



A U D I T O R - G E N E R A L
S O U T H A F R I C A

2017 – 2020

STRATEGIC PLAN AND BUDGET

of the Auditor-General of South Africa



Presentation to SCoAG

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October 2016



OUR VISION



To be recognised by all our stakeholders as a relevant **SUPREME AUDIT INSTITUTION** that enhances public sector accountability.

OUR MISSION



The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, 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 VALUES



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



Objective of the discussion

- ❑ To engage the AGSA's oversight committee on the 2017-20 Strategic plan and budget.



Presentation outline

- ❑ Main external and internal factors and trends considered in this plan.
- ❑ Performance measures per strategic goal
- ❑ Synopsis of the organisational budget for 2017-18.

Our strategic roadmap to 2024



To be recognised as the relevant supreme audit institution by all our stakeholders

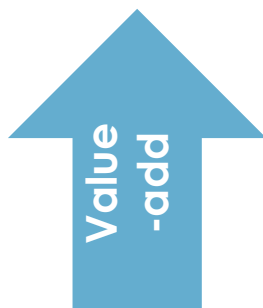
Oversight and accountability

Strong financial and performance management systems

Commitment and ethical behaviour by all

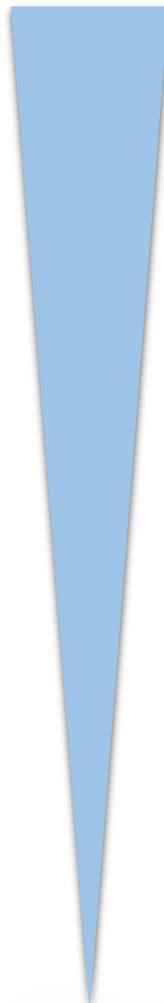
A competent and value-adding Auditor-general

