**2. REPORT OF THE STANDING COMMITTEE ON THE AUDITOR-GENERAL ON THE STRATEGIC PLAN AND BUDGET FOR 2016-19 FINANCIAL YEARS****, DATED 13 APRIL 2016.**

The Standing Committee on the Auditor-General (SCOAG) having considered the Strategic Plan and Budget of the Auditor-General of South Africa for the financial years 2016-19, reports as follows:

**1. Background and Introduction**

The National Assembly established SCOAG as an oversight mechanism to monitor the performance of the Auditor-General of South Africa (AGSA). The AGSA’s strategic plan and budget forms a significant part of this Committee’s responsibility in meaningfully overseeing the activities of the Office of the Auditor-General. The mandate of SCOAG is to assist and protect the AGSA, to ensure its independence, impartiality, dignity and effectiveness.

Section 38 (1) of the Public Audit Act 25 of 2004 (PAA) requires that the affairs of the office of the Auditor-General be conducted in accordance with a business plan and budget prepared by the AG for each financial year. Such budget must include estimates of revenue and expenditure, for the years to which it relates as well as the basis on which audit fees for each year will be calculated. Furthermore, section 38(2) of the PAA requires that the AGSA must at least six months before the start of a financial year, submit the budget and business plan referred to in subsection (1) to the SCOAG. Section 38(3) of the PAA regulates that SCOAG, as the oversight mechanism, must consider the budget and business plan and within two months of receipt thereof submit its recommendations to the Speaker for tabling in the National Assembly (NA) and National Treasury.

1. **STRATEGIC PLAN AND BUDGET OVERVIEW**

The AGSA as the supreme audit institution of South Africa, has a constitutional mandate to assist in strengthening the country’s democracy by enabling oversight, accountability and governance in the public sector and thereby building public confidence. AGSA commits to four predetermined measurable objectives for 2016/17 financial year towards discharging its constitutional mandate as the Supreme Audit Institution of the country. These predetermined objectives include the realisation of Value-Add Auditing, Visibility for Impact, Viability in Managing AGSA’s Resources and Values and Vision Driven which are incorporated into the strategic plan. The development of the targets is a key step in effective strategic planning. AGSA commits to achieve these set targets in the 2016/17 financial year and they overlap the medium term (2017/18 to 2018/19). The AGSA strategic plan includes the following pillars:

**2.1 Value-Add Auditing**

In this target AGSA, in its 2016-2019 report, commits to concentrate on auditing areas that are of importance and to influence all stakeholders in the public sector to utilise public funds as intended for the benefit of the citizens of South Africa. AGSA further committed to strengthen its audit methodology with the aim of increasing the levels of transparency, accountability and good governance. In addition AGSA committed to deliver consistent, simple, clear and relevant messages to the users of its reports (AGSA Strategic Plan and Budget: 2016-19: 16)

AGSA commits to identify the gaps in auditing through the stakeholder survey and set a target to meet 90 to 100 percent of the actions in 2016/17 financial year. AGSA will use quarterly reports as a tool to measure this target.

For clear articulation of root causes, a target was set at 95 to 100 percent. The evaluation by AGSA will be used as a tool to measure this goal.

A target for adherence to quality standards in AGSA’s general reports was set at 95 to 100 percent and this will be evaluated by the AG.

**2.2 Visibility for Impact**

AGSA commits to engage its stakeholders to preserve its reputation and aims to encourage all stakeholders to implement the AGSA recommendations. In addition, AGSA committed to improvements in stakeholders relationships and engagement programs.

For high-quality focus on external stakeholder interactions and improved partnering with the stakeholder, a target was set at 70 to 75 percent. The qualitative rating by the AG will be used as a tool to measure the performance on this target (AGSA Strategic Plan and Budget: 2016-19: 21)

A target for the implementation of methodology, tools and processes for visibility programmes per reporting period was set at 95 to 100 percent to achieve deliverables for 2016/17. The tool to measure this target will be through project tracking.

