding of the AGSA is aimed at ensuring a commonly understood and recognised identity, as well as consistency of applications, behaviour, communication and the actions of all employees. Collectively, these factors visually establish the organisation in the minds of our stakeholders.

Through our stakeholder interactions and branding efforts, we have achieved the following targets in 2009-10:

Reputation index per key stakeholder group

Target:
60-79,9% achievement of all milestones in identified action plans

Performance:

88,5%

Percentage compliance with all branding requirements

Target:
100% on two-dimensional materials

Performance:

99,9%
average on 37 business units reviewed

Percentage compliance with reputation promise and key messages in identified AGSA documents

Target:
100% compliance in identified documents

Performance:

100%

Target:
45-79,9% compliance where contextualisation is required

Performance:

89%


COMMITMENT 3

COMMITMENT 3
Strengthen human resources

We are creating an environment in which employees take accountability and have opportunities to improve their professional skills. In strengthening our human resources strategy, the emphasis is on leadership development, continuous learning and nurturing talent through our skills pipeline and leadership succession strategy. Among others, this entails effectively implementing the Trainee Auditors Scheme and aggressively recruiting and retaining staff whilst contributing to the transformation of the profession.

Organisational culture and values

We have been focusing strongly on aligning our organisational culture with our vision and values. These values revolve around respecting and recognising people, taking clear and personal accountability, being performance driven, valuing and owning the AGSA's reputation and independence, working effectively in teams and being proudly South African.

An organisational culture intervention is underway, the purpose being to guide the business units in shaping the desired high-performance culture for the organisation. For 2009-10, the roll-out of values was the key initiative. The most fundamental aim of the change in culture is to move from a compliance culture to a high-performance culture that is high on task and warm on people. We have implemented all the identified actions that are drivers of the culture index, namely leadership competencies, supporting the senior leadership team to strategically align the organisation with the desired vision, mission/reputation promise and culture, implementing coaching and mentoring for senior managers, and redesigning and implementing performance management, including rewards and recognition.

To encourage and facilitate the institutionalisation of the high-performance culture, we have also repositioned our performance management system and process. The repositioning was accompanied by the development and implementation of a policy, process and procedures as a guide for planning, reviewing, evaluating and rewarding an employee's performance. The 2010 employee salary increases and performance bonus payments were in accordance with the repositioned performance management process and system.

Leadership development

A number of development programmes and initiatives are underway to strengthen our leadership at all levels, with the emphasis on mentoring and coaching.

During 2009-10, we achieved excellent participation rates in our leadership development programmes, particularly among senior managers. No fewer than 94% of senior managers took part in leadership development activities, against the target of 50%. Among managers and assistant managers, the participation rate of 59% also exceeded the target (50%). In addition, they were offered group coaching to encourage them to use their newly acquired leadership skills in practice. Feedback was given to line managers so that they can coach employees on development areas identified.

The actual impact of the development programmes will be assessed in the coming year to give managers time to implement what they have learned.

Continuous learning

We are professionalising the auditing environment by assisting employees to improve their qualifications and reducing the number of unqualified staff. We are proud to report that by the end of the 2009-10 financial year, 94% of our audit staff met the minimum qualifications requirements. This is a major achievement considering that in 2008-09, only 90% of audit staff met the minimum criteria.

A major factor in improving our skills and qualifications profile has been the bursary support available to employees and the significant investment made in training and development. We also pay the membership fees of employees registered with professional auditing and accounting bodies, as well as other professional organisations. In the year under review, our total investment in learning and growth initiatives amounted to R54,7 million, against a budget of R79,7 million. Table 8 shows the amounts spent for each learning and growth category.

Employees took a total of 17 761,5 study leave days during the 2009-10 financial year, equating to R11 million in rand value. Notwithstanding the peak period, we gave our staff time off to study.

High-performance culture

The culture intervention that is currently underway is aimed at moving the organisation away from a compliance culture to a high-performance culture that is high on task and warm on people.

A 32,4% reduction in the number of unqualified audit staff since 31 March 2009

Target:
Reduce the number of unqualified audit staff by

5%

Performance:

32,4%
reduction in the number of unqualified staff from baseline

Baseline = 287 unqualified staff members (2009)
Actual = 194 unqualified staff members (2010)
Reduction = 93 unqualified staff members

Trainee Auditors Scheme

We are a practical training ground for talented people who wish to obtain a professional auditing qualification. Through the TA Scheme, they receive the technical training and practical experience that enables them to become auditing professionals.

Over the past year, we managed this investment by focusing on the performance criteria for trainees and revisiting the way the TA Scheme is managed. For this purpose, three policies were developed and approved, namely the academic progress policy, the trainee auditor study leave policy and the external bursary policy.

In recruiting trainee auditors, we try to ensure that all provinces are represented. Although progress is slow and Gauteng once again dominated the 2009-10 intake of trainees, representation has improved in provinces such as the Eastern Cape, Northern Cape and Limpopo. Figure 1 shows the trainee auditors representation by province during the 2009-10 financial year.

Since the TA Scheme is a powerful tool for helping to transform the accounting and auditing professions in South Africa, we continued to monitor the race and gender profile of trainee auditors.

Figure 1 : TA Scheme respresentation by province in 2009-10

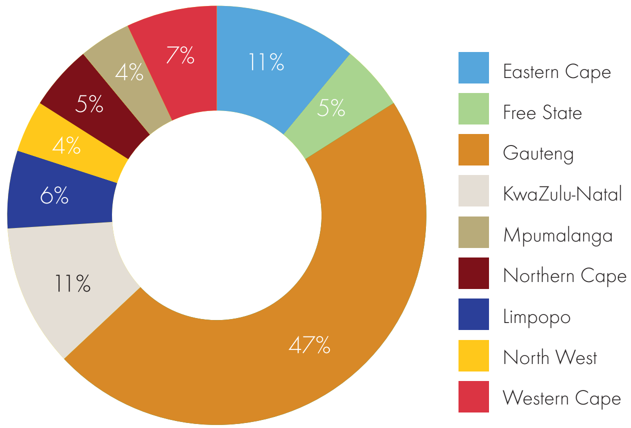


Table 8: Categories of study support, learning and growth

Assistance	Actual (R million)	%	Budget (R million)	%
Bursaries for tuition, study materials and accommodation	12,396	23%	11,210	14%
Study support by tuition providers	6,279	11%	16,137	20%
Internal training	9,792	18%	4,472	6%
External training	6,583	12%	16,942	21%
Subsistence and travel for training	2,207	4%	8,403	10%
Professional membership fees	7,574	14%	6,998	9%
Innovation and learning development projects	7,357	13%	8,625	11%
Mandatory grant received from the SETA	(4,469)	-8%	(51)	0%
Skills development levy paid	6,949	13%	7,001	9%
Total	**54,668**		**79,737**	

Three types of learnerships

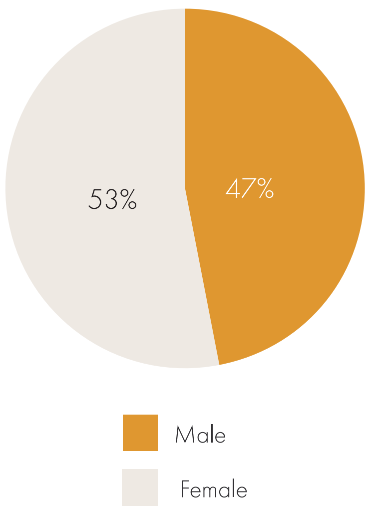
As at 31 March 2010, we had 927 trainee auditors in three learnership categories:

- 873 trainee auditors were registered with the South African Institute of Chartered Accountants (SAICA).
- 48 trainee auditors were registered with the South African Institute of Government Auditors (SAIGA).
- Six trainee auditors were registered with the Information Systems Audit and Control Association (ISACA).

The higher percentage of Africans is in line with our transformation commitment. With this group of people in our pipeline, we are in a better position to strengthen our human resources by ensuring a more equitable distribution of skills. Black chartered accountants are still in short supply in South Africa and our investment will ultimately translate into the country having much-needed accounting and auditing skills across all racial groups. For more details on the transformation status, refer to Commitment 5: Leading by example.

Our investment in continuous learning is bearing fruit, as reflected in the IRBA examination results. Notwithstanding the financial support provided to TAs who are still studying towards the final qualifying exam, the pass rate for the 2009-10 financial year was very disappointing. We are committed to helping our staff become registered professional auditors and are convinced that they will do everything in their power to realise this dream. We have made available all possible resources required to succeed and it is in their hands to seize the opportunities so that they can become a permanent contingent that will also contribute towards the achievement of our constitutional mandate. In this partnership, we believe there is goal congruence despite the temporary setback. Key challenges that we still face with the TA Scheme include the need for an effectively functioning mentorship programme, a central database that can provide accurate and up-to-date information, and streamlined assessment processes. During the next financial year, task teams will address these issues to enhance the current processes.

Figure 2 : TA scheme representation by gender



SAICA and IRBA exam results

IRBA

Sixty-eight employees (13 TAs and 55 other employees) wrote this exam in November 2009. Six TAs and 35 other employees passed. This represents a success rate of 60%, significantly better than the 44% pass rate for the November 2008 exam.

SAICA

Ninety-four staff members (16 TAs and 78 other employees) wrote the March 2009 exam. Two TAs and 21 other employees passed, resulting in a 24% success rate. In the previous year the success rate was also 24%.

Table 9: TA Scheme representation by group and profession

Group	SAICA	SAIGA	ISACA	Total	% of total
African	772	46	5	823	88,7%
Coloured	30	1	-	31	3,3%
Foreign	-	-	1	1	0,1%
Indian	48	-	-	48	5,3%
White	21	1	-	22	2,4%
Other	2	-	-	2	0,2%
Total	**873**	**48**	**6**	**927**	**100%**

Pass rate for TAs by professional qualification in 2009-10

- 3,38% of BCTA /DippAcc and CTA trainees
- 6,02% of non-BCTA/DippAcc and CTA trainees (Undergraduates; Board exams and ISA exams)
- 9,4% of all trainees

"Unlike other audit firms, the AGSA indirectly serves the public. That is why I think I can contribute to our country's wellbeing and help make it a better place by working for the AGSA."
Wilfred Smit, 19-year-old AGSA bursary holder studying at the North-West University's Vaal Triangle Campus.

"I would encourage anyone to work for this organisation as there are many opportunities for hard-working, diligent professionals. The organisation values its staff members and rewards and recognises a job well done. From a training perspective, there are chartered accountants and registered government auditors in the organisation who can be approached for mentorship and guidance."
Nicola Nicholas, third-year trainee auditor

"Working for the AGSA is like being self-employed. You find out exactly where your and your parents' money goes and what it does. Everyone is friendly and willing to welcome you into their family."
Lebogang Madumo, AGSA bursary recipient who is studying towards her Certificate in the Theory of Accounting (CTA) at the University of Pretoria

Staff turnover and retention

Employee retention and labour turnover are critical issues in meeting our current and anticipated skills needs. Apart from the loss of skills and experience, the cost of replacing employees can be high, especially given the competitive skills marketplace within which we operate. Against this background, it is encouraging to report that in 2009-10 we retained 100% of the trainee auditors who passed the CA qualifying exams and the RGA exams. This is a significant outcome and all efforts to strengthen this achievement will continue. An auditor with a strong track record is better placed to accelerate the achievement of our constitutional mandate.

We were also successful in achieving a 43% reduction in labour turnover for band D employees against the target of 20%, as shown in Table 10. Similarly we reduced turnover for band E employees by 50% against the target of 25%.

Percentage of TAs retained in 2009-10

Target:
Establish baseline % retention for those who completed trainee contracts and improve retention by 10%

Performance:

100% retained (47)
46 who passed the CA qualifying exam
1 RGA

Table 10: Staff turnover per critical category

Target 2009 – 10	Performance 2009 -10
Establish a baseline % turnover for band D employees and improve their retention by 20% per year	43% turnover reduction; Baseline = 9,7% Target = 7,8% Actual = 5,5%
Establish a baseline % turnover for band E employees and improve their retention by 25% per year	50% turnover reduction Baseline = 13,1% Target = 9,8% Actual = 6,5%

Initiatives for reducing labour turnover and retaining key skills

We were successful in reducing labour turnover and retaining key skills because of the following initiatives that we implemented during the year under review:

- Decentralising the recruitment of employees for Manager positions and below, and giving the business units the tools to make good appointment decisions.
- Effective on-boarding (initial orientation) for newly hired employees.
- Giving employees learning and growth opportunities, such as training in technical skills, soft skills and leadership development.
- Reviewing human capital policies, processes and procedures and making them more responsive to employees' needs.
- Offering an Employee Wellness Programme to all employees. We invest in the health and wellbeing of employees by offering them an integrated wellness solution, consisting of employee assistance, executive wellbeing, absenteeism management, lifestyle management and HIV/Aids response services.

Overall, the total annual labour turnover decreased from 11% in the previous year to 6,6% in the year under review. This is below the industry average of 8,2% and is 4,4% lower than in the previous year.

Figure 3 shows the improvements attained in labour turnover in the financial years 2006 to 2010.

In the coming year, we hope to address some of the other issues that affect employee retention, such as compensation levels for certain bands, especially bands D and E, as well as conditions of employment for all employees. Black CAs are scarce and in demand in the job market. Through better growth and learning opportunities, we are able to retain them.

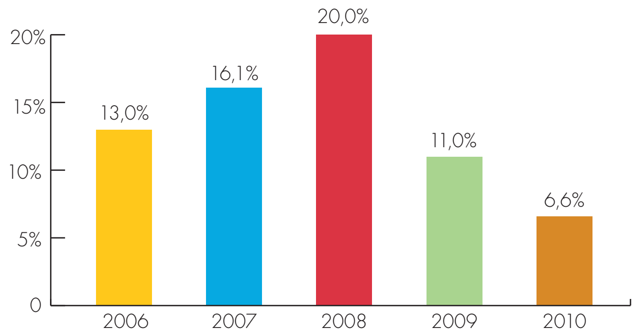
Furthermore, our international activities complement our skills development and retention strategy. These activities provide great opportunities for our auditors to obtain international audit experience and insights, along with exposure to international public sector best practices. In 2009-10, a total of 69 members of our audit staff were given the opportunity to be involved in international auditing assignments.

Deloitte management secondment

The Deloitte management secondment (DMS) programme has proven to be a great success. The secondees have supported and assisted our trainees in the application of their studies. They have successfully developed an on-the-job training approach during the execution of the audits, developed and implemented extra tuition for the trainees and shared global best practices in terms of client and service provider relations. The practical approach has proved to be a favoured method for the trainees as the training and transfer of skills take place at an individualised level rather than on a "one size fits all" basis. Most trainees express their gratitude and satisfaction in terms of working with the DMS as they have a mentorship approach which promotes learning and understanding in a relaxed environment. Due to the success of the programme, we will continue with the DMS on a reduced scale but focusing on specific outputs. These involve the development of practical training material that will cover technical and soft skills, as well as the importance of stakeholder relations.

While strengthening our human resources, we are also enhancing our funding capabilities, reducing our cost of auditing and securing our long-term financial sustainability.

Figure 3 : Staff turnover trends since 2006



Overall staff turnover in 2009-10

Target:
Staff turnover should not exceed the industry average norm of

8,2%

Performance:
For 2009-10 the performance was

6,6%

For 2008-09 the performance was

11%

COMMITMENT 4

COMMITMENT 4
Funding

We are committed to running the organisation economically, efficiently and effectively so that we ensure our financial sustainability while offering our stakeholders value for money. Following the tariff adjustments that we implemented in the 2009-10 financial year, we are well on our way towards achieving the strategic objectives set for ourselves in our 2009-12 strategic plan, namely to improve financial performance and the management of working capital.

The tariffs were readjusted in 2008-09 as a result of fundamental deficiencies, which included the 4% capping of tariffs for a number of years, as well as an increase in outstanding debtors and critical staff vacancies.

To overcome these constraints, specific changes were made to the funding model (tariff adjustments). Firstly, we lifted the 4% cap on tariffs for certain categories of employees, after which, we introduced a one-off increase in our charge-out rate, which enabled achievement of a gross margin to contribute to overheads.

In 2009-10, the redefined funding model had the desired effect of reversing the trend of the last few years when we traded in a deficit position. The underlying principle of the funding model is that we have to earn enough income to cover our operating costs and generate a small surplus for capital expenditure purposes.

Indications are that the redefined funding model is enabling us to largely achieve our strategic objectives. The results are discussed in the following sections on audit income and efficiency gains (improved financial performance), debt collection and creditors' payments (improved management of working capital).

Audit income

The audit income 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 ratio of the work contracted out to private firms to the work performed in-house. In 2009-10, we have managed to significantly reduce the level of work performed on our behalf by private firms.
- The ratio of recoverable to non-recoverable (administrative) work.
- The measures taken to increase efficiencies in our audit processes.
- A market-related audit fee structure that does not compromise operational efficiency.

Factors not within our control include the size and complexity of the entities being audited, the maturity of their financial management and the nature of their activities.

Audit income in 2009-10

In the year under review, the budgeted total audit income was R1,682 billion. The actual amount recovered was R1,613 billion. This was mainly due to the actual salary increases being significantly lower than the budget, thereby reducing our actual rate at which government entities were billed. As we continued to successfully fill critical vacancies, we decreased our reliance on audit firms and used our own resources more efficiently. As a result, our gross profit margin increased from 22% in 2008-09 to 30% in 2009-10.

Throughout 2009-10, we took care to ensure that our international participation did not affect our ability to effectively carry out our local mandate. We met our commitment to limit income earned from international audits to no more than 5% of total audit income. The 5% income limit is an appropriate measure for an organisation of the AGSA's size and ensures a balance between our constitutional mandate and international involvement. We also monitored the International division's financial performance to ensure that it breaks even.

In 2009-10, the actual amount recovered from international audit was R32 million compared to a budget of R25 million. This effectively means that our operations at the United Nations are fully funded by the United Nations and that we do not have to dip into local fiscal resources.

Table 11 shows the gross profit performance against budget.

Figure 4 compares the actual to budgeted audit income for 2009-10.

Percentage of income from international audits in 2009-10

Target:
Income from international audits should not make up more than

5%

of total audit income

Performance:
Income from international audits makes up

2%

(R32,6 million) of total audit income, which is well within the target range

Percentage of contribution to gross profit margin results from 2009 to 2010

For the year under review we budgeted

34%

and achieved

30%

In 2008-09 we achieved

22%

Figure 4 : Comparison of actual to budgeted audit income for 2009-10

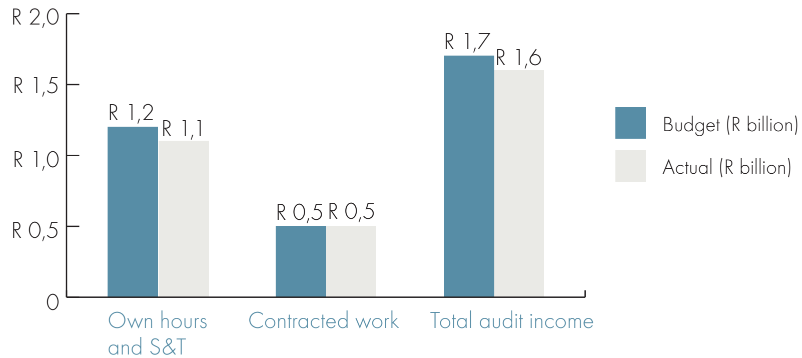


Table 11: Audit income – Actual performance in 2009-10 compared to 2008-09

	Budget 2009-10		Actual 2009-10		Actual 2008-09	
	Rm	%	Rm	%	Rm	%
National departments	394	23%	321	19%	293	21%
Provincial departments	460	27%	428	26%	352	26%
Local government	431	25%	502	31%	410	30%
Listed and other entities	397	23%	362	22%	293	21%
Total government entity audit income	**1 682**	**98%**	**1 613**	**98%**	**1 348**	**98%**
International audits	25	2%	32	2%	28	2%
Total audit income	**1 707**	**100%**	**1 645**	**100%**	**1 376**	**100%**
Audit staff expenses	547	32%	591	36%	465	34%
Contract work – audit related	507	30%	502	30%	551	40%
Audit-related subsistence and travel costs	75	4%	62	4%	53	4%
Direct expenditure	**1 129**	**66%**	**1 155**	**70%**	**1 069**	**78%**
Gross contribution to fixed and operational costs	578	34%	490	30%	307	22%

Efficiency gains (net surplus)

The main measure of financial sustainability that we use is the percentage net surplus. The net surplus target for 2009-10 was set at 4%. The actual performance was a surplus of 6% (R99 million), driven mainly by savings in overheads of R83 million (budgeted overhead of R536 million; actual overhead R453 million) and the implementation of the new funding model.

It should be noted that in 2009-10 we deferred spending on some support services and infrastructure projects. This was necessary to improve our immediate financial position, but we will have to escalate our investment infrastructure and support services projects in the future.

The surplus for the 2009-10 financial year was R99 million against a budget of R52 million. This was a significant improvement on the deficits of R8 million and R16,1 million incurred in 2007-08 and 2008-09, respectively.

To maintain a sustainable and favourable financial position, however, we will have to address the challenges we still have in collecting debt from local government auditees, as discussed in the next section.

Table 12 presents our financial performance for the year ended 31 March 2010 with comparative figures for the years ended 31 March 2008 and 31 March 2009.

Budget on projected net surplus

For the year under review we budgeted

4%

and achieved

6%

In 2008-09 we achieved

-1%

Figure 5 : Deficit/net surplus trend analysis from 2008 to 2010

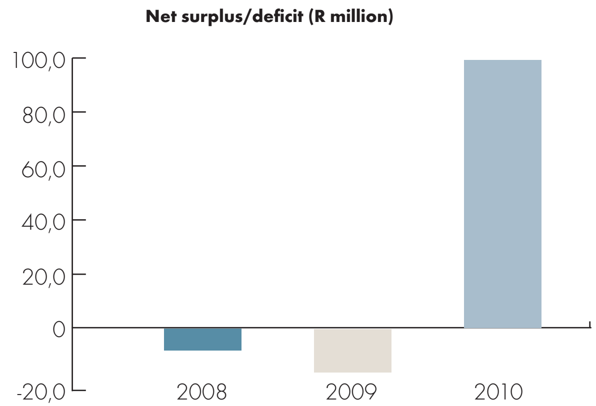


Table 12: Summary of financial performance

	Budget 2009 - 10		Actual 2009 -10		Actual 2008-09	
	Rm	%	Rm	%	Rm	%
Audit income	1,707	99%	1,645	96%	1,376	100%
Direct expenditure	1,129	68%	1,155	72%	1,069	78%
Gross contribution to fixed and operational costs	578	34%	490	30%	307	22%
Other income	10	1%	62	4%	54	4%
Support staff expenses	198	12%	145	9%	199	14%
Other expenditure	338	20%	308	19%	178	13%
Total overheads	**536**	**32%**	**453**	**28%**	**377**	**27%**
Total income	**1,717**	**100%**	**1,707**	**100%**	**1,430**	**100%**
Total expenditure	**1,665**	**100%**	**1,608**	**98%**	**1,446**	**105%**
Net surplus / (deficit)	**52**		**99**		**-16**	

Debt collection

The management of working capital and liquidity is crucial for our financial sustainability, and the most important element of working capital is debt collection.

The following debt collection improvement strategies were implemented at the beginning of June 2009:

- Debt collectors were employed at head office to assist in the collection of outstanding debt.
- Twice-monthly billing runs were introduced, ensuring that auditees receive invoices on time.
- We engaged the National Treasury, CoGTA and provincial government to assist in collecting outstanding debt.

Despite the implementation of these strategies, low collections are still being experienced from local government debtors, which make up about 43% of the debtors' book.

Local government debt increased from R105 million in the previous year to R140 million in 2009-10, while debtors' days outstanding rose from 104 days to 162 days, against a target of 90 days, as reflected in Table 13 and Figure 6. This is a significant deterioration and is cause for concern.

To address the situation, the leadership of the AGSA will continue engaging the National Treasury, CoGTA and the provincial political leadership and non-paying auditees.

Table 13: Ageing for major categories of debtors

	Target of outstanding days	31 March 2010		31 March 2009	
		Rm	Days outstanding	Rm	Days outstanding
National departments	30	51	19	61	18
Provincial departments	30	86	59	76	37
Local government	90	134	162	98	104
Statutory bodies	30	42	94	37	38

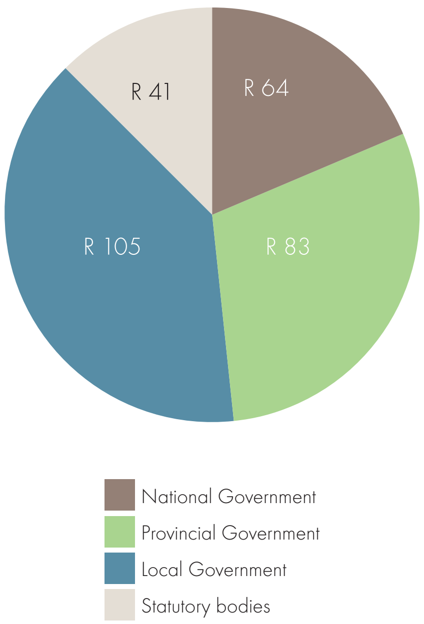
Factors influencing debt collections from local government

Low collections from local government are mainly due to the following factors:

- Lack of funds in low-capacity municipalities and the fact that the National Treasury is unable to cater for all these debtors because of budget constraints.
- The recession has resulted in the revenue base of some auditees declining which, in turn, affects their ability to pay their audit fees. This is more evident at municipalities.

Figure 6 : Summary breakdown of total debt by sphere of government in 2008-09 and 2009-10

Total debt as at 31 March 2009 Rand (Million)



Total debt as at 31 March 2010 Rand (Million)

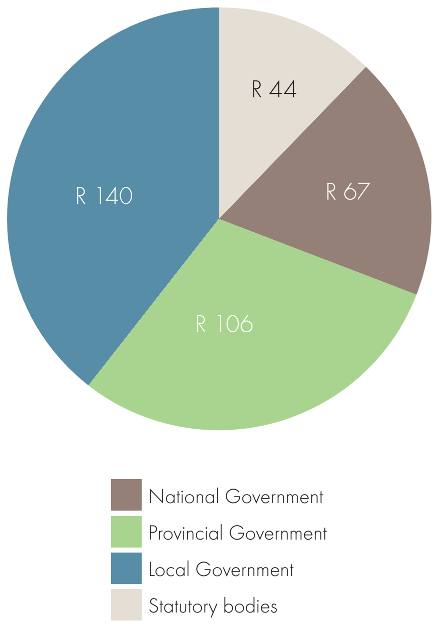
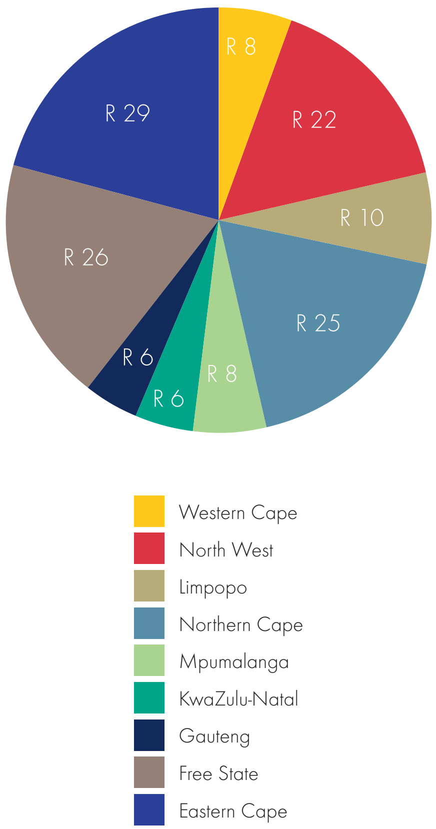


Figure 7 : Local government debt by province as at 31 March 2010 (R million)



Creditor payment

We aim to pay creditors within 45 days from invoice date. However, our debt collection challenges have had an impact on our ability to pay our creditors on time. During the year under review, our rate of compliance with creditors' payment terms was 70%, which is below the target of 80%, as shown to the right.

Creditors' payment terms

For the year under review, we budgeted 80% for our compliance with creditors' payment terms and achieved 70%.

Financial turnaround plan

The financial turnaround plan embarked on in 2008 has been successfully concluded. This has resulted in the achievement of the following:

- An internal control environment which was substantially strengthened in the year under review.
- A strengthened finance department as a result of key appointments in procurement and process mapping.

Going forward, we will continue managing our working capital closely to ensure that we meet our financial commitments. This is important to us as an organisation that strives to lead by example.

COMMITMENT 5

COMMITMENT 5
Lead by example

We are committed to leading by example in all areas of our business especially in the quality and timeliness of our reports, risk management, internal controls and transformation. This is part of our efforts to integrate standards of excellence into all areas. In line with best practices, we conduct regular internal and external audits to ensure that policies, procedures and internal controls are observed.

Audit methodology

The process of defining the relevance of audit deliverables starts with finding a solid, internationally acceptable basis for all audit work and related reporting. To ensure the credibility of our audit processes, the AGSA has adopted the International Standards on Auditing (ISAs) as the basis of our audit methodology.

In addition, together with INTOSAI, we have made a substantial investment in the development of public sector-specific application guidance in the form of the International Standards of Supreme Audit Institutions (ISSAIs). This further ensures that our audit methodology deals with the very specific requirements of the public sector.

While these ISSAIs will only be formally adopted by the INTOSAI community in November 2010, we have already decided to adopt some of these in advance as this will enhance the quality and relevance of the audit deliverables. This proactive approach was also evident when the AGSA started with the early adoption of the newly clarified ISAs (a recent detailed international rework of all auditing standards).

This led to an intensive rework of our methodology, starting with being very clear about the purpose and intentions of an external audit in the engagement documentation. The next step involves rethinking and giving far more prominence to communication during the audit process, and expanding on reporting formats.

Trilateral meetings on the GRAP accounting standards

Representatives of the Auditing Standards Board (ASB), the National Treasury and the AGSA meet quarterly under our chairmanship. The purpose of these meetings is to discuss matters concerning the development and implementation of the GRAP accounting standards for the public sector. This includes any guidance provided or required from the National Treasury, as well as any auditing issues related to the GRAP standards.

In addition to these quarterly meetings, a special strategic session was held on 2 December 2009 to identify key action that the three parties should take to improve on the 2008-09 reported audit outcomes of auditees. Monitoring the implementation of these action plans is now a standard agenda item at these meetings.

Good progress is being made in implementing the action plans and it is anticipated that their impact will be evident in the 2009-10 audit outcomes.

Quality of reports

Our aim is to deliver audit products of a consistently high standard. For this reason, we use a dedicated quality control monitoring process to establish whether audits meet the ISA. This monitoring and review process covers both our own audits and those undertaken by firms working on our behalf. The credibility of this quality control process is then enhanced by the involvement of an external review entity, namely the IRBA, which performs a predetermined allocation of engagement reviews. The Quality Control Assurance Committee decides on the final outcome of the reviews.

We have implemented effective strategies to improve the quality of audits and have streamlined the engagement performance policies and procedures.

One of our strategies is to use senior managers as quality control champions; another is to ensure we have up-to-date technical guidance and pre-issuance review guidance focusing on significant audit issues. We have also improved the technical learning curriculum and training for auditors.

Furthermore, a remedial process is in place to deal with shortcomings identified, as well as with under-performing individuals.

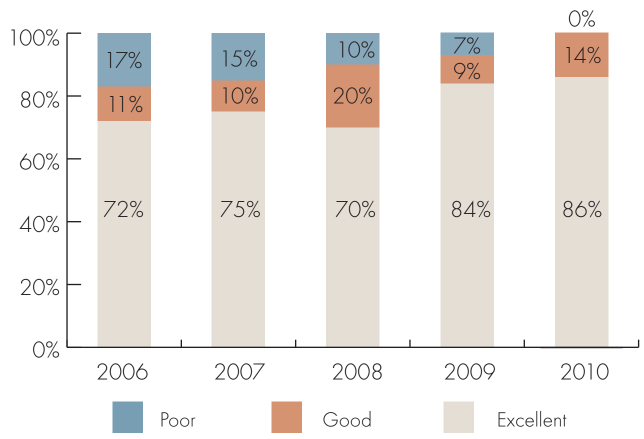
All these efforts have resulted in our achieving the highest ever ratings in all three audit quality performance categories during 2009-10, as indicated in Table 14 and Figure 8. Furthermore, our results in the "excellent" category outperformed the industry benchmark of 75% and no incidents of "poor" performance occurred.

We are currently preparing for an external firm-level review by IRBA towards the end of 2010. This review will be comprehensive and all our policies and procedures will be evaluated. The recommendations arising from this review will be monitored by our internal quality control monitoring team.

Table 14: Annual quality control results

Target 2009- 10	Performance 2009- 10
Excellent performance: 75%	Excellent performance: 86%
Good performance: 25%	Good performance: 14%
Poor performance: 0%	Poor performance: 0%

Figure 8 : Quality results summary for trend analysis period 2006-10



Timeliness of audits

The PAA, the PFMA and the MFMA specify the time frames when public sector organisations must submit their annual financial statements for auditing and to the legislative authority.

Timeliness of PFMA reports

The timeliness target for the 2009-10 financial year was to finalise the audit of 80% of all PFMA financial statements within two months of receiving them. In practice, we exceeded the target by 6,5%.

Despite this positive performance, a challenge remains with some statutory funds and Provincial Revenue Funds not submitting their annual financial statements on time for audit.

The deterioration in our timeliness reflected in Figure 9 resulted from the challenges we experienced in the Western Cape and North West province. In the Western Cape, only 10 (38%) of the 26 audit reports for the 2008-09 PFMA cycle were finalised by the legislated deadline of 31 July 2009. The remaining 16 audits were completed by 21 August 2009. In the North West, all audit reports were delayed due to internal disciplinary processes against senior members. Realising that this situation posed a potential risk, we undertook a quality assurance process to ensure the validity of all audits conducted. This perceived risk was later determined to be unfounded.

The delays experienced during the PFMA cycle highlighted the need to enhance quality control procedures and improve internal monitoring and supervision.

Table 15: Performance of the AGSA in meeting PFMA reporting timelines

	Total PFMA population entities	Submission of financial statements as prescribed by the PFMA as % of total audits performed		Completion of the audit by the AGSA within the statutory deadlines where financial statements were submitted in accordance with PFMA requirements	
	Number	%	Number	%	Number
PFMA organisations[1]	505	91,7%	463	86,6%	401
Other PFMA organisations[2]	23	43,5%	10	80,0%	8
Total	**528**	**89,6%**	**473**	**86,5%**	**409**

[1] Includes national and provincial departments and listed public entities
[2] Includes Circular 1 entities, constitutional institutions, other entities, statutory bodies, trading entities and unlisted entities

PFMA reporting timelines in 2009-10

Target:

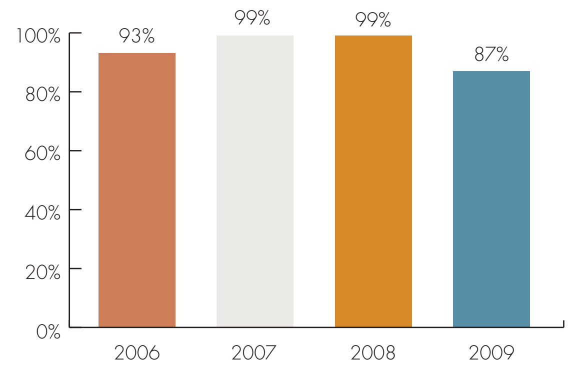
80%

compliance with statutory and legislative deadlines (Two months after receipt of annual financial statements)

Performance:

86,5%

Figure 9 : Timeliness PFMA trend analysis 2006-2009



Timeliness of MFMA reports

The timeliness target for the 2009-10 financial year was to finalise the audit of 70% of all MFMA financial statements within three months of receiving them. In practice, we exceeded the target by 18%.

As shown in Figure 10, there was an improvement in MFMA reporting timelines from 2006 to 2008. In 2009, however, timeliness stood at 88% compared to 92% in the previous year. The main reasons for this were poor quality of financial statements received, unavailability of senior auditee staff and issues around internal quality control, monitoring and supervision. The quality control and monitoring issues are being addressed.

MFMA reporting timelines in 2009-10

Target:

70%

compliance with statutory and legislative deadlines

Performance:

88,0%

Figure 10 : Timeliness MFMA summary trend analysis period 2006-2009

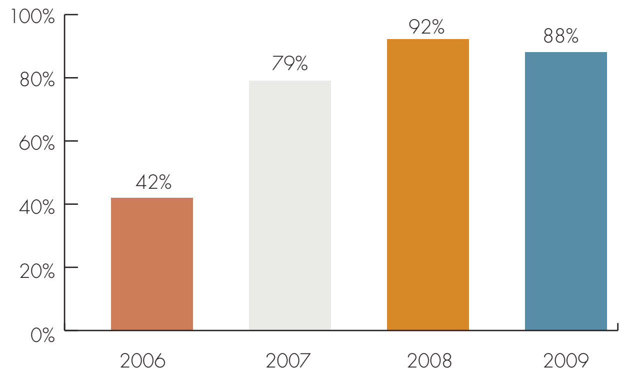


Table 16: Performance of the AGSA in meeting MFMA reporting timelines

	Total population MFMA entities	Submission of financial statements as prescribed by the MFMA as a percentage of total audits performed by the AGSA		Completion of the audit by the AGSA within the statutory deadlines where financial statements were submitted in accordance with MFMA requirements	
	Number	%	Number	%	Number
Municipalities	283	76%	215	86%	184
Municipal entities	56	82%	46	100%	46
Aggregate	339	77%	261	88%	230

Transformation

We are committed to South Africa's transformation agenda and demonstrate this through our broad-based black economic empowerment (BBBEE) strategy that focuses holistically on all the codes of good practice. Our transformation initiatives for 2009-10 focused on internally creating awareness and understanding of our BBBEE strategy to ensure ownership and accountability for implementation, and continuing the implementation of preferential procurement and employment equity.

Preferential procurement

Annually, we allocate no less than 20% of our budget to private audit firms to assist with audits during peak times. The criteria used to allocate this work are shown in Table 17 below where BBBEE criteria are weighted as a priority.

For the financial year under review, we budgeted R507 million for the allocation of work to private audit firms. The actual allocation achieved was R508 million, as shown in Table 18.

In the 2009-10 financial year, we spent R81 million on growth and development of emerging firms compared to R58 million in the previous year.

In addition to the work allocated to private audit firms, we spent R19,1 million on goods and services from a total of 103 companies. Of these, 96 (93%) were BBBEE compliant and received contracts valued at R18,7 million.

Employment equity

We are committed to contributing actively to the transformation of the auditing profession and to complying with the Employment Equity Act of 1998. Our employment equity plan and policies focus on four strategic areas: affirmative action, equalising of opportunities, management of diversity, and elimination of unfair discrimination.

Table 17: Allocation criteria and weighting

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

Table 18: Allocation of audit work to private audit firms for 2009-10

Size of firms	Allocation targets %	Budget R million	Actual R million	% of actual total
Big and large	45	R228	R229	45
Medium	35	R178	R198	39
Small	20	R101	R81	16
Total	**100**	**R507**	**R508**	**100**

In the 2009-10 financial year we worked towards a workforce target ratio of 80:20 for Africans, Coloureds, Indians, White females and people with disabilities versus other groups. At financial year-end, we achieved a ratio 89:11, compared to last year's ratio of 88:12.

Ratio of employees from target groups to employees from non-target groups in 2009-10

Target

80%

from target groups and 20% from non-target groups – compliance with AGSA EE plan

Performance

89%

from target groups and 11% from non-target group – compliance with AGSA EE plan

Raising awareness

We also visited more than 20 rural high schools in all nine provinces to raise awareness among learners in grades 9, 11 and 12 about career opportunities in the accounting and auditing profession. In the process we also focused on life orientation skills through the principles of Investment in Excellence. This equips the young learners with tools to improve and motivate themselves in the various aspects of their lives. A special segment is dedicated to empowering and mentoring young female scholars. Through partnerships with the Departments of Education and Finance, we promoted accounting and auditing career opportunities among learners.

Table 19 details our performance against the employment equity targets set for 2009-10 in comparison to the previous financial year. In 2009-10 we achieved a ratio of 89:11 against a target of 80:20. Our employment equity profile is now being monitored on a monthly basis to ensure that we stay within the target.

Table 20 shows our employment equity performance for all employees including trainee auditors (levels A to G).

Table 21 shows our progress against employment equity targets, including trainee auditors, in the past two financial years.

Figure 11 : Employee equity profile analysis from 2007-2010

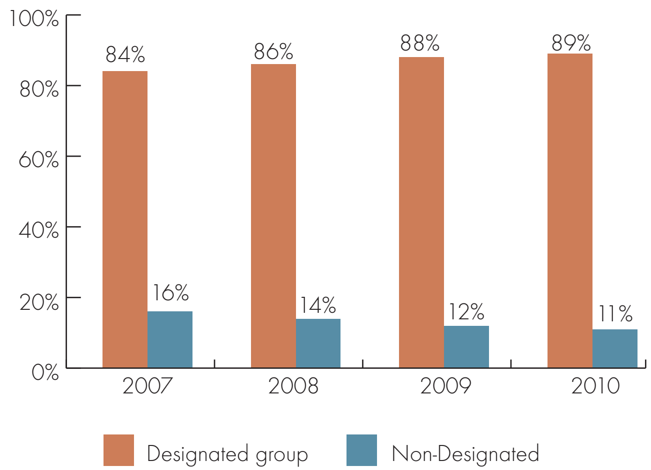


Table 19: Achievement of employment equity targets including trainee auditors

Level	2010				2009			
	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%	90%	20%	10%	80%	89%	20%	11%
Band C	80%	68%	20%	31%	80%	68%	20%	32%
Band D	80%	78%	20%	21%	80%	75%	20%	25%
Band E & F	80%	100%	20%	0%	80%	100%	20%	0%
Band G	90%	99%	10%	1%	90%	98%	10%v	2%

Table 20: Achievement of employment equity targets including trainee auditors

Groups	2010		2009	
	Male	Female	Male	Female
African	29%	32%	28%	32%
Coloured	3%	3%	2%	3%
Indian	6%	4%	5%	4%
White	11%	12%	13%	12%
Disabled	0,18%	0,04%	0,5%	0%

Table 21: Achievement of affirmative action targets, excluding trainee auditors (levels A to F)

Groups	2010		2009	
	Male	Female	Male	Female
African	21%	24%	18%	21%
Coloured	3%	5%	3%	5%
Indian	7%	4%	7%	5%
White	16%	18%	19%	19%
Disabled	0,34%	0,07%	0%	0%

Corporate social investment

Corporate social investment (CSI) initiatives began in 2009-10 and we are planning to rapidly upscale our involvement in this area. The CSI initiatives focused on community upliftment and raising awareness about the auditing profession at previously disadvantaged schools. The initiatives for 2009-10 included purchasing sports equipment for orphans, building a house with Habitat for Humanity South Africa at Orange Farm, providing classrooms for a crèche in Diepsloot, and providing school furniture and stationery for rural schools.

We made a concerted effort to advance our transformation agenda and are still committed to achieving a BBBEE rating level 4. An independent organisation was commissioned to evaluate our transformation policies and procedures in alignment with the desired level 4 rating. We are currently addressing the recommendations made in all the BBBEE codes and in the 2010-11 plan to determine our BBBEE rating baseline.

Operational excellence

We are committed to operational excellence. Achieving operational excellence by improving processes is a project that began in the 2006-07 financial year. All key enterprise risks, associated policies, processes and procedures were identified to assist in achieving a state of operational excellence.

Human resources and finance processes were prioritised for capability maturity improvement according to the capability maturity model (CMM). In the 2009-10 financial year, both processes aimed for 75% CMM level 3 and 25% CMM level 2.

Our rating according to the CMM

For the year under review we

targeted level 3

for our identified processes and achieved

2,89

The capability maturity model (CMM)

CMM 1: Start-up level where no proper control framework exists

CMM 2: Development level where a proper internal framework is developed

CMM 3: Control level which focuses on the compliance and control

CMM 4: Information level that measures the utilisation of resources with effective results

CMM 5: Management level that will determine the utilisation of resources with effective results

CMM 6: Optimisation level which enables continuous improvement and learning

For the 2010-11 financial year, processes would be improved and stabilised at 100% CMM level 3.

The left-hand columns show the summary of the CMM rating achieved. We achieved a partial rating of 2,89. There was difficulty in getting the required expertise in business process, with the result that the project was delayed.

We are aligning our organisation with King III guidelines. As a result, we have raised awareness within the organisation on the environmental sustainability issues around "Go Green" initiatives and will be developing a "Go Green" policy and procedures that will guide the organisation further. In the meantime, we have committed to run XX INCOSAI in 2010 in the most responsible manner possible to minimise the negative environmental impact.

The process improvements that were implemented resulted in the following:

- Enabling us to clearly evaluate the risks and consequences of activities and their impact on customers, suppliers and other interested parties
- Creating focus on factors such as resources, methods and materials that will improve key activities of the organisation
- Establishing clear responsibility and accountability for managing activities
- Analysing and measuring the capability of key activities
- Identifying the interfaces of key activities within the functions of the organisation
- Producing improved, consistent and predictable results
- Prioritising and focusing on opportunities
- Defining the activities necessary to obtain a desired result.

In maintaining a clean audit report the objective is to continually improve our business processes. The future focus will be to improve our business processes to a level 3 and ensuring that they are stabilised before we move to level 4.

Information and communication technology (ICT)

Technology is extensively used in the office. ICT currently supports more than 2 500 notebook computers used in auditing. The software used was upgraded during the year to Microsoft Office 2007 to improve efficiency and ensure compatibility with auditee systems. The audit software used was also upgraded during the year.

The ERP system was further enhanced to reduce the time taken to complete the billing process. This system was also changed to allow for billing on the 15th and at the end of the month. This should improve the office's debt collection as invoices can be distributed earlier.

It is important that IT spend is aligned to our business. The ICT business unit has created an ICT governance structure in line with the King III requirements, which provides the business with multiple opportunities to provide input on ICT projects and services.

New technologies without increasing cost to organisation

One such project was the implementation of a server platform that allowed for the creation of multiple virtual servers per physical server. This virtualised environment allows for the creation of servers without having to incur the cost of purchasing additional equipment, and led to a saving of approximately R7,5 million.

Another change in technology that allows for remote communication through 3G cellular services produced a saving of approximately R2,5 million while increasing the availability of the service to more of the AGSA's employees.

While the total size (number of employees and turnover) increased by approximately 46% over the last two years, in real terms the budget made available for ICT has decreased by 1% per annum. To ensure that the available resources are spent in support of the organisation, ICT during the year focused on containing costs by implementing technologies that allowed for growth without increasing the cost to the organisation.

The networks that connect our offices across the country are used for electronic communications, applications such as the ERP system as well as the video conferencing facility. These have come under pressure due to the increased number of users and applications that use them. Although the network bandwidth was upgraded during the year it is still under pressure and further enhancements to the network functionality are planned to improve the network performance.

During the year we launched a Green IT initiative and have already achieved energy savings by introducing energy-efficient laptop computers during the year and by implementing the virtual server platform which uses considerably less energy to run and cool than normal stand-alone equipment.

ICT staff who are technically competent are hard to find and so ICT has introduced an internship programme to develop skilled staff. This programme has already borne fruit and three participants in this programme are now permanently employed within ICT.

Information and knowledge management

Effective knowledge management means preserving our intellectual capital and managing the life cycle of our records and documents. For 2009-10, the focus was mostly on implementing a virtual library, file plan, records management policy and procedures. Another priority was to ensure that we comply with the Promotion of Access to Information Act (PAIA).

Compliance with requirements

Several training sessions on records management were held for administrative staff and the records management policy was aligned with the requirements of the International Standards on Quality Control (ISQC1).

To comply with the PAIA, we revised the PAIA manual and published it on the AGSA's website. We also compiled and submitted a PAIA section 32 report to the South African Human Rights Commission (SAHRC) as required.

An organisation-wide records audit was conducted, showing that the organisation has records dating back many years. After appraising the archival value of all documents, we obtained permission from the National Archives to transfer records of archival value to the archives repository and to destroy those of negligible value. This project will continue into the new financial year because of storage space constraints.

We continued to improve the content layout of the intranet and Internet. As an organisation that takes pride in its transparency, we regard the electronic publishing domain as an important medium for promoting information and knowledge sharing.

The library software was upgraded to a web-based solution, enabling all our users to view the library catalogue and request books via the intranet. Users can also search for information on the online public access catalogue.

AUDIT COMMITTEE

REPORT OF THE CHAIRPERSON of the Audit Committee

The Audit Committee exercises independent oversight and does not perform or assume any management responsibilities in discharging its duties. As such, the Committee is composed exclusively of independent non-executive members, ensuring the Committee's objectivity and independence in carrying out its obligations. The Audit Committee assists the AGSA in maintaining effective, efficient and transparent systems of financial management, risk management, internal control and internal audit. Most of the work carried out by the Committee in the year under review was to ensure that the internal control environment in the Auditor General of South Africa was strong.

"We are pleased to present our report for the financial year ended 31 March 2010 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."

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:

- regular review of Internal Audit Reports
- annual review of the external audit report
- regular review of audit findings arising from the internal and external audit reports
- reviewing the annual report and audited financial statements for the year ended 31 March 2010
- monitoring of the Financial Turnaround Plan
- review of the quality control assessment results and possible implications for audit risks
- review of the Terms of Reference of the Audit Committee and implications of the King III Code on the terms of reference
- recommendation to SCoAG of appointment of external auditor
- approval of the internal audit coverage plan
- approval of the external audit coverage plan
- review and approval of the Risk Mitigation Plan
- appointment of internal auditors, with new internal auditors to commence on 1 April 2011
- review of the composition of the Audit Committee and the process to appoint new members
- review of the progress of the Human Capital improvement plan

The committee interacted with SCoAG regarding the appointment of the external auditors. As a new SCoAG came into being in the year under review the committee also met with them to confirm the kind of governance relationship that should exist between the two parties.

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:

- eviewed 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 (in this regard there were no major changes);
- 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 2010, 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 committee consisted of 3 external members. It has however been agreed that an additional member should be appointed to ensure smooth succession planning and continuity.

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. We also want to extend our gratitude to SCoAG for the support and guidance in discharging our duties.

Mthandazo Peter Moyo
Chairperson of the Audit Committee

Table 22: Attendance record of the Audit Committee in 2009-10

Members	24 July 2009	19 August 2009*	30 November 2009	25 February 2010
Mr MP Moyo (Chairperson)	Yes	Yes	Yes	Yes
Mr RJ Biesman-Simons	Yes	Yes	Yes	Yes
Prof K Barac	Yes	Yes	Yes	Yes

* 19 August 2009 was a workshop to discuss criteria for selection of internal and external auditors


SALES BY REGION
Electronics
Housewares
North
West
Region
1,718,258
534,389
1,009,268
900,431
4,162,346
Sales by Category

AUDITOR-GENERAL

Annual Financial Statements for the year ended 31 March 2010

Contents

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:

Deputy Auditor-General's responsibilities and approval

The Deputy Auditor-General is required by the Public Audit Act, 2004 (Act No. 25 of 2004), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is his responsibility to ensure that the annual financial statements fairly present the state of affairs of the Auditor-General 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 and the Public Audit Act, 2004. The external auditors are engaged to express an independent opinion on the annual financial statements.

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

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

The focus of risk management in 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 Auditor-General endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints

The Deputy Auditor-General is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal 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 to 31 March 2011 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 77 to 119, which have been prepared on the going concern basis, were approved and signed by the Deputy Auditor-General on 29 July 2010 on behalf of the Auditor-General:

Thembekile Kimi Makwetu
DEPUTY AUDITOR-GENERAL

Report of the independent auditor

REPORT OF THE INDEPENDENT AUDITOR TO THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE AUDITOR-GENERAL OF SOUTH AFRICA FOR THE YEAR ENDED 31 MARCH 2010.

Report on financial statements

Introduction

We have audited the accompanying financial statements of the Auditor-General of South Africa, which comprise the statement of financial performance as at 31 March 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 77 to 119.

The Deputy Auditor-General's Responsibility for the Financial Statements

The Deputy Auditor-General is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Public Audit Act 2004 (Act No. 25 of 2004) of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements 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 based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Auditor-General of South Africa as at 31 March 2010, and 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) of South Africa.

SUPPLEMENTARY INFORMATION

Without qualifying our opinion, we draw attention to the fact that supplementary information set out on pages 120 to 124 do not form part of the annual financial statements and is presented as additional information. We have not audited these schedules and accordingly we do not express an opinion on them.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

We have reviewed the performance information of the Auditor-General of South Africa as set out on pages 23 to 67.

The Deputy Auditor-General's Responsibility for the Performance Information

The Deputy Auditor-General has additional responsibilities as required by section 41(1)(a) of the Public Audit Act 2004 (Act No. 25 of 2004) to ensure 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 2010.

Auditor's Responsibility

We conducted our engagement in accordance with section 41(4)(b) of the Public Audit Act 2004 (Act No. 25 of 2004). In terms of the foregoing our engagement included performing procedures to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

Findings

We believe that the evidence we have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of our review.

Moore Stephens MWM Inc.
AS Moosa
Registered Auditors
Houghton

29 July 2010

MOORE STEPHENS
CHARTERED ACCOUNTANTS (SA)

Statement of financial position

	Notes	2010 R'000	2009 R'000
ASSETS			
Non-current assets		63 678	64 796
Property, plant and equipment	2	56 537	55 373
Intangible assets	3	7 141	9 423
Current assets		574 733	490 565
Trade and other receivables	4	341 289	309 727
Cash and cash equivalents	5	233 444	180 838
Total assets		**638 411**	**555 361**
EQUITY AND LIABILITIES			
Equity		208 026	108 861
General reserve	6	103 897	129 412
Special audit services reserve	7	4 964	4 964
Accumulated profit / (loss)	8	99 165	(25 515)
Liabilities			
Non-current liabilities		74 377	111 826
Finance lease obligation	9	15 751	7 726
Retirement benefit obligations	10	58 626	63 532
Deferred income	11.1	-	40 568
Current liabilities		356 008	334 674
Trade and other payables	11	299 294	303 462
Provisions	12	3 784	3 784
Deferred income	11.1	40 568	15 915
Finance lease obligation	9	12 362	11 513
Total equity and liabilities		**638 411**	**555 361**

Statement of comprehensive income

	Note	2010 R'000	2009 R'000
Revenue	13	1 644 647	1 375 925
Local services rendered		1 612 592	1 347 577
International services rendered		32 055	28 348
Direct audit cost		(1 155 124)	(1 069 668)
Recoverable staff cost	14	(591 185)	(464 644)
Contract work	15	(502 154)	(551 621)
Subsistence and travel		(61 785)	(53 403)
Gross profit		489 523	306 257
Other income	13.1	4 358	3 898
Grant income - National Treasury	13.2	15 915	33 516
Defined benefit income	10	2 849	1 273
Foreign exchange (loss) / gain	25.4	(2 618)	3 395
Contribution to overheads		510 027	348 339
Non-recoverable staff cost	14	(260 375)	(198 998)
Depreciation expense	16	(22 687)	(17 504)
Amortisation expense	17	(3 634)	(3 060)
Other operational expenditure	18	(151 124)	(148 045)
Conference Cost	18.1	(6 498)	(9 024)
Surplus / (Deficit) from operations		65 709	(28 292)
Interest received	21	41 776	14 862
Finance charges	21	(8 320)	(2 667)
Net surplus / (deficit) for the year		**99 165**	**(16 097)**
Other comprehensive income		-	-
Total comprehensive surplus / (deficit)		**99 165**	**(16 097)**

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 2008	**129 412**	**4 964**	**(9 418)**	**124 958**
Total comprehensive deficit for the year	-	-	(16 097)	(16 097)
Balance at 31 March 2009	**129 412**	**4 964**	**(25 515)**	**108 861**
Transfer of accumulated loss to reserves	(25 515)	-	25 515	-
Total comprehensive surplus for the year	-	-	99 165	99 165
Balance at 31 March 2010	**103 897**	**4 964**	**99 165**	**208 026**
Notes	6	7	8	

Statement of cash flows

	Notes	2010 R'000	2009 R'000
Cash flows from operating activities			
Total revenue from auditees	25.1	1 597 991	1 307 845
Total direct audit cost payments	25.2	(1 095 186)	(974 034)
Operating expenditure payments	25.3	(465 445)	(302 156)
Interest received		41 776	14 862
Finance charges		(8 320)	(2 667)
Realised foreign exchange gain	25.4	2 961	2 623
Net cash inflow from operating activities		**73 777**	**46 473**
Cash flow from investing activities			
Additions to property, plant and equipment	25.5	(26 111)	(37 827)
Additions to intangible assets	25.6	(1 352)	(2 571)
Proceeds from sale of property, plant and equipment	2	2 997	3 648
Net cash outflow from investing activities		**(24 466)**	**(36 750)**
Cash flow from financing activities			
Payment on obligations under instalment sale agreement		(13 032)	(13 442)
Deferred government grant	11.1	-	56 483
Increase in instalment sale agreement borrowings		21 906	9 984
Net cash inflow from financing activities		**8 874**	**53 025**
Net increase in cash and cash equivalents		**58 185**	**62 748**
Cash and cash equivalents at beginning of the year		180 838	117 318
Exchange differences in cash and cash equivalents	25.4	(5 579)	772
Cash and cash equivalents at end of the year	25.7	**233 444**	**180 838**

1. Presentation of Annual Financial Statements

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

a) Amendments to published standards effective in 2010:

Relevant to the operations of the Auditor-General:

Standard / Interpretation	Effective	Details
IAS 1 Presentation of Financial Statements	01-Jan-09	This amendment deals with : - amendments to the structure of financial statements and - current / non-current classification of derivatives The first time adoption of this standard resulted in changes to the layout of the financial statements and required no reclassification or adjustment of previously reported balances.

Not relevant to the operations of the Auditor-General

Standard / Interpretation	Effective	Details
IFRS 1 First-time Adoption of International Financial Reporting Standards	01-Jan-09	This amendment deals with measurement of cost of investments in subsidiaries, jointly controlled entities & associates when adopting IFRS for first time
IFRS 2 Share Based Payment	01-Jan-09	This amendment deals with vesting conditions and cancellations
IFRS 7 Financial Instruments: Disclosures	01-Jan-09	This amendment deals with presentation of finance costs, with improving disclosures about financial instruments and enhances disclosures about fair value and liquidity risk
IFRS 8 Operating Segments	01-Jan-09	New standard requires entity to report financial & descriptive information about its reportable segments or aggregation of operating segments that meet specified criteria
IAS 7 Statement of Cash Flows	01-Jan-09	This amendment deals with the classification of cash flows relating to assets acquired / manufactured for rental then sold
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	01-Jan-09	This amendment deals with status of implementation guidance
IAS 10 Events after the Reporting Period	01-Jan-09	This amendment deals with dividends declared after end of reporting period
IAS 16 Property, Plant and Equipment	01-Jan-09	This amendment deals with: • recoverable amount • sale of assets held for rental
IAS 18 Revenue	01-Jan-09	This amendment deals with: • dividends to be recognised as income • costs of originating a loan

IAS 19 Employee Benefits	01-Jan-09	This amendment deals with: • curtailments and negative past service cost, • plan administration costs • replacement of term 'fall due' • guidance on contingent liabilities
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	01-Jan-09	This amendment deals with: • government loans with a below-market rate of interest • consistency of terminology with other IFRS
IAS 21 The Effects of Changes in Foreign Exchange Rates	01-Jan-09	Pre-acquisition dividend no longer disposal / partial disposal of foreign operation
IAS 23 Borrowing Costs	01-Jan-09	This amendment deals with: • only allows the capitalisation model • components of borrowing costs
IAS 27 Consolidated and Separate Financial Statements	01-Jan-09	This amendment deals with: • dividends to be recognised as income • guidance on cost of investment in reorganisations • measurement of subsidiary held for sale in separate financial statements
IAS 28 Investments in Associates	01-Jan-09	This amendment deals with: • dividends to be recognised as income • required disclosures when investments in associates are accounted for at fair value through profit or loss • impairment of investment in associate
IAS 29 Financial Reporting in Hyperinflationary Economies	01-Jan-09	This amendment deals with: • description of measurement basis in financial statements • consistency of terminology with other IFRS
IAS 31 Interests in Joint Ventures	01-Jan-09	This amendment deals with: • dividends to be recognised as income • required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss
IAS 32 Financial Instruments: Presentation	01-Jan-09	This amendment deals with certain financial instruments that will be classified as equity whereas, prior to these amendments, they would have been classified as financial liabilities
IAS 34 Interim Financial Reporting	01-Jan-09	This amendment deals with earnings per share disclosures in interim financial reports
IAS 36 Impairment of Assets	01-Jan-09	This amendment deals with: • additional guidance on impairment if dividends from Subsidiary, Associates or Joint Venture recognised as income • disclosure of estimates used to determine recoverable amount
IAS 38 Intangible Assets	01-Jan-09	This amendment deals with: • advertising activities, promotional activities • unit of production method of amortisation

IAS 39 Financial Instruments: Recognition and Measurement	01-Jul-08	Reclassifications
IAS 39 Financial Instruments: Recognition and Measurement	01-Jan-09	This amendment deals with: • reclassification of derivatives into or out of the classification of at fair value through profit or loss • designating & documenting hedges at segment level • applicable effective interest rate on cessation of fair value hedge accounting
IAS 40 Investment Property	01-Jan-09	This amendment deals with: • property under construction or development for future use as investment property • consistency of terminology with IAS 8 • investment property held under lease
IAS 41 Agriculture	01-Jan-09	This amendment deals with: • discount rate for fair value calculations • additional biological transformation • examples of agricultural produce and products • point-of-sale costs changed to costs to sell
IFRIC 13 Customer Loyalty Programmes	01-Jul-08	Accounting by entities that grant loyalty award credits (such as 'point' or travel miles) to customers who buy other goods or services
IFRIC 15 Agreements for the Construction of Real Estate	01-Jan-09	Accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	01-Oct-08	Guidance on net investment hedging, including: which foreign currency risks qualify for hedge accounting, and what amount can be designated

b) Standards, amendments and interpretations not yet effective.

The following standards, amendments and interpretations are mandatory for future accounting periods:

Standard / Interpretation	Effective	Details
IFRS 1 First-time adoption of International Financial Reporting Standards	01-Jan-10	This amendment deals with oil and gas assets and determining whether an arrangement contains a lease
IFRS 2 Share Based Payment	01-Jul-09	This amendment clarifies the scope of IRFS 2 and IFRS 3 revised.
IFRS 2 Share Based Payment	01-Jan-10	This amendment deals with accounting for group cash –settled share-based payment transactions-clarity of the definition of the term "Group".
IFRS 3 Business Combinations	01-Jul-09	This amendment deals with the accounting of business combinations
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	01-Jul-09	This amendment deals with: • distributions to owners (IFRIC17 amendments) • plans to sell the controlling interest in a subsidiary

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	01-Jan-10	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations
IFRS 8 Operating Segments	01-Jan-10	This amendment requires disclosure of information about segment assets
IFRS 9 Financial Instruments	01-Jan-13	New standard that forms the first part of a three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement
IAS 1 Presentation of Financial Statements	01-Jan-10	This amendment deals with current / non-current classification of convertible instruments
IAS 7 Statement of Cash flows	01-Jan-10	This amendment deals with the classification of expenditures on unrecognised assets
IAS 10 Events after the Reporting Period	01-Jul-10	This amendment is a result of issuing IFRIC 17
IAS17 Leases	01-Jan-10	This amendment deals with the classification of leases of land and buildings
IAS 27 Consolidated and Separate Financial Statements	01-Jul-09	This amendment deals with consequential amendments from changes to business combinations
IAS 28 Investments in Associates	01-Jul-09	This amendment deals with consequential amendments from changes to business combinations
IAS 31 Interests in Joint Ventures	01-Jul-09	This amendment deals with consequential amendments from changes to business combinations
IAS 36 Impairment of Assets	01-Jan-10	This amendment deals with the unit of accounting for the goodwill impairment test
IAS 39 Financial Instruments: Recognition and Measurement	Annual periods ending on or after 30 June 2009	This amendment clarifies two hedge accounting issues: • Inflation in a financial hedged item • A one-sided risk in a hedge item
IAS 39 Financial Instruments: Recognitions and Measurement	01-Jan-10	This amendment deals with: • treating loan prepayment penalties as closely related embedding derivatives • scope exemption for business combination contracts • cash flow hedge accounting
IFRIC 9 (amended) Reassessment of Embedded Derivatives	01-Jul-09	This amendment deals with the scope of IFRIC 9 and revised IFRS 3
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	01-Jul-09	This amendment deals with the restriction on the entity that can hold hedging instruments
IFRIC 17 Distribution of Non-cash Assets to Owners	01-Jul-09	Applies to the entity making the distribution, not to the recipient. It applies when non-cash assets are distributed to owners or when the owner is given a choice of taking cash in lieu of the non-cash assets
IFRIC 18 Transfers of Assets for Customers	01-Jul-09	Agreements in terms of which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water)
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	01-Jul-10	Addresses only the accounting by the entity that issues equity instruments in order to settle, in full or in part, for a financial liability. It does not address the accounting by the creditor (lender).

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 judgments 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 judgment in the process of applying the Auditor-General's accounting policies. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgments include:

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

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

Provision for impairment of receivables
A provision for impairment of trade receivables is established when there is objective evidence that the Auditor-General will not be able to collect all amounts due according to the original terms of receivables. The calculation of the amount to be provided for impairment of receivables requires the use of estimates and judgments (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 shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants receivable as a compensation for costs already incurred or for immediate financial support with no future related costs are recognised as income in the period which they are receivable.

1.2 Property, plant and equipment

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

Item	**Useful life**	
	2010	**2009**
Computer equipment	3 to 6 years	3 to 6 years
Notebooks	3 years	3 years
Motor vehicles	5 years	5 years
Furniture and fittings	6 to 15 years	6 to 15 years
Office equipment	3 years	3 years
Leasehold improvements	Over the period of the lease	Over the period of the lease

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

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in 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

Computer software
Acquired computer software licenses are carried at cost less any accumulated amortisation and any impairment losses. Estimates are mainly based on historical information relating to use of the asset and all residual values are nil. Amortisation on these costs is provided to write down the intangible assets, on a straight line basis, over their useful lives as follows:

Item	Useful life	
	2010	2009
Enterprise resource management system		
- PeopleSoft	14 years	14 years
Other software	3 years	3 years

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

1.4 Impairment of non-financial assets

Assets are assessed at the end of each reporting period for any indication that they may be impaired. If indications exists, the recoverable amount of the asset is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

1.5 Financial instruments

Financial instruments carried in the statement of financial position include cash and bank balances, trade and other receivables, trade and other payables and borrowings. These instruments are carried at their amortised cost.

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

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

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

Financial liabilities

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

Gains and losses

Gains or losses arising from changes in financial assets or financial liabilities carried at amortised cost are recognised in 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 includes cash on hand and deposits held at call.

1.7 Leases

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

Finance leases – lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases – lessee

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

1.8 Employee benefits

Pension plan - Defined contribution plan

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

Post-employment medical care benefits - Defined benefit plan

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

1.9 Provisions

Provisions are recognised when the Auditor-General has a present obligation (legal or constructive) as a result of past event, 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 the 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 invoiced value charged net of value added tax. Revenue arising from fixed sum contract audits where the outcome can be estimated reliably is recognised by reference to the stage of completion of the contract activity at reporting date. The stage of completion is determined with reference to the budgeted and actual hours excluding budget over runs. 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 based on the effective interest rate which takes into account the effective yield on the asset over the period it is expected to be held.

1.12 Foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the reporting date.

1.13 Irregular or fruitless and wasteful expenditure

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

1.14 Government grants

Government grants are accounted for through statement of financial position and statement of comprehensive income. The grants received in relation to compensation for expenses or losses already incurred are recognised through statement of comprehensive income in the period in which they become receivable. Grants related to future obligations are presented as deferred income in the statement of financial position. This will be amortised as and when the expenses are incurred.

1.15 Losses through criminal conduct

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

2 Property, plant and equipment

2010	Cost	Accumulated depreciation	Carrying amount
	R'000	R'000	R'000
Computer equipment	93 384	(62 256)	31 128
Motor vehicles	2 881	(2 045)	836
Office equipment	2 994	(2 316)	678
Furniture and fittings	29 473	(12 716)	16 757
Leasehold improvements	20 095	(12 957)	7 138
	148 827	**(92 290)**	**56 537**
Assets under instalment sale agreements included above comprise:			
Computer equipment (refer to note 9)	**62 557**	**(40 402)**	**22 155**

The carrying amounts can be reconciled as follows:	Opening carrying amount	Additions	Disposals	Depreciation charge	Closing carrying amount
	R'000	R'000	R'000	R'000	R'000
Computer equipment	24 649	21 205	(347)	(14 379)	31 128
Motor vehicles	1 200	-	(138)	(226)	836
Office equipment	1 031	101	(409)	(45)	678
Furniture and fittings	17 319	3 032	(1 365)	(2 229)	16 757
Leasehold improvements	11 174	1,773	(1)	(5 808)	7 138
	55 373	**26 111**	**(2 260)**	**(22 687)**	**56 537**
Assets under instalment sale agreements included above comprise:					
Computer equipment (refer to note 9)	**13 797**	**19 282**	**(452)**	**(10 472)**	**22 155**

	2010
	R'000
Proceeds on disposal of property, plant and equipment	**2 997**

2009	Cost R'000	Accumulated depreciation R'000	Carrying amount R'000
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**

The carrying amounts can be reconciled as follows:	Opening carrying amount R'000	Additions R'000	Disposals R'000	Depreciation charge R'000	Closing carrying amount R'000
Computer equipment	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**

The Auditor-General has operating leases for all of the premises occupied by its head office and regionally based staff in the major centers of the country (refer to note 22.1).

3 Intangible assets

2010	Cost R'000	Accumulated amortisation R'000	Carrying amount R'000
Computer software - purchased			
Enterprise resource management system - PeopleSoft	17 997	(12 790)	5 207
Other software	16 187	(14 253)	1 934
	34 184	**(27 043)**	**7 141**

The carrying amounts can be reconciled as follows:	Opening carrying amount R'000	Additions R'000	Disposals R'000	Amortisation charge R'000	Closing carrying amount R'000
Computer software - purchased					
Enterprise resource management system - PeopleSoft	7 880	-	-	(2 673)	5 207
Other software	1 543	1 352	-	(961)	1 934
	9 423	**1 352**	**-**	**(3 634)**	**7 141**

2009	Cost R'000	Accumulated amortisation R'000	Carrying amount R'000
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:	Opening carrying amount	Additions	Disposals	Amortisation charge	Closing carrying amount
	R'000	R'000	R'000	R'000	R'000
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**

4 Trade and other receivables

	2010	2009
	R'000	R'000
Trade receivables	369 961	323 305
Provision for impairment of receivables [1]	(37 500)	(25 000)
Present value of trade receivables adjustment (refer to note 21)	(6 715)	-
Net trade receivables	325 746	298 305
Staff debtors	8 553	6 359
Prepayments	6 546	4 571
Other debtors	444	492
	341 289	**309 727**

[1] Provision for impairment of receivables		
Opening balance	(25 000)	(20 290)
Utilised during the year	-	46
Additional provision for impairment of receivables	(12 500)	(4 756)
Closing balance	**(37 500)**	**(25 000)**

5 Cash and cash equivalents

	2010 R'000	2009 R'000
Call account at Public Investment Corporation (PIC)	124 574	125 589
Investment reserved for specific liabilities (PIC 1) [2]	80 428	74 762
Investment to fund working capital requirements (PIC 2)	44 146	50 827
Current bank account	91 074	50 434
Foreign bank account (USD)	17 796	4 815
	233 444	**180 838**

[2] Investment reserved for specific liabilities

The liabilities covered by this investment include the following:		
Post-retirement benefits: medical care contributions (refer to note 10)	58 626	63 532
13th Cheque accrual (refer to note 11)	4 830	3 340
Leave pay accrual (refer to note 11) [3]	39 092	31 075
The National Treasury for salary over-payments in the former TBVC states	3 564	3 507
Advances from the National Treasury for assistance on the local authority debtors	6 363	6 363
Payments made by staff in terms of the Auditor-General's notebook ownership policy	932	1 329
	113 407	**109 146**

The future service liability for post-retirement benefit: medical care contributions totaling R10 685 000 (2009: R13 859 000) is not included in the investment reserved for specific liabilities. Future service costs are recognised when the services are delivered by the employees during the employment terms.

[3] Only R14,7 million of the leave pay accrual should be provided for as cash for leave days that can be accrued. The rest of the leave days must be taken as leave within a specified period or else it will be forfeited.

6 General reserve

	2010 R'000	2009 R'000
Opening balance	129 412	129 412
Transfer of retained deficit to reserves	(25 515)	-
Closing balance	**103 897**	**129 412**

	2010 R'000	2009 R'000
7 Special audit services reserve		
Opening and closing balance	**4 964**	**4 964**

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

8 Accumulated profit / (loss)

	2010 R'000	2009 R'000
Opening balance	(25 515)	(9 418)
Transfer of retained deficit to reserves	25 515	-
Net surplus / (deficit) for the year [4]	99 165	(16 097)
Closing balance	**99 165**	**(25 515)**

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

9 Finance lease obligation

	2010 R'000	2009 R'000
Wesbank - A division of FirstRand Bank Limited	28 113	19 239
Less: Current portion included in current portion of obligation under finance lease obligations	(12 362)	(11 513)
	15 751	**7 726**

Liabilities under finance lease obligations payable over periods from 1-3 years in instalments of R479 611 (2009: R286 670) at an effective interest rate of between 8.5% and 13.5% (2009: 12% and 13.5%). Secured by computer equipment with a carrying value of R22 155 000 (2009: R13 797 000) (refer to note 2).

2010	Up to 1 year R'000	1 to 3 years R'000	More than 3 years R'000	Total R'000
Minimum lease payments	14 388	16 936	-	31 324
Finance cost	(2 026)	(1 185)	-	(3 211)
Present value	**12 362**	**15 751**	**-**	**28 113**
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**

	2010 R'000	2009 R'000
10 Retirement benefit obligations		
Post-retirement benefits: medical care contribution	**58 626**	**63 532**

The liability can be reconciled as follows:

Opening balance	63 532	64 805
Current year provision	(2 849)	(1 273)
Current service cost	1 295	1 512
Actuarial gain	(9 666)	(6 565)
Interest adjustment	5 522	3 780
Less: Payments made	(2 057)	-
Closing balance (refer to note 5)	**58 626**	**63 532**

The amounts recognised in profit or loss are as follows	2010 R'000	2009 R'000
Current service cost	1 295	1 512
Actuarial (gain) / loss	(9 666)	(6 565)
Interest cost	5 522	3 780
Total	**(2 849)**	**(1 273)**

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 2010 by Alexander Forbes using the Projected Unit Credit Method.

The valuation is based on the following principal actuarial assumptions:	2010	2009
The discount rate reflects the timing of benefit payments and is based on market bond yields.	9.0%	9.0%
Subsidy increase rate	5.3%	5.8%
Expected retirement age	63	63
Number of continuation members	172	169
Number of in-service members	264	287

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

10 Retirement benefit obligations (cont.)

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.

	2010		
	Discount rate		
	Assumption 9.00%	**-1%**	**+1%**
Accrued liability 31 March 2010	58 626	68 421	50 872
% Change	-	16.7%	-13.2%

	Subsidy increase rate		
	Assumption 5.25%	**-1%**	**+1%**
Accrued liability 31 March 2010	58 626	50 658	68 575
% Change	-	-13.6%	17.0%

	Expected retirement age		
	Assumption 63 years	**1 year younger**	**1 year older**
Accrued liability 31 March 2010	58 626	60 332	57 039
% Change	-	2.9%	-2.7%

The future service liability for post-retirement benefit: medical care contributions amounts to R10 685 000 (2009: R13 859 000). Future service costs are recognized when the services are delivered by the employees during the employment terms.

10 Retirement benefit obligations (cont.)

Sensitivity analysis (cont.)

	2009		
	Discount Rate		
	Assumption 9.00%	**-1%**	**+1%**
Accrued liability 31 March 2009	63 532	75 028	54 640
% Change	-	18.1%	-14.0%

	Subsidy increase rate		
	Assumption 5.75%	**-1%**	**+1%**
Accrued liability 31 March 2009	63 532	54 425	75 158
% Change	-	-14.3%	18.3%

	Expected retirement age		
	Assumption 63 years	**1 year younger**	**1 year older**
Accrued liability 31 March 2009	63 532	65 447	61 758
% Change	-	3.0%	-2.8%

		2010 R'000	2009 R'000
11	**Trade and other payables**		
	Trade payables	139 844	197 636
	Present value of creditors adjustment (refer to note 21)	(963)	-
	Net trade payables	138 881	197 636
	Accruals	51 062	50 081
	13th Cheque accrual	4 830	3 340
	Accrued leave pay	39 092	31 075
	Performance bonus accrual	43 945	-
	Staff creditors	5 728	6 572
	Value added tax	9 393	8 395
	Advance on local authority debtors	6 363	6 363
		299 294	**303 462**

Ageing of trade payables:

2010	Total R'000	Current R'000	30 - 120 days R'000	120+ days R'000
Trade payables	93 674	65 279	25 928	2 467
Straight lining of operating leases	33 447	1 569	4 400	27 478
United Nations contract - prepaid income	12 723	12 723	-	-
	139 844	**79 571**	**30 328**	**29 945**

2009	Total R'000	Current R'000	30 - 120 days R'000	120+ days R'000
Trade payables	155 112	88 265	60 935	5 912
Straightlining 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**

	2010 R'000	2009 R'000
11.1 Deferred income		
Government grants received to be recognised in future accounting periods [5]	40 568	56 483
International Organisation of Supreme Audit Institutions (INTOSAI)	-	10 915
International Congress of Supreme Audit Institutions (INCOSAI)	40 568	40 568
Plant and equipment	-	5 000
Less Deferred income to be recognised in the following year	40 568	15 915
International Organisation of Supreme Audit Institutions (INTOSAI)	-	10 915
International Congress of Supreme Audit Institutions (INCOSAI)	40 568	-
Plant and equipment	-	5 000
	-	**40 568**

[5] 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, R34 million thereof was recognised as income in 2009, with R8 million for capital expenditure and R7 million to host the INTOSAI conference being recognised as income in 2010. The remainder was allocated for the hosting of INCOSAI during 2011 at a budgeted amount of R41 million. Refer note 13.2 for income recognised during the year.

		2010 R'000	2009 R'000
12	**Provisions**		
	Government Employees Pension Fund		
	Opening balance	3 784	1 541
	Additional provision [6]	-	2 243
	Closing balance	**3 784**	**3 784**

[6] A provision has been made for penalties, relating to early retirements, payable to the Government Employees Pension Fund. The Auditor General South Africa is currently in the process of negotiating the penalties to ensure the penalties will be as low as possible.

		2010 R'000	2009 R'000
13	**Revenue**		
	Local services rendered	1 612 592	1 347 577
	Own hours	1 082 928	750 917
	Contract work	508 247	551 621
	Subsistence and travel	55 040	45 039
	Present value of revenue adjustment (refer to note 21)	(33 623)	-
	International services rendered [7]	32 055	28 348
	Own hours	25 886	20 784
	Subsistence and travel	6 745	7 564
	Present value of revenue adjustment (refer to note 21)	(576)	-
		1 644 647	**1 375 925**

[7] International revenue comprises income from the audit of certain United Nations accounts, funds and programmes. International revenue has been increased by R2 868 926 (2009: R2 134 673), being the difference between the time billed based on the Auditor-General charge out rates and the amount based on the fixed fee contract.

	2010 R'000	2009 R'000
13.1 Other Income		
Sundry Income	4 055	2 340
Training expenses recovered	-	1 258
Cell phone charges recovered	-	5
Telephone charges recovered	303	295
	4 358	**3 898**
13.2 Other Income - Government grant [8]	**15 915**	**33 516**

[8] A grant of R 90 million was received from National Treasury. Part of the grant was recognised as income, funding of capital expenditure and hosting the INTOSAI conference. The balance will be used for the hosting of INCOSAI. Refer to note 11.1.

14 Staff cost

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

Management				2010		
				Gross remuneration	Performance bonus	Total remuneration
Position	**Name**	**Appointment date**	**Termination date**	**R'000**	**R'000**	**R'000**
Auditor-General	TM Nombembe	1 December 2006		2 444	-	2 444
Deputy Auditor-General	T Makwetu	1 July 2007		2 164	441	2 605
Chief Operating Officer	L Jabavu	1 August 2007		1 489	304	1 793
Corporate Executive	P Bhana	1 October 2006		1 542	315	1 857
Corporate Executive	AH Muller	1 March 2008		1 436	293	1 729
Corporate Executive	BR Wheeler	1 March 2008		1 436	293	1 729
Corporate Executive	PKK Serote	1 April 2008		1 511	308	1 819
Corporate Executive	J Bailey	1 December 2008		1 649	336	1 985
Corporate Executive	EM Zungu	1 February 2009		1 522	236	1 758
				15 193	**2 526**	**17 719**

[9]

Position	Name	Appointment date	Termination date	2009 Gross remuneration R'000	2009 Performance bonus R'000	2009 Total remuneration R'000
Auditor-General	TM Nombembe	1 December 2006		2 328	-	2 328
Deputy Auditor-General	T Makwetu	1 July 2007		1 928	-	1 928
Chief Operating Officer	L Jabavu	1 August 2007		1 382	-	1 382
Corporate Executive	P Bhana	1 October 2006		1 416	-	1 416
Corporate Executive	JE van Heerden	1 September 1991	28 February 2009	1 685	-	1 685
Corporate Executive	DEL Zondo	1 November2005	31 December 2008	1 157	-	1 157
Corporate Executive	AH Muller	1 March 2008		1 294	-	1 294
Corporate Executive	BR Wheeler	1 March 2008		1 287	-	1 287
Corporate Executive	PKK Serote	1 April 2008		1 338	-	1 338
Corporate Executive	J Bailey	1 December 2008		517	-	517
Corporate Executive	EM Zungu	1 February 2009		228	-	228
				14 560	**-**	**14 560** [9]

[9] This includes all remuneration paid to management.

Compensation to management is summarised as follows:	2010 R'000	2009 R'000
Short-term employee benefits	17 497	14 348
Long-term benefits	222	212
	17 719	**14 560**
Management salaries	17 719	14 560
Staff salaries	117 870	101 729
Other staff expenditure	52 814	11 146
Performance bonus	41 425	1 067
Group life scheme	6 167	4 381
Other employer contributions (UIF, workmens compensation, long service awards, early retirement penalties - Government Employees Pension Fund, etc.)	5 222	5 698
Course fees and study assistance	58 350	58 227
Accrued leave pay provision	13 622	13 336
Total non-recoverable staff cost	**260 375**	**198 998**
Recoverable staff salaries	591 185	464 644
Total staff cost	**851 560**	**663 642**
Average number of staff	**2 370**	**2 074**

	2010 R'000	2009 R'000
15 Contract work recoverable (Refer to note 13)		
Contract work recoverable	508 247	551 621
Present value of expenditure adjustment (refer to note 21)	(6 093)	-
	502 154	**551 621**

This represents work done by external audit firms on behalf of the Auditor-General. The income is included in revenue at no additional margin. Refer to note 13.

	2010 R'000	2009 R'000
16 Depreciation		
Computer equipment	14 379	14 737
Motor vehicles	226	245
Office equipment	45	610
Furniture and fittings	2 229	1 265
Leasehold improvements	5 808	647
	22 687	**17 504**
17 Amortisation		
Computer software		
Enterprise resource management system - PeopleSoft	2 673	795
Other software	961	2 265
	3 634	**3 060**

18 Other operational expenditure

	2010 R'000	2009 R'000
Auditor's remuneration		
Statutory audit services	1 978	1 515
Other audit services	67	92
Contract work irrecoverable	10 177	12 062
Fruitless and wasteful expenditure (refer to note 19)	1 028	1 930
Governance costs	304	345
ICT services	18 411	21 814
Internal audit fees	1 731	3 163
Legal costs	1 390	570
Other operational expenses	5 089	7 712
Operating leases - land and buildings	55 957	51 907
Operating leases - equipment	2 858	2 047
Provision for impairment of receivables	12 500	4 710
Receivables written off as uncollectible	-	46
Recruitment costs	8 075	10 208
Stakeholder relations	10 108	7 846
Stationery and printing	5 845	5 658
Subsistence and travelling irrecoverable	9 892	10 555
Telephone and postage	6 842	5 865
Present value of expenditure adjustment (refer to note 21)	(1 128)	-
	151 124	**148 045**

18.1 Conference cost	2010 R'000	2009 R'000
INCOSAI conference	760	-
INTOSAI conference	5 749	-
AFROSAI conference	(11)	9 024
	6 498	**9 024**

INCOSAI will be hosting it's Congress on 19-28 November 2010 in Johannesburg. The assembly will be hosted by the AGSA.

INTOSAI held its 59th Meeting in Cape Town on 15-19 November 2009. The assembly was hosted by the AGSA and was attended by 77 delegates from 32 countries.

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

19 Fruitless and wasteful expenditure

SA Revenue services interest and penalty [10]	-	562
Reperformance of audit work [11]	1 027	1 359
Other (interest charged by suppliers)	1	9
	1 028	**1 930**

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

[11] Limpopo

An audit firm was appointed at the cost of the AGSA to perform an independent review of an audit file after a concern was raised regarding the correctness of the audit opinion expressed. Unfortunately the engagement manager on the audit allowed the firm to continue beyond the scope of the initial agreement and an additional amount of R518k was paid to the audit firm. A disciplinary process is currently being conducted regarding this matter.

Western Cape

Overtime and administration cost not communicated with 4 auditees had to be written back resulting in R509k being incurred which was not recoverable from the auditees.

		2010 R'000	2009 R'000
20	**Notebook losses**		
	50 (2009: 35) Notebook computers stolen at carrying amount [12]	**(284)**	**(263)**

[12] No amounts have been recovered as the Auditor-General self-insures notebook computers. Stolen notebooks are reported to the police for investigation.

		2010 R'000	2009 R'000
21	**Interest received/Finance cost**		
	Interest received		
	Interest received on investments	14 292	14 862
	Present value of revenue and trade receivables adjustment (refer to notes 4 and 13)	27 484	-
		41 776	**14 862**
	Finance cost		
	Interest on obligation under instalment sale agreements	(2 062)	(2 667)
	Present value of expenditure and trade payables adjustment (refer to notes 11, 15 and 18)	(6 258)	-
		(8 320)	**(2 667)**

	2010 R'000	2009 R'000
22 Commitments		
22.1 Operating lease commitments		
The future minimum commitments are as follows:		
Due within one year	38 921	38 168
Accommodation	34 545	29 354
Communication equipment	2 640	6 414
Office equipment	1 736	2 400
Between one and five years	334 758	136 648
Accommodation	328 647	122 749
Communication equipment	2 640	9 099
Office equipment	3 471	4 800
More than five years	455 551	205 173
Accommodation	455 551	205 173
	829 230	**379 989**

The office premises are leased for periods between three and ten years. The average lease payments are R2 776 012 (2009: R2 446 165) per month. The leases escalate between 6.5% and 10% annually. The lease agreements are renewable between one month and ten years at the end of the lease term and the Auditor-General does not have the option to acquire the buildings.

Certain items of communication equipment are leased for a period of two years. The average lease payments are R220 000 (2009: R534 500) per month. The lease agreements are renewable for two years at the end of the lease term and the Auditor-General 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 are R144 638 (2009: R199 980) per month. The lease agreements are renewable at the end of the lease term and the Auditor-General does not have the option to acquire the communication equipment.

	2010 R'000	2009 R'000
23 Contingent liability		
Guarantees	187	187

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

Government Employees Pension Fund (GEPF)

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

24 Financial instruments

24.1 Foreign exchange risk

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

No foreign trade receivables were included in trade accounts receivable (2009: 14 123 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 = R7.3249 (2009: 1 USD = R9.6213).

Included in the bank balances at 31 March 2010 is an amount of 2 429 484 USD (2009: 500 425 USD). These balances have been translated at the year-end exchange rate of 1 USD = R7.3249 (2009: 1 USD = R9.6213).

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

24.2 Credit risk

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

An analysis of the ageing of debtors outstanding for 30 days and longer (2010:2009) is as follows:

R155 003 000 (2009: R102 134 000) of debtors, comprising 41.9% (2009: 33.7%) of total debtors, is in arrears. Local Government arrears comprise R98 405 000 (2009: R59 528 000) or 63.5% (2009: 58.3%) of total arrears.

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

A breakdown of the concentration of credit risk that arises from the AGSA's receivables in relation to the type of auditees is as follows:

2010	**Total R'000**	**Current R'000**	**30 - 120 days R'000**	**120+ days R'000**
Debtor type				
National	67 397	60 162	6 426	809
Provincial	105 772	78 005	18 472	9 295
Local	139 798	41 393	45 323	53 082
Statutory	43 936	30 551	6 191	7 194
Other (including unallocated deposits) [13]	13 058	4 847	(264)	8 475
	369 961	**214 958**	**76 148**	**78 855**

[13] Other debtors type includes unlisted public entities, staff debtors, municipality entities, utility agency corporations,1% of auditees who are struggling to pay and their fees are paid by National Treasury.

2009	Total R'000	Current R'000	30 - 120 days R'000	120+ days R'000
Debtor type				
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)	30 174	25 285	1 850	3 039
	323 305	**221 169**	**61 070**	**41 066**

24.3 Interest rate risk

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

2010	Effective fluctuating interest rate %	1 year or less R'000	2 to 5 years R'000	Total R'000
Assets				
Trade and other receivables	0%	341 289	-	341 289
Cash				
-Local				
-Current account	5.25%	91 074	-	91 074
-Call account - PIC	6.00%	124 574	-	124 574
-Foreign	0.00%	17 796	-	17 796
Total financial assets		**574 733**	**-**	**574 733**

	Effective fluctuating interest rate %	1 year or less R'000	2 to 5 years R'000	Total R'000
Liabilities				
Interest bearing borrowings	8.5% - 13%	12 362	15 751	28 113
Trade and other payables	0%	299 294	-	299 294
Total financial liabilities		**311 656**	**15 751**	**327 407**
Net financial assets / (liabilities)		**263 077**	**(15 751)**	**247 326**
2009				
Assets				
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**
Liabilities				
Interest bearing borrowings	12.5% - 13%	11 513	7 726	19 239
Trade and other payables	0%	303 462	-	303 462
Total financial liabilities		**314 975**	**7 726**	**322 701**
Net financial assets / (liabilities)		**175 590**	**(7 726)**	**167 864**

24.4 Liquidity risk

The AG has substantial cash balances at their disposal and minimum long term debt which limits liquidity risk. Nevertheless budgets are prepared on an annual basis to ensure liquidity risks are monitored.

24.5 Additional information in relation to financial instruments

	2010		2009	
Line items presented in the statement of financial position summarised per category of financial instrument	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
	R'000	**R'000**	**R'000**	**R'000**
Financial assets				
Loans and receivables				
Cash and cash equivalents (refer to note 5)	233 444	233 444	180 838	180 838
Trade and other receivables (refer to note 4)	341 289	341 289	309 727	309 727
	574 733	**547 733**	**490 565**	**490 565**
Financial liabilities				
Financial liabilities measured at amortised cost				
Instalment sale agreements (refer to note 9)	28 113	28 113	19 239	19 239
Trade and other payables (refer to note 11)	299 294	299 294	303 462	303 462
	327 407	**327 407**	**322 701**	**322 701**

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:

	2010	**2009**
Average days outstanding - receivables	110	86
Average days outstanding - payables	43	67

Sensitivity analysis

Below is 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.

2010

	Current & Call account interest rate		
	Current balance	**-1%**	**+1%**
Net deficit	99 165	101 397	96 952
% Change	-	2.3%	-2.2%
Current bank and call account balances	215 648	217 070	212 626
% Change	-	0.7%	-1.4%

	USD and Euro exchange rate		
	Current balance	**-R1**	**+R1**
Net deficit	99 165	103 084	96 550
% Change	-	4.0%	-2.6%
Foreign bank account balance	17 796	18 448	17 144
% Change	-	3.7%	-3.7%
International debtor balance	-	-	-
% Change	-	0.0%	0.0%

	Instalment sale agreement interest rate		
	Current balance	**-1%**	**+1%**
Net deficit	99 165	99 303	99 027
% Change	-	0.1%	-0.1%
Instalment sale agreements balance	28 113	28 064	28 161
% Change	-	-0.2%	0.2%

2009

	Current & Call account interest rate		
	Current balance	-1%	+1%
Net deficit	(16,097)	(17,372)	(14,653)
% Change	-	7.9%	-9.0%
Current bank and call account balances	176,023	174,549	109,452
% Change	-	-0.8%	-37.8%

	USD and Euro exchange rate		
	Current balance	-R1	+R1
Net deficit	(16,097)	(20,137)	(12,057)
% Change	-	25.1%	-25.1%
Foreign bank account balance	4,815	4,314	5,315
% Change	-	-10.4%	10.4%
International debtor balance	136	122	150
% Change	-	-10.3%	10.3%

	Instalment sale agreement interest rate		
	Current balance	-1%	+1%
Net deficit	(16 097)	(16 101)	(16 093)
% Change	-	0.0%	0.0%
Instalment sale agreements balance	19 239	19 239	19 239
% Change	-	0.0%	0.0%

25 Notes to the cash flow statement

25.1 Revenue collected from auditees

	2010 R'000	2009 R'000
Revenue	1 644 647	1 375 925
Net increase in trade receivables	(46 656)	(68 080)
	1 597 991	**1 307 845**

25.2 Direct audit cost payments

	2010 R'000	2009 R'000
Direct audit cost	(1 155 124)	(1 069 668)
Net increase in trade payables	59 938	95 634
	(1 095 186)	**(974 034)**

25.3 Operational expenditure payments

	2010 R'000	2009 R'000
Operational expenditure	(406 273)	(322 354)
Adjusted for:		
Straightlining of leases	9 269	10 477
Interest received	(41 776)	(14 862)
Finance charges	8 320	2 667
Foreign exchange (loss) / gain	2 618	(3 395)
Depreciation	22 687	17 504
Amortisation	3 634	3 060
Increase in provision for impairment of receivables	12 500	4 710
Decrease in provision for post-retirement medical aid benefits	(4 906)	(1 273)
(Profit) / loss on the disposal of property, plant and equipment and intangible assets	(737)	1 625
Increase in provisions	-	2 243
	(394 664)	(299 598)

	2010 R'000	2009 R'000
Other working capital changes	(70 781)	(2 558)
Increase in other receivables	2 594	(1 128)
Decrease in other payables	(73 375)	(1 430)
	(465 445)	**(302 156)**

25.4 Foreign exchange (loss) / gain

	2010 R'000	2009 R'000
Realised foreign exchange gain	2 961	2 623
Exchange differences in cash and cash equivalents [14]	(5 579)	772
Foreign exchange (loss) / gain	**(2 618)**	**3 395**

[14] The difference between the closing and opening exchange rate applied to the foreign bank balance and international debtor balance.

25.5 Acquisition of property, plant and equipment

	2010 R'000	2009 R'000
Computer equipment	(21 205)	(16 402)
Motor vehicles	-	(420)
Office equipment	(101)	(890)
Furniture and fittings	(3 032)	(12 513)
Leasehold improvements	(1 773)	(7 602)
	(26 111)	**(37 827)**

	2010 R'000	2009 R'000
25.6 Acquisition of intangible assets		
Computer software	-	(1 961)
Other software	(1 352)	(610)
	(1 352)	**(2 571)**
25.7 Cash and cash equivalents		
Call account at Public Investment Corporation	124 574	125 589
Investment to fund working capital requirements	44 146	50 827
Investment reserved for specific liabilities	80 428	74 762
Current bank account	91 074	50 434
Foreign bank account	17 796	4 815
	233 444	**180 838**

26 Taxation

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

27 Professional indemnity insurance

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

28 Events after the reporting period

There were no matters or circumstances that arose after the end of the financial year that will materially affect these annual financial statements.

Comparison of actual results with the approved budget

	Notes	Actual R'000	Budget R'000	Variance R'000
Revenue				
Audit fees earned		1 644 647	1 706 776	(62 129)
Own hours		1 108 814	1 124 529	(15 715)
Contract work		508 247	507 432	815
Subsistence and travel	1	61 785	74 815	(13 030)
Present value of revenue adjustment	2.1	(34 199)	-	(34 199)
Direct audit cost		(1 155 124)	(1 129 039)	(26 085)
Recoverable staff cost (refer to note 14 as per AFS as per AFS)	3	(591 185)	(546 792)	(44 393)
Contract work recoverable		(502 154)	(507 432)	5 278
Contract work recoverable		(508 247)	(507 432)	(815)
Present value of expenditure adjustment	2.2	6 093	-	6 093
Subsistence and travel recoverable	1	(61 785)	(74 815)	13 030
Gross Profit		489 523	577 737	(88 214)
Other income	4	20 273	1 986	18 287
Increase in post-retirement medical aid benefit provision	5	2 849	(7 469)	10 318
Foreign exchange (loss) / gain		(2 618)	-	(2 618)
Contribution to overheads		510 027	572 254	(62 227)

Supplementary information (cont)
Unaudited information

	Notes	Actual R'000	Budget R'000	Variance R'000
Expenditure		(444 318)	(526 943)	82 625
Amortisation expense	6	(3 634)	(5 204)	1 570
Auditor's remuneration				
Statutory audit services		(1 978)	(2 250)	272
Other audit services		(67)	-	(67)
Bad debts written off		-	-	-
Contract work irrecoverable	7	(10 177)	(18 120)	7 943
Course fees and study assistance (refer to note 14 per AFS)	8	(58 350)	(88 894)	30 544
Depreciation expense		(22 687)	(22 927)	240
Fruitless and wasteful expenditure		(1 028)	-	(1 028)
Governance costs		(304)	(491)	187
ICT Services	9	(18 411)	(28 576)	10 165
Internal audit fees	10	(1 731)	(3 005)	1 274
Legal costs		(1 390)	(1 044)	(346)
Operating leases - equipment	11	(2 858)	(4 040)	1 182
Operating leases - land and buildings	12	(55 957)	(47 970)	(7 987)
Other expenses	13	(5 089)	(7 668)	2 579
Provision for accumulated leave benefits	14	(13 622)	(6 662)	(6 960)
Provision for impairment of receivables	15	(12 500)	-	(12 500)
Recruitment costs		(8 075)	(8 737)	662
Special expense: performance bonus (refer to note 14 per AFS)	16	(43 951)	(12 000)	(31 951)
Stakeholder relations / conference cost	17	(16 606)	(33 781)	17 175
Staff expenses (normal staff exp) (refer to note 14 per AFS)	18	(144 452)	(207 407)	62 955
Stationery and printing	19	(5 845)	(7 614)	1 769
Subsistence and travelling irrecoverable		(9 892)	(12 788)	2 896
Telephone and postage		(6 842)	(7 765)	923
Present value of expenditure adjustment	2.2	1 128	-	1 128
Surplus from operations		65 709	45 311	20 398

	Notes	Actual R'000	Budget R'000	Variance R'000
Interest received	20	14 292	8 298	5 994
Present value of revenue and trade receivables adjustment	2	27 484	-	27 484
Finance charges		(2 062)	(1 422)	(640)
Present value of expenditure and trade payables adjustment	2	(6 258)	-	(6 258)
Net surplus for the year		99 165	52 187	46 978

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 7 October 2008 and tabled in Parliament on 21 January 2009 in terms of the same section.

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

1 Subsistence and travelling recoverable

The savings are mainly due to better negotiated rates for air travel and hotel accommodation and consolidation of some audits. Actual revenue being lower than budget also contributed to the favourable variance.

2 Present value of revenue and expenditure adjustment

In terms of Circ 9 of 2006, which explains the implementation of IAS 8 in greater detail, trade receivables, trade payables, revenue and expenditure must be disclosed at fair value at year end. This resulted in the following adjustments:

	Interest received	
2.1	Present value of revenue adjustment	34 199
	Present value of trade receivables adjustment	(6 715)
		27 484
	Finance charges	
2.2	Present value of expenses adjustment	(7 221)
	Present value of trade payables adjustment	963
		(6 258)

Supplementary information (cont)

Unaudited information

3 Recoverable staff cost

The unfavourable variance of R44 million was due to the increase of limited duration contracts (LDC) budgeted at R422 000 (actual R43 million). However, these LDC personnel contribute to own hours' income. In addition, the actual staff mix used on audits was on a lower band than the budgeted staff mix. This resulted in the average mark-up factor being 1,87 as opposed to the average budgeted mark-up factor of 2,06.

4 Other Income

The favourable variance of R18 million is mainly due to a grant of R16 million recognised in the current financial year. The grant received is in relationship to INTOSAI conference expenses of R11 million and capital expenditure of R5 million.

5 Post retirement medical aid benefit provision

The favourable variance of R10 million is due to actuarial valuation performed for the year ending 31 March 2010. The valuation was influenced amongst others by a decrease in the number of in service employees eligible for the benefit.

6 Amortisation expense

The favourable variance is mainly due to a decrease in acquisition of Microsoft software than had been budgeted resulting in the actual amortization expense being lower than budget. The total purchase of Microsoft software was R1.3 million.

7 Contract work irrecoverable

The favourable variance of R8 million is a result of projects commencing later than planned. The Leadership programme and the upgrade of the Human Capital PeopleSoft module were budgeted for in 2010; but will only be implemented in 2011.

8 Course fees and study assistance

Professional services are associated with all the training requirements of AGSA. The areas contributing to the under spending are study assistance and external training. The underspending is due to the study assistance policy that requires a pass in the previous year before a new bursary is awarded. The pass rate has been lower than expected and hence the favourable variance.

9 ICT Services

The favourable variance of R10 million is mainly due to ICT projects starting later than originally planned.

10 Internal audit fees

The favourable variance is due to an over estimate of internal audit fees.

11 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.

12 Operating leases – land and buildings

The unfavourable variance is due to the straightlining of leases on premises per IAS 17 disclosure requirement. The IAS adjustment increased accommodation expense by R7 million.

13 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.

14 Provision for accumulated leave benefits

The unfavorable variance is due to an increase in leave days accrued at a higher salary rate (due to the annual salary increases affected on 1 July 2009). Accumulated number of leave days increased from 27 035 (31 March 2009) to 30 003 at year end

15 Impairment of receivables

The provision for impairment of receivables increased due to a deterioration in collection of audit fees owed by local government. Debtor days outstanding for local government have increased from 104 to 162 days. The amount outstanding for local government as at 31 March 2010 has increased from R105 million (31 March 2009) to R140 million.

16 Special expense: performance bonus

The AGSA has a performance management system and process that commit the organisation to recognise and reward employees when they have achieved the agreed work performance results. The system combines individual performance with the overall AGSA performance to identify employees who are eligible for a bonus. A number of employees have achieved performance results as set out in their yearly performance agreements. The payment of the performance bonus honours the AGSA's commitment to recognise and reward those employees who have excelled in their performance. The higher-than-budgeted bonus payment is offset by a saving on overall remuneration of R63 million and the fact that increases were confined to 8,5% rather than the 15% budgeted.

17 Stakeholder relationships / conference cost

The favourable variance is due to the Senior Managers Workshop planned for the current year taking place in 2010/11 and overseas travel not taking place as planned.

18 Staff expenses (normal staff expenses)

The favourable variance is attributed to below budget salary increase (actual 8.5%: budget 15%) and the delay in its implementation (July 2009 instead of April 2009).

19 Stationery and printing

The main reason for the savings was the prudent use of stationery by business units. The use of multifunctional devices reduced the cost of printing, therefore contributing to the favourable variance.

20 Interest received

The average favourable bank balance for the year was higher than anticipated, resulting in a favourable variance of R6 million.

GLOSSARY OF TERMS

A
Accounting Standards Board (ASB)
Audit Committee (AC)
African National Congress (ANC)
African Organisation of Supreme Audit Institutions (AFROSAI)
Association of Public Accounts Committees (APAC)
Auditor-General (AG)
Auditor-General of South Africa (AGSA)
Association of Public Accounts Committees (APAC)
B
Broad-based black economic empowerment (BBBEE)
C
Capability maturity model (CMM)
Chartered accountant (CA)
Chief Financial Officer (CFO)
Congress of the People (COPE)
Corporate social investment (CSI)
D
Democratic Alliance (DA)
Department of Cooperative Governance and Traditional Affairs (CoGTA)
Deputy Auditor-General (DAG)
E
Employment equity (EE)
Enterprise resource planning (ERP)
Executive Committee (Exco)
F
G
Generally Recognised Accounting Practice (GRAP)
Gross margin (GP)
H
I
Independent Regulatory Board for Auditors (IRBA)
Information and Communications Technology (ICT)
Information Systems Audit and Control Association (ISACA)
Inkatha Freedom Party (IFP)
International Congress of Supreme Audit Institutions (INCOSAI)
International Organisation of Supreme Audit Institutions (INTOSAI)
International Standards on Auditing (ISA)
International Standards of Supreme Audit Institutions (ISSAIs)
International Standards on Quality Control (ISQC1)
J
K
KwaZulu-Natal (KZN)
L
M
Municipal Finance Management Act (MFMA)
N
National Council of Provinces (NCOP)
National Treasury (NT)
O
Office of the Accountant-General (OAG)
P
Premiers' Coordinating Forum (PCF)
Promotion of Access to Information Act (PAIA)
Public Audit Act (PAA)
Public Accounts Committee (PAC)
Public Finance Management Act (PFMA)
Q
Quality Control Assessment Committee (QCAC)
R
Remuneration Committee (REMCO)
Registered Government Auditor (RGA)
S
Sector Education and Training Authority (SETA)
Senior Management Workshop (SMW)
South African Broadcasting Corporation (SABC)
South African Human Rights Commission (SAHRC)
South African Institute of Chartered Accountants (SAICA)
South African Institute of Government Auditors (SAIGA)
Standing Committee on the Auditor-General (SCoAG)
Standing Committee on Public Accounts (SCOPA)
Supreme Audit Institution (SAI)
T
Trainee auditors (TA)
U
United Nations Board of Auditors (UNBOA)
United Nations (UN)
V
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