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



A transformational organisation that is vision and values driven

2024



2017

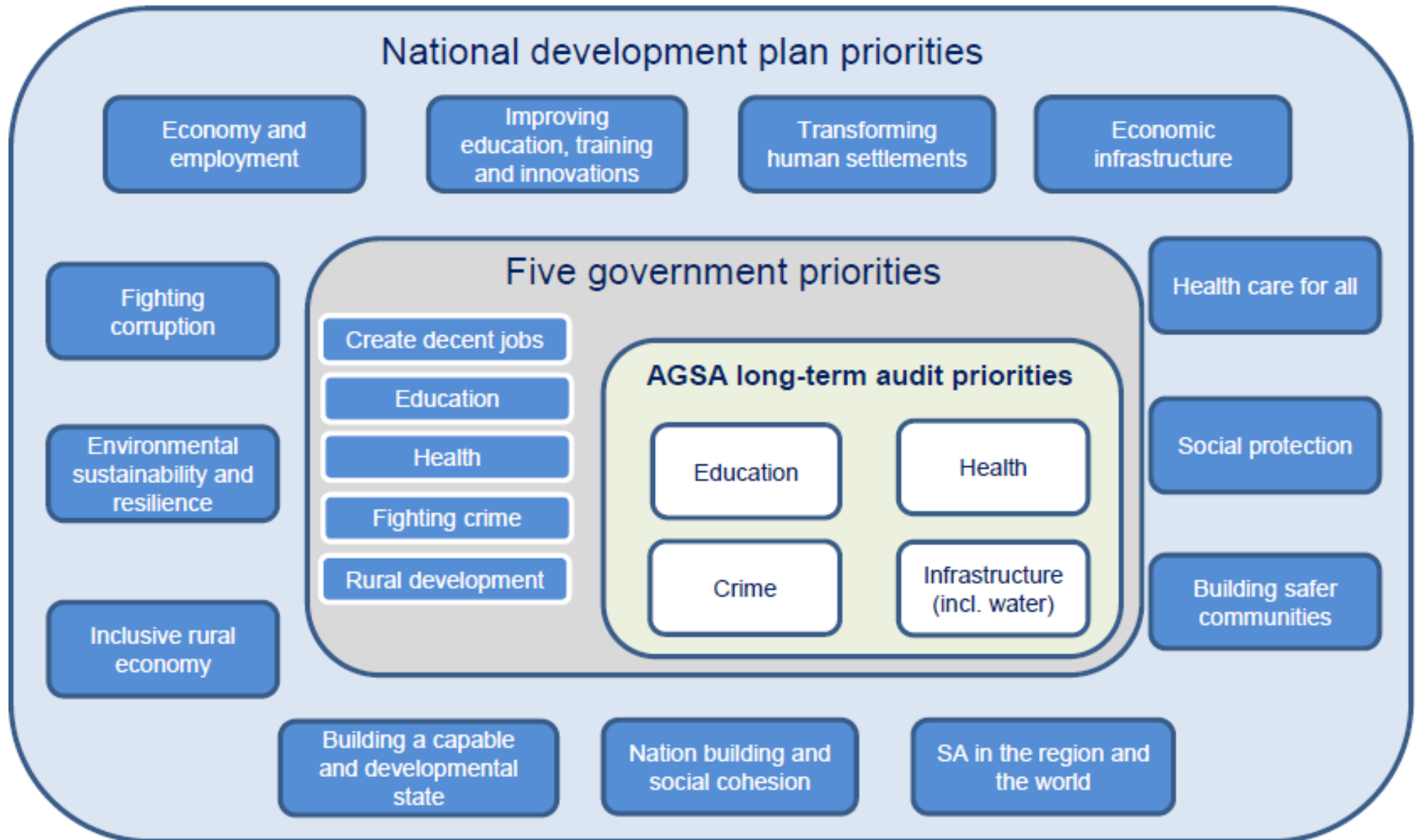


Major environmental trends considered in this plan

- ✓ Increased number and trends of pushbacks resulting in infringement of our mandate
- ✓ Greater attention to consequence management in the public sector.
- ✓ Slowdown in economic growth resulting in increased number of auditees in distress
- ✓ Increased importance and attention to the achievement of the SDG
- ✓ Scarcity of skills
- ✓ Contribution to transformation
- ✓ Attention to quality of audits



Alignment of audit focus areas to government priorities





VALUE-ADD

The value that we expect to add to the work of government and all our stakeholders resides in **enhancing our audit approach and focus areas**



- ✓ Our focus remains on auditing areas that matter
- ✓ Sharpen our work on detecting and exposing practices that ultimately result in wastage of public money.
- ✓ Elevate the instances of irregular and unauthorised expenditure and will seek to establish a direct line of sight from detection of breaches to implementation of consequences.
- ✓ Continue examining real drivers of value in our client's activities and deepening our understanding of the entities' real business.
- ✓ Start providing awareness of the achievement of the UN SDGs
- ✓ Improve the timing of completion of our performance audit reports.



Measure: % of stakeholders who view our audit work as adding value to the achievement of their mandates.



Performance Target: 70% - 80% and closure of identified gaps.

Measure: Auditor General's assessment of organisation's performance on Value Add.



Performance Target: Achieved organisational objectives on value add

Key Strategic Initiatives and enablers


Initiative

- ✓ Integrated audits tailored to the needs of each client
- ✓ Use of CAATs and data analytics
- ✓ Implementation of our new Audit methodology
- ✓ Implementation of our section 4(3) strategy.



Measure: % adherence to quality standards of audits

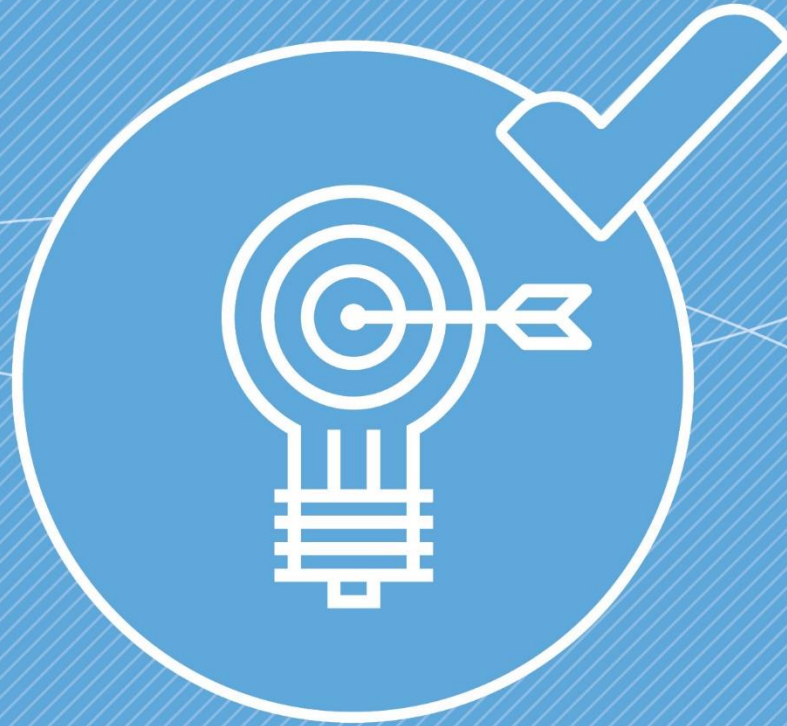
Performance Target: 80% - 90% (C1, C2 and C3 rating)



Initiative

Key Strategic Initiatives

- ✓ Increase the technical quality of our audits.
- ✓ Improve timeliness of audit reports
- ✓ Ensure quality and timeliness of our GRs
- ✓ Benchmark our practices internationally



VISIBILITY

Meaningful and continuous engagement of stakeholders that **enables positive improvements in financial and performance management**



- ✓ Our stakeholders expect an increased level of communication about our findings and forewarnings about the status of the system of public administration as a whole.
- ✓ Explore better and innovative ways of communicating about what matters to our stakeholders.
- ✓ Educate and empowering citizens to hold their elected representatives accountable.
- ✓ Drive internal improvements in our engagement tools and building capacity for impactful stakeholder interactions.
- ✓ Provide leadership internationally through our role in the CBC and derive value from our international endeavour.



Measure: % of stakeholders who view our engagements as meaningful and of high quality.

Performance Target: 65%-75% and closure of identified gaps

Measure: Auditor General's assessment of the organisation's performance on Visibility.

Performance Target: Achieved organisational objectives for Visibility

Key Strategic Initiatives

- ✓ Intensify engagements with constitutional stakeholders with the use of our Status of records review tool.
- ✓ Implement our thought leadership programme for AO and CFOs
- ✓ Provide effective support to AFROSAI-E on professional development
- ✓ Implement the CBC strategy effectively and contribute to the work of the specialist INTOSAI groups



Initiative



Measure: % of favourable opinion of the AGSA by citizens.



Performance Target: 70% - 80% and closure of identified gaps.



Key Strategic Initiatives

- ✓ Increase the reach and impact of engagement with citizens on our mandate and role through: **community outreach, CSI activities, social media.**
- ✓ **Synergies with Parliament on engaging citizens**
- ✓ Enhance citizens' awareness and understanding of audit outcomes: **engaging professional associations, consolidating the GR supporting material, responsible media coverage of audit outcomes**



VIABILITY

Executing our mandate in the most economical, efficient and effective manner to achieve **optimal management of our resources**



- ✓ Further improve efficiencies and increase audit fees collection
- ✓ Strengthen our contribution to consequence management for maladministration in the public sector.
- ✓ Develop professional staff, both in audit and support areas.
- ✓ Train black CAs as part of our commitment to the transformation of the accounting and auditing profession.
- ✓ Intensify leadership engagement with staff.



Measure: Net surplus

Target: 1% - 4%

Measure: % debt collected Nat BUs

Target: 98% - 100%

Measure: % debt collected Prov BUs

Target: 75% - 90%



Key Strategic Initiatives

- ✓ Review and optimisation of our operating model.
- ✓ Cost optimisation through limiting headcount growth, reduction of overtime and strategic sourcing.
- ✓ Debt collection through ring-fencing and litigation
- ✓ Management of working capital

Initiative



Initiative

Key Strategic Initiatives: consequence management in the public sector

- ✓ Utilise MoUs with other organs of state. E.g. Public protector, SIU, Anti corruption task team, etc.
- ✓ Optimise the opportunities for consequence management provided by the Audit directive .
- ✓ Pursue other options for augmenting legislation that supports consequence management in the public sector

Build employee competencies and grow organisational capabilities



Measure: % improvement of SAICA board exam (APC) pass rates

Performance Target: 10% (vs 2016-17 results)



Measure: SAICA accreditation of our training offices

Performance Target: High Risk: 0



Measure: Voluntary turnover of critical skills

Performance Target: 8% - 10%



Measure: % successfully implemented PIPs and PDPs

Performance Target: 80% - 90%



Measure: % improved recovery rates aimed at improving organisational productivity.



Performance Target: 1% - 3%

Measure: % successfully achieved objectives aimed at improving employee productivity



Performance Target: 80% - 90%

Measure: Staff engagement index



Performance Target: 55% - 59%



Strategic Initiatives



- ✓ Implement our comprehensive people strategy
- ✓ Implement our trainee auditor strategy
- ✓ Fully capacitate our training offices
- ✓ Strengthen our pipeline for intake of TAs with CTA
- ✓ Improve further our TA support programmes
- ✓ Create a magnetic employer brand that attracts the best
- ✓ Drive robust performance management processes
- ✓ Improve talent management
- ✓ Increase leadership engagement with staff



Measure: Automation of business processes

Performance Target:

- Upgraded audit management information system
- Upgraded ERP 9.2

Initiative

Key Strategic Initiatives

- ✓ Develop, enhance and integrate IT solutions for increased efficiencies
- ✓ Integrate all organisational data
- ✓ Enhance our GR model for faster compilation of reports
- ✓ Develop online tender process, incl. the CWC tender



VISION AND VALUES

Leading by example through **high levels of accountability and effective governance**, such that we are deserving of our independence.



- ✓ Ensure highest levels of **accountability** and **effective governance**.
- ✓ Respond to the **transformation objectives** of the country.
 - ✓ Support to black owned and transformed audit firms
 - ✓ Strict procurement practices and support to EMEs and QSEs
 - ✓ Increasing the number of black employees living with disabilities



Drive the AGSA's transformation programme



Measure: BBBEE level

Performance Target: Level 2

Strategic Initiatives



Initiative

- ✓ Implement our transformation strategy
 - ✓ Actively contribute to the growth and transformation of the profession
 - ✓ Increase the number of black employees living with disabilities
 - ✓ Strengthen our Enterprise and supplier development programme




Demonstrate clean administration



Measure: External audit opinion

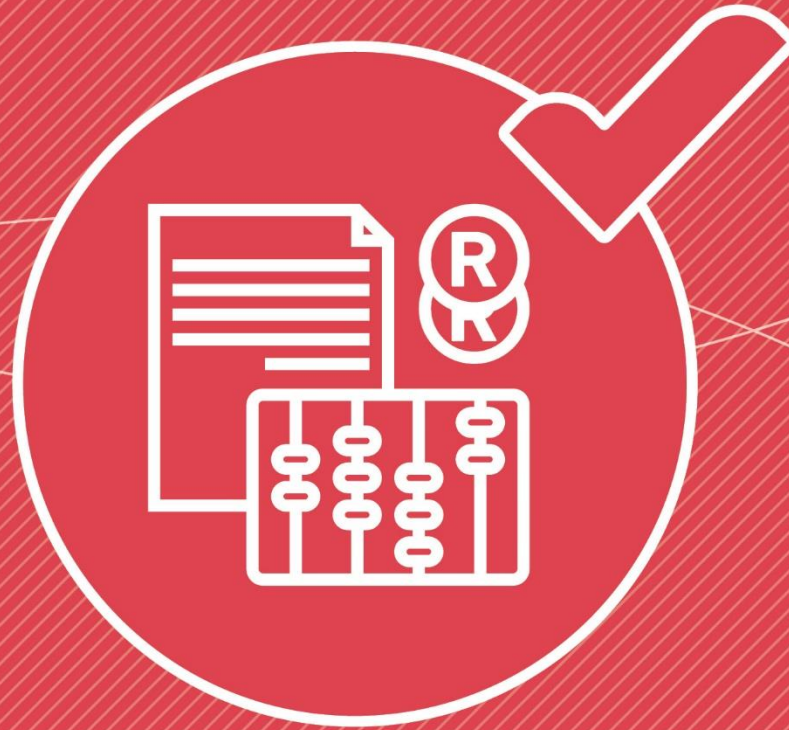
Target: Clean audit



Initiative

Strategic Initiatives

- ✓ Enhance ownership and accountability of business process owners.
- ✓ Demonstrate quality and transparency of reporting in our accountability instruments (the Integrated annual report and the Strategic plan and budget).



FUNDING

We are determined to continue executing our mandate economically, efficiently and effectively



Current funding model	Compliance			
	2014/15	2015/16	2016/17	2017/18
Tariff increase in line with salary increase	Yes	Yes	Yes	Yes
Mark factor	Yes	Yes	Yes	Yes
No capping on tariffs	Yes	Yes	Yes	Yes
Self-funding	Yes	Yes	Yes	Yes

Funding principles and key performance indicators	2014/15	2015/16	2016/17	2017/18
Own hours %	76%	80%	79%	82%
CWC %	24%	20%	21%	18%
Gross profit % (30% to 33%)	33.1%	31.6%	32%	32%
Overheads %	30%	31%	33%	31%
Actual surplus %	5.0%	3.7%	1%	2%

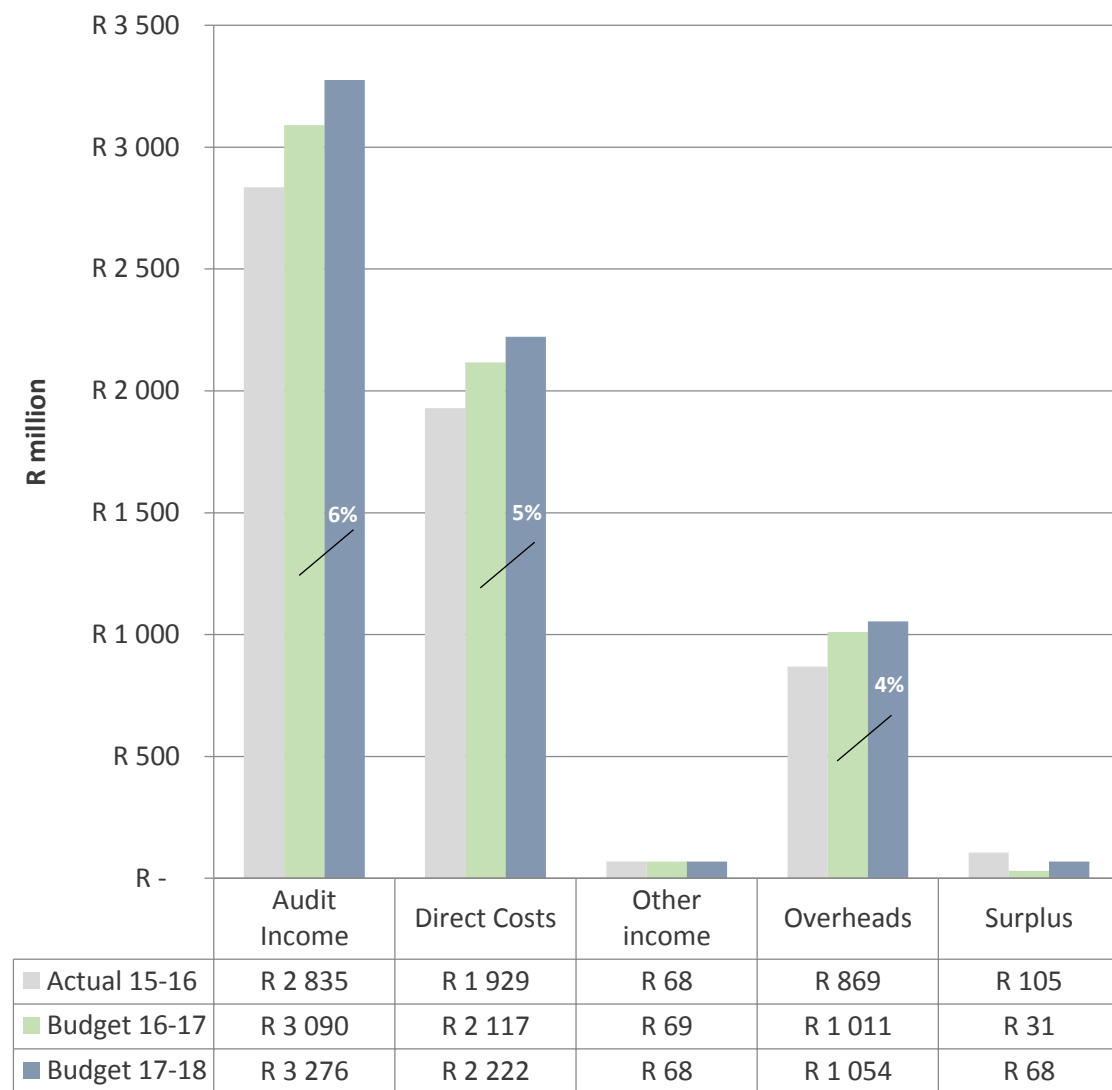
NOW	THEN
Commercially viable and financially independent	The model did not foster financial viability and hence threatened our independence
Tariffs not capped and linked to salary increases	Tariffs were capped resulting into massive operational loss and no funds to cater for operational daily expenditure
Enables to fund both operational and capital expenditure.	A couple of years the AGSA was in a deficit resulting in the suspension of key projects, capacity in support services on hold, high vacancy rate in audit and high CWC%.
Decent surpluses (1 – 4%) to fund our infrastructure and people development	
The model is adequate, however challenges remain on the collection of debt especially local government debt	The model was revised

Our performance has been in line with the funding model principles approved by SCoAG.

Summary income statement: 2017-18 budget

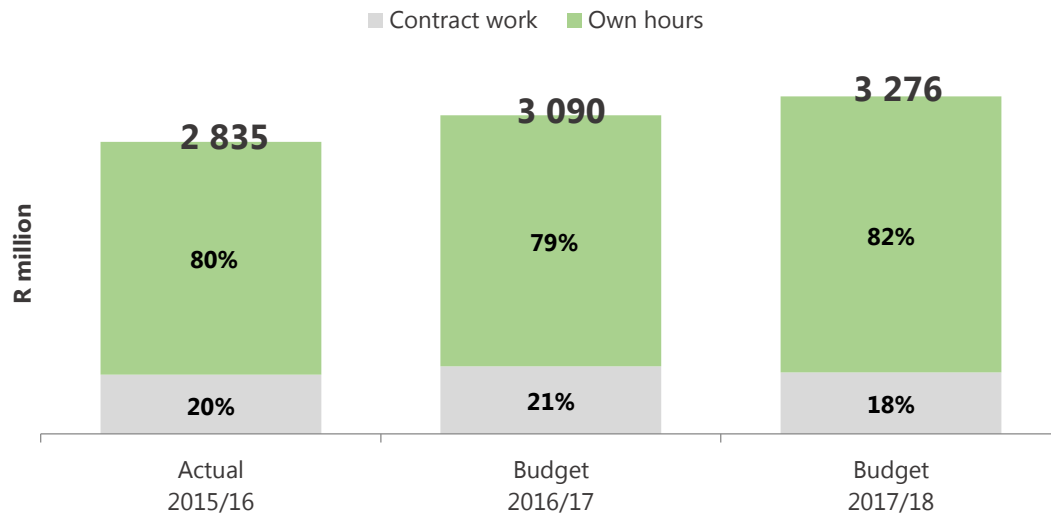


(R million)	Actual 2015/16	Budget	
		2016/17	2017/18
Audit income	2 835	3 090	3 276
- Own hours	2 258	2 433	2 678
- Contract Work	577	657	598
Direct costs	1 929	2 117	2 222
Gross profit	906	973	1 054
Other income	68	69	68
Overhead expenses	869	1011	1054
Net Surplus	105	31	68
% of audit income			
CWC	20%	21%	18%
GP	32%	32%	32%
Overheads	30%	33%	31%
Surplus	4%	1%	2%
Audit staff headcount	2 988	3 144	3 123
Support staff headcount	457	536	495





Audit Income



- Reduced hours base' over the past years due to efficiencies drive and a commitment to affordable fees resulted in revenue increase of only 3% in 2015/16 which is lower than CPIX. This translates to a revenue discount of R52 million to the fiscus.
- The budgeted increase in the revenue for 2016/17 was based on an increase of 5% year on year which is also below CPIX.
- For 2017/18 the AGSA will continue with the drive to contain audit fees at 6% which is on par with CPIX. The following has been factored in this budget:
 - Capping of fees for financially distressed municipalities to 1% of total expenditure resulting in R32 million given back to the national fiscus in 2017/18.

AGSA efficiency drive

- The reduction of R13 million in audit fees due to the amalgamation of municipalities.
- The reduction of CWC from 21% to 18% which translates to an increase in own hours of 137 000. This will be achieved through increased internal efficiencies and pooling/sharing of internal resources (within BU's and between provincial and national BUs).
- Continuous drive to improve value-added services through integration of specialised audit services and regularity audit business units.
- Revised audit methodology programmes (AMP) to be implemented in 2017/18 which will result in further improvements in audit processes. This project is also earmarked to spearhead the reduction in audit fees especially for the distressed municipalities. The AMP will result in a once off investment of R45 million to be absorbed internally.



	Actual 15-16	Budget 16-17	Budget 17-18
	R mil	R mill	R mil
Staff remuneration	287	353	360
Other Personnel Expenses¹	59	42	48
Performance Bonus Liability	116	124	124
Learning and development	85	100	101
Accommodation	93	114	115
Technological Services	49	44	60
Stakeholder relations	30	33	41
Office maintenance	35	40	42
Other expenses²	115	161	164
Total overheads expenses	869	1 011	1 054

Included in other personnel expenses are the following:

- Leave pay provision
- Medical aid provision
- Group life scheme
- Workman's compensation premium
- UIF etc.

Staff remuneration

- The staff remuneration in 2015/16 was 10% below budget due to vacancies being filled later than planned.
- The staff remuneration in 2016/17 increased by 12% attributable to inflationary increase and a modest increase in headcount due to backlog in filling of vacancies.
- Aggressive cost cutting in line with cost optimisation tactics such as moratorium on recruitment (position-freeze), rationalisation of headcount resulting in overall containment of staff remuneration to increase of 2% in 2017/18.

Learning and development

- In 2015/16 the reprioritisation of training and development in line with the 4 V strategy resulted in savings. In 2017/18 focus on development continues to be heightened through courses such as SMDP and MPD to enhance development of our managerial levels.

Technological Services

- The 2017/18 expenditure relates to licences and cost for the maintenance of CAPEX projects (ERP, resource planning, MIS recoveries projects) which were developed in 2015/16 and 2016/17 that are now operational.

Other expenses consist of : Depreciation, insurance and legal fees, audit expenses, outsourced services, recruitment expenses, corporate wellness programme, communication, S&T irrecoverable



Description	Budget 2016-17	Budget 2017-18
	R million	
Motor vehicles	1	3
Equipment	3	3
Furniture & Fittings	8	3
Computer equipment	4	31
Computer software	23	18
Notebooks	23	26
Leasehold improvement	17	6
Total	79	90

The increase in computer equipment expenditure from budget of R4 million to R31 million is due to the replacement and upgrade of old computer equipment which will reach the end of its useful life in 2017-18.

This include the following:

- 1) Upgrade of telephone system
- 2) Network and storage systems
- 3) Network security infrastructure
- 4) Servers
- 5) Tablets (iPads)



- ✓ The full implementation of AMP, amalgamation of some municipalities and the impact of distressed municipalities in the 2017-18 budget have an impact on revenue.
- ✓ The negative macro economic factors coupled with the changes in local government leadership, could increase the risk of low collections. In response to this, the AGSA has committed to invest in new relationships and continue to enforce the existing collection mechanisms.
- ✓ Our cost optimisation tactics have a positive impact on the containment of overhead expenses. This value will be passed on to auditees.
- ✓ Furthermore, strict control of overtime, reduction in use of consultants and optimisation of supply chain practices will contribute to the improvement of operational efficiencies and cash flow.

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