For the leadership programme, a target was set at 95 to 100 percent for 2016/17 and the project tracking tool will be used to measure this target.

AGSA also set a target at 95 to 100 percent for the implementation of the civil society engagement plan for 2016/17, and the performance of this target will be measured by the project tracking tool.

* 1. **Viability**

With regard to this target AGSA aims to enhance the management of all its resources. The development and professionalising of AGSA’s staff in audit and support areas towards contributing to the accounting skills human resource pool in South Africa, will be prioritised. Furthermore, AGSA commits to increase the efficiencies of its operations such as that there is an increase in the collection of audit fees in order to strengthen its financial viability.

The net surplus or sustainability margin was projected at 1 to 2 percent for 2016/17. This will be indicated by the analysis of the comprehensive income statement and each business unit will be set individual targets on efficiency as follows:

* For debts collected over 12 months by the National Business units a target was set at 96 to 99 percent;
* For debts collected over 12 months by the Provincial Business Units a target was set at 70 to 85 percent;
* For debts collected from the National Treasury a target was set at 100 percent. The tool to measure the actual performance of collection will be the debtors’ age analysis report. (AGSA Strategic Plan and Budget 2016-19:24)

For staff compliment levels a target was set at 89 to 91 percent and the staff turnover target was 10.5 % to 11.5 %. Both staff occupancy and turnover will be measured by a report from the Enterprise Resource Planning System (ERPS).

Implementing the people strategy, AGSA committed to conclude the implementation of an enhanced reward and recognition programme competency framework as well as a multistage curriculum. The tool to measure the implementation of the people strategy will be the project tracking.

The performance indicator of AGSA’s operating model improvements will be the implementation of a support service delivery model. This will be measured by the project-tracking tool.

For the completion and implementation of the appropriate audit software a target was set at 95 to 100 percent to achieve deliverables in the project plan in 2016/17. This performance indicator will be measured by the project-tracking tool.

The strategic alignment sessions by top leadership as per stakeholder engagement plan has a target set at 90 to 95 percent. The project-tracking tool and the Deputy Auditor-General (DAG) qualitative rating will be used to measure the actual performance of this goal.

With regard to the sustainability strategy AGSA will complete an awareness program and implement an environmental management accounting mechanism. This will be measured by the project-tracking tool.

* 1. **Values and Vision Driven**

AGSA committed to lead by example through high levels of accountability, and effective governance. It will do this by using its leaders to drive its organisational culture so that it can have the desired impact on service delivery in the public sector and on the lives of citizens.

To continue to be a transformational organisation AGSA commits to ensure its own clean administration. The implementation of the transformation strategy will be done by intensifying the Education Skills Development programme (ESD) and enhance its partnership with selected universities. The project-tracking tool will be used for measuring the actual performance of this goal.

For the Broad-Based Black Economic Empowerment (BBBEE) level, AGSA set a target to achieve level 2 in 2016/17. AGSA will do this by accelerating its enterprise development programme and implementing its transformation strategy. The actual performance will be measured by the external assessor (AGSA Strategic Plan and Budget 206-19: 30)

For the external audit opinion, AGSA commits to achieve a clean audit in 2016/17.

A target was set at 95 to 100 percent for the rate of closure of management commitments on all audit findings. The tools to be used are, the external audit, report tracking register of audit findings, internal audit reports and independent assessment including the effectiveness of committees.

1. **Budget**

AGSA’s budget is an itemised forecast of income and expenditure for the 2016/17 financial year. The main purpose of budgeting is to ensure that the AGSA can continue to fund its operations.

Section 38(1) of the PAA requires that the affairs of the AG must be conducted in accordance with a budget and business plan prepared by the AG for each financial year which must include estimates of revenue and expenditure, for the year to which it relates.

In order to adhere to the requirements of section 38(1) of the PAA, AGSA compiled and attached its budget to its strategic plan for the 2016/17 financial year.

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Revenue (direct audit income) R3,090.53,090.5

Less: direct audit cost R(2,115.3)

**Gross profit R R 975.2**

Add: other income (indirect income) R69.6

Overhead contribution R1,044.8

Less: other expenses (indirect costs) (R1.013.4)

**Net surplus for 2016/17 financial year R31.4**

**Revenue** – is the income that AGSA received from its audit service, usually from the audit fees. Total revenue includes own hours revenue which amounts to R 2,300.6 (billion), and contract work revenue amounts to R656.8 (million) for 2016/17.

**Direct audit costs** – are the expenses that are directly attributed to audit service which were projected to R 2,115.3 (billion) for 2016/17. The direct audit costs include personnel expenditure which amounts to R 1,318.9 (billion), subsistence and travel (S&T) of R 147.9 (million), and contract work cost of R 656.8 (million) less the present value of contract work adjustments of R 8.3 (million).

**Gross profit** – the gross profit amounts to R 975.2 (million) which is the difference between revenue and the cost of providing audit service, before deducting the indirect audit costs, which includes overhead expenses of R 972.4 (million) and depreciation which amounts to R 41.0 (million).

**Other income** – is the income that AGSA receives from its activities other than audit service (audit fees) which includes investment interest amounting to R 28.2 million, and the present value adjustments of R 41.4 million, which total up to R 69.6 million in 2016/17.

**Other expenses or indirect costs** – are the expenses that are not related to audit services. Overhead expense of R 972.4 million, and the provision of depreciation of R 41.0 million make up the total indirect costs of R 1, 013.4 (billion).

**Net surplus** – is the profit remaining after subtracting both the direct and indirect costs. Net surplus is projected at R 31.4 million in 2016/17.

1. **Recommended Audit Tariffs**

Section 23(1) of the PAA requires the AG determines the basis for the calculation of audit fees to be recovered from auditees in respect of audits performed by the AG, after having consulted the oversight mechanism (SCOAG) and the National Treasury.

In compliance with section 23(1) of the PAA, AGSA should recommend the increase of tariffs rate in its strategic plan for 2016/17 which is calculated based on average staff costs per band and interval, mark up factor and recoverable hours. The increase in the average charge rate should also consider the salary increase in 2016/17. Subsequently, AGSA proposes an increase of 4.6 percent tariff for the 2016/17 financial year. The average tariff will increase from R576 per hour (2014/15) to R602 per hour in the 2015/16 financial year. Importantly, the proposed average tariff increase for 2016/17 (4.7 %) is lower than that of 2015/16 financial year (5.4 %).

1. **Audit Directives**

Section 13(1) of the PAA requires that the AG, after consulting the oversight mechanism, must determine:

* The standards to be applied in performing audits which the AG must perform or opt to perform;
* The nature and scope of such audits; and
* Procedures for the handling of complaints when performing such audits.

Section 13(2) of the PAA regulates that in setting standards the AG must take into account all relevant factors, including:

* Best auditing practices, both locally and internationally; and

The capacity of the AG and the auditing profession to comply with those standards

Section 13(3) of the PAA requires that the AG may:

* Make different determinations on audit standards to be applied, nature and scope of audit, and procedures for the handling of complaints when performing audit for different categories of audits based on recognised best practice; or
* Issue specific directives on these matters in any specific case.

## Conclusion and Recommendations

The Standing Committee on Auditor-General recommends that:

* Parliament approves the AGSA Budget and Strategic Plan 2016 to 2019
* Parliament approves the proposed AGSA audit tariffs increase as set out I Annexures 3 and 4 of the Strategic Plan.
* AGSA should strive to achieve the maximum on all targets set.
* Current audit directives to be retained and Parliament approves the AGSA’s discretionary determination of audit directives for the 2016/17 financial year, in line with International Standards on Auditing. Any revision made by the AGSA from International Standards on Auditing should be communicated to the SCOAG.
* Report to be considered.