

TOWARDS GREATER ACCOUNTABILITY



INTEGRATED ANNUAL REPORT 2016-17



AUDITOR-GENERAL
SOUTH AFRICA



TOWARDS
G R E A T E R
A C C O U N T A B I L I T Y



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.



LETTER TO THE SPEAKER

Ms Mbete
Speaker of Parliament
PO Box 15
Cape Town
8001

15 September 2017

HONOURABLE SPEAKER MBETE

REPORT TO THE SPEAKER IN TERMS OF SECTION 10(2) OF THE PUBLIC AUDIT ACT, 2004 (ACT NO. 25 OF 2004)

It is an honour to submit my annual report, including the audited financial statements, for the financial year ended 31 March 2017 as required by our governing legislation.

It gives me great pleasure to announce that the audit committee, which was established in terms of section 40 of the Public Audit Act, is satisfied with the Auditor-General of South Africa's (AGSA) audited financial statements and unmodified audit opinion.

This report presents the affairs of the AGSA, both in terms of our financial results as well as the review of our performance against predetermined objectives.

I respectfully draw your attention to section 41(5) of the Public Audit Act, which requires submission within six months after the end of the financial year, and therefore request that this report be tabled in Parliament by 30 September 2017.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Thembekile Kimi Makwetu', written over a horizontal line.

THEMBEKILE KIMI MAKWETU
AUDITOR-GENERAL

TOWARDS GREATER ACCOUNTABILITY

We aim to influence all players in the public sector to use public funds as intended, for the benefit of the people of the country. We continuously enhance our audit approaches and focus areas so that the value we add ultimately results in

increased levels of transparency, accountability and good governance, and leads to noticeable improvements in all spheres of government.

ACCOUNTABILITY = PLAN + DO + CHECK + ACT



AUDITING WHAT MATTERS

We focus on auditing areas that matter to achieve the country's sustainable developmental goals and objectives. These focus areas use a majority of our public funds and have the greatest impact on the lives of our people. They therefore require stringent oversight to ensure that our people feel the benefit of these services and that funds are

used in a way that creates the best value for money for the people of our country.

Our research shows that the following five focus areas are integral to the wellbeing of the people of South Africa and the achievement of the country's sustainable development goals:



INFRASTRUCTURE



HEALTH



EDUCATION



WATER &
SANITATION



HOUSING



PERFORMANCE SNAPSHOT



VALUE-ADDING AUDITING

959
audits
completed



873



within the
legislated
time frames

87%

of our
engagements
PASSED
the quality review



Health sector work focused on



Successfully reviewed and
internationally benchmarked
our audit methodology



Reviewed the procurement
of textbooks in the education sector

Performance audit reports issued:



Continued our approach to integrated audits

109 integrated audits in the PFMA audit cycle
AND
97 during the MFMA audit cycle.



143 interim
reviews

of annual performance plans at
national and provincial departments



VISIBILITY FOR IMPACT

Held more than



3 500
meetings

with our various
stakeholders

Piloted
our



enhanced
engagement
programme

Portfolio
committees
endorsed



most of our
recommendations

The SCoAG chairperson proposed



increasing the Auditor-General's powers
and was backed by different stakeholders, including
SCoPA



VIABILITY

Audit revenue

R2 977 million,
a below-inflation increase



Debtors book increased by **19%** to
R806 million

Local government debt is



R391 million
or
49% of the total debt



WE COLLECTED
R354 million
through our debt-collection strategies

EMPLOYEE
TURNOVER
OF
8,1%



3 483
staff,

including trainee
auditors and
short-term
contractors



**occupancy
level**

despite a
moratorium on
recruitment

83%

**OF SENIOR
LEADERS
RECRUITED**
were internal
appointments

1 198

audit employees
are registered
**AUDIT
PROFESSIONALS**



**MODERNISED
AUDIT AND
OPERATIONAL
SOFTWARE**



1 298
LEARNERSHIP CONTRACTS



VISION AND VALUES DRIVEN

**Level 2
B-BBEE**

contributor for the
third consecutive
year



**R584
million**

spent on
outsourced
audit work,

78%
on B-BBEE
levels 1 and 2
firms

36%

of our outsourced
work was to

**black-
owned
firms**

Of the 21
schedule 2
entities,
we audited 11 and



were audited by
**BLACK-OWNED
FIRMS**
including a 100%
black women-
owned firm

Tsebang Inc.
graduated from our
**enterprise
development
programme**



to become
**part of our
supply chain**

RECEIVED A



**CLEAN
AUDIT**
opinion

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GREATER
ACCOUNTABILITY

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This integrated annual report is available on the AGSA website www.agsa.co.za

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WE SUCCESSFULLY



maintained our
INDEPENDENCE



enhanced the
TECHNICAL
COMPETENCE of
our staff



demonstrated
the NECESSARY
CAPACITY TO
DELIVER AUDITS

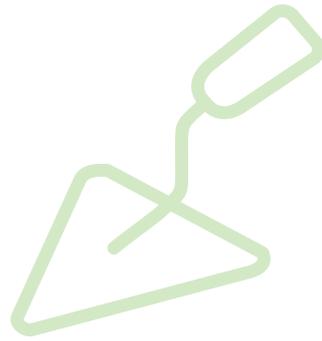


Messages in
our reports were
CONSOLIDATED
AROUND
ACCOUNTABILITY



Our mandate
was POSITIVELY
HIGHLIGHTED and
MESSAGES WELL
RECEIVED

INFRASTRUCTURE



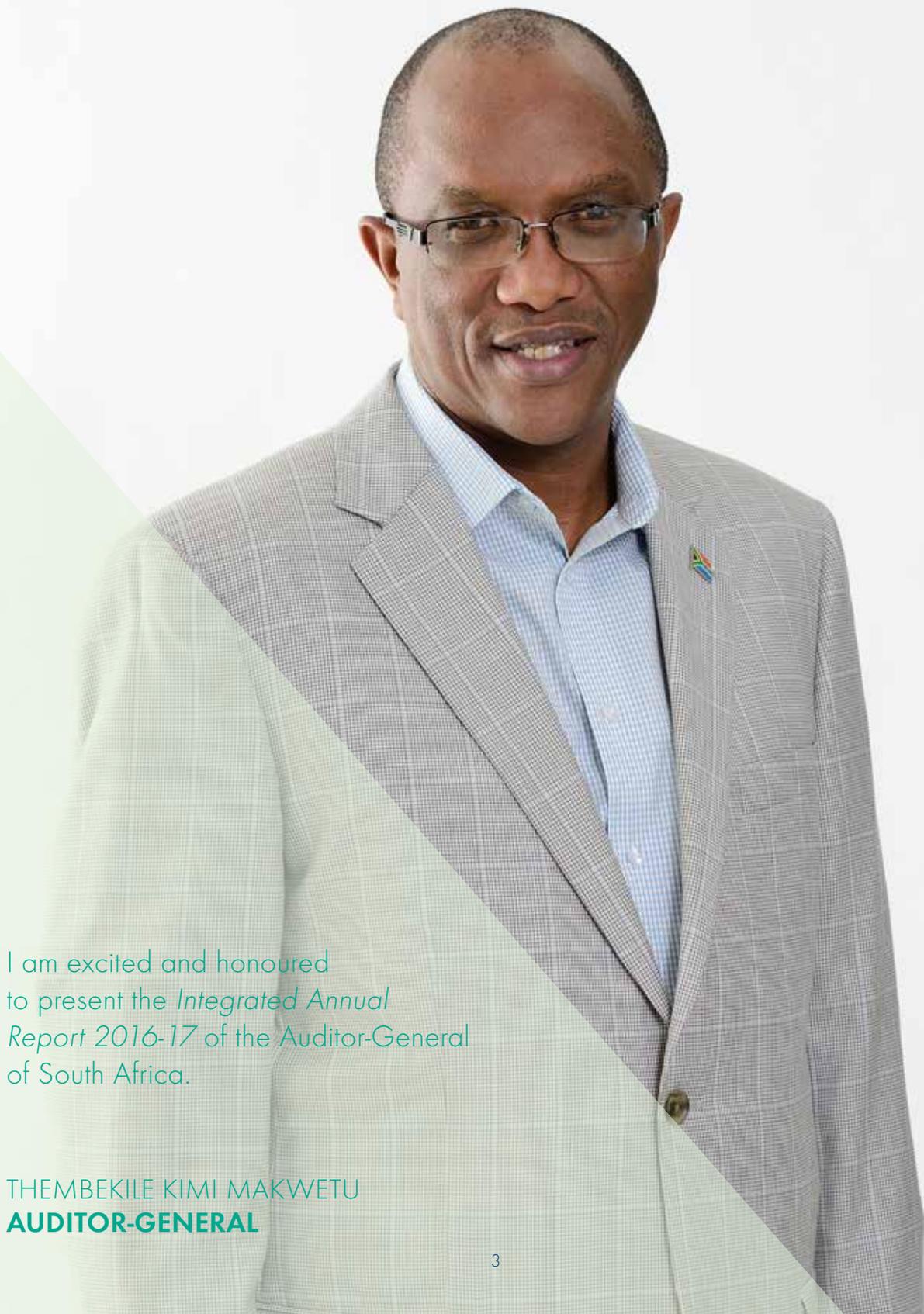
Although infrastructure is listed under sustainable development goal 9, it permeates the other goals and is an important focus of government. Quality, reliable, sustainable and resilient infrastructure is integral to growing and developing our country.

To address the widespread challenges of high unemployment, poverty and inequality, government committed to creating efficiencies in infrastructure delivery. Given the commitments and increased expenditure on infrastructure, government needs to adopt measures to derive value and accelerate growth.

We contribute by focusing our audits on basic infrastructure to provide services in health, education, housing, water and roads, and to ensure that services are delivered and that public funds are used economically, efficiently and effectively. We provide our auditees and oversight authorities with insight and recommendations based on an in-depth analysis of our audit findings.

As Auditor-General Kimi Makwetu pointed out in his stakeholder engagements, there is no point to building an up-to-date school if there are no roads to get to it.

THE AUDITOR-GENERAL'S MESSAGE



I am excited and honoured to present the *Integrated Annual Report 2016-17* of the Auditor-General of South Africa.

THEMBEKILE KIMI MAKWETU
AUDITOR-GENERAL

TO OUR STAKEHOLDERS

Throughout the 2016-17 performance year our work, our results and our messages received an overwhelming visibility among all our stakeholders. This enormous responsibility to watch over the spending of public finances has been borne with pride and dignity by all the men and women of the Auditor-General of South Africa. This makes my role in presenting the *2016-17 integrated annual report* one of utmost excitement and honour.

We reflect on our journey, particularly on the key achievements that propelled us to our desired level of performance and the challenges that we had to overcome to reach this point, so that the work of our office may be scrutinised by our stakeholders.

The year was characterised by an increased attention to accountability in the public sector. The Standing Committee on Public Accounts took the lead among the Parliamentary committees in delving deeper into the work of various departments and entities, taking a strong stance against corruption and seeking accountability from officials who were responsible for financial management and governance transgressions. Such discussions stemmed from the messages profiled in our general reports, which gives the necessary encouragement to our auditors to continue bravely highlighting instances of mismanagement of public funds. We have observed that our effort to increase accountability among all players in the public sector has been widely recognised by government, citizens and other stakeholders as the key driver that contributes to good governance in South Africa.

The drive for accountability, though, was not met with enthusiasm by all. Throughout the year we experienced increased pushbacks, from delaying the submission of required information to intimidating

our staff and entering into lengthy technical disputes, which is an indication of the gradually more difficult environment in which our teams operate. Contesting our audit messages is a result of the growing pressure on auditees to improve or to maintain favourable audit outcomes, of top leadership's performance recognition being dependent on positive audit opinions or of instability at board level, especially at the state-owned entities. The increase in contesting our work is closely monitored to ensure that delays from these pushbacks do not result in a delay in public

accountability. Given the tough environment, the completion of 91% of audits within the legislated timelines speaks volumes about the resilience and resourcefulness of our audit staff and the leadership of our executive teams.

The persistent disregard of recommendations made by our staff and the slow progress in improving audit outcomes led to the request by our oversight body, the Standing Committee on the Auditor-General, for us to investigate ways to strengthen our capacity to create action around our recommendations. I am pleased to say that this work is well under way and that the Standing Committee on the Auditor-General has assisted us in crafting a few proposals that will soon be presented to the public for comment.

Considering that background, it is great to reflect that all our business units provided solid performances against our strategy. Our knowledge of the public sector and experience, and hence the value delivered to stakeholders

in the form of financial and performance management insights that are the basis of our value proposition, continued to expand. The system and manner of engagements with stakeholders became both deeper and more individualised. We piloted our revised methodology, which is fully aligned to international auditing standards and best practices and this, together with the upgrade of our audit software and the improvement in the quality of audits, provides confidence in the sustainability of the organisation.

Overall, we successfully maintained our independence, enhanced the technical competence of our staff, demonstrated the necessary capacity to deliver audits, sustained contact with the public and observed that our message found resonance with South African citizens – and by design, those charged with the management of public money.

Despite strict cost control and improved efficiencies, we registered a small deficit at the end of the year, mostly because we did not bill all our audit hours in consideration of our auditees' budgetary constraints, and the internal investments we made to upgrade our tools and build capacity. Prior to implementing the revised methodology we reserved time to adequately train our audit teams, which resulted in a planned delay to the start of some audits and, ultimately, in fewer billed hours. This also contributed to the reduction of our cash holdings at the end of the financial year. Through the concerted effort of all staff, we have already begun to see signs of recovery from this position during the first quarter of the new financial year.

Another salient feature of our sustainability is the value we derive through our participation in the structures of the International Organisation of Supreme Audit Institutions. In turn, we are recognised as a leading supreme audit institution on the African continent and globally, which increases staff motivation. Such recognition largely stems from our drive to professionalise our institution. The trend of professionalising supreme audit institutions has become pervasive globally, and specifically in the African Organisation of English-speaking Supreme Audit Institutions, and is aimed at increasing the overall quality of auditing and the effectiveness of supreme audit institutions.

While by design audit is a backward-looking activity, providing a view on the progress against the sustainable development goals is all about the future. No matter what future every one of us sees ahead, inevitably this future includes peace, fresh water, working sanitation, abundant energy, great schools, smooth roads and excellent health services. This is the area where we, as the public sector's auditors, see our biggest contribution to our common future.

The latest common endeavour of the supreme audit institutions is auditing the realisation of the United Nations' sustainable development goals. As part of the global society, moreover as part of the African nations, the challenge now is to think with a new, broader and more integrated outlook at the spending of public funds. It is no longer sufficient to analyse the efficiency, effectiveness and economy of a specific entity or programme; we must also consider how they translate into social, economic and environmental progress.

Moving forward, we will focus on supporting our government and our nation by sustaining our capacity to deliver audits with the rigour and quality we are known for.

We will sustain our capacity to deliver audits with the rigour and quality we are known for; by training young chartered accountants that can enter the workplace ready to contribute to the nation's economic growth; by providing a conducive environment for qualified professionals who choose to share our journey; and by demonstrating that clean administration is achievable and is within the reach of each public organisation or entity.

I take the opportunity to extend particular appreciation to my capable team of 3 483 staff who stood firm to achieve the sterling results described in this report, and to the leadership group that helped me to navigate through an increasingly challenging environment.

THEMBEKILE KIMI MAKWETU
AUDITOR-GENERAL

THE DEPUTY AUDITOR- GENERAL'S OVERVIEW OF PERFORMANCE



Our focus for the year was to solidify the foundation we started building when we first implemented the 4V strategy in 2015-16.

TSAKANI RATSELA
DEPUTY AUDITOR-GENERAL

The past financial year brought a mix of commendable achievements and challenges that we were able to manage. Most encouraging was the manner in which the organisation pulled together towards achieving the goals that were set in our strategic plan.

Our focus for the year was to solidify the foundation we started building when we first implemented the 4V strategy in 2015-16. We were clear about prioritising initiatives and actions that would bring us closer to realising the strategy – such as improving operational efficiencies and the quality of audits, while focusing on organisational capabilities. We responded to a need to be more conscious of how we maintained our financial viability and accelerated actions that had been delayed.

The successful completion and implementation of various initiatives put us in good stead in our journey to add value to our stakeholders.

VALUE-ADDING AUDITING

We increased our relevance by deepening our understanding of our auditees' environments and performing integrated value-adding audits. Our annual audits focused on supply chain management, human resource management, effective use of consultants, information technology controls, management of grants, infrastructure projects, provision of water, sanitation and road infrastructure as well as the financial health of our auditees. All these areas were specifically selected because of their relevance to the wellbeing of the people of South Africa.

While we are pleased that the number of national and provincial auditees with clean audits increased, clean audits at municipal level decreased, which could be attributed to a loss of focus during the local government elections in 2016. This led us to consolidate our 2015-16 local government general report messages around the theme of accountability and to urge the newly-elected local government authorities to accept accountability for improving on past results.

It is encouraging to note that the number of auditees with clean audits in national and provincial government increased from 122 in 2013-14 to 152 in 2015-16.

An analysis of the drivers of our auditees' internal controls tells us that these have shown little progress in the last three years at local, provincial and national levels. A change in the financial and performance management, governance and leadership is required if the current status of audit outcomes is to improve.

A worrying trend was the persistent contestation of our audit findings and opinions. Such pushbacks result in auditees missing out on opportunities to improve their financial and performance management systems and processes that are aimed at service delivery. Unjustified pushbacks place undue pressure on our audit teams, delay the conclusion of audits and unnecessarily increase the cost of audits. These pushbacks did lead to us increasing our focus on the quality of our audits and communicating messages that are consistent with our findings to protect the credibility of our reports.

We performed interim reviews on the measurability and relevance of our auditees' 2017-18 annual performance plans which were based on, and linked to, an in-depth analysis of the respective portfolios' *National development plan 2030* and the Medium Term Strategic Framework objectives. Portfolio committees appreciated this process as it provided them with the opportunity to engage with departments on certain key objectives that were omitted from the plans submitted to them for approval, demonstrating the value and impact of this practice.

Our three standalone performance audit reports, on the urban renewal programme, water infrastructure provision and the management of pharmaceuticals highlighted a number of critical matters in these focus areas. The root causes of the findings were similar across all three audits. They centred on leadership and oversight, funding, project management, operations and intergovernmental coordination. These matters must be rectified speedily to better the lives of citizens. It is important to note that as a result of these audits, accounting officers have already initiated extensive corrective actions to improve service delivery.

The insights of regularity audit, information systems audit and performance audit were combined to provide a comprehensive view of the performance of the national and provincial departments in the health and education sectors. The respective sector reports tabled in Parliament also highlighted the shortcomings that needed to be addressed to enhance accountability, governance and oversight across the value chain in these sectors.

We are proud to reflect that our audit portfolio now includes yet another major state-owned company – the South African Airways group of companies – following a request from the executive authority. Our portfolio was further increased by audits of a few more Technical and Vocational Education and Training colleges. We opted to perform the audits of all the Water Boards in the next audit cycle, due to the risks associated with the water and sanitation portfolio. These were previously outsourced to private audit firms. In addition to managing risks for the public sector, these audits will allow our staff to gain invaluable knowledge and experience in auditing diverse environments.

Lastly, it was great to see that two major initiatives that commenced in the previous reporting periods, i.e. the integration of audits and enhancing the governance of the audit process in cases where we opted not to conduct the audits ourselves, have reached maturity and will be practiced regularly going forward.

IMPLEMENTING OUR IMPROVED AUDIT METHODOLOGY

We successfully piloted our audit methodology, which had been revised over the past two years.

It has been benchmarked against other audit institutions, both locally and internationally, and is aligned to the latest international standards on auditing. Our staff, and those from the audit firms that we contract to audit on our behalf, have been trained in the new methodology.

The revised methodology will:

- enable us to apply a consistent risk approach to our audits, based on a deeper understanding of the business of our auditees
- alleviate the practical challenges of integrating our audit disciplines
- allow us to seamlessly provide assurance on financial statements, annual performance reports and compliance with key legislation
- improve audit efficiency at smaller auditees and auditees with a good control environment.

This revised audit methodology will be fully implemented in both 2016-17 audit cycles.

QUALITY OF AUDITS

The credibility of our reports is directly related to the technical quality of our audit work and, as such, we firmly believe that the quality of our audits should be of the highest possible standard. I am pleased to report that we achieved 87% compliance with quality standards against a target range of 85%-90%. The achievement is even more significant considering that we experienced a dip in performance against this target last year.

VISIBILITY FOR IMPACT

Interactions and continuous engagements with our stakeholders are paramount to the impactful delivery of our organisational mandate. They are an important instrument in encouraging and enabling action and improvements in public sector administration. These engagements assist to confirm that all relevant stakeholders are adequately informed, that our reports are well understood, and that appropriate commitments for clear actions based on our recommendations are made. Our stakeholder engagements also ensure stakeholder buy-in and commitment to our overarching goal of having a positive impact on the lives of South African citizens.

We are satisfied with the trend of oversight bodies applying the knowledge gained from transversal issues contained in our general reports. Noticeably, these bodies have followed through on unauthorised, irregular, fruitless and wasteful expenditure and non-compliance with supply chain management legislation during public hearings. The executive authorities, who are empowered by law to act, have also emphasised consequence management.

Our general reports were well received and gained a lot of attention from our stakeholders. During the post-tabling discussions our mandate was positively highlighted, with many stakeholders publicly requesting additional powers for the Auditor-General so that cases of non-compliance or mismanagement can be dealt with adequately.

The Auditor-General's media briefings on the audit outcomes received widespread coverage on provincial and national media platforms. Through the media, we equip and encourage citizens to use our messages on accountability, oversight and governance in all spheres of government to hold their elected representatives accountable. The level of understanding observed from the public in discussions on various media platforms on the role of the Auditor-General of South Africa has greatly improved. Ultimately, we believe that such understanding will lead to greater accountability throughout the country.

STATUS OF RECORDS AND COMMITMENTS REVIEW

To ensure compelling conversations with our stakeholders we developed the status of the records and commitments review programme. This review helps achieve the following objectives of the stakeholder engagements:

- Identify key areas of concern that may derail progress in the preparation of financial and performance reports and compliance with relevant legislation.
- Provide our assessment of the status of the key focus areas that we reviewed.
- Assess progress made in implementing action plans or follow through with commitments made in previous engagements.
- Identify valuable matters that help mitigate risks by implementing measures and action plans well in advance.

This programme was piloted in 2016-17 and will be implemented during 2017-18 and 2018-19.

FINANCIAL PERFORMANCE

We delivered cost-efficient audits to our clients, a large portion of which operate under immense budgetary constraints.

Our actual revenue was R2 977 million (2015-16: R2 835 million). This represents a year-on-year increase of 5%, which is below the annual inflation rate of 6,3% for the period and demonstrates our unrelenting commitment to affordable fees for the auditees.

We continued to maintain our overhead expenses below budget, due to ongoing cost optimisation strategies and tactical savings in certain overhead expense categories. Investment in information technology, support and capacity building was a major driver of overhead costs, but was offset by cost optimisation strategies and other austerity measures that resulted in operational cost savings of R21 million compared to R35 million for 2015-16. These measures included freezing posts, particularly in support, and renegotiating leases and major information and communication technology contracts.

We recorded a deficit of R15 million against a budgeted surplus of R31 million and against the previous year's surplus of R105 million. This deficit was partly influenced by pressure to contain audit costs, as audit hours worth R83 million were not billed, and implement urgent strategic projects. These projects included our revised audit methodology, and the audit TeamMate R11 and PeopleSoft 9.2 software upgrades.

Our debtors balance continues to grow year on year. The debtors book closed at R806 million, an increase of 19% from last year's balance of R679 million. A major contributor to this increase

remains our local government debtors, which make up 49% of the total debt (2015-16: 51%).

During the year, we maintained our commitment to maximising collections using ring-fencing agreements to allow our auditees to reduce their debt. Where auditees continued to default we used litigation, in line with the Public Audit Act, and issued monthly letters of demand and summons. Although these methods have assisted us to collect a total of R354 million since their initiation, they are not sustainable.

Of our client base, 10% are classified as financially distressed municipalities that generally lack the capacity to generate revenue. These auditees make up 49% of the total debtors book, with little or no probability of our successfully collecting the outstanding revenue. The National Treasury has also consistently underpaid the debt of financially distressed and other so-called 1% auditees.¹ The outstanding balance of R321 million for financially distressed municipalities and 1% debtors is significant and strains our cash flow.

DEVELOPING OUR HUMAN CAPITAL

Talent management is a continuous process and the ability to attract and retain the right calibre of staff to successfully deliver on the 4V strategy remains a strategic priority for us. The quality of the talent pool has improved the efficacy of our internal recruitment process, allowing for 83% of our senior management positions to be filled internally.

In the last 10-15 years we have systematically contributed to alleviating the skills shortage facing our country, particularly in the chartered accountancy profession. Our trainee auditor scheme has been our primary focus, with an average of 1 300 trainees per year for the past three years. The vast majority are South African Institute of Chartered Accountants trainees (1 138 in 2016-17 from 1 077 in 2014-15).

¹ Section 23(6) of the Public Audit Act provides that if the audit fee exceeds one per cent of the total current and capital expenditure of an auditee for the relevant financial year (hence the 1% auditee), such excess must be defrayed from National Treasury's vote, provided that the auditee is not a department and the National Treasury recognises such auditee's financial difficulty.

Last year the trainee auditor programme resulted in 63 candidates passing their final qualifying examinations. These candidates will be eligible to register as chartered accountants of South Africa when their articles have been signed off. However, the Certificate in the Theory of Accounting results were extremely disappointing. This may be attributed to the changes in the UNISA Certificate in the Theory of Accounting programme, which saw the automatic move of 209 students from CTA level 1 to CTA level 2. Of these, 202 failed CTA level 2 as they did not have sufficient time for preparation. We expect this situation to be resolved in the next academic year. We have planned improvements to the trainee auditee scheme for the next performance year to increase the pass rate and optimise our audit pipeline.

In addition to the trainee auditor scheme, we encourage the staff who have not yet registered as chartered accountants of South Africa to complete their board examinations and be eligible to register. It is pleasing to note that 53 permanent staff were successful in the final South African Institute of Chartered Accountants examinations, while 41 passed the South African Institute of Government Auditors final examinations.

Overall, our audit professional membership profile has grown by 22% since 2014-15, from 980 to 1 198², while our chartered accountant membership has grown by 13% from 547 to 619 over the same period.

While it is not possible to retain all qualified professionals in the organisation, we do attempt to place such staff in available positions. We are also proud to produce audit professionals for the public sector, as our graduates rapidly find jobs after their stay with us. The absorption rate of our trainees, noted in the B-BBEE verification audit, is an encouraging 94%.

VISION AND VALUES DRIVEN

We lead in the area of risk management by having a well-established risk management function and system. We improved our risk maturity level from 'risk defined' to 'risk managed'. Going forward, the governance, risk and compliance tool being implemented will ensure efficiencies in our compliance and risk management activities.

The ethical behaviour of our people is extremely important. We have revised our policy on ethics to ensure that Auditor-General of South Africa employees not only have a guiding framework on ethical conduct and decision-making, but that they are also aware of the governing processes consistent with international best practice and the strategic direction of the organisation.

This newly revised policy is responsive to our external environment and aligns to the new public service regulations.

Employees, stakeholders and members of the public can report suspected unethical conduct to the ethics office by using the complaints process in terms of section 13(1)(c) of the Public Audit Act. In 2016-17, 17 complaints were recorded and processed under the complaints management process. We resolved 12 of these complaints, as well as the six complaints that were pending as at 31 March 2016.

Our contribution to transformation in the country is demonstrated by our sustained achievement of an overall level 2 B-BBEE contributor status. In addition, our Executive Committee and heads of unit teams consist of 80% and 74% black people respectively and we are closing in on our target at senior management level. An area of improvement remains increasing the representation of black people at middle and junior management levels.

Our allocation of audit work to private firms is a major stimulant to the growth and transformation in the accounting profession. Of our contracted audit work, R210 million (36%) was outsourced to black-owned audit firms. Our responsibility to the profession extends to our allocating work to B-BBEE levels 1 and 2 audit firms, which makes an important contribution to transformation. The black ownership level of these firms has increased and they make a substantial effort to grow the black chartered accountants pipeline.

One of the two small firms on our development programmes (Tsebang Inc.) successfully graduated from the enterprise development to the supplier development programme, qualifying for outsourced work from 2017-18 onwards. This is another success in growing and transforming the profession.

We also contributed to meaningful change in the profession by promoting black-owned firms' access to auditing major state-owned companies. Of the schedule 2 entities, seven or 33% are audited by black-owned firms, including a 100% black women-owned firm.

We recently reviewed our supply chain management policy to ensure that we strengthen our practices in support of small- and medium-sized black businesses that are at least 51% black-owned and 30% black women-owned. During 2016-17, we reduced the payment period to such enterprises from 30 days to fewer than 10 days. We also achieved the B-BBEE targets for procurement from qualifying small enterprises and 30% black women-owned businesses.

² Our 1 198 audit professionals are registered as: CA(SA) - 619, RGA - 464, ACCA - 39, CISA - 76

INTERNATIONAL VISIBILITY

We continued to be an active leader and contributor within the International Organisation of Supreme Audit Institutions by chairing their capacity building committee. Under the leadership of Auditor-General Kimi Makwetu, the committee has registered numerous achievements such as:

- adopting a framework to professionalise regional organisations
- adopting a global competency framework for public sector audit professionals
- endorsing two International Organisation of Supreme Audit Institutions' audit standards (ISSAI 5600 and 5800) that guide cooperative audits and peer reviews as two key approaches to building capacity.

We also participate in many of the committees and working groups that prepare the ISSAIs that guide supreme audit institutions in their work. These include the Forum for INTOSAI Professional Pronouncements, the compliance auditing subcommittee, the financial and accounting subcommittee, the performance auditing subcommittee, the internal control subcommittee, and working groups on information technology audit, key national indicators and procurement.

Internally, our professionalism and capability benefited greatly from our active participation on the International Organisation of Supreme Audit Institutions' structures as we integrated international experience and lessons learnt on mandatory and discretionary audits into our technical guidance. Our relationships have allowed us to benchmark leading supreme audit institutions' legal support services and their powers and methodologies with regard to consequence management.

We continued to host the Secretariat of the African Organisation of English-speaking Supreme Audit Institutions and made available senior staff as subject matter experts in support of their capacity development programmes.

We continued to solidify the foundation that we envisaged will enable us to deliver our 2024 vision.

RESPONSE TO OUR STAKEHOLDER INPUTS

We asked our stakeholders what they thought of us and where we could improve through a perception survey, done during the 2015-16 financial year. The survey revealed a need for improvement in the areas of our issues-based engagements, face-to-face engagements and the cost of our audits. In 2016-17, specific actions were developed to address the gaps identified in these three areas.

Engaging our stakeholders early on their issues focused their attention on areas that could have an impact on their audit outcomes. Some audit issues that could have given rise to pushbacks by the auditees were resolved. While the audit teams work hard to increase the face-to-face engagements, a common trend is the unavailability of the political leadership.

Although we strive to reduce our auditees' audit bill, our efforts are hampered by their management's lack of attention to improving the control environment, and the resultant increase in risks. In addition, pushbacks have a negative impact on the cost of auditing.

CONCLUSION

Overall, we performed well during the year, achieving a number of our key objectives as set out in our strategic plan and budget. We continued to solidify the foundation that we envisage will enable us to deliver our 2024 vision. We have already started reaping the benefits of some of the major initiatives, which encourages us to continue overcoming challenges on our conquest for good governance in the public sector.

I would like to thank the Auditor-General for his leadership in the implementation of the 4V strategy. My gratitude also goes to every team member for their dedication, hard work and professionalism. We achieved good results because of your tireless efforts and passion for excellence.

Tsakani Ratsela

DEPUTY AUDITOR-GENERAL

EXECUTIVE COMMITTEE OF THE AGSA



JAN VAN SCHALKWYK

EXECUTIVE IN THE OFFICE OF
THE AUDITOR-GENERAL



EUGENE ZUNGU

NATIONAL LEADER:
AUDIT SERVICES



SOLOMON SEGOOA

CORPORATE EXECUTIVE: AUDIT



BARRY WHEELER

CORPORATE EXECUTIVE: AUDIT



VUSI MSIBI

CORPORATE EXECUTIVE: AUDIT



SIBONGISENI NGOMA

CHIEF FINANCIAL OFFICER



MLUNGISI MABASO

CHIEF PEOPLE OFFICER



ALICE MULLER

CORPORATE EXECUTIVE: AUDIT



SULEMAN BADAT

CORPORATE EXECUTIVE:
SPECIALISED AUDIT SERVICES



SAKHIWO NGOBESE

CORPORATE EXECUTIVE:
COMMUNICATIONS AND
TECHNOLOGY



MABATHO SEDIKELA

CORPORATE EXECUTIVE: AUDIT

02

Section Two

Who we are

Organisational functions, beneficiaries and products

The way we add value

Corporate governance

External charters, principles and initiatives that we subscribe to or endorse

17

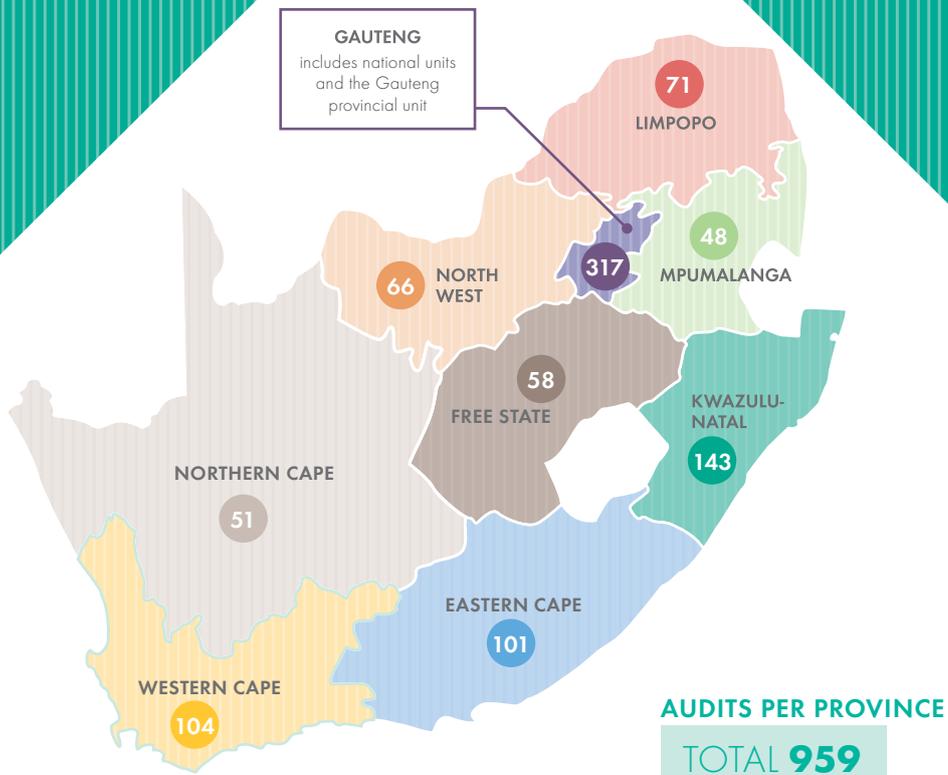
18

19

28

32





1 254
non-audit suppliers nationally

104
audit suppliers nationally

HEALTH



Goal 3 of the SDGs is health and well-being for all. Government should improve the healthcare system and equitable access to essential health services. The NDP lists our main health goals as reducing diseases that are a major threat to positive health in the next 20 to 30 years.

Despite an increase in funding, managing the primary and district health systems has been challenging. Disparities contribute to societal inequalities and increase the impact on the current and future workforce. The youth are the most affected.

To contribute to a strong health system we address the following areas annually:

- Medical equipment - is reliable, safe and available for use. It represents a substantial investment in healthcare and, if not managed properly, can pose a health risk to patients and staff.
- Access to medicine - to each patient on the day of their visit. If patients do not receive their prescribed medicines on time, their conditions could worsen.

WHO WE ARE



OUR VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability.



OUR MISSION

We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



OUR VALUES

- We value, respect and recognise all 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.

ORGANISATIONAL MANDATE, NATURE OF OWNERSHIP AND LEGAL FORM

The Auditor-General of South Africa (AGSA) is our country's supreme audit institution. Our mandate stems from chapter 9 of the Constitution of the Republic of South Africa, 1996, as one of the state institutions that support constitutional democracy. The Constitution entrenches the AGSA's independence by guiding that it is subject only to the Constitution and the law. The Constitution requires the AGSA to be impartial, and to exercise its powers and perform its functions without fear, favour or prejudice. The AGSA is, by definition, an organ of state in terms of sub-section 239(b) (i) of the Constitution, has full legal capacity and acts as a juristic person.

ACCOUNTABILITY AND REPORTING

The AGSA's accountability is to the National Assembly, to which we submit an annual report, which includes annual financial statements and the audit report on those financial statements as required by [sub-section 10(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)].

OUR ASPIRATION

We want to see a South African public service that is characterised by:

- strong financial and performance management systems
- oversight and accountability
- commitment and ethical behaviour by all
- a value-adding assurance provider in the form of the AGSA.

OUR FOUR STRATEGIC GOALS

Our commitments to Parliament are structured around four strategic goals.



Value-adding auditing - is aimed at providing audit-derived valuable insights to our stakeholders on the status of their internal control and performance environment, accompanied by actionable recommendations. If implemented, our recommendations will lead to visible improvements in public sector administration.



Viability - is an internally focused perspective of our work ensures that we have the necessary resources: an enabling legal framework, independent financial resources, and the required skills, competencies and culture to execute our mandate economically, efficiently and effectively.



Visibility for impact - structures our stakeholder engagement programmes to effectively encourage and enable the required improvements in the public sector.



Vision and values driven - Through our work and behaviour, we aim to lead by example and continually demonstrate that clean administration and transformation are achievable.

ORGANISATIONAL FUNCTIONS, BENEFICIARIES AND PRODUCTS

The functions of the AGSA are described in section 188 of the Constitution. These functions, together with the powers necessary to perform those functions, are further regulated by chapters 2 and 3 of the PAA.

The AGSA is mandated by law, to audit and report on how the government is spending the South African taxpayers' money. Every year, the AGSA conducts mandatory audits of government departments, certain public entities, municipalities and municipal entities (our clients or auditees). The institution also conducts discretionary and special audits, such as performance audits and investigations.

The AGSA not only has to audit and report on the financial management in the public sector, it also has to do so in a manner that will enable the legislature to call the executive to account for how they administered public funds.

The AGSA annually produces audit reports on government departments, public entities, municipalities, public institutions and state-owned companies (SOCs). These reports are made public and are tabled in the relevant legislatures, such as Parliament and provincial legislatures, and made available to municipal councils or bodies with a direct interest in the particular audit. Audit reports may be provided to any other legislature or organ of state if the AGSA considers it in the public interest to do so.

In addition to these audit-specific reports, the AGSA publishes general reports in which the outcomes of the respective audits at national and provincial levels, and at municipal level, are analysed.

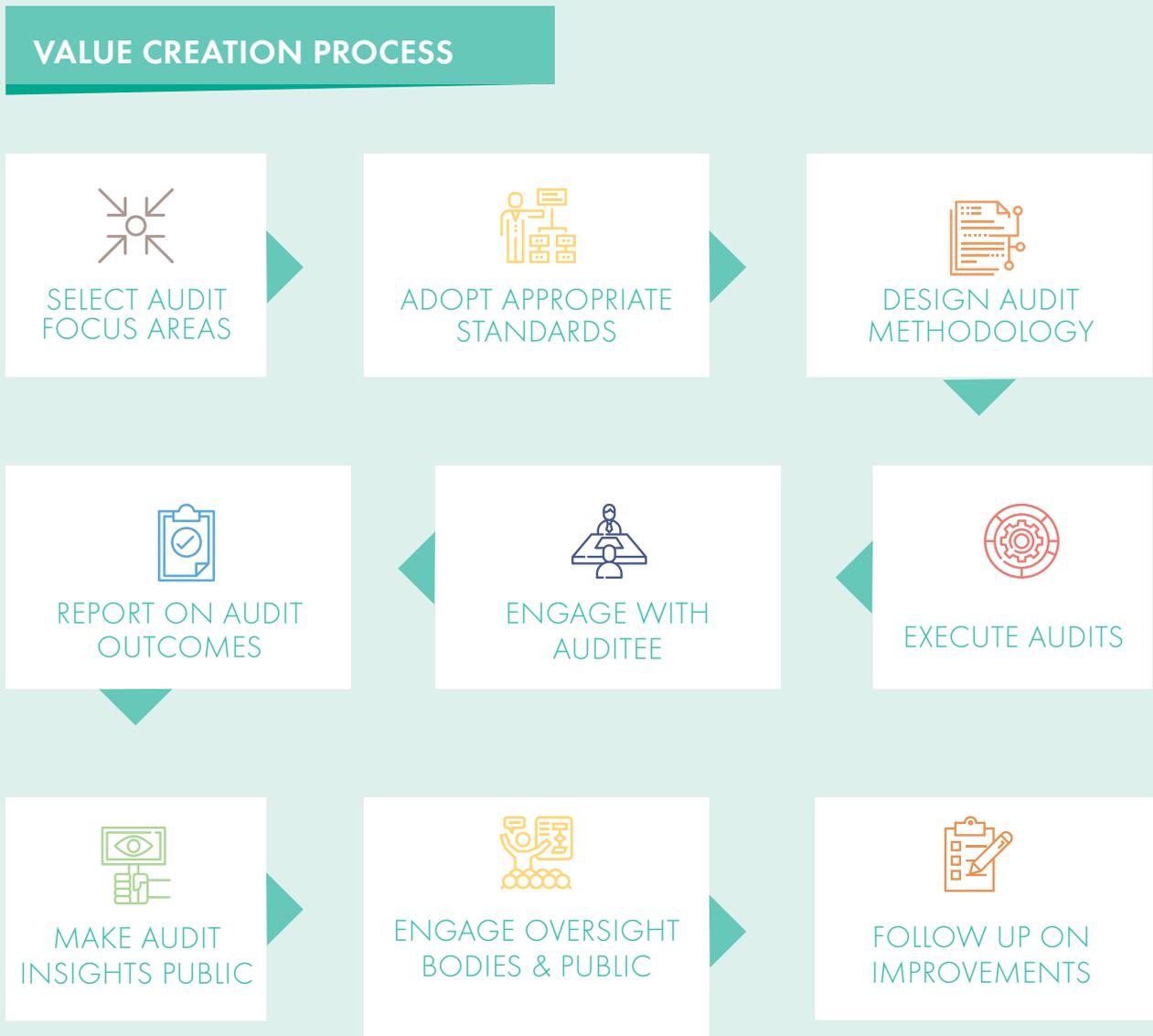
The organisation may choose not to audit a state-owned company, but must concur with the appointment of an audit firm that conducts the review on its behalf. In cases, where SOCs appoint their own auditors, we oversee and monitor the appointment and work of these external auditors and provide guidance where necessary to both the auditors and entities.

THE WAY WE ADD VALUE

FIGURE 1: HOW THE AGSA PROVIDES VALUE



FIGURE 2: HOW WE CREATE VALUE



BUSINESS MODEL

The AGSA generates revenue by charging its auditees for the work required to complete an audit, based on a publicly available, transparent, annually-revised structure of audit fees. The defined percentage of profit made by the organisation, or our sustainability margin, is used to maintain our operations.

Section 38(4) of the PAA authorises the AGSA to retain any surplus, or a portion of it, following consultation with the National Treasury and after approval by the Standing Committee on the Auditor-General (SCoAG). If approved, such surplus is used as working capital and for general reserve requirements. The portion of a surplus not retained is paid into the national revenue fund.

We create value through our organisation's business model, which takes inputs in the form of capitals and transforms them through business processes and activities to produce outputs and outcomes that, over the short, medium and long term, create or destroy value for the organisation, its stakeholders, society and the environment. Business capitals are stores of value which form the basis of the organisation's value creation activities and outcomes. The AGSA depends on the various forms of capitals for its success. Their availability, quality and affordability can affect the long-term viability of the organisation's business and, therefore, the ability to create value. They must therefore be maintained if they are to continue to assist the organisation to create value in the future.

FIGURE 3: OUR SIX CAPITALS



FIGURE 4: OUR BUSINESS PROCESSES



FIGURE 5: OUR BUSINESS MODEL



FIGURE 6: IMPACT OF THE 4V STRATEGY ON OUR CAPITALS

							
	Strategic objective	Financial	Intellectual	Manufactured	Human	Social & relational	Natural
VALUE-ADDING AUDITING 	Demonstrate value-add auditing	↑	↑	↓	↑	↑	↓
	Ensure that our audits are of a high quality	↑	↑	↓	↑	↑	↓
VISIBILITY FOR IMPACT 	Achieve impact through visibility programmes	↓	↑	↓	↑	↑	↓
	Engage actively with citizens	↓	↑	↓	↑	↑	↓
VIABILITY 	Maintain financial and legal viability and independence	↓	=	=	↑	↑	↓
	Align internal competencies and capabilities	↓	↑	↑	↑	↑	↓
	Increase operational efficiencies	↑	↑	↑	↑	↑	↓
	Increase internal visibility	↓	↑	=	↑	↑	↓
	Embed the concept of sustainability	↑	↑	↑	↑	↑	↑
VISION AND VALUES DRIVEN 	Continue to be a transformational organisation	↑	↑	=	↑	↑	↓
	Ensure our own clean administration	↑	↑	=	↑	=	↓

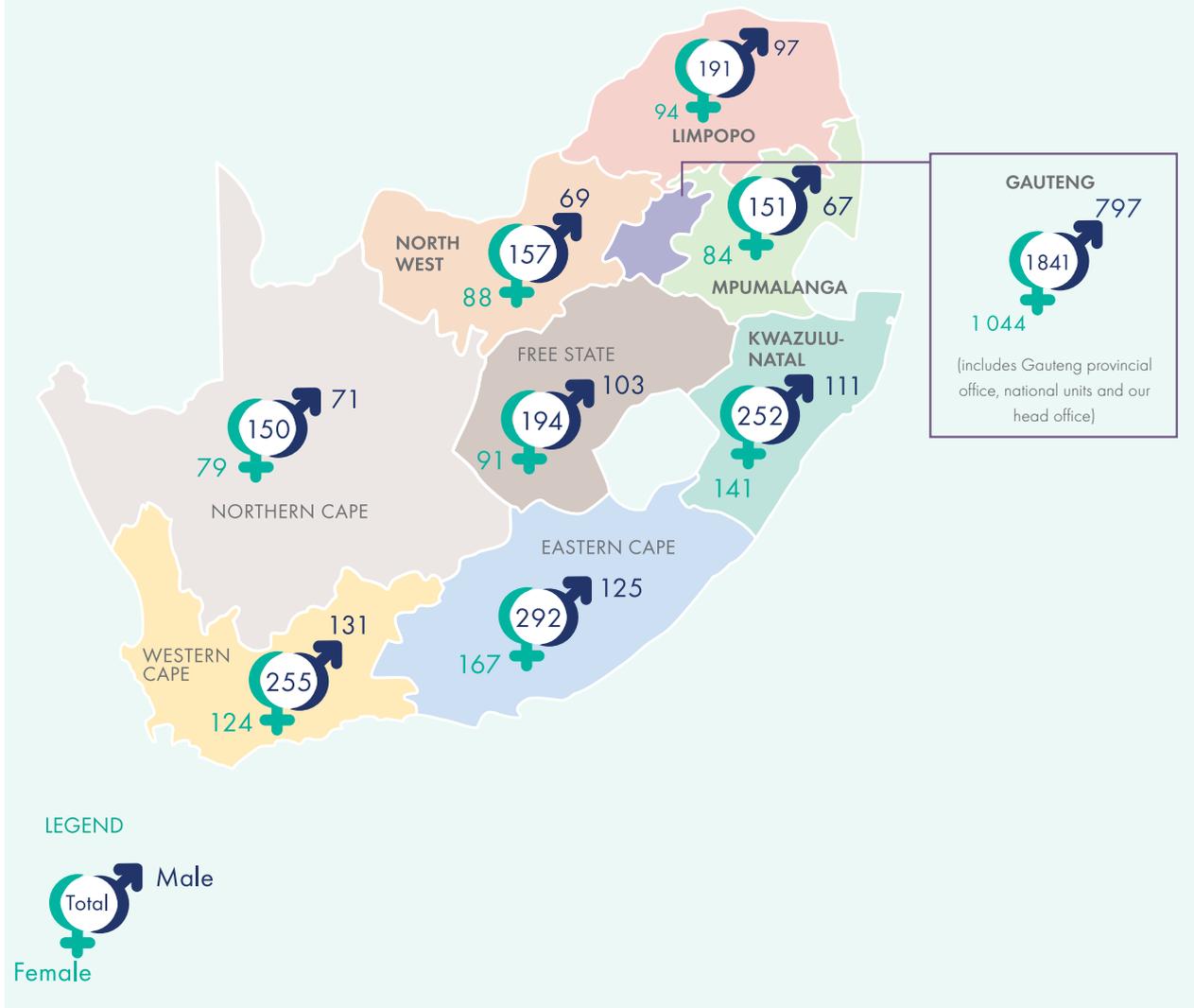
LEGEND

-  Increase
-  Decrease
-  No impact

SCALE AND ORGANISATION OF THE AGSA



FIGURE 7: THE AGSA'S NATIONAL COVERAGE



The AGSA's head office is located in Pretoria. The organisation has offices in each of the nine provinces of South Africa to ensure that we are accessible to our clients and deliver our services in the most cost-effective manner.

While we are based in South Africa and deliver a service that benefits local interests, the business operations of some of our auditees require that we execute some audits elsewhere in the world.

As a supreme audit institution, we actively participate in international events, forums and programmes. We also cooperate

with other supreme audit institutions and selected institutions to enhance our reputation and gain experience that adds value to our auditees.

The organisation comprises 15 regularity audit business units, nine operating in each of the South Africa provinces and six at a national level, three specialised audit services business units, and 14 support business units (Figure 9: Management structure). A shared services model exists for all enterprise resources – financial and human capital, information and communication technology (ICT) services, communication, technical services, quality control and others.

DEFINITIONS


**Regularity
audit**

is a statutory examination and reporting on the financial statements of the auditee. Within the scope of a regularity audit, we also examine the auditees' compliance with relevant legislation and their performance information.


**Regularity
audit business
unit**

is a division of the AGSA responsible for conducting regularity audits on all auditees within a specific province or a set portfolio of departments.


**Specialised
Audit Services
business unit**

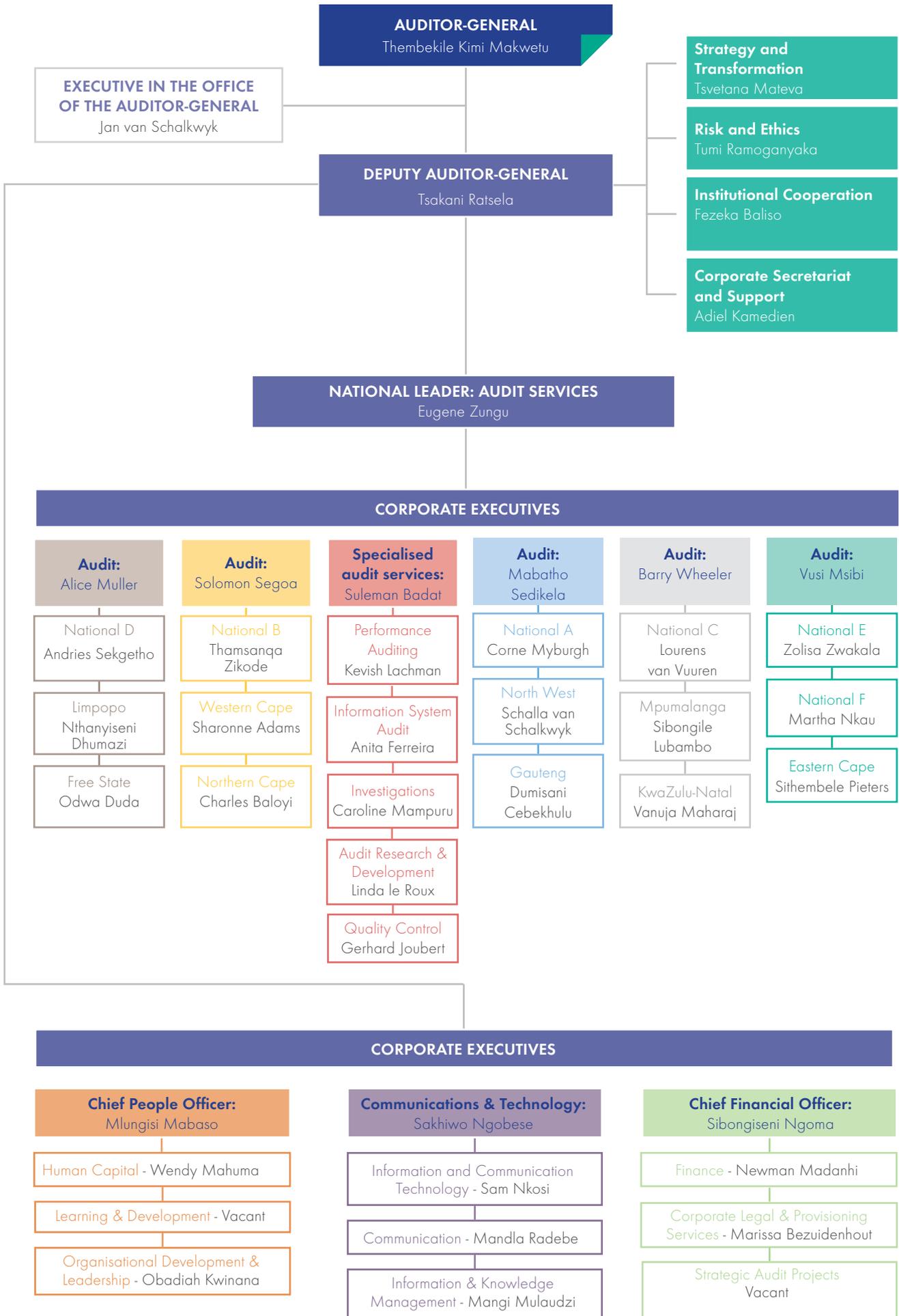
is a division of the AGSA that nurtures and provides specialised skills and techniques to conduct in-depth audits based on the risk profile of the auditee. These audits can be standalone or integrated with regularity audits. The three specialised audit services units in the AGSA are: Investigations, Information Systems Audit and Performance Auditing.

VALUE-ADDED STATEMENT

FIGURE 8: AGSA VALUE-ADDED STATEMENT FOR 2016-17

	2016-17	
	%	R MILLION
Revenue		2 977
Paid to suppliers		1 022
- value added by operation		1 955
Interest income		69
Total value added applied as follows:		
Paid on internal and external empowerment	1,23	25
- Corporate social investment	0,05	1
- Corporate social responsibility	0,19	4
- Bursaries external	0,99	20
Paid on employees and internal empowerment	96,20	1 947
- Salaries, wages and benefits	93,73	1 897
- Employee wellness	0,15	3
- Study assistance	0,99	20
- Training	1,33	27
To pay providers of capital	1,04	21
- Finance cost	1,04	21
Reinvested in the business	1,53	31
- Depreciation	2,27	46
- Retained (deficit)/surplus	-0,74	(15)
TOTAL VALUE ADDED		2 024

FIGURE 9: MANAGEMENT STRUCTURE OF AGSA

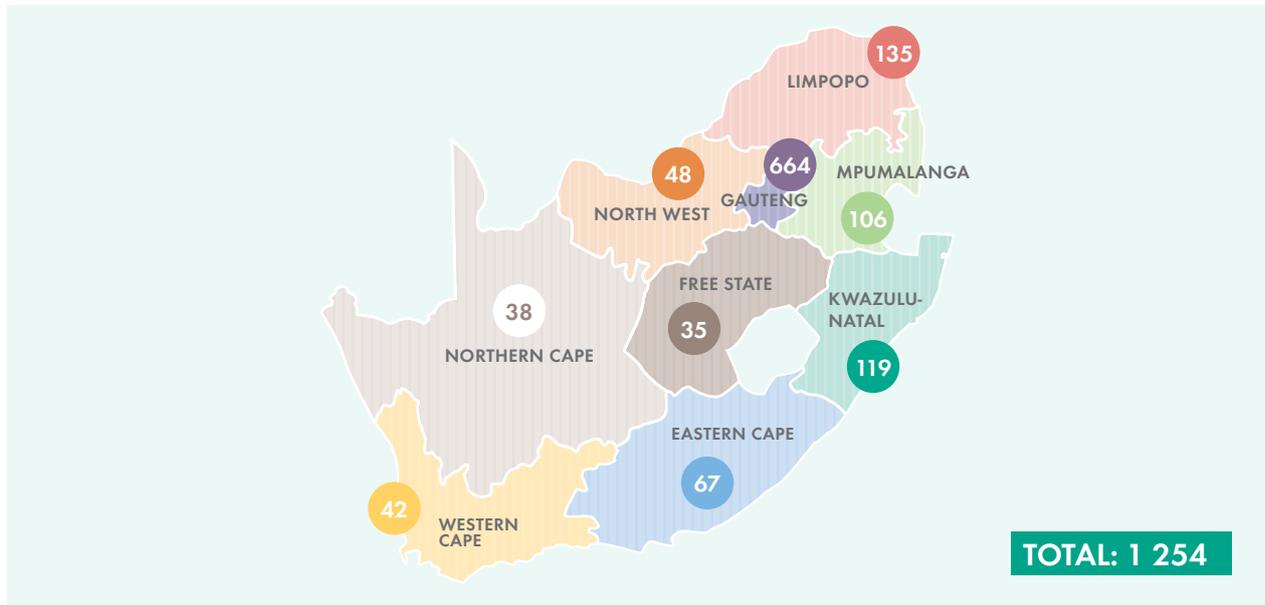


ORGANISATION'S SUPPLY CHAIN

In line with the principles prescribed in the constitution, we maintain a procurement and provisioning system that is fair, equitable, transparent, competitive and cost-effective. During the 2016-17 performance period, we fine-tuned our supply chain

model to make it responsive to our evolving needs of supplying and sourcing quality goods and services at the right time while strengthening how we govern the procurement process. All changes to the model were included in the revised supply chain management policy, which came into force at the start of the 2017-18 financial year.

FIGURE 10: ESTIMATED NUMBER OF SUPPLIERS PER PROVINCE



CONTRACTS AWARDED AND TOTAL VALUE OF LIABILITY

To ensure fair, transparent and cost-effective access to goods and services, the organisation has established a threshold of R500 000, above which a mandatory tender process takes place. Contracts awarded through the tender process amounted to R216 million, while contracts with a value below the threshold totalled R14,2 million.

As part of our business model we outsource some of our audit work. The firms that audit on our behalf are appointed through a strict tender process that considers the size and capacity of the firms, their location in the respective provinces, their expertise and the quality of their audit work. The appointment process incorporates the principles of transformation to maximise our contribution to the development, growth and advancement of black CAs.

During the review period, audit work worth R584 million was allocated to private firms. Of these:

- R210 million was allocated to black-owned firms (more than 51% ownership by black people)
- R51 million was allocated to black women-owned firms (more than 30% black women ownership)
- 104 firms (four large, six medium and 94 small) were used for audit work
- 1 050 contracts were awarded to these firms

- The outsourced work included pre-issuance reviews, regularity audits, information systems audits and performance audit services.

Further information on our contribution to transformation is provided in the vision and values driven chapter.

SIGNIFICANT CHANGES DURING THE REPORTING PERIOD

No significant changes occurred in our management structure or business model. No new products were developed or introduced during the reporting period.

It is important to acknowledge that our audit methodology was revised and will be implemented in all our audits. It is fully aligned to the international auditing standards and best practices. We expect to derive numerous benefits from implementing the methodology, from consistency in planning audits and focusing on what matters to improving efficiencies in special cases, such as at smaller auditees and auditees with a good control environment. Details on piloting the methodology are discussed in the value-adding audits section of this report.

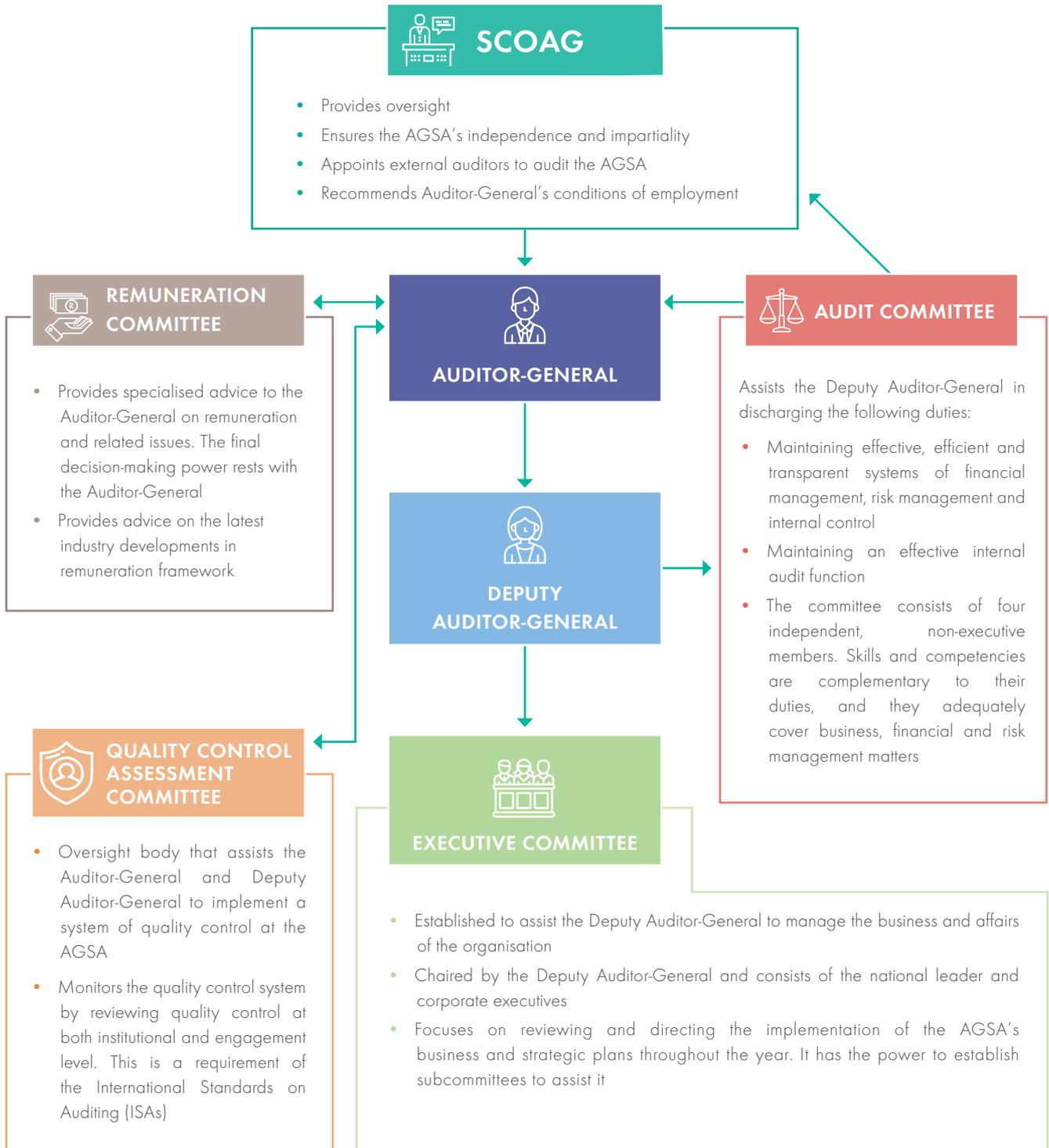
As part of our continuous drive to improve our services and to have dialogues of substance and depth with our auditees, we introduced the enhanced engagement programme. We will be inspiring clean audits – one conversation at a time.

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK

Our governance framework is defined by the Constitution and the PAA. The AGSA, in line with its policy to adhere to best practice, considers the King III code on governance (King IV in the future) as additional guidance.

FIGURE 11: GOVERNANCE FRAMEWORK OF THE AGSA



STANDING COMMITTEE ON THE AUDITOR-GENERAL

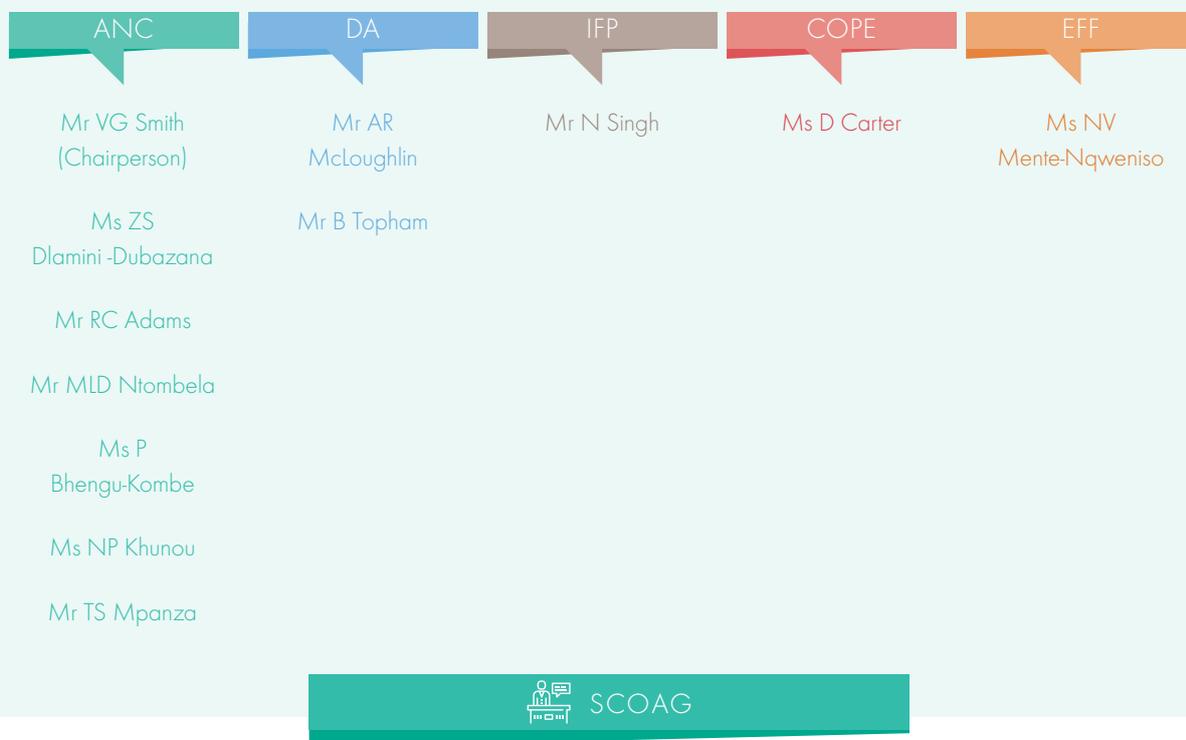
The National Assembly established SCoAG as an oversight mechanism in accordance with section 55(2)(b)(ii) of the Constitution and section 10(3) of the PAA. In terms of its legislative mandate, SCoAG is required to fulfil the following roles:

- To assist and protect the AGSA to ensure its independence, impartiality, dignity and the effectiveness and to advise the National Assembly accordingly

- To make recommendations to the president on the conditions of employment of the Auditor-General
- To provide general oversight requirements in terms of section 55(2)(b)(ii) of the Constitution
- To annually appoint an independent firm of external auditors.

During the 2016-17 financial year, SCoAG met twice. The committee dealt with the key issues of discussing the strategic plan and budget, considering the annual report and appointing the external auditors.

FIGURE 12: COMPOSITION OF THE STANDING COMMITTEE ON THE AUDITOR-GENERAL



AUDIT COMMITTEE

Section 40(1) of the PAA mandates the Deputy Auditor-General to establish an audit committee and to appoint its members. The audit committee does not have managerial responsibility, but assists the Deputy Auditor-General in discharging the following duties:

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

The committee consists of a minimum of three independent, non-executive members. The skills and competencies of the committee members are complementary to the execution of their duties, and should adequately cover business, financial and risk management matters. The audit committee met three times during the 2016-17 financial year to discuss:

- the status of internal controls and risk management in the organisation
- integrated reporting and financial statements
- sustainability and performance information
- the work of the internal audit function
- the appointment, independence and functioning of the external auditor.

In performing its duties and functions the committee complied with section 40(6) of the PAA, the adopted principles of the King III code and its terms of reference, which are reviewed annually. The audit committee chairperson’s full report is presented on page 89.

FIGURE 13: COMPOSITION OF THE AUDIT COMMITTEE



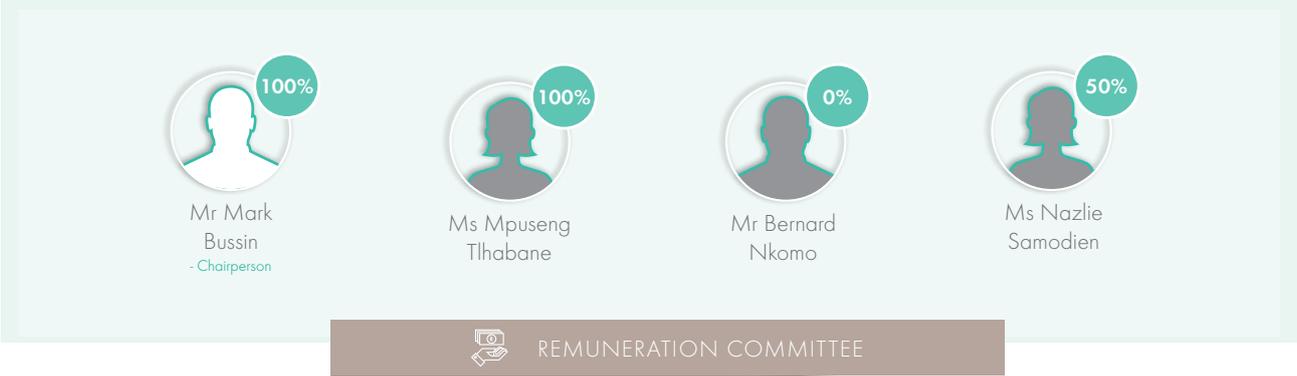
REMUNERATION COMMITTEE

The Auditor-General is responsible for determining the terms and conditions of employment of all AGSA employees, in line with section 34(3) of the PAA. The remuneration committee (REMCO) provides specialised advice to the Auditor-General on remuneration and related issues, although the final decision-making power rests with the Auditor-General.

During the 2016-17 financial year the committee met twice and recommended the annual employee increases to the Auditor-General, as per its mandate. It also provided advice on the latest industry developments regarding its remuneration framework.

The remuneration committee’s report is on page 92.

FIGURE 14: COMPOSITION OF THE REMUNERATION COMMITTEE



QUALITY CONTROL ASSESSMENT COMMITTEE

The Quality Control Assessment Committee (QCAC) is an oversight body that assists the Auditor-General and Deputy Auditor-General to fulfil their responsibility to implement a system of quality control at the AGSA, as mandated in the policy on monitoring compliance with quality control. This ensures that we adhere to section 13(1)(a) of the PAA to determine the standards applied when auditing.

The QCAC consists of the Auditor-General, the Deputy Auditor-General, an external audit committee member and an external member

co-opted by the Auditor-General annually. The QCAC is required to monitor the elements of the quality control system by reviewing quality control at both institutional and engagement level. This is also a requirement of the ISA.

At its 15 May 2017 meeting, the QCAC decided on the final assessment results of the audit engagements subjected to quality control reviews in the 2015-16 performance year. Details of the results, and the outcome of monitoring the engagement level for 2015-16, are found in the performance information of all elements of the system of quality control on pages 51-52.

FIGURE 15: COMPOSITION OF THE QUALITY CONTROL ASSESSMENT COMMITTEE



Mr Kimi
Makwetu
- Chairperson



Ms Tsakani
Ratsela



Ms Linda De
Beer



Mr John
Biesman-
Simons



QUALITY CONTROL ASSESSMENT COMMITTEE

EXECUTIVE COMMITTEE

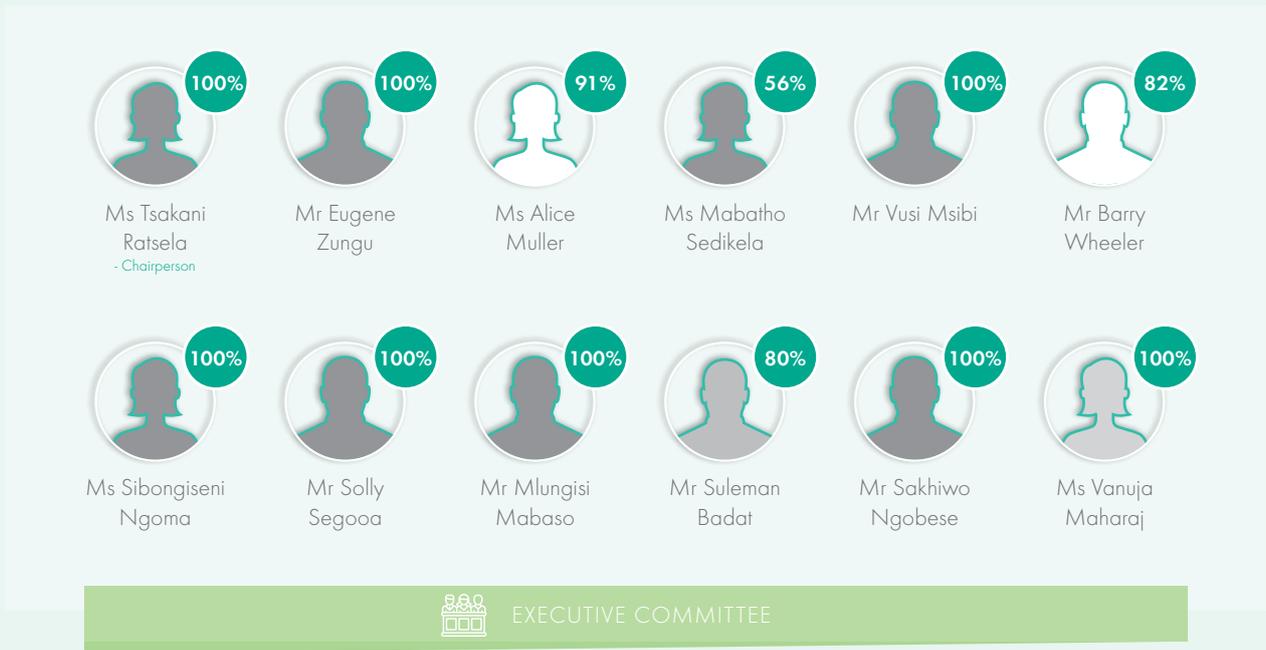
The PAA gives both the Auditor-General and the Deputy Auditor-General the authority to delegate any of their powers and duties to any member of staff. The executive committee (EXCO) was established to assist the Deputy Auditor-General to manage the business and affairs of the organisation as set out in the AGSA's management approval framework.

The Deputy Auditor-General chairs EXCO, which comprises our national leader and corporate executives. EXCO holds scheduled

meetings at regular intervals and special meetings when required. 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 subcommittees to assist it.

EXCO met eleven times during the 2016-17 financial year. It dealt with implementing strategic initiatives, approving policies and strategic documents, and monitoring management information for issues and trends.

FIGURE 16: COMPOSITION OF THE EXECUTIVE COMMITTEE AND ATTENDANCE



NB:

- Ms Ratsela was the chairperson from March until November 2016 when she went on leave. Mr Zungu was the chairperson from January to March 2017 in his role as an acting Deputy Auditor-General.
- Ms Sedikela was on leave from January to March 2017. Ms Maharaj attended EXCO in Ms Sedikela’s absence as acting corporate executive.
- Mr Mabaso joined the organisation in August 2016.
- Mr Msibi resigned from the organisation at the end of January 2017.
- Mr Badat resigned from the organisation at the end of February 2017.

EXTERNAL CHARTERS, PRINCIPLES AND INITIATIVES THAT WE SUBSCRIBE TO OR ENDORSE

We are an active member of the International Organisation of Supreme Audit Institutions (INTOSAI) and participate in a number of its working groups. We host the secretariat of the regional chapter of INTOSAI and the African Organisation of English-speaking Supreme Audit Institutions (AFROSAIE).

We also subscribe to the International Ethics Standards Board for Accountants’ (IESBA) *Code of ethics for professional accountants* and have adopted the *INTOSAI code of ethics* for the organisation.

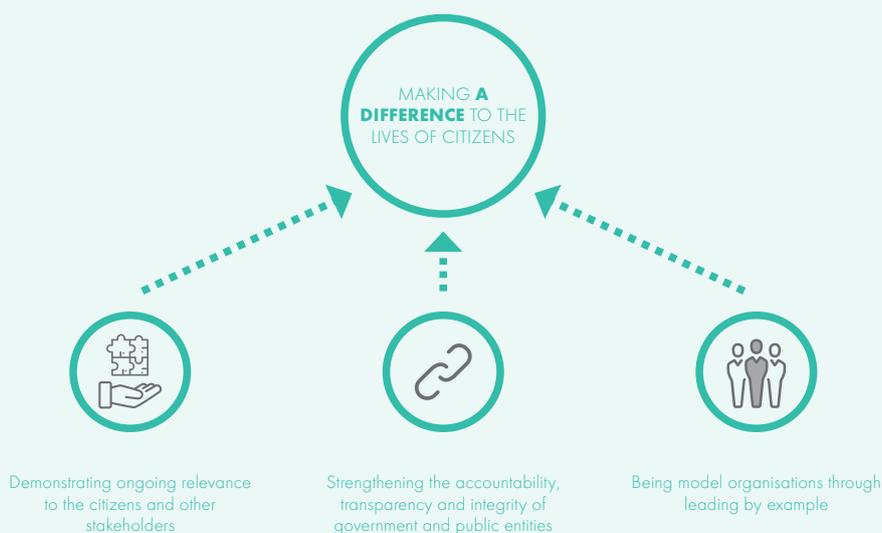
VALUE AND BENEFITS OF SUPREME AUDIT INSTITUTIONS

As a member of INTOSAI, we subscribe to the principles entrenched in the International Standards of Supreme Audit Institutions (ISSAI) 12, which describe how supreme audit institutions demonstrate their value and the benefits to the public sector. The ultimate goal of a supreme audit institution

is to make a difference to the lives of the ordinary citizens of its respective country.

As a supreme audit institution, the work that we do daily seeks to increase the value we provide to the people of South Africa and their elected representatives, at all spheres of government.

FIGURE 17: MAKING A DIFFERENCE



03

Section Three

Reporting profile	37
External assurance on this report	38
Strategic risks	40
Forward looking statements	40





SUBSCRIBE TO
GRI and IR
PRINCIPLES



EXTERNAL
ASSURANCE
Provided

REPORTING ON
THE 4V STRATEGY



Value-adding
auditing



Visibility for
impact

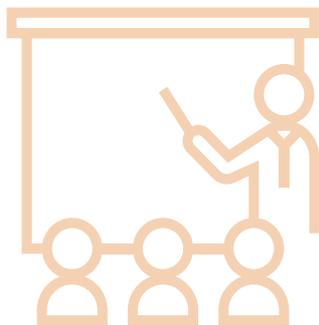


Viability



Vision and values
driven

EDUCATION



Quality education is goal 4 of the SDGs and addresses challenges of high unemployment, poverty and inequality. The NDP and MTFS also recognise that high-quality education and training will enable South Africa to build a skilled and capable workforce.

Public spending on education is 6,4% of GDP. Despite this financial injection, the education and training system experiences challenges that have a negative impact on teaching and learning, and on students' access to employment.

The NDP highlighted school management as crucial to improving school performance. Our education audits included school management and governance, education districts and provincial departments. We also followed up on whether early childhood development grade R programmes improved the capacity of young children to develop and learn.

Education sector audits will lead to schools, districts and provinces being held accountable for improving school performance, discipline and the skills of educators. This will ultimately provide quality education to benefit learners and increase our prospects for growth.

REPORTING PROFILE



REPORTING CYCLE

Every year we produce an annual report to account to Parliament for our performance during each financial year, which begins in April and ends in March of the following year. The last annual report was tabled in Parliament on Monday, 26 September 2016.



REPORTING APPROACH

This integrated annual report provides information relating to our strategy and business model, operating context, material risks and opportunities, governance and operational performance from 1 April 2016 to 31 March 2017. The reporting is done against the provisions of the *2016-19 strategic plan and budget* and includes the annual financial statements.

Our integrated way of reporting is a result of the integrated thinking applied by our leadership and executive teams to defining the imperatives of creating long-term, sustainable value for our stakeholders. This report covers the performance of all business units in the organisation, including our head office and our offices in the nine provinces.



REPORTING PRINCIPLES AND PRACTICE

The content and format of this report were informed by both the *Global Reporting Initiative sustainability reporting guidelines* (GRI G4) and the *International integrated reporting* (IR) framework. Therefore, this report meets the information and reporting requirements of both the IR and the GRI G4 'core' versions.

The report also reflects the requirements of our governing legislation, the PAA, and the recommendations of the King III code on corporate governance and reporting. The annual financial statements are prepared according to the International Financial Reporting Standards (IFRS).



MATERIAL FOCUS TO DETERMINE THE CONTENT OF THIS REPORT

This report has been prepared primarily for our constitutional stakeholders and the people of South Africa. The report is also relevant for any other stakeholder who has an interest in our performance in delivering on our mandate. It focuses on those matters that we see as being most material to our ability to create value for our stakeholders. Our approach to managing these material matters is reflected in our strategic goals and objectives.

Material matters relate to our financial and performance management, and have a substantive effect on our ability to create value over the short, medium and long term, which would affect the country's and our sustainability. We also consider our risks and opportunities to be material as they provide scenarios that the organisation may face in the future.

The material matters included in this report were identified through a structured process involving the Auditor-General, Deputy Auditor-General, EXCO and business unit executives, who reviewed the AGSA's performance and strategic direction. These material matters are defined in the strategic commitments made to Parliament, based on our long-term strategy and outlined in detail in the AGSA's *2016-19 strategic plan and budget*. Our corporate executives responsible for the various strategic goals are also consulted at the end of the reporting period to confirm the material matters. No new material matters were identified in the year-end consultations.

The material matters are applicable to all our business units, while the issues of value-adding auditing and visibility for impact are applicable to all our key stakeholders. We continuously engage with our stakeholders to ascertain what is important to them so that we can respond to their needs.

There are no changes to, or limitations on, the scope and boundary of the identified material matters. There is also no need for any restatements from the previous reports.



EXTERNAL ASSURANCE ON THIS REPORT



EXTERNAL ASSURANCE

We adhere to the principles of good governance as outlined in the King III code. The King IV code will take effect from 1 April 2018. As such, our combined assurance model defines the various role players that provide assurance to the organisation. The model encompasses the assurance provided by management, internal specialists, internal audit and external audit.

An independent external auditor audits our financial statements, financial management and performance information, and assures the information on the selected sustainability performance indicators.

Kwinana and Associates (Gauteng) Incorporated provided assurance for our 2016-17 annual financial statements on page 95, and limited assurance for our selected sustainability indicators (page 93).

The assurance on this report was conducted according to the International Standard on Assurance Engagements 3000 (ISAE 3000: revised), issued by the International Auditing and Assurance Standards Board. The assurance statement is reflected on page 94 of this report.



THE ASSURANCE PROVIDER

The external auditor is completely independent of the organisation. It does not receive any of the allocation of audits to be done on behalf of the AGSA and its income from the audit of the AGSA is less than 15% of the firm's annual revenue.

The external auditor has completed its term and will not be providing assurance for our next integrated annual report.



APPOINTING AN EXTERNAL AUDITOR

SCoAG, which oversees our work on behalf of Parliament, appoints the external auditor for a period of three years and their appointment is reviewed every year.

The audit committee facilitates the appointment of the external auditor according to a process that is fair, equitable, transparent, cost-effective and in line with our transformation agenda. The audit committee also examines the auditor's capacity and competence to provide assurance on our sustainability information.

Certified service providers annually train the members of the audit committee on their responsibilities regarding the assurance of the integrated annual report.



APPROVAL OF THE REPORT

This report is reviewed and approved by the Auditor-General, Deputy Auditor-General and the audit committee before it is published for external use.



FEEDBACK ON OUR REPORT

We welcome feedback on our integrated reporting to ensure that we continue to disclose information that is pertinent to all our stakeholders. Should you wish to provide written feedback, kindly use our email address: agsa2@agsa.co.za or our twitter account: @AuditorGen_SA.



CONDITIONS UNDER WHICH WE OPERATE

The major aspects of our environment and their potential to affect the delivery of our mandate, which informed our strategy during the year, were:



SUSTAINED LOW ECONOMIC GROWTH

Economic sluggishness persistently results in fiscal constraints on the delivery of government programmes that are part of the *National development plan* (NDP). The priority of programmes guides our choice of audit topics while the subdued national revenue exerts continued pressure on audit efficiencies. We have made firm and bold decisions to implement austerity measures, enhance the use of resources and contain overheads in the quest to create a lean and efficient organisation.



RISING DEBT OWED TO THE AGSA

Unpaid fees threaten our financial sustainability. The success of collecting the outstanding audit fees through litigation against defaulting auditees and via structured payments (ring-fencing) allowed us to remain viable during the 2016-17 financial year.



HIGHLIGHTED ROLE AND THE REPUTATION OF THE AGSA

The intense public debate on poor governance, the lack of consequence management in the public sector and the increased scrutiny by various oversight bodies of fruitless, wasteful, irregular and unauthorised expenditure has highlighted the role of the AGSA in our country. The calls to increase the powers of the Auditor-General necessitate the quality of our work being beyond question.



PALPABLE PUSHBACK FROM OUR AUDITEES

From delaying the submission of information to excluding our key audit staff from important meetings and intimidating our auditors, auditees directly or indirectly interfere with our independence and the delivery of our mandate. While such cases require additional effort from us, they also demonstrate that our relevance and focus have increased and that we are touching the right pressure points. They further encourage us to intensify our efforts to ensure that audits are completed on time and audit reports are published as prescribed by the law.



TRANSFORMING THE ACCOUNTING AND AUDITING PROFESSIONS

Our invigorated effort to speed up transformation in the field is evidenced by the signing of the revised *Chartered accountancy profession sector codes* (CA charter) and our strengthened resolve to use the distribution of contract audit work and other organisational practices to positively influence the growth and advancement of black CAs.



MORE COMPLEX AUDITING ENVIRONMENTS

Our auditees' activities in the public sector increasingly use the latest technology, apply various practices in procurement, contracting and service delivery, and use implementing agencies or form public private partnerships. These specifics, in addition to their reliance on various information technology systems create a complex auditing environment, which requires us to ensure that our audit skills remain relevant at all times and that our technological tools keep pace with these changes.



SCARCITY OF SKILLED PROFESSIONALS IN ALL SPECIALITIES

Specialists are needed for us to execute our mandate. This remains a perennial challenge, especially in some of the provinces, and necessitates the continuous development and retention of talent.

We have instituted environmental scanning processes within our various functions. Any new trends are escalated to the attention of our leadership for eventual decision making.



STRATEGIC RISKS

In addition to the external risks and opportunity discussed in the previous section, our EXCO identifies risks related to our internal environment during its annual workshop.

These are added to the list of strategic risks on our 'strategic risk profile' and are considered and addressed in our strategic or functional plans.

The current strategic risk profile includes the following items:

NEGATIVE IMPACT ON THE FINANCIAL VIABILITY OF THE AGSA as a result of pressure on revenue collected; internal and external costs/factors

FAILURE TO EMBED THE RIGHT ORGANISATIONAL CULTURE to support the successful achievement of vision 2024

FAILURE TO LEAD BY EXAMPLE through effective ethical leadership

INADEQUATE INFORMATION TECHNOLOGY CAPABILITY to support successful delivery of the strategy (infrastructure, management information and audit and process software)

FAILURE TO MAINTAIN KEY SKILLS and employ skilled staff to enable delivery of the 4V strategy

LOSS OF CREDIBILITY due to the characteristics of our operational environment

AUDIT PROCESS FAILURE

INABILITY TO PROTECT organisational resources (information, data, etc.) against cyber threats

FAILURE TO HAVE A POSITIVE IMPACT and be relevant to our stakeholders (misalignment between stakeholder expectation and our mandate)

FORWARD LOOKING STATEMENTS

This report contains certain forward-looking statements on the AGSA's financial condition, performance results and operations. They are based on the organisation's current beliefs and expectations about future events. These statements and forecasts

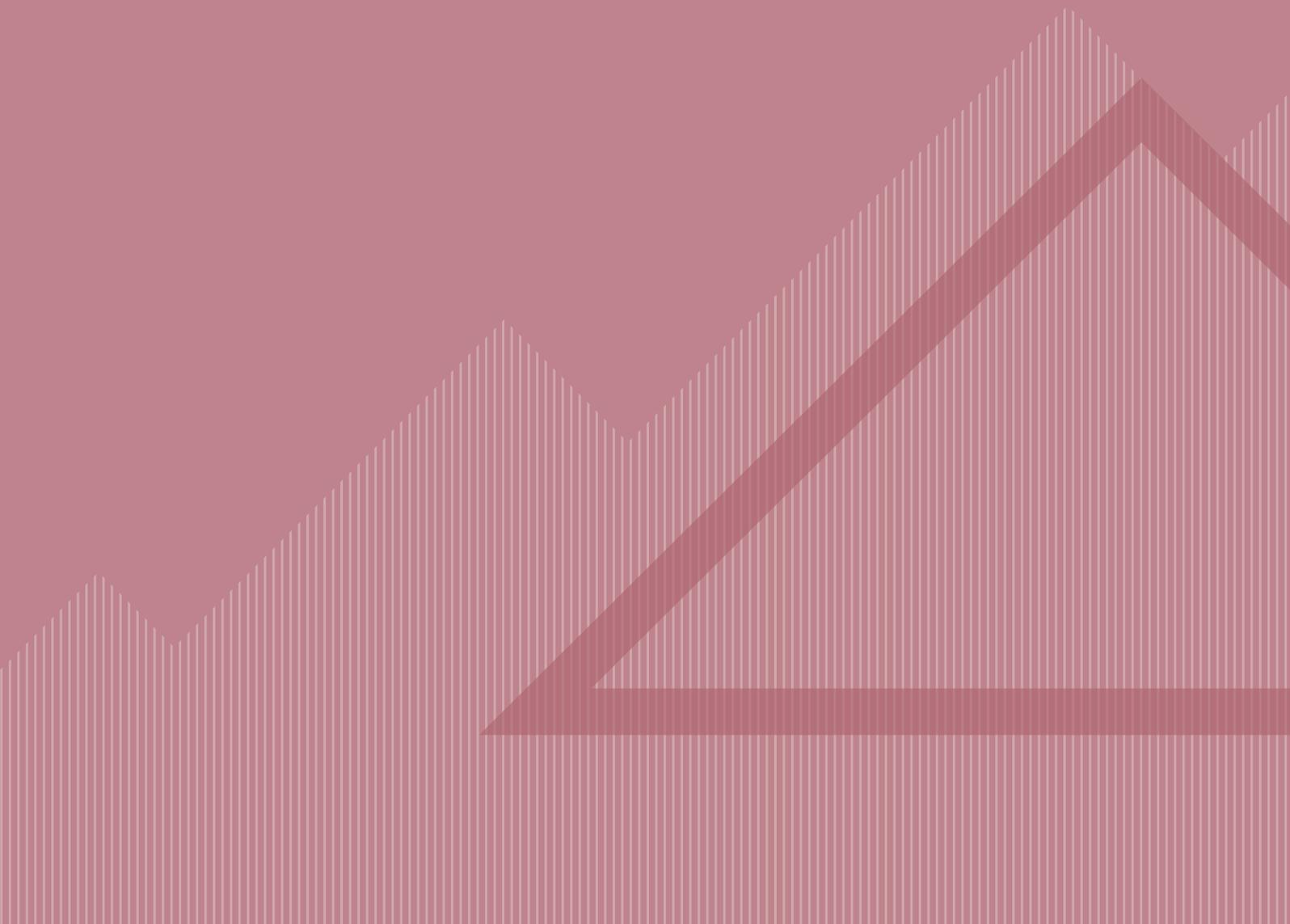
involve risk and uncertainty as they relate to events and depend on circumstances that occur in the future, many of which are beyond the organisation's control. There are various factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.



04

Section Four

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PILOTED OUR
REVISED AUDIT METHODOLOGY



SCOPA PROPOSED NEW POWERS
FOR THE AUDITOR-GENERAL
TO ENFORCE HIS RECOMMENDATIONS



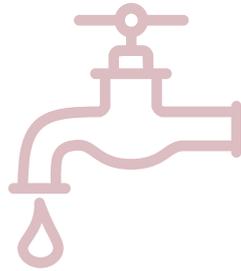
AGSA
PROFESSIONAL PROFILE

CA(SA)	RGA	ACCA	CISA	TOTAL
619	464	39	76	1 198



WE SUSTAINED
OUR LEVEL 2 B-BBEE RATING

WATER & SANITATION



The country committed to making water and sanitation available and managing its sustainability to reach all households, as presented in goal 6 of the SDGs. The gap between water supply and demand will reach 17% by 2030. The growing demand is fed by population growth, a rise in urbanisation and increased economic activity.

Poor usage habits, climate change and public water losses are factors of water scarcity. It is crucial for South Africa to build the infrastructure to support water availability and sustainably manage this vital resource.

We audited the water infrastructure programme to determine its effectiveness. A number of deficiencies were identified within the water infrastructure value chain, which could have a negative effect on water delivery to the citizens of South Africa. The Department of Water and Sanitation committed to resolving these deficiencies to keep the SDGs, which government committed to in the NDP and MTSF, on track.

ORGANISATION'S PERFORMANCE AGAINST PREDETERMINED OBJECTIVES



VALUE-ADDING AUDITING

DEMONSTRATE VALUE-ADDING AUDITING

FIGURE 18: PERFORMANCE AGAINST TARGETS FOR OBJECTIVE 1 OF THE GOAL VALUE-ADDING AUDITING



DELIVERING A THOROUGH AUDIT OF THE STATUS OF FINANCIAL AND PERFORMANCE MANAGEMENT IN THE PUBLIC SECTOR

In line with our mandate, we audit and report on the fair presentation of our auditees' financial statements, the accuracy and transparency of their performance reporting and their compliance with legislation.

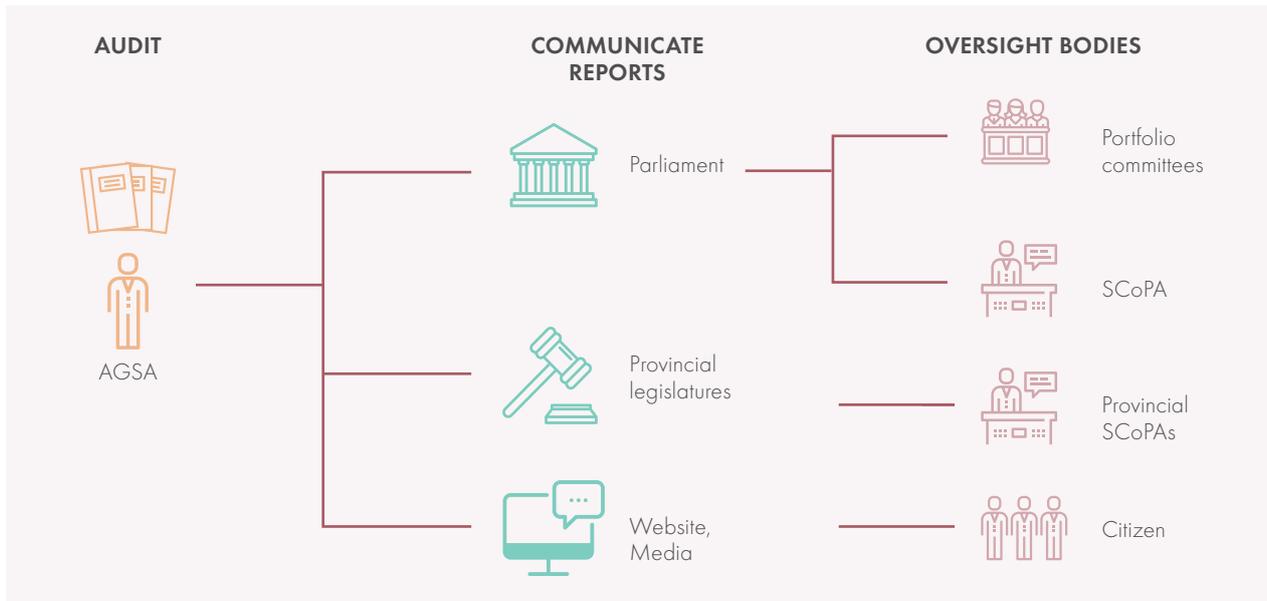
We report the audit results to accounting officers through our management reports, which are also shared with the accounting authorities and audit committees. Our audit opinions, the material audit findings on compliance and performance information, as well as the significant deficiencies in internal control that gave rise to these findings, are reported to oversight bodies through our audit reports, which are published and tabled as part of the annual reports of our auditees.

Our reports are written in a simple and clear manner to ensure understanding, and include relevant root causes of our findings and recommendations that, if implemented, will bring about and sustain the desired improvements in public sector administration.

Annually, the audit outcomes are also summarised and analysed in the general reports (one for national and provincial government and one for local government) to provide an overall view of financial and performance management in the public sector to all stakeholders.

These insights empower both oversight bodies and citizens to hold their elected representatives accountable. This constitutes the main value of our audits and reports. To increase this value, we continually strive to make our work more relevant by selecting audit focus areas that reflect the government priorities focused on enhancing the well-being of our people.

FIGURE 19: USERS OF OUR REPORTS



Consequently, in the past year our annual audits focused on supply chain management, human resource management, effective use of consultants, information technology controls, management of grants, infrastructure projects, consequence management, provision of water, sanitation and road infrastructure as well as the financial health of our auditees.

The results of the stakeholder perception survey, done during the 2014-15 financial year, revealed a need for improvement in the areas of our issues-based engagements, face-to-face engagements and the cost of our audits. In 2016-17, specific actions were developed to address the gaps identified in these three areas.

Engaging our stakeholders early on their issues focused their attention on areas that could have an impact on their audit outcomes. Some audit issues that could have given rise to pushbacks by the auditees were resolved. While the audit teams work hard to increase the face-to-face engagements, a common trend is the unavailability of the political leadership.

Although we strive to reduce our auditees' audit bill, their management's lack of attention to improving the control environment, the increased risks at auditees and their pushbacks have a negative impact on the cost of auditing.

It is important to reflect that our audit portfolio now includes another major state-owned company - the South African Airways group of companies - following a request from the executive authority. Our portfolio was further increased by audits of a few more technical and vocational education and training (TVET) colleges, bringing the total number of colleges that we audited for the year to 30. We opted to perform the audits of all the Water Boards in the next audit cycle, due to the risks associated with the water and sanitation portfolio. These were previously outsourced to private

audit firms. In addition to managing risks for the public sector, these audits will allow our staff to gain invaluable knowledge and experience in auditing diverse environments.

The underlying basis for the confidence in our work is the quality of our audit engagements. We define high targets for this aspect and go to great lengths to ensure that our audits meet the relevant audit standards.

REPORTING ON THE AUDIT WORK

During the past financial year we completed 959 audits.

Largely, the quality of the financial records submitted for auditing continued to be poor, specifically at local

government level. This strengthens our determination to increase the relevance of our audits and to seek better ways of engaging with auditees and oversight bodies throughout the performance period to improve the quality of financial records.

As we increased the quality of our audits and our knowledge of our auditees' business, the depth and relevance of our audit messages grew. However, the trend of pushbacks on audit outcomes of the last few years persisted in the 2015-16 audit cycles. None of these cases resulted in litigation.

Both our 2015-16 national and provincial government general report and our local government general report were well received and gained a lot of attention from our stakeholders. During the post-tabling discussions our mandate was positively

Of the 959 audits, 873 (91%) were signed off within the legislated deadlines.

highlighted, with many stakeholders publicly requesting additional powers for the Auditor-General so that cases of non-compliance or mismanagement can be dealt with adequately.

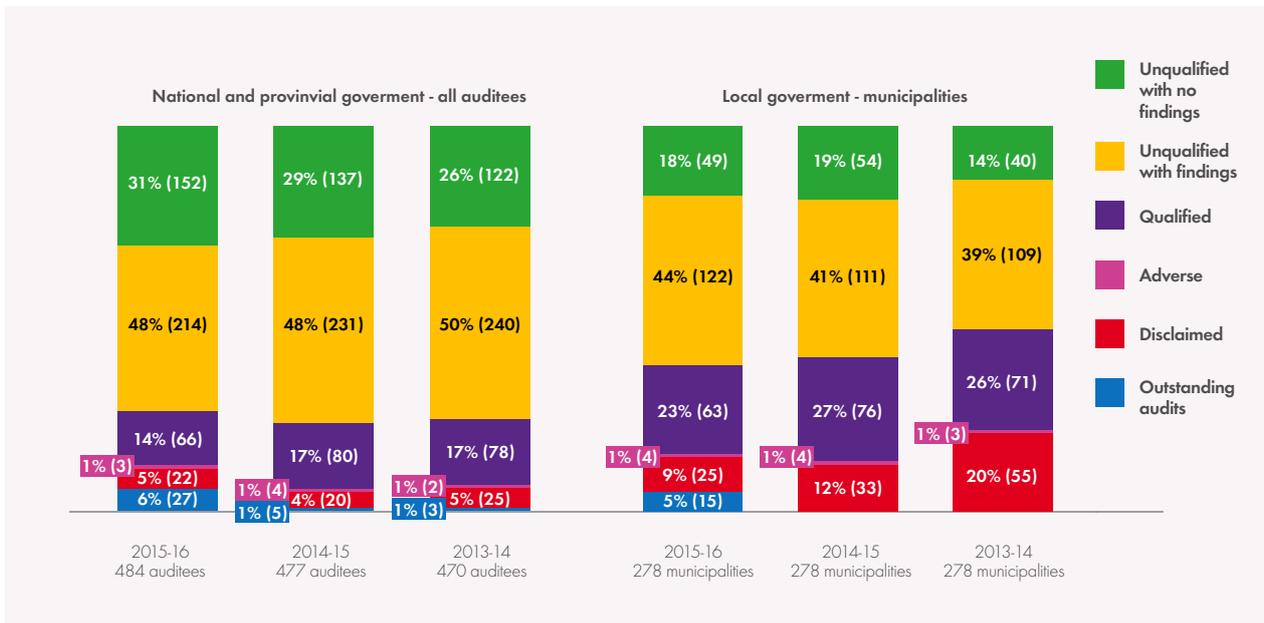
Figure 20 depicts the audit outcomes of national and provincial government, i.e. departments and public entities, and local government over the past three years.

Overall, the rate of improvement has been slow, with only public entities showing year-on-year improvements. In 2015-16, 34% of public entities had clean audits, compared to 26% of departments and 18%

of municipalities. The decrease in clean audits at municipal level is attributed to the loss of focus during the local government elections in 2016.

Our 2015-16 general reports contain the consolidated results of our annual audits and an analysis of the root causes of non-compliance with legislation and mismanagement of financial resources in the public sector. We direct the reader to our website - www.agsa.co.za - where these reports are available to all our stakeholders. The rest of this section focuses on feedback on our measures to continually improve our work and provide value to our stakeholders.

FIGURE 20: AUDIT OUTCOMES OVER THE PAST THREE YEARS



STATUS OF INTERNAL CONTROLS

While, various factors contribute to the unfavourable audit outcomes, the main one remains the poor state of internal control. The drivers of internal controls have shown little

progress in the last three years at local, national and provincial levels. A change in financial and performance management, governance and leadership is required if the current status of audit outcomes is to improve.

FIGURE 21: PROGRESS OF INTERNAL CONTROLS AT NATIONAL AND PROVINCIAL GOVERNMENT LEVELS

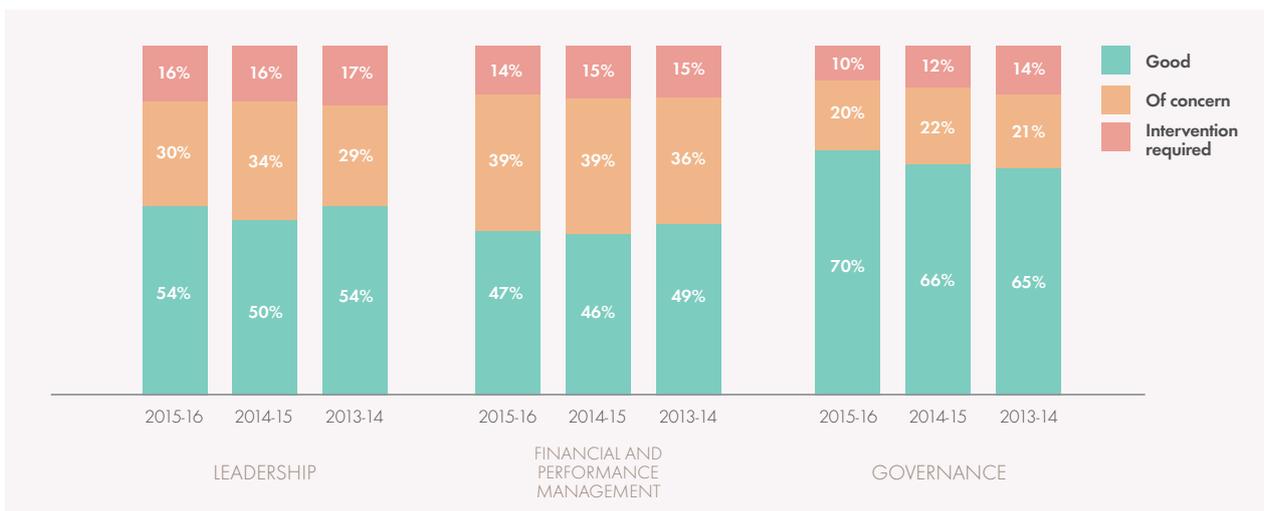
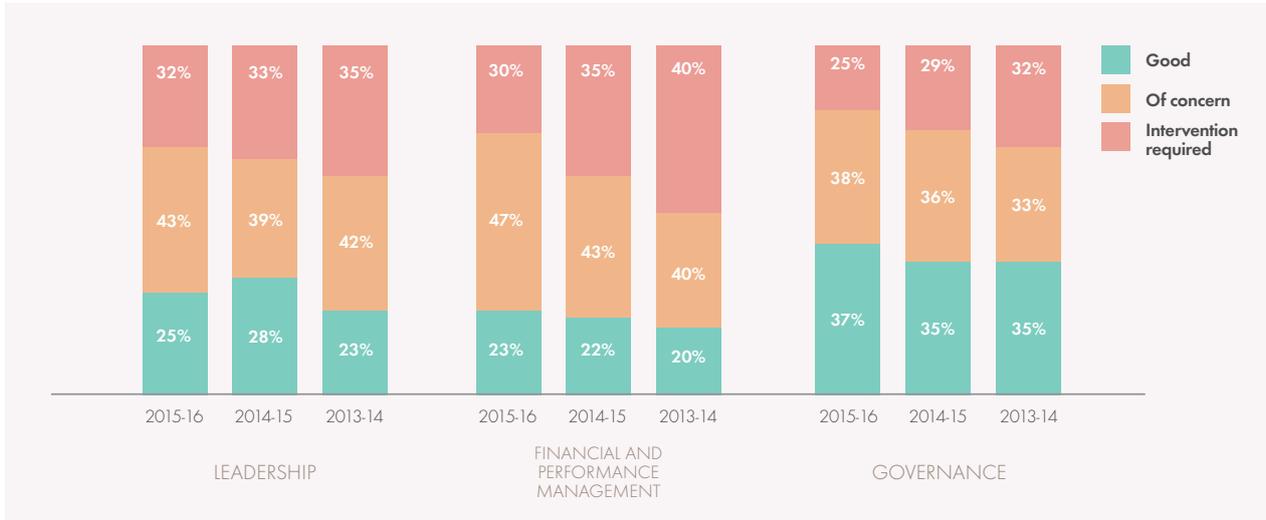


FIGURE 22: PROGRESS OF INTERNAL CONTROLS AT LOCAL GOVERNMENT LEVELS



REVIEW OF ANNUAL PERFORMANCE REPORTS

The quality of the annual performance reports submitted to us for auditing improved substantially over the past five years. We perform interim reviews on the annual performance plans of national departments, selected key entities within the national portfolios and selected provincial departments. Our reviews enable the accounting officers and executive to address any weaknesses in the plans before their submission to portfolio committees. We brief the committees on remaining weaknesses.

During the year we performed 143 such interim reviews on the measurability and relevance of the annual performance plans of 2017-18. Portfolio committees appreciated this process as it provided them with the opportunity to engage with departments on certain key objectives that were omitted from the plans submitted to them for approval, further demonstrating the value and impact of this practice.

Our reviews were based on, and linked to, an in-depth analysis of the respective portfolios' NDP and Medium Term Strategic Framework (MTSF) objectives.

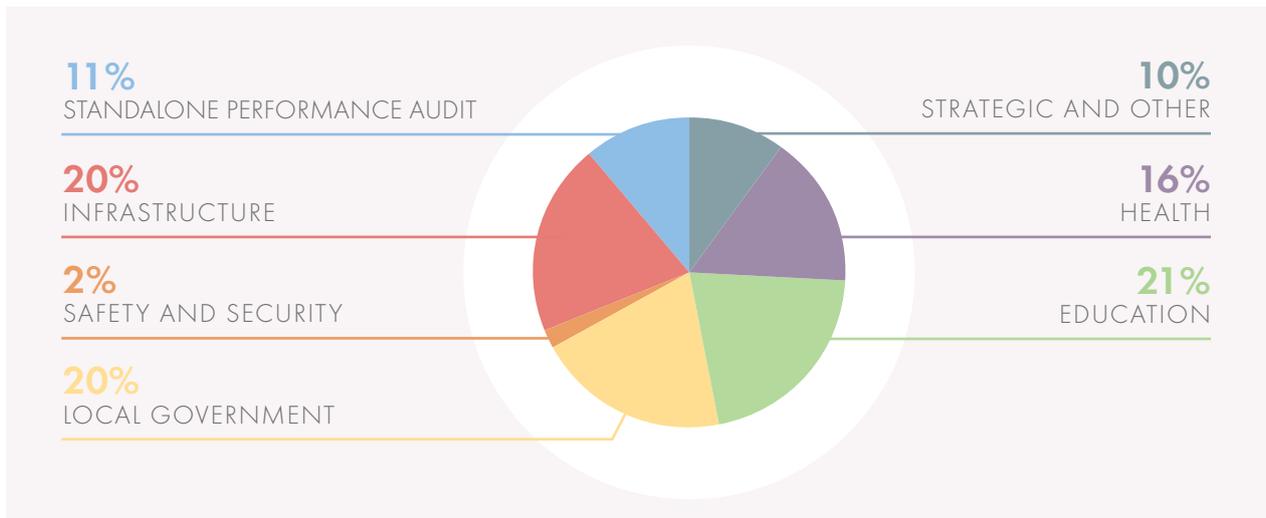
PERFORMANCE AUDITS

Annually, a five-year audit plan is developed and approved by a specially convened internal structure, the performance audit advisory committee (PAAC). This plan consists of focus areas for standalone performance audits as well as areas where multi-disciplinary teams integrate with regularity audit teams to provide a more comprehensive assessment of auditees through integrated audits.

The plan is aligned to the NDP's outcomes and follows the five government priorities identified in the MTSF, i.e. decent jobs, fight crime, education, health and rural development.

We tabled three standalone performance audit reports, on the urban renewal programme, water infrastructure provision and the management of pharmaceuticals, on 30 November 2016. We highlighted a number of critical matters in these reports, including the effective use

FIGURE 23: PERFORMANCE AUDITING FOCUS FOR 2016-17



of public resources by those responsible for administering the public purse. The root causes of these findings were similar across all three reports. They centred on leadership and oversight, funding, project management, operations and intergovernmental coordination. These matters must be rectified to better the lives of citizens.

It is important to note that as a result of these audits, accounting officers have already initiated extensive corrective actions to improve service delivery. We also briefed various portfolio and public accounts committees to enhance their oversight by ensuring that they understood the issues contained in the reports. These committees had numerous interactions with the accounting officers concerned to facilitate accountability, and insisted on corrective action being implemented.

SECTOR REPORTS

The skills of our performance auditors and specialists in health and education contributed to numerous integrated audits. We published the outcomes in the health and education sector reports for 2015-16, which were tabled in Parliament, and briefed the respective portfolio committees. Regularity, information systems and performance audit combined their insights to provide a comprehensive view of national and provincial departments' performance in their sectors. The reports also highlighted the shortcomings that needed to be addressed to enhance accountability, governance and oversight across the value chain.

ENHANCING OUR REPORTS AND MESSAGES

To strengthen our message, we changed the content and format of our individual audit reports for the 2016-17 audit cycle. The information will prove more useful to auditees, especially in the area of reporting on performance information. We will report on the impact of these changes in next year's annual report.

To assist the executive and accounting authorities, we provided extracts from our *2015-16 PFMA general report* to individual ministers, directors-general and heads of departments for their use and monitoring during the year.

We extended support to newly-elected local government authorities and urged them to accept accountability and improve on past results, so that service delivery is improved. While we will monitor the impact of this theme during the next audit cycle, further assistance will be given to mayors and councillors via a booklet on ways to improve the internal control environment.

The messages
in our 2015-16
MFMA general report
were consolidated
around the theme
of accountability

OUR IMPROVED AUDIT METHODOLOGY

Our focus remained on auditing areas that matter and influencing our stakeholders to use public funds as intended. For the reporting period, we finalised our journey to improve our audit methodology and continued to focus on deepening our understanding of our auditees' environments and increasing our relevance through integrated value-adding audits.

Our audit methodology has been benchmarked against other audit institutions, both locally and internationally, and is aligned to the latest international standards on auditing. It was piloted at selected auditees during the 2015-16 audits and will be fully implemented from the 2016-17 audit cycle.



THE REVISED METHODOLOGY WILL:

- enable us to apply a consistent risk approach to our audits, based on a deeper understanding of the business of our auditees
- alleviate the practical challenges of integrating our audit disciplines
- allow us to seamlessly provide assurance on financial statements, annual performance reports and compliance with key legislation
- improve audit efficiency at smaller auditees and auditees with a good control environment.

Our staff, and those from the audit firms that we contract to audit on our behalf, have been trained in the new methodology. We supported this implementation process with a change management process to enable our auditors to understand, support and implement the required changes to their audit processes. They also implement good project governance processes to ensure that we adequately respond to any risks associated with implementing the new methodology.

DEEPENING OUR KNOWLEDGE OF AUDITEES' BUSINESS

To refine our focus and add value, we consistently search for ways to fully understand our auditees' service delivery mandates and processes, which will allow us to offer them unique insight into the areas requiring improvement. Our performance audit team applied value chain analysis to understand service delivery in the health and education sectors. We intend to apply this approach as part of our annual audits, by incorporating it into the new audit methodology. The approach is being piloted at selected auditees during the 2016-17 audits and has shown good results thus far. It ensures that our understanding is enhanced, which enables the correct focus in the audits.

We also deepened our understanding of our auditees' business by applying the 'follow the money' principle. This principle has led to a number of additional findings in our audits, especially in relation to the auditees' use of implementing agents and how they account for these transactions.

USING PUBLICLY AVAILABLE INFORMATION AND DATA ANALYTICS

We continued to intensify and institutionalise the use of publicly available information as a tool to provide our auditors with insights and a deeper understanding of the auditee's environment.

In 2016-17, we partnered with a number of research institutions including the South African Institute of Race Relations, Council for Medical Schemes, National Research Foundation, South African Bureau of Standards and Council for Scientific and Industrial Research to gain greater access to information that would assist our auditors in driving audit efficiencies and providing value-adding insights.

Most notable was the use of publicly available information during our performance audits. During the audit on the management of pharmaceuticals, information from the general household survey conducted by Statistics South Africa was used to illustrate the percentage of the population that is dependent on government providing medicine. Our auditors also combined information from the Department of Water and Sanitation and the general household survey during the performance audit on water infrastructure to demonstrate the backlog in providing water to households.

INTEGRATION OF SPECIALISED AUDIT SERVICES IN THE AUDIT TEAMS

The integration approach entails including information systems, investigations and performance auditors (collectively known as specialised audit services) in the audit teams. As a result, the audit teams are capacitated with audit professionals who specialise in information security and systems access control audits, information systems audits, fraud and performance audits. Integrating this knowledge base into a single audit produces a more effective audit outcome, improves the value we add by expanding our focus and enhances the relevance of our audits.

We intensified our use of computer-assisted audit techniques (CAATs) to streamline and achieve efficiencies in our audit processes.



CAATS WERE USED TO ADD VALUE IN THE FOLLOWING AUDITS:

- Testing for conflicts of interest in supply chain management across the public service. This resulted in public sector organisations, government departments and municipalities improving their procurement controls.
- Auditing employee costs, where we achieved audit efficiencies.
- Examining local government revenue processes where gaps were identified, particularly at metropolitan municipalities. We made appropriate recommendations to management to improve their processes.

Government is accelerating its use of automated and technologically driven processes. With the introduction of the e-tender, procure, e-commerce, central supplier database, and the imminent integrated financial management system (IFMS), government hopes to transform service delivery. We need to ensure that our specialised automated audit techniques are up to date so that we are fully equipped to audit and provide the required assurance to the public sector going forward.

We used investigation specialists to conduct fraud risk assessments, fraud risk detection analysis and reviews of high-risk supply chain management contracts. Our Investigations unit augmented the sector audits with support on managing antiretroviral medication during the health sector audit, and on the process for procuring textbooks at the Department of Education during the education sector audit.

The performance audit team contributed to audits on education, health, roads, water and sanitation and housing; areas that are directly related to basic services that affect the lives of citizens. The auditors, engineers and quantity surveyors were instrumental in identifying various shortcomings in the policy, planning and execution of infrastructure projects that had a negative impact on service delivery. The significant findings resulting from the audits were included in the 2015-16 local government general report.

We are pleased to observe the increasing value of the integrated audits. We are addressing the main reasons for applying this approach only to selected audits, i.e. the capacity of the specialised audit services units and the budgetary constraints that lead to us extracting efficiencies by tightening our planning and resourcing processes.

INCREASED LEGAL SUPPORT TO THE AUDIT TEAMS

With our audit opinions increasingly being contested, the complexity of procurement and contracting in the public sector increasing and the development of public-private partnership among other challenges, we have improved our audit process to provide our auditors with better access to legal expertise while auditing. The turnaround time for legal queries was reduced by two days while the quality of the legal advice was increased through an intensive internal peer review process. This allowed us to complete audits within the prescribed time frames, despite increased pushbacks by the auditees.

We will create further capacity by rolling out a comprehensive legal curriculum for auditors that will increase our auditors'

awareness of legal prescripts and will equip them to deal with the interpretation of standard legal queries.

OUR APPROACH TO THE AUDIT PROCESS WHERE WE OPT NOT TO CONDUCT AUDITS

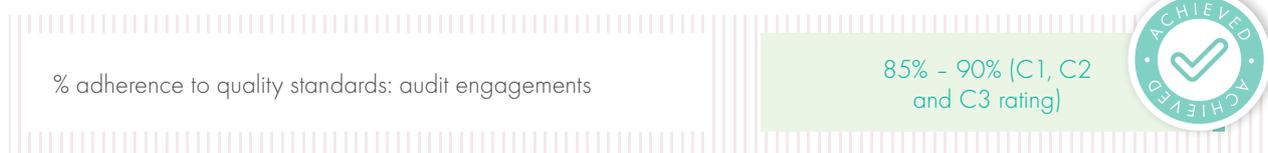
We enhanced our governance of the audit process in cases where we opted not to conduct the SOCs, i.e. section 4(3) audits. We improved our process of monitoring the appointment and discharge of external auditors to those SOCs and provided guidance where necessary to both the auditors and companies. This was achieved through the revised audit directive gazetted on 23 December 2016, as well as via participation in key meetings with the SOCs and auditors.

During the reporting period, only 57% of section 4(3) companies complied with the PAA requirements on appointing registered auditors. We instituted a structured process to engage with non-compliant SOCs to ensure that they are aware of, and comply with, the legal requirements. We continue to assess various methods and options to further improve and strengthen governance within these SOCs and to ensure consistency in reporting to the National Assembly.

In addition, we opted to resume conducting the audits of the water boards and the SAA, as reflected earlier in this section. Our periodic review of the section 4(3) audits allows us to optimise our audit portfolio for continued relevance and maximise the benefit to the public sector.

ENSURE THAT OUR AUDITS ARE OF A HIGH QUALITY

FIGURE 24: PERFORMANCE AGAINST TARGETS FOR OBJECTIVE 2 OF THE GOAL VALUE-ADDING AUDITING

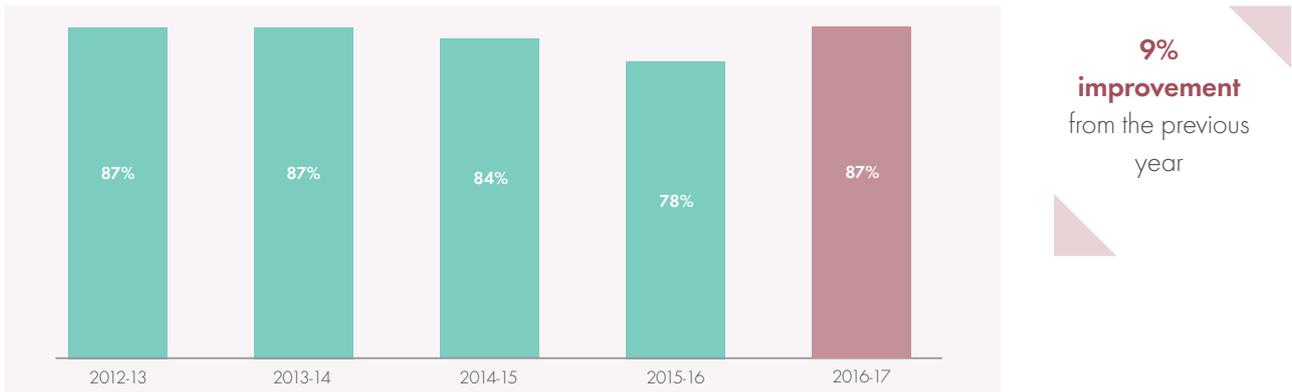


ADHERENCE TO AUDIT QUALITY STANDARDS

We firmly believe that the quality of our audits should be of the highest possible standard. This year we subjected 62 audit engagement managers to a post-issuance quality review. We are proud to announce that we achieved a rating of 87% compliance with engagement quality standards for the 2016-17 performance

year. This achievement is a result of the concerted effort of the entire organisation during the past year.

We continued to obtain assurance from independent external bodies: the reliability of our internal quality control review of process was assessed by the Independent Regularity Board of Auditors of South Africa (IRBA). IRBA completed its assessment in April 2017 and did not raise any high risk findings in our audit quality monitoring process.

FIGURE 25: ENGAGEMENT QUALITY RESULTS OVER FIVE YEARS

CONCLUSION ON THE PERFORMANCE OF THE VALUE-ADDING AUDITING STRATEGIC GOAL

Our enhanced audit methodology has been approved for implementation in all 2016-17 audits, which was a major achievement for the organisation. Despite the growing pains experienced when piloting the methodology, we still issued all the audit reports for the pilot audits. This demonstrated our capacity to handle major changes with minimal disruptions to our core activities. The audit focus areas identified and the momentum gained in our application of a holistic, integrated audit approach increased the value we added to government. We are encouraged by our sector reports fast becoming an important mechanism in driving initiatives in the public sector.

Our integration of specialised audit services with regulatory audit has become part of our institutional ethos and is embedded in our enhanced audit methodology. This approach has resulted in auditing efficiencies and added value to our auditees. The timely completion and high quality of reporting in our audit reports, general reports, sector reports and performance audit reports are testimony to our commitment to continue delivering quality and high impact reports.

The results of the quality control process are encouraging and we applaud the resilience of staff to deal effectively with the challenges identified in the previous year.

KEY CHALLENGES

Currently, our drive for audit efficiencies is being hampered by auditee management's lack of attention to improving their control environments, the increased risk at auditees and the various forms of pushbacks that put unnecessary strain on our resources. At an operational level, we want to mitigate risks to the revised audit methodology and integration. We have therefore created adequate structures to monitor the effectiveness of improvement measures and to take speedy decisions.

OUTLOOK FOR FUTURE PERFORMANCE

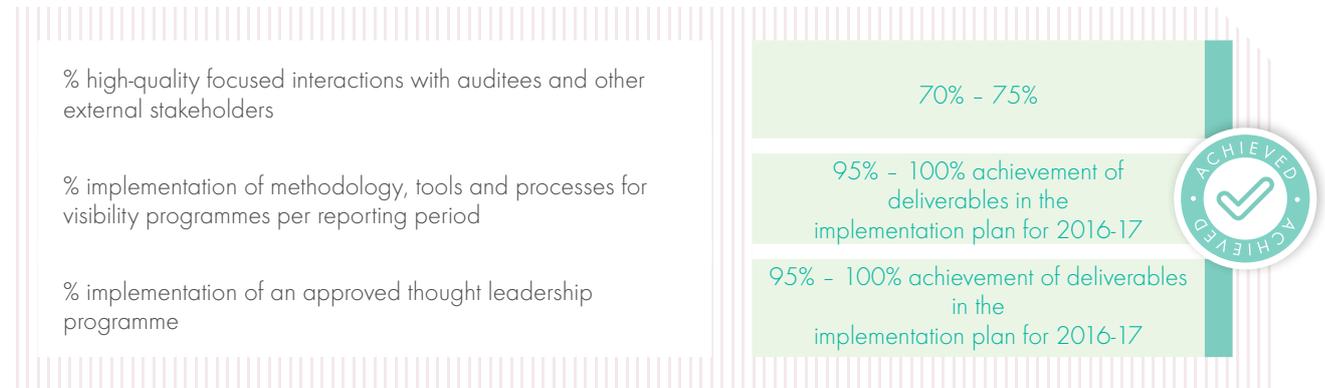
We are excited about the journey to add value to our country through our audits and will continue to actively create opportunities to increase that value. We see no boundaries to our creativity, energy and motivation.



VISIBILITY FOR IMPACT

ACHIEVE IMPACT THROUGH VISIBILITY PROGRAMMES

FIGURE 26: PERFORMANCE AGAINST TARGETS FOR OBJECTIVE 1 OF THE GOAL VISIBILITY FOR IMPACT



Our core function is to extract insights on the state of financial and performance management and on compliance with key legislation. Engaging with various categories of stakeholders allows us to encourage and enable improvements, while strengthening our profession and becoming more effective.

In our engagements across the three spheres of government, we focus on the role of accounting officers and other role players, highlighting the critical risk areas that must be addressed to have the desired impact on governance. We also engage with regulators and standard-setting bodies to strengthen the auditing and accounting profession in the public sector. The media is an important stakeholder that allows us to communicate our messages to citizens in support of South Africa's democracy.

In addition to our constitutional stakeholders we have recognised that fellow supreme audit institutions are a key stakeholder category, as over the years we have found that cooperating with these international institutions helps us to increase our skills, knowledge and professionalism. At the start of each annual cycle we plan our visibility programmes to ensure that our engagement with the various categories of stakeholders achieve maximum impact. Our plans and tools are not static; to respond to the trends and long-term strategic intentions in the immediate environment, we fine-tune our selection of engagements.

CONSTITUTIONAL STAKEHOLDERS

To ensure high-quality, focused stakeholder interactions we prioritised 74 stakeholders. We see these stakeholders as having positions of influence that could assist with implementing our recommendations:

- Sector auditees (national and provincial)
- Coordinating departments
- Security departments
- Entities with relationship tensions
- The 15 metros and large municipalities
- Selected other departments or municipalities.

We are proud to report that despite challenges to meeting certain stakeholders, especially around the time of the local government elections, we conducted 159 of the 181 planned engagements with the prioritised stakeholders. These engagements were in addition to our day-to-day interactions with our constitutional stakeholders, which amounted to more than 3 500 meetings. In our view, these engagements have greatly increased stakeholders' understanding of our audit messages and resulted in improvements in the public sector's fiscal discipline.

Conducted 88% of our planned engagements and more than 3500 meetings



OUR ENGAGEMENTS FOCUSED ON THE FOLLOWING AREAS TO DERIVE THE DESIRED IMPACT:

- Decreasing the number of material audit findings (year-on-year improvement)
- A deeper understanding of audit findings, root causes and recommendations
- Enhancing committee oversight of departmental budget processes
- Sustaining positive audit outcomes
- Sustaining the improvement in the strict monitoring of internal controls.

Details of the outcomes of our efforts are captured in the 2015-16 national and provincial government, and local government, general reports tabled in Parliament after each audit cycle.

We enjoy good relationships with the majority of prioritised stakeholders (61 of the 74) resulting in these stakeholders' greater understanding and appreciation of good governance and a need for strong financial management systems. In cases where relationships have been strained, we continue to make a concerted effort to return them to the preferred level. We are satisfied with the observed improvements and will continue to engage our counterparts to increase accountability in the public sector.

We are pleased with the trend of oversight bodies applying the knowledge gained from transversal issues contained in the general reports. Noticeably, these bodies have followed through on unauthorised, irregular, fruitless and wasteful expenditure and non-compliance with supply chain management legislation during public hearings. The executive authorities, who are empowered by law to act, have also emphasised consequence management.

FIGURE 27: MAP OF THE AGSA'S STAKEHOLDERS,

MAIN STAKEHOLDER GROUP	SUBGROUP	NATURE OF RELATIONSHIP
LEGISLATIVE OVERSIGHT AUTHORITIES	<ul style="list-style-type: none"> • Cabinet • Provincial engagements • Coordinating ministries • National Assembly and National Council of Provinces • Portfolio committees • Association of Public Accounts Committees • Standing Committee on Public Accounts 	<p>We shared our reports with these stakeholders to enable their oversight. We therefore engaged them on our mandate, strategic goals and their expectations of us, and collaborate with them in the interest of clean administration. These engagements foster an integrated approach to governance aimed at improving government planning, decision-making and service delivery at national and provincial levels. In 2015-16, the main topics were unauthorised, irregular, fruitless and wasteful expenditure, conflicts of interest and consequence management</p> <p>We also continued to support capacity building and sharing knowledge on good governance practices</p>
EXECUTIVE AUTHORITIES	<ul style="list-style-type: none"> • The Presidency • National executive authorities • Provincial executive authorities • Municipal executive authorities 	<p>We engage with the executive authorities across the three spheres of government to provide critical assessments of the maturity of the key control environment. We also provide assurance on whether national policies were implemented and the executive function of the state is functioning</p>
AUDITEES/ AUDITED ENTITIES	Accounting authorities	<p>We provide these stakeholders with management and audit reports and audit insights. We also facilitate management cooperation and responsiveness in the interest of clean administration</p>
INSTITUTIONS SUPPORTING DEMOCRACY	ISDs listed in chapter 9 of the Constitution and the Public Service Commission	<p>We partner and cooperate with these institutions on specific issues in the interest of improved public sector accountability and governance</p>
ENABLERS AND STANDARD SETTERS	<ul style="list-style-type: none"> • National Treasury • Accounting Standards Board • Independent Regulatory Board for Auditors 	<p>We partner and cooperate with these bodies on specific issues in the interest of improved public sector accountability and governance and improving the profession</p>

NATIONAL ASSEMBLY AND NATIONAL COUNCIL OF PROVINCES

The Auditor-General shared the 2015-16 PFMA audit outcomes with the joint committee of chairpersons in October 2016. This session was followed by the leadership of both houses participating as panellists during the tabling of the PFMA general report in November 2016.

A result of these interactions has been that the leadership of the National Assembly and National Council of Provinces (NCoP) saw the mutual benefit of dealing with audit recommendations, a clear sign that they are embracing our role of enabling oversight.

PORTFOLIO COMMITTEES

Over the years, we have proven to be a critical source of information to portfolio committees in their oversight of the executive. Our leadership shared the 2015-16 audit outcomes with all portfolio committees during their annual assessment of departments, accompanied some portfolio committees during their oversight visits and provided briefings to chairpersons during the annual performance plan process.

Our mutually respectful relationship with the portfolio committees has led to them endorsing most of our recommendations during their briefings, and some committees included these into their *Budgetary review and recommendations report*. We also noted that some portfolio committees embedded our audit reports as an oversight tool.

We reached a milestone by establishing a good relationship with the Standing Committee on Appropriations, which reviewed our sector reports on health and education for the first time

STANDING COMMITTEE ON PUBLIC ACCOUNTS INTERACTIONS

We elevated the need for Standing Committee on Public Accounts (SCoPA) to focus on key oversight points. SCoPA responded to this call by adopting an issue-based oversight approach and focusing on matters relating to transgressions in the supply chain management, human resource practices and financial health of departments and entities. A series of hearings were held with various departments and entities, which were followed up with oversight visits to confirm the findings raised.

Specific attention was paid to departments that incurred unauthorised, irregular, fruitless and wasteful expenditure, with SCoPA taking a strong stance against corruption and seeking accountability from officials who were responsible for any

governance transgressions. The committee sought to intensify the discussions on the lack of consequences by engaging the anti-corruption task team. This initiative helped profile the messages contained in the 2015-16 PFMA general report.

PROVINCIAL ROADSHOWS

Our provincial roadshows programme has given the Auditor-General an opportunity to connect with provincial and local government leadership. These interactions are used to gauge both the executive and legislative authorities' level of progress in addressing the key findings of the previous cycles, while facilitating a mutually beneficial outlook towards achieving good governance and administration for the following year.

REGULATORS, STANDARD-SETTERS AND PROFESSIONAL BODIES

We partner and cooperate with these institutions on specific issues in the interest of improved public sector accountability and governance. Our engagements with the National Treasury, the Accounting Standards Board and IRBA allowed us to share knowledge and exchange ideas on technical audit and accounting standards. This platform has provided impetus to the interpretation of the accounting framework by government during all audit cycles, by both auditees and auditors.

Our interactions with the Office of the Chief Procurement Officer (OCPO) at the National Treasury helped us to deal with pushbacks on the audits of supply chain management. It further assisted us in gaining an in-depth understanding of supply chain management issues that enabled us to appropriately determine the audit implications. As a result, we were able to influence the OCPO to issue a treasury instruction on the matter. The OCPO also kept us informed on the developments of major supply contracts awarded.

We collaborated with the technical departments of audit firms and IRBA on matters relating to auditing in the public sector via the public sector committee at IRBA. A major undertaking was to ensure that all audit firms are trained in the revised AGSA audit methodology currently being implemented. We chair the public sector audit committee forum that, in conjunction with other role players such as the Institute of Directors, Institute of Internal Auditors, National Treasury, the South African Institute of Chartered Accountants (SAICA) and audit committee members, develops guidance papers on key matters for use by audit committees in the public sector.

We collaborated with a task team that included the Department of Planning, Monitoring and Evaluation, National Treasury and Cooperative Governance and Traditional Affairs (CoGTA) to standardise communications on reporting performance information. This interaction also enabled us to provide input on

the evaluation and update of the Framework for Strategic and Annual Plans concerning performance reporting.

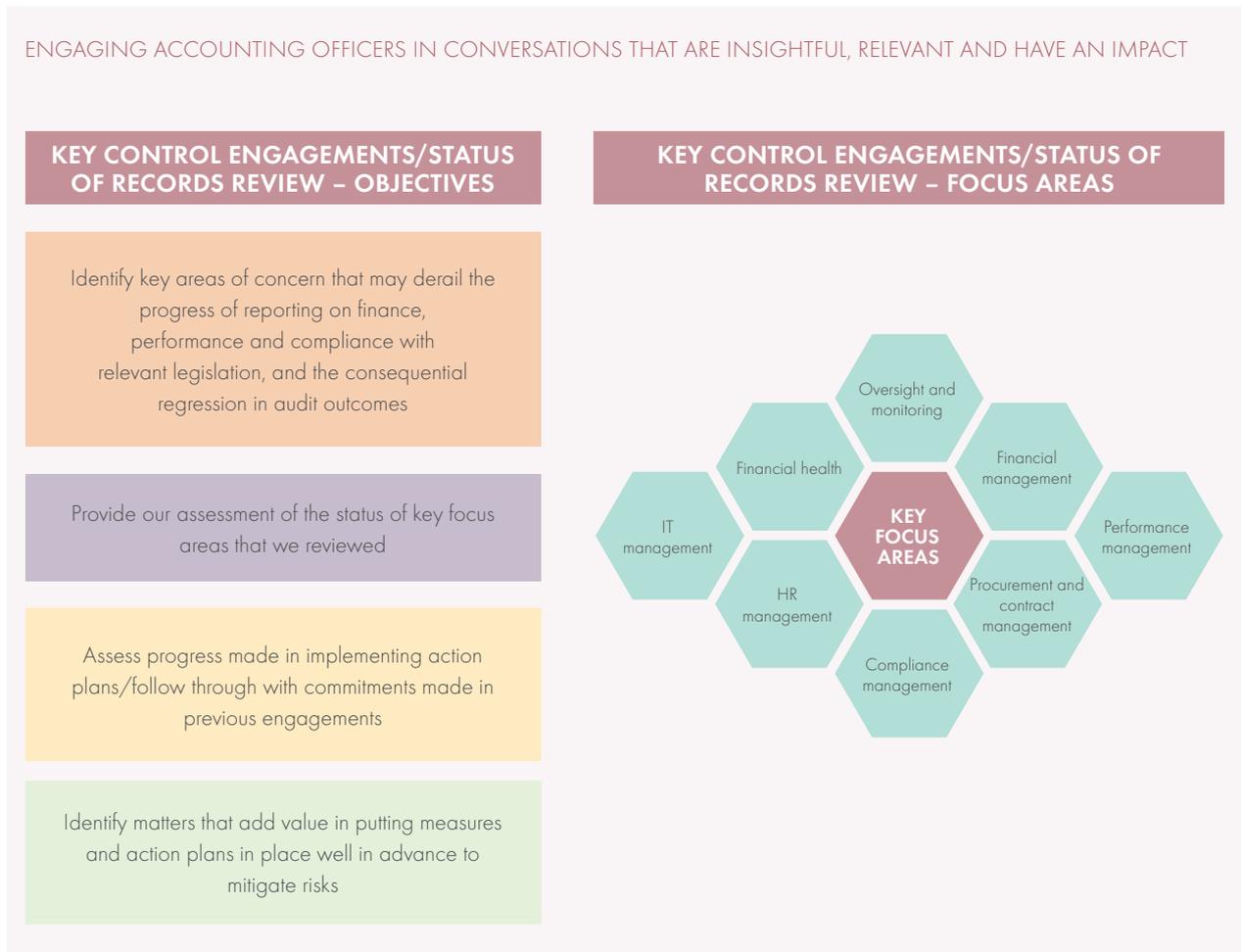
IMPROVING OUR ENGAGEMENT TOOLS

Our enhanced key controls engagements focuses on the status of accounting and performance records, compliance with relevant legislation, and instituting actions to address shortcomings in internal controls at our auditees. The enhanced programme, completed in 2016-17, will be used at different intervals during

a performance year and is directly linked to our audit units' stakeholder engagement plans.

The programme has been piloted at a number of auditees and received positive responses from their leadership, with many embracing this initiative. We will roll out this programme in the next financial year.

FIGURE 28: KEY CONTROL ENGAGEMENTS



THOUGHT LEADERSHIP PROGRAMME

In our effort to share greater insight on the ideals of good governance and clean administration in the public sector with external stakeholders, we embarked on a structured thought leadership programme using various platforms.

We developed an electronic discussion platform (blog) to enable our leaders to share their insight and constructively dialogue with chief financial officers and accounting officers on issues relating to public financial management and performance. Through the blog,

a specialised article on teacher absenteeism was produced and directed to the national and provincial education departments' director-general and heads of department to stimulate discussion and debates on best practices in this area.

Two editions of a printed magazine - *the Audit thought leader* - were produced for stakeholders on the work around specialised audit services and how these audits support the regulatory audits.

We are evaluating the impact of this programme to determine how it will be run going forward.

ENGAGE ACTIVELY WITH CITIZENS

FIGURE 29: PERFORMANCE AGAINST TARGETS FOR OBJECTIVE 2 OF THE GOAL VISIBILITY FOR IMPACT



CITIZEN ENGAGEMENT

Our citizen engagement is focused on communicating the ways in which we support our democracy to build public confidence. We used both direct and indirect platforms to communicate with citizens.



OUR DIRECT PLATFORMS INCLUDE:

- numerous speeches and discussions anchored by the Auditor-General and the top leadership on local and community radio stations
- distributing printed material, e.g. articles in the Government Communications and Information Systems publication *Vukuzenzelele*, and the booklet *Institutions supporting democracy*, in which our mandate and role are explained
- public lectures, e.g. at the University of Witwatersrand, where students in accounting had an opportunity to engage the Auditor-General personally on audit outcome messages
- engagements with government communicators to enable them to promote the audit insights relevant to their departments
- the use of social media, where the organisation has been able to steadily grow its community to reach as many citizens as possible.

Indirectly, we communicate with our citizens by engaging professionals who represent their sectors at various stakeholders' events and conferences. These include:

- the South African Local Government Association (SALGA) conference
- the Finance Indaba
- the King IV report launch
- the Chartered Institute of Government Finance Audit and Risk Officers (CIGFARO) conference
- the Institute of Internal Auditors of South Africa (IIASA) conference.

Through the media we equip and encourage citizens to use our messages on accountability, oversight and governance in all spheres of government to hold their elected representatives accountable. The level of understanding observed from the public in discussions on various media platforms on the role of the AGSA and how audit outcomes relate to the use of public funds, justifies the continuous engagement.

ENGAGEMENTS WITH THE MEDIA

We have, over time, established sound and mutually beneficial relations with the media. These important relationships were forged in recognition of the critical role of the media in distributing information to the public. The media briefings held to convey the audit outcomes contained in our general and performance audit reports have led to widespread coverage of our messages on various media platforms (print, broadcast, online and community).

To enable journalists to report on our audit reports in an accurate, balanced and informed manner, we continue to follow an educational approach. We educated more than 50 regional journalists in North West and the Northern Cape, and provincial and community-based media practitioners, on the role and mandate of the AGSA. In partnership with the Institute for the Advancement of Journalism, we showed journalist how to source developmental news stories from the AGSA's audit reports. Independent analysis of the AGSA's media coverage reveals that journalists who had attended these training sessions were some of the top reporters who published balanced news stories relating to our audit work. Similar sessions are being planned in other provinces.

Looking at our next generation, we held training sessions for more than 100 graduate and post-graduate media and journalism students at the North-West University (Potchefstroom), Tshwane University of Technology and the University of Witwatersrand. These were incorporated into the students' academic curriculum, and they had to write assignments to show their understanding of the AGSA's mandate.

ENGAGEMENTS WITH ACCOUNTING PROFESSIONAL ASSOCIATIONS

We engage with professional associations to promote messages around governance and accountability in the public sector. Our important stakeholders in this category are as follows:

- The association for the Advancement of Black Accountants in Southern Africa (ABASA), which we supported during their annual convention around the theme: *Exceeding the vision of transforming ... making it a reality*
- The Association for Women Chartered Accountants (AWCA), to which we provided assistance during its *Woman of substance* conference
- The South African Professional Network Association (SAPNA), representing professionals in the auditing and financial sector with whom we shared our audit outcome messages
- SAICA, which assists the public sector through its skills and influence. We engaged with SAICA on the audit outcomes and on accelerating transformation in the profession
- IRBA, with which we work to our mutual benefit on co-developing and commenting on auditing standards, ethical standards and quality standards
- The Institute of Internal Auditors of South Africa (IIASA), which is dedicated to educating and advancing internal auditors, and promoting and developing the profession in our country. We see the importance of the role of the internal auditor in providing complementary oversight in the public sector.

The mutual benefit from these engagements also results in benefits for the public sector. Many members of these professional associations serve on public audit committees and boards and, by understanding and promoting our messages, their support improved fiscal discipline in the public sector.

INTERNATIONAL COOPERATION

We continued our leadership role in INTOSAI by chairing INTOSAI's capacity building committee (CBC). Under the leadership of Auditor-General Kimi Makwetu since 2013, the committee registered numerous achievements such as:

- adopting a framework to professionalise regional organisations
- adopting a global competency framework for public sector audit professionals
- endorsing two INTOSAI audit standards (ISSAI 5600 and 5800) that guide cooperative audits and peer reviews as two key approaches to building capacity.

Internally, our professionalism and capability benefited greatly from our active participation on these INTOSAI structures.



WE ALSO PARTICIPATE IN MANY

of the committees and working groups that prepare the ISSAIs that guide supreme audit institutions in their work.

THESE INCLUDE

- the Forum for INTOSAI Professional Pronouncements
- the compliance auditing subcommittee
- the financial and accounting subcommittee
- the performance auditing subcommittee
- the internal control subcommittee, and working groups on information technology audit, key national indicators and procurement.

We integrated international experience and lessons learnt on mandatory and discretionary audits into our technical guidance. Our relationships have allowed us to benchmark leading supreme audit institutions' legal support services and their powers and methodologies with regard to consequence management.

CAPACITY DEVELOPMENT SUPPORT ON THE AFRICAN CONTINENT

We found that intensifying bi-lateral relations with key supreme audit institutions of the BRICS countries and those from the African continent was beneficial. Our support enabled us to share various insights and expertise gained during our journey of institutional capacity building. Under the leadership of Deputy Auditor-General Tsakani Ratsela, we supported capacity building for young women leaders through the week-long AFROSAI Women Leadership Academy programme. At the same time, we demonstrated the calibre and strength of our women leaders, who facilitated various sessions during the programme.

We hosted a number of delegations from fellow supreme audit institutions, e.g. Uganda, Namibia, Rwanda, Malawi, Kenya and China, and shared our knowledge and experience on various topics. These study visits also allowed us to learn from these supreme audit institutions and provided an opportunity to expose our specialists to different audit models and practices.

CONCLUSION ON THE PERFORMANCE OF THE VISIBILITY FOR IMPACT STRATEGIC GOAL

Our overall achievement is good, with the impact of the visibility programmes becoming clearer. During the year, the key stakeholder engagements had good coverage; the messages were more focused while the analytics and the presentation of outcomes and root causes were of better quality.

As a result, the oversight bodies were able to take action and drive accountability. We observed the impact of our messages in improved oversight. SCoPA and portfolio committees requested feedback from investigative agencies and other oversight bodies had the strengthened will to ensure consequence management and accountability implementation.

Our initiatives with media and citizens brought greater awareness and understanding of the AGSA mandate, role and messages. The media was able to convey our messages in their reporting, increasing the transparency of the performance of the public sector and contributing to the accountability drive in the country.

KEY CHALLENGES

On the negative side, stakeholders were still slow to implement action plans and take corrective action despite our engagements, while some did not want to take ownership where there were poor

results. Key stakeholders were unavailable to meet with our teams and meetings were suddenly cancelled, which contributed to lost time and opportunities for improvement.

OUTLOOK FOR FUTURE PERFORMANCE

We do need to work harder and refine our engagements over the next few years to leverage more timely action, demand higher integrity and hold the custodians of public assets accountable. Stakeholders appreciated our focused engagements and clarity of messages, and these should continue so that they have a better understanding of the root causes of poor audit outcomes.

Thought leadership plays an important role in publicising researched work and contributing to a deeper knowledge of governmental auditing, the departments we audit and state finance, both locally and abroad. We will therefore draw on our thought leadership programme to achieve greater visibility and impact.

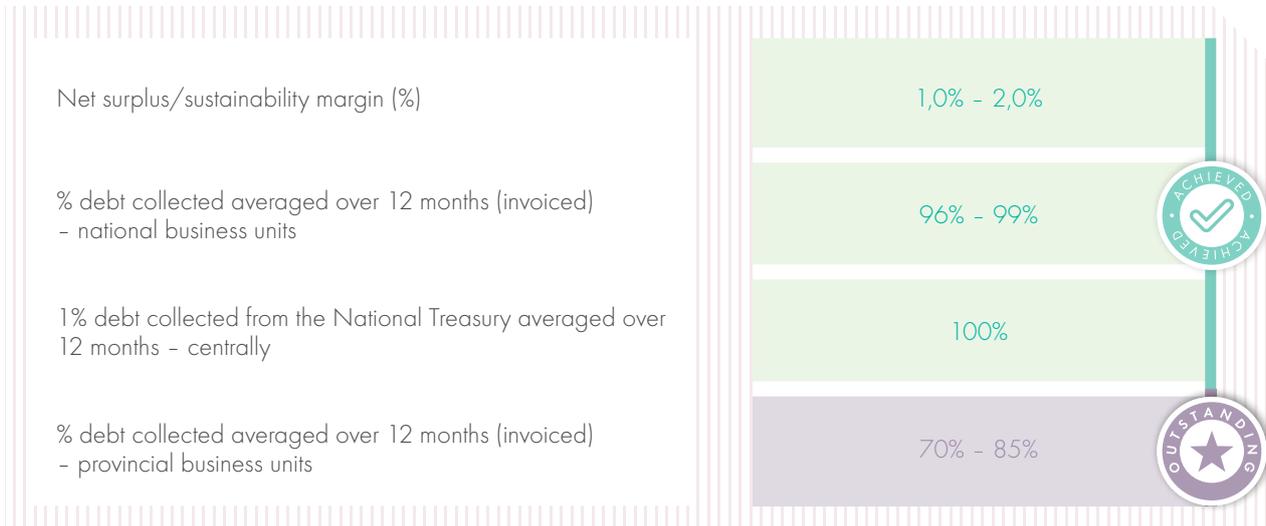
On the international front, the AGSA is regarded as a leading supreme audit institution globally with an excellent reputation. Our INTOSAI and bi-lateral international engagements will greatly assist our professional and capacity development.



VIABILITY

MAINTAIN FINANCIAL AND LEGAL VIABILITY AND INDEPENDENCE

FIGURE 30: PERFORMANCE AGAINST TARGETS FOR OBJECTIVE 1 OF THE GOAL VIABILITY



MAINTAIN FINANCIAL AND LEGAL VIABILITY AND INDEPENDENCE

The financial viability of the AGSA is sustained by sound financial administration, strict cash flow management and good internal controls, systems and processes. The organisation’s funding model allows us to remain solvent and ensures that we have sufficient capacity to meet our operational and capital expenditure, and developmental and technological requirements.

A stumbling block for us remains the persistent increase in outstanding debt, which poses a major liquidity risk. Of our client base, 10% qualify as financially distressed auditees that generally lack the capacity to generate revenue. They contribute 49% of the total debtors book, with little or no probability of successful collection of outstanding revenue from these auditees. Further, the National Treasury has consistently underpaid when settling the debt of distressed auditees and the so-called ‘1% auditees’.

By carefully managing our cash flows and resources, and with strict cost control, we were able to upgrade our Enterprise Resource Planning (ERP) software and to implement the long overdue updates of our TeamMate audit software and our revised audit methodology.

All these projects were aimed at reducing the cost of audits through improved efficiencies, which is a necessary strategic imperative to allow us to remain competitive.

FINANCIAL PERFORMANCE FOR THE YEAR UNDER REVIEW

AUDIT INCOME

Our revenue was R2 977 million compared to R2 835 million in 2015-16. This represents a year-on-year increase of 5%, which is below the average inflation rate of 6,3% for the period and, together with the R83 million that was not billed to auditees, demonstrates our commitment to affordable fees for our auditees. The contract work income was R584 million, or 20% of the audit income, which is in line with the previous year’s allocation.

OVERHEADS EXPENDITURE ANALYSIS

We maintained our overhead expenses below budget, partly due to the ongoing cost optimisation strategies and tactical savings in certain overhead expense categories. Investment in information technology, support and capacity building was a major driver of overhead costs but was offset by our cost optimisation strategies and other austerity measures that resulted in an operational cost saving of R21 million, compared to R35 million in 2016. These measures include freezing posts, particularly in support, and renegotiating leases and major ICT contracts.

SURPLUS

For the year under review, the AGSA recorded a deficit of R15 million against a budgeted surplus of R31 million and against the previous year's surplus of R105 million. This deficit was partly influenced by pressure to contain audit costs as audit hours worth R83 million were not billed.

We implemented the revised audit methodology, and the ERP and TeamMate R11 upgrades, which aimed to drive significant audit cost reductions in the medium to long term, to mitigate the AGSA's information management risk and to generally enhance the experience of employees while executing their day-to-day tasks. The planned delay to the start of PFMA audits in order to adequately prepare the environment for the roll out of the new audit methodology resulted in time lost.

DEBTORS

The debtors balance continues to grow year-on-year. The debtors book closed at R806 million, an increase of 19% from the previous year's balance of R679 million. The main contributor to this increase

remains the local government debtors, which make up 49% of the total debt (2015-16: 51%). Although the other entities category of debtors has also increased in 2016-17 to R132 million from R97 million (see Figure 31), the bulk of this category of debt is within our target collection period of 90 days.

In brief, the reported deficit is a culmination of implementing urgent strategic projects (R26,6 million) and the commitment to affordable audit fees (R83 million).

Had it not been for these cost drivers, the organisation would have achieved a surplus of R95 million or 3% of audit income compared to R105 million in the previous year (4% of audit income).

Local government debt is mainly concentrated in the Eastern Cape, Free State, Northern Cape and North West. These provinces make up R309 million or 81% of the local government debt (2015-16: R276 million or 81%). As a result, the provision for doubtful debts of R177 million (2015-16: R169 million) is concentrated in these four provinces. However, it is pleasing to note that the provision for the Eastern Cape and Northern Cape has decreased by R10 million and R24 million respectively compared to 2015-16.

Although the National Treasury paid the AGSA R79 million in 2016-17, compared to R42 million in the previous year, the outstanding balance of R321 million for financially distressed municipalities and 1% debtors is still significant and strains our cash flows.

FIGURE 31: DEBTORS BALANCE AS AT 31 MARCH

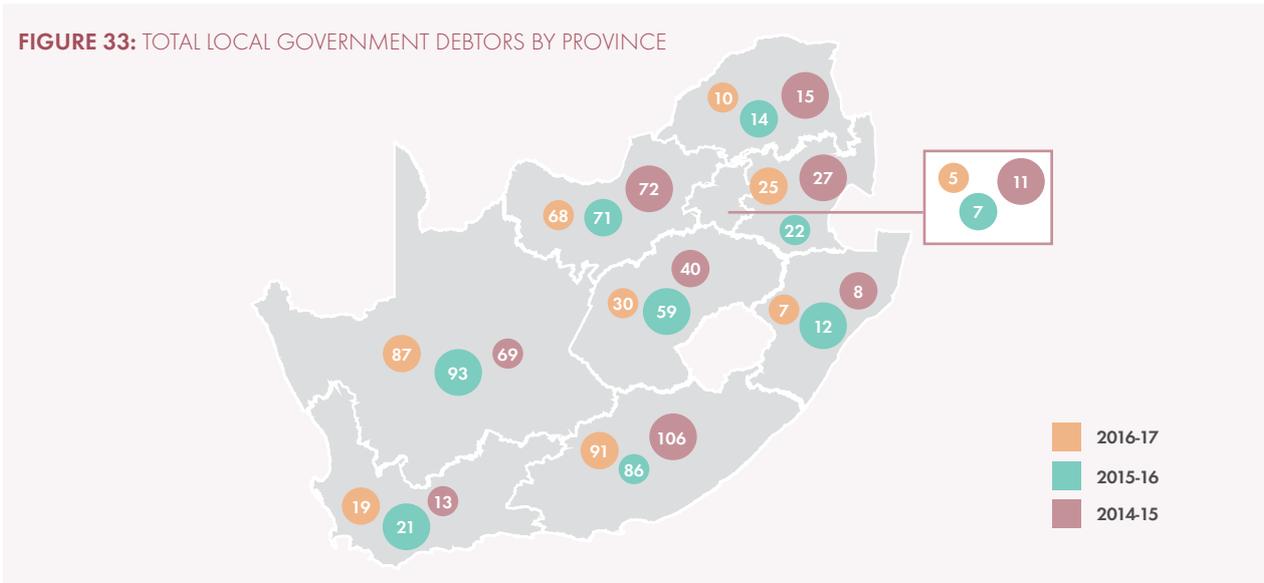
TOTAL DEBTORS	2016-17		2015-16		2014-15	
	R MILLION	%	R MILLION	%	R MILLION	%
National departments	90	11	73	10	74	10
Provincial government	150	19	128	19	142	20
Local government	391	49	343	51	366	52
Statutory entities ³	43	5	38	6	38	5
Other entities ⁴	132	16	97	14	89	13
TOTAL	806		679		709	

FIGURE 32: PAYMENTS BY THE NATIONAL TREASURY FOR 1% DEBTORS

TOTAL DEBTORS	2012-13	2013-14	2014-15	2015-16	2016-17	TOTAL
	R MILLION					
1% invoiced to National Treasury	87	77	115	121	174	574
Paid by National Treasury	30	41	61	42	79	253
Percentage paid	34%	53%	53%	34%	45%	44%
OUTSTANDING	57	36	54	79	95	321

³ Statutory entities include chapter, water boards, funds and tourism authorities ⁴ Other entities include unlisted public entities, municipal entities, and utility agency corporations

FIGURE 33: TOTAL LOCAL GOVERNMENT DEBTORS BY PROVINCE



DEBT-COLLECTION EFFORTS

The AGSA leadership has had several engagements and made a number of submissions to SCoAG, the Minister of Finance, National Treasury, SALGA and CoGTA to address the collection challenges from local government, especially the 1% debtors and financially distressed municipalities. We continue to undertake a number of other initiatives to address the challenges of low collection.

During the year, we maintained our commitment to maximising collections using ring-fencing agreements, which would allow our auditees to clear their backlog of debt, or through litigation where auditees continue to default. These collection methods are in line with the PAA. We also issue letters of demand and summons monthly. For the year under review, we collected a total of R354 million (2015-16: R197 million) through the ring-fencing and litigation strategies. It is important to note that since we began litigation, we spent just under R2 million on external legal fees as most of our legal work is done internally.

FIGURE 34: ACCUMULATED PROGRESS OF THE RING-FENCING AGREEMENT INITIATIVE



FIGURE 29: ACCUMULATED PROGRESS OF THE LITIGATION INITIATIVE



CASH FLOW

The year under review has been a challenging one. Testament to this is the overall decline in collections, particularly from local government debtors. In addition, the trading section underperformed slightly and we implemented upgrade

projects that were earmarked to be funded from the previous years' retained surpluses. These factors put a strain on our cash flow. Consequently, our cash balance decreased from R617 million to R553 million in 2016-17, resulting in a cash reserves ratio/margin of safety of two months (2015-16: 2,3 months) compared to the AGSA target of three months.

HUMAN CAPITAL DEVELOPMENT

ALIGN INTERNAL COMPETENCIES AND CAPABILITIES

FIGURE 35: PERFORMANCE AGAINST TARGETS FOR OBJECTIVE 2 OF THE GOAL VIABILITY



WORKFORCE PROFILE

The full staff complement, including trainee auditors and people on short-term contracts, stood at 3 483 at 31 March 2017. This represents a 0,5% decrease in our workforce, mainly in the support business units. The decrease can be attributed to our recruitment moratorium, which is part of our cost-cutting strategy.

FIGURE 36: WORKFORCE PROFILE BY RACE



FIGURE 37: WORKFORCE PROFILE BY GENDER

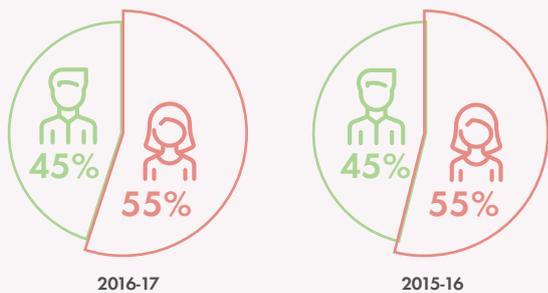
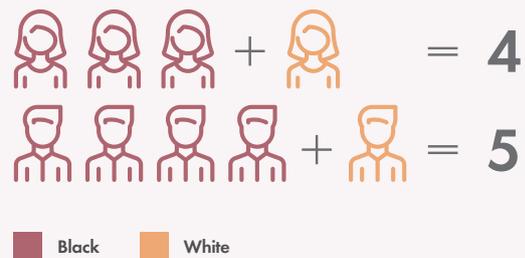


FIGURE 38: EXECUTIVE COMMITTEE BY RACE AND GENDER



We are fairly aligned to the national financial sector’s economically active population statistics, although we have an over representation of African females particularly at the assistant manager level. We have therefore embarked on a journey to attract trainee auditors that are representative of the demographics of the country to ensure a diverse pipeline.

While we have made great progress towards accomplishing employment equity targets, we need to focus on attracting and retaining African females at senior management (band C) and management (band D) levels. Attracting and retaining people living with disabilities at all levels within the organisation remains a challenge. Renewed efforts are being made to address this challenge.

IMPROVING JOB OCCUPANCY LEVELS AND EMPLOYEE TURNOVER

We achieved an occupancy level of 91% against a target range of 89% - 91% (92% in 2015-16). During the year we recruited 518 employees, including trainee auditors, compared to 563 in the previous year.

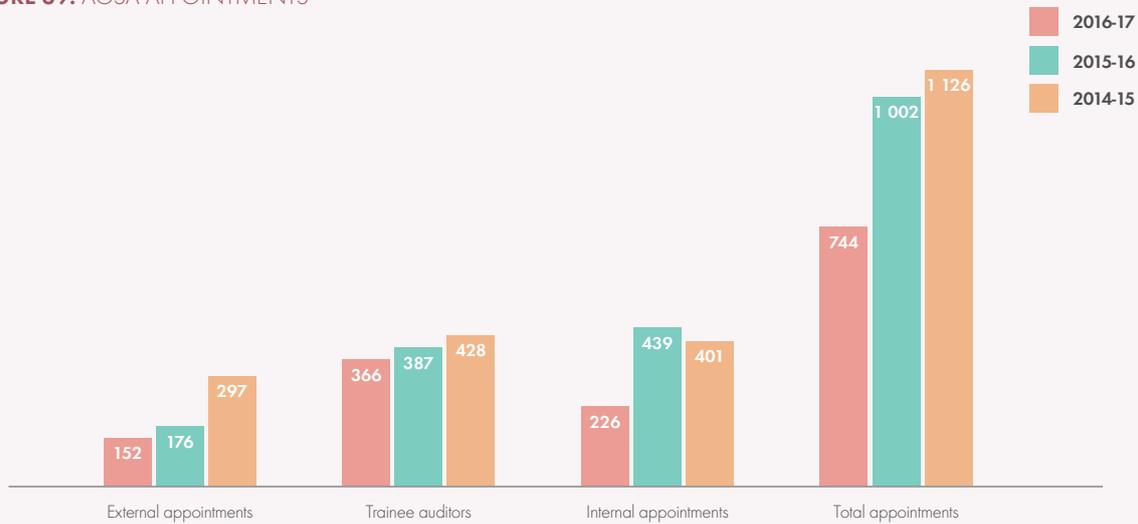
We made 152 external appointments, excluding trainee auditors and contract appointments, compared to 176 in 2015-16. The trainee auditor intake was 366 versus 387 in the previous year. This represents a 5% decrease in trainee auditor recruits and is in line with our trainee auditor scheme strategy.

We had 226 internal appointments (2015-16: 439). Of the 30 senior leaders appointed during the year, 25 (83%) were career progressions. This accomplishment is testament to our talent management strategy, which ensures that we identify and develop key talent to maintain a steady pipeline that is ready, and to ensure sustainable business success.

It is encouraging to note that our staff turnover rate has steadily declined over the past five years,

Our overall employee turnover stood at 8,1% (excluding trainee auditors, audit clerks and short-term contracts) against a target range of 10,5% - 11,5%. It is encouraging to note that our staff turnover rate has steadily declined over the past five years, and is significantly lower than the industry benchmark of 15%⁵.

FIGURE 39: AGSA APPOINTMENTS



TOTAL GENERAL STAFF

816



TOTAL TRAINEE AUDITORS

1 107



GRAND TOTAL

1 923

AUGMENTING OUR EMPLOYEE VALUE PROPOSITION

Enhancing the employee value proposition aims to position us as an employer of choice and is guided by our people strategy. Improving employment conditions and benefits remains our key priority; we therefore embarked on an awareness campaign to increase the number of employees in our retirement fund. The campaign yielded positive results and 55% of employees (1 923 of 3 483) signed on to the fund by 31 March 2017.

⁵ HR Quarterly, April 2017 - PwC South Africa

We also rolled out the total reward statement (TRS), with the key objective of highlighting the full employee value proposition of working for the AGSA. The TRS consolidates all the benefits that the organisation offers and personalises them according to each employee's unique benefits (including cash and non-cash).

ATTRACTING TOP TALENT

We increased our brand awareness and targeted trainee auditors with a Certificate in the Theory of Accounting (CTA) qualification using our emerge campaign on social media including LinkedIn, and by hosting meet and greet events, career fairs across universities, and an I choose AGSA campaign. The result was an

increase in the number of CTA-qualified trainee auditors recruited, as seen in Figure 40.

TALENT MANAGEMENT

Talent management continues to evolve as a strategy that enables us to retain top talented employees and ensure a sustainable talent pipeline. The talent management framework was enhanced to support the strategy. The quality of the talent pool has also improved the efficacy of the internal recruitment process, which is evident in the 83% of senior managers appointed internally.

FIGURE 40: CTA TRAINEE AUDITOR RECRUITMENT

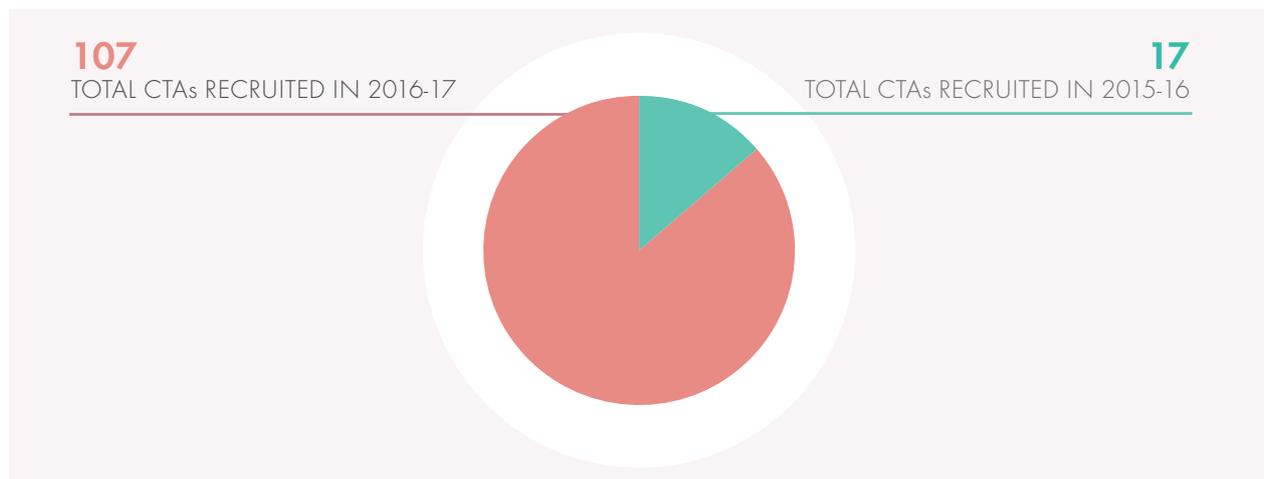


FIGURE 41: INVESTMENT IN LEARNING AND GROWTH

ASSISTANCE CATEGORIES	2016-17 ACTUAL (R'000)	2015-16 ACTUAL (R'000)	2014-15 ACTUAL (R'000)	2013-14 ACTUAL (R'000)
Study and skills development support to employees				
Bursaries to employees	14 747	17 645	14 712	16 594
Internal training	17 599	5 055	4 922	9 536
External training	2 352	5 119	3 136	2 705
Subsistence and travel for training	1 340	7 511	6 479	12 336
Foundations training	5 845	9 344	7 598	7 346
Study support by tuition providers	5 533	5 085	4 910	3 756
Innovation and learning development projects	832	766	1 452	1 742
	48 248	50 525	43 209	54 015
Study support for external recipients				
Bursaries and tertiary assistance	20 426	13 032	14 394	12 626
Professional memberships				
Professional membership fees	22 070	14 023	13 745	11 782
Corporate membership fees	33	6	614	195
	22 103	14 029	14 359	11 977
TOTAL	90 777	77 586	71 962	78 618

PROFESSIONAL DEVELOPMENT

FINE-TUNING OUR ORGANISATIONAL SKILLS AND COMPETENCY MIX

We undertook an extensive review of our audit methodology, which required that all our audit staff be trained in the new methodology. This created an opportunity for taking our staff through back-to-basics training in the audit process and in soft skills to respond to the changing and challenging environment. The training increased our internal training expenditure from R5,1 million to R17,6 million. In total, 18 sessions were rolled out and catered for 1 663 audit staff.

The AMP training was also rolled out to the pre-issuance reviewers and contract-work creditor firms.

Our external bursary students increased to 138 (2015-16: 131). We continued to build our stakeholder partnerships specifically focusing on sponsorships. Our SAICA/Thuthuka Bursary Fund (TBF) sponsorship increased from R2,3 million to R8 million as we funded more CTA and third-year students. Expenditure on professional membership fees also increased.

Expenditure on our external training, subsistence and travel for training and foundations training decreased in line with the austerity measures that were introduced during the year.

IMPLEMENTING A STRATEGY -ALIGNED CURRICULUM PER EMPLOYEE GRADE

MULTI-STAGE CURRICULUM

The multi-stage curriculum is still being developed; all relevant stakeholders were consulted for their input with a view to rolling out the framework in the next reporting year. The multi-stage curriculum is a framework that guides our employees through the multiple stages of their career paths and enables them to plan and develop their careers. It will also serve as a development guide for candidates in the leadership succession pipeline.

LEADERSHIP DEVELOPMENT

BUILDING RELATIONSHIPS AND NETWORKING TRAINING

The building relationships and networking training course is aligned to the updated competency framework. It will ultimately lead to developing an indispensable capability for our audit strategy. In essence, the aim of the course is to build and establish impactful relationships with both internal and external stakeholders. This, in turn, will lay the foundation to influence our stakeholders to achieve improved business results and audit outcomes. During the performance year, 174 executives and senior managers were trained in this programme, enabling them to engage and create a visible impact with both internal and external stakeholders. The focus will turn to the manager level in the next performance year.

THE LEADERSHIP ASSESSMENT DEVELOPMENT CENTRE

The successfully launched leadership assessment development centre targets senior managers and executives. It is a tool that we use to assess the high-potential of readiness to respond to future leadership challenges or roles of greater responsibility and complexity. The readiness assessment is followed by implementing a personal development plan aimed at closing the identified developmental gaps. We also continue to provide a manager assessment development centre, which is aimed at high-potential managers.

EXECUTIVE COACHING, MENTORING AND THE EXECUTIVE DEVELOPMENT PROGRAMME

Executive coaching primarily develops executives in the context of organisational needs. Our executive coaching processes target SMs and above to improve leadership performance, ongoing self-management and effective interpersonal relations with others and within teams. A total of 118 senior managers and executives participated in our coaching, mentoring and executive development programmes, while 38 senior management teams attended our leadership team development programme, compared to 27 teams in the previous year.

GROWING THE NUMBER OF QUALIFIED PROFESSIONALS

Our audit professional membership profile has improved over the years, growing by 22% since 2015, while our CA membership has grown by 13%.

FIGURE 42: NUMBER OF QUALIFIED PROFESSIONALS AT THE AGSA

YEAR	CA(SA)	RGA	ACCA	CISA	TOTAL
2015	547	345	27	61	980
2016	548	358	34	64	1 004
2017	619	464	39	76	1 198

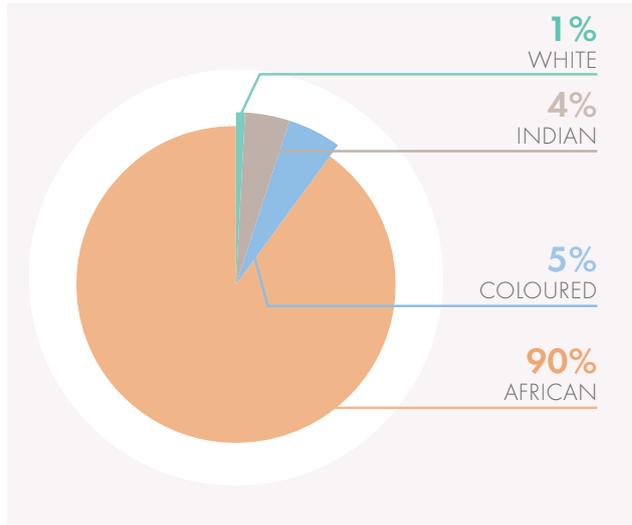
AGSA TRAINEE AUDITOR SCHEME

FIGURE 43: SAICA STUDY INITIATIVES AND PASS RATES

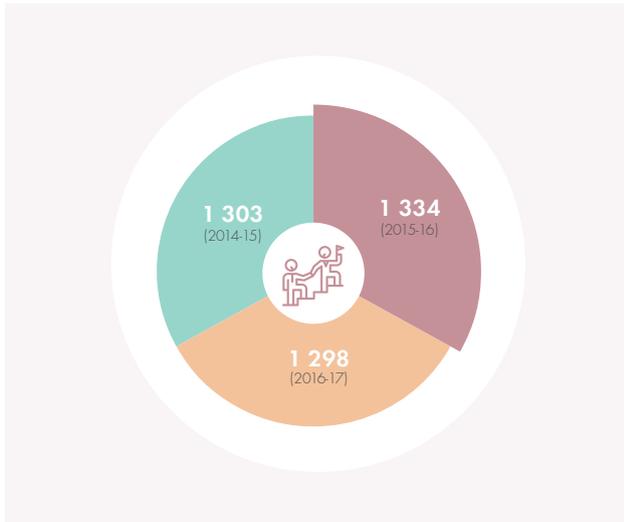
GENDER PROFILE OF TRAINEE AUDITORS



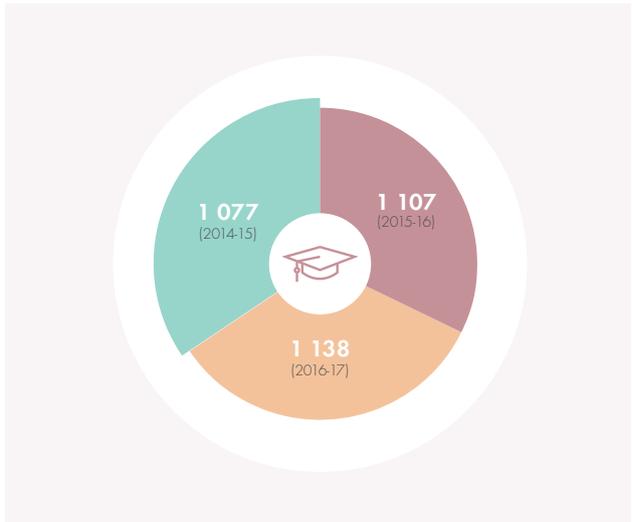
RACIAL PROFILE OF TRAINEE AUDITORS



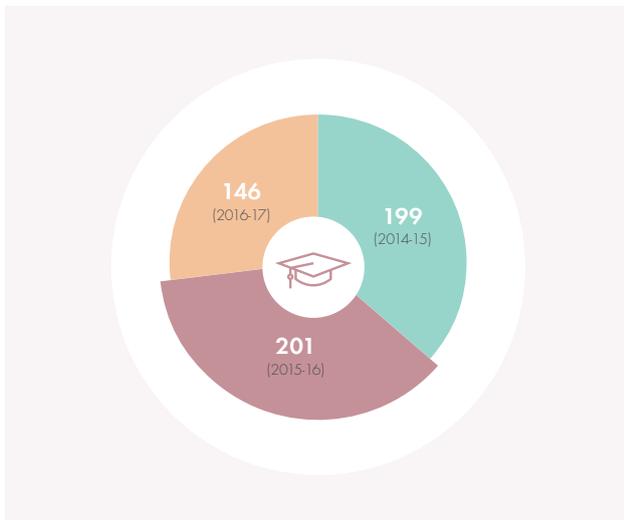
TOTAL LEARNERSHIP NUMBERS



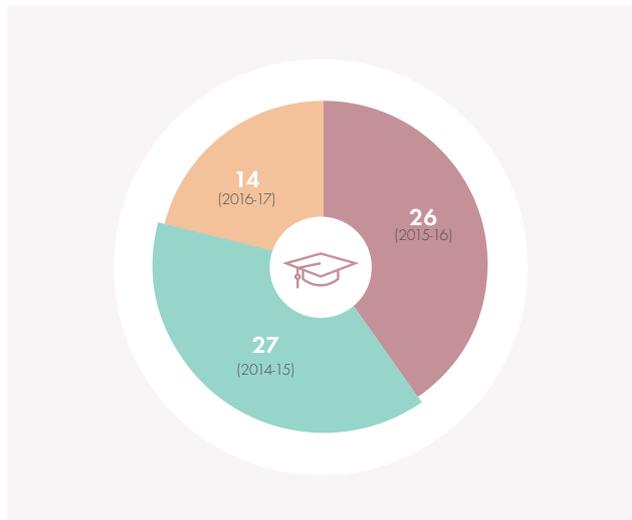
SAICA TRAINEE AUDITORS



SAICA TRAINEE AUDITORS

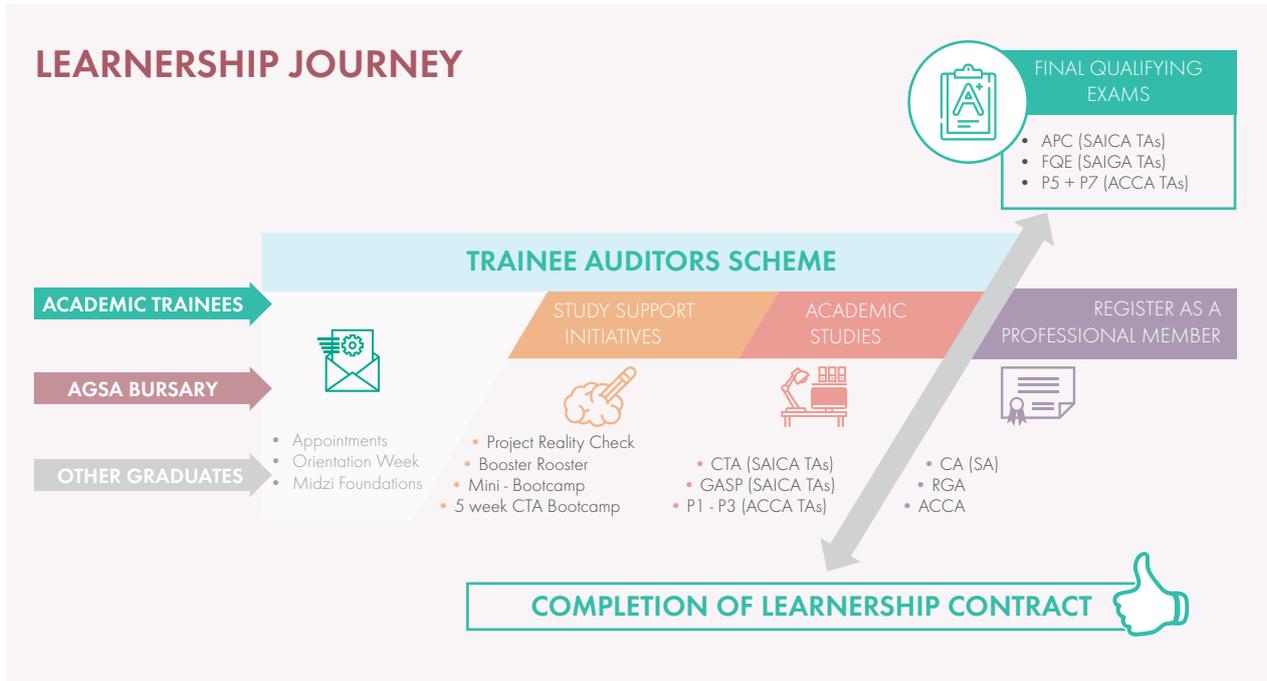


ACCA TRAINEE AUDITORS



TRAINEE AUDITOR’S STUDY SUPPORT

FIGURE 44: STUDY SUPPORT FOR TRAINEE AUDITORS



FOUNDATIONS WORKSHOP ‘MIDZI’

Foundation Midzi is our flagship annual induction programme and targets entry level trainee auditors. This platform effectively integrates newly recruited trainee auditors, and transfers knowledge of the organisation’s history, its mandate, products and services, its culture and its values. A total of 361 trainee auditors attended Midzi compared to 354 in the previous year.

FIGURE 45: 2017 TRAINEE AUDITOR PARTICIPATION AT MIDZI

	SESSION 1	SESSION 2	TOTAL
PERIOD	26 - 31 March 2017	2 - 7 April 2017	
TOTAL NUMBER OF ATTENDEES	180	181	361

SAICA LEARNERSHIP STUDY INITIATIVES

FIGURE 46: SAICA STUDY INITIATIVES AND PASS RATES

STUDY	STUDY SUPPORT INITIATIVE	PROGRAMME PASS RATES AND ATTENDEES	AGSA OVERALL PASS RATES
SAICA LEARNERSHIP STUDY INITIATIVES			
CTA readiness	<p>Project reality check</p> <p>At the beginning of the academic year, trainee auditors who are enrolled for the CTA are given the opportunity to assess their embedded base knowledge via this programme. After undergoing assessments, trainees receive written feedback on their written scripts, together with a compact disc to assist them with module principles</p>	<p>2016-17: 574 attendees 2015-16: 605 attendees</p>	
CTA 1	<p>Booster rooster</p> <p>This programme is aimed at preparing the top 30 CTA level 1 trainee auditors for their Unisa tests and consists of three contact sessions of five days each, with various experienced CTA lectures</p>	<p>Booster rooster was not rolled out due to the small number of students who registered for CTA 1 in the 2016 academic year</p>	<p>2016-17: 6% (2 out of 31) 2015-16: 33% (136 out of 415)</p>
CTA2	<p>Mini boot camp</p> <p>The programme comprises a series of tutorials and practical study exercises which are conducted for a period of five weeks prior to each Unisa test. The aim of the programme is to assist trainees to gain base knowledge of the CTA 2 material, which would assist them with exam techniques</p>	<p>2016-17: 94% (33 out of 35 attendees) 2015-16: 100% (25 out of 25 attendees)</p>	<p>2016-17: 15% (103 out of 690) 2015-16: 35% (81 out of 229)</p>
APC/APT	<p>The AGSA and Accounting Professional Training (APT) have entered into a joint initiative wherein ATP provides in-house training sessions to our trainees in preparation for the assessment of professional competence (APC). The programme has two extra AGSA-specific intervention sessions, which take into account the public sector environment</p>		<p>Overall pass rate for AGSA: 2016-17: 75% (63 out of 84) 2015-16: 70% (32 out of 46)</p>

Pass rates for most SAICA learnership levels decreased in 2016-17.

- The CTA1 pass rate decreased from 33% (136 out of 415) in 2015-16 to 6% (2 out of 31) in 2016-17
- The CTA2 pass rate decreased from 35% (81 out of 229) in 2015-16 to 15% (103 out of 690) in 2016-17
- The ITC pass rate decreased from 66% to 52%
- The APC pass rate increased from 70% (32 out of 46) to 75% (63 out of 84).

The CTA results during 2016-17 were extremely disappointing. This may be attributed to the changes in the UNISA CTA programme, which saw the automatic move of 209 students from CTA1 to CTA2. Of these students, 202 failed the CTA2.

In 2016, 69 (120 in 2015) non-trainee auditors sat for the assessment of professional competence (APC) exams. Of these, 53 (92 in 2015) were successful, resulting in a 77% pass rate (77% in 2015). The 53 who passed are now eligible to register as CAs(SA), which will increase our professional membership.

SAIGA LEARNERSHIP

FIGURE 47: AGSA TRAINEE AUDITORS OVERALL PASS RATES

STUDY	AGSA OVERALL PASS RATES
SAIGA learnership	
E-Gasp	2016-17: 70% (49 out of 70) 2015-16: 100% (106 out of 106)
SAIGA FQE	2016-17: 74% (42 out of 57) 2015-16: 85% (101 out of 119)

SAIGA introduced more stringent requirements for progression through the programme, which seems to have contributed to the reduced pass rates.

ASSOCIATION OF CHARTERED CERTIFIED ACCOUNTANTS LEARNERSHIP

Association of Chartered Certified Accountants (ACCA) Learnership was introduced in 2015 as a third learnership programme. Although 27 trainees signed up for the pilot phase of ACCA, only one trainee auditor successfully progressed to the next academic level. In 2016, 48 students wrote papers and only 15% (seven) passed. Our Learning and Development unit and the Training Officers Forum (TOF) have strengthened support for trainees in this learnership stream to ensure that they become successful and qualify.

To improve as a learning organisation we will continuously build on our current projects and work with our stakeholders to identify and craft learning initiatives that will enhance all our learnership programmes. We have therefore introduced two trainee auditor development-specific measurements on our 2017-18 balanced scorecard.

IMPROVE THE SAICA ACCREDITATION OF OUR TRAINING OFFICES

Meeting SAICA’s accreditation requirements provides a level of assurance about the AGSA training environment. As such, we are committed to continuously improving our accreditation status at all 15 of our training offices. This year, none of our offices were rated very highly, although some offices improved their rating.

FIGURE 48: TRAINING OFFICES RISK RATINGS

RISK RATING	TARGET RATING	ACTUAL RATING 2016	ACTUAL RATING 2015
Low risk	3	5	4
Medium risk	11	9	6
High risk	2	1	4
Very high risk	0	0	1

FIGURE 49: STRENGTHEN OUR PIPELINE THROUGH EXTERNAL BURSARIES AND PARTNERING WITH STAKEHOLDERS IN THE AUDITING INDUSTRY

YEAR-END	PASSED	FAILED	PENDING TERMINATION	TOTAL
1st	17	4	0	21
2nd	25	6	0	31
3rd	23	12	3	38
CTA1	4	6	0	10
CTA2	13	25	0	38
Total	82	53	3	138

The biggest external challenge was the volatility at the various universities across the country due to the #FeesMustFall movement. The movement had a significant impact on the pass rate, and on our bursars, A few bursary agreements were terminated due to a

lack of academic progress, which resulted in a decrease in bursary holders from 144 to 138 by the end of the 2016 academic year.

SPOTLIGHT ON OUR TOP BURSARY HOLDERS

Ms Sisikelewe Mdikane from Gauteng and Mr Martin Visagie from the Free State recently received their Chartered Accountancy degrees with distinctions.

Petrus Kgalamone, a CTA student from our Eastern Cape business unit, was the top achiever within the Thuthuka group. As a sponsor of the TBF, the AGSA benefits by enrolling its bursary students in the Thuthuka academic support group.

ACADEMIC TRAINEES

Our academic trainee programme is growing, with the Nelson Mandela Metropolitan University the latest to join the universities of Fort Hare, KwaZulu-Natal and Limpopo. The programme contributes to the development and growth of African academics in under-resourced and historically-disadvantaged universities.

In 2016 we had five academic trainees; two at the University of Limpopo, one at the University of KwaZulu-Natal, one at the University of Fort Hare and one at the University of Pretoria.

During the winter academic recess, we also launched the audit experience programme (AEP), which aims to enhance our employer value proposition, inviting university students in the chartered accountancy field to the AGSA to tell them about the AGSA, its purpose and mandate.

CENTENARY SCHOLARSHIP FUND

In 2011, we celebrated 100 years of the AGSA. During the celebrations Mr Kimi Makwetu, then the Deputy Auditor General, launched the AGSA Centenary Scholarship as one of the AGSA legacy projects. The purpose of the Centenary Scholarship Fund was to assist in alleviating the professional skills shortage by offering scholarships to students from previously disadvantaged backgrounds.

The programme began with 34 recipients in 2013. Of these, 30 were grade 12 learners and four were tertiary students. Two of the 34 students withdrew from the programme in the inception year. 59% of the awardees were female and 41% were male.

A total of 22 students have successfully completed their degrees and moved on to postgraduate studies. One student completed their postgraduate studies and passed the ITC/board 1 exam in 2017. Of the three students that were admitted to our trainee auditor scheme, in Limpopo, Mpumalanga and KwaZulu-Natal, two are studying for CTAs and one has just passed the CTA1 examination. Although we have a large number of students that could have joined the trainee auditor scheme in 2017, 19 of them have opted to study full time for their CTA examinations.

The scholarship programme has been fairly successful. We have fourteen students who are currently registered for CTAs and, if they pass their examinations, fifteen students would have been successfully funded for CTAs by the end of 2017. These students will feed into the 2018 trainee auditor pipeline.

FIGURE 50: NUMBER OF RECIPIENTS PER PROVINCE

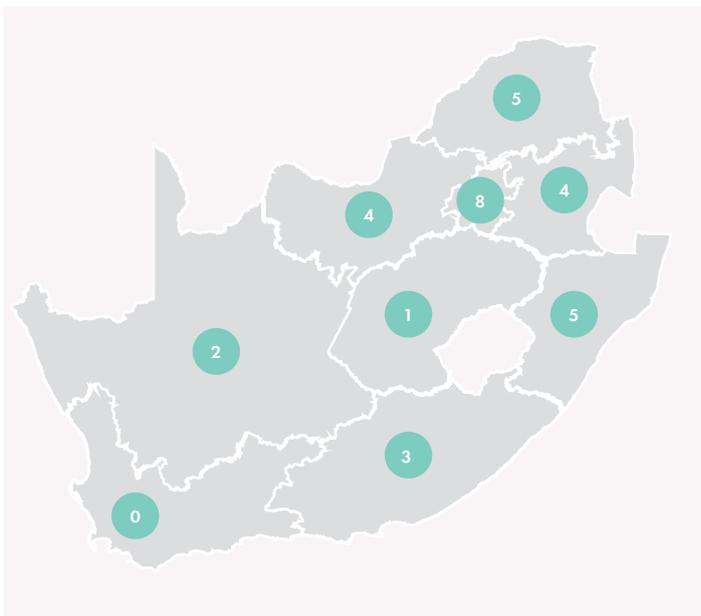
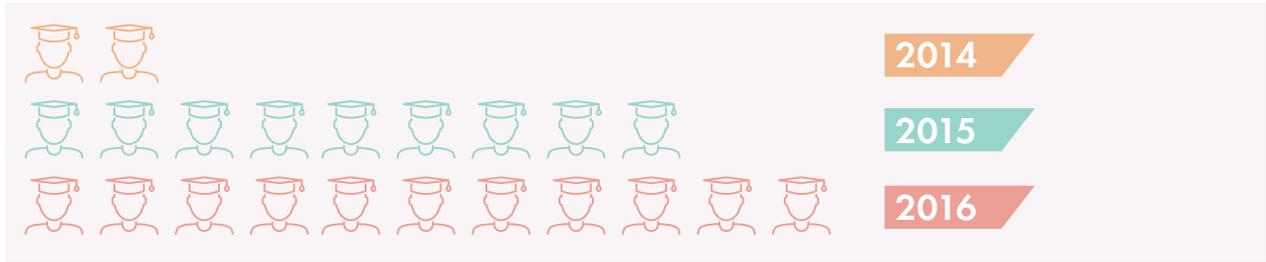


FIGURE 51: STUDENTS PER GENDER AND RACE



FIGURE 52: STUDENTS THAT COMPLETED THEIR DEGREES TO DATE



THUTHUKA BURSARY FUND (SAICA PROJECT)

We have been part of the TBF programme since 2006, making financial contributions to support 40 TBF students a year. While the output of the TBF financial support guarantees 10 CTA students every year (depending on the pass rates), we have received more CTA students over the years than expected. We have to date sponsored R14,5 million to the TBF and have been allocated 99 students who had passed their CTA studies.

Due to our desire to qualify at least 250 chartered accountants in 2018 alone, we committed to an even larger CTA trainee intake and funding an additional number of TBF students. We therefore increased our sponsorship by R5,7 million from R2,3 million (which was paid at the end of the last financial year) to bring our TBF contribution to R8 million for the 2016 academic year. The additional R5,7 million was used to fund 40 CTA students and 60 third-year students.

SPONSORSHIPS

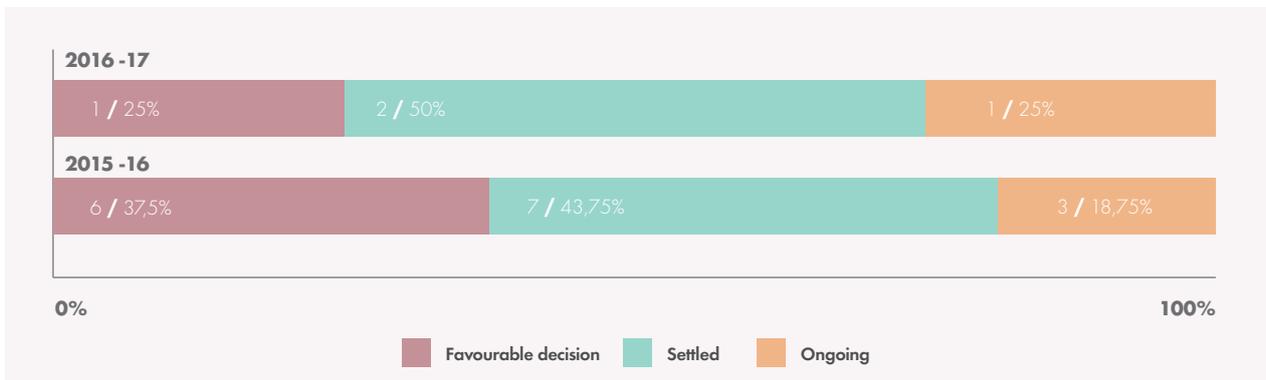
We continue to build on our other stakeholder partnerships specifically focusing on the following sponsorships.

- The University of Fort Hare sponsorship for academic staff salary top ups was R3,5 million for the 2016-17 financial year.
- The annual matric camp, as pioneered by SAICA, was sponsored R98 000.

EMPLOYEE RELATIONS

The AGSA does not belong to a bargaining council and is not a party to any collective agreement. The organisation promotes orderly and constructive relationships with its employees. There were four CCMA cases of unfair labour practice and unfair dismissal during the performance year under review. A settlement agreement was reached on two, the CCMA ruled in favour of the AGSA on the one and the other is still pending arbitration. The table below indicates a significantly reduced number of CCMA cases compared to last year, which could be attributed to improved employee relations due to concerted employee relations training efforts.

FIGURE 54: EMPLOYMENT RELATIONS: CCMA DISPUTES



EMPLOYEE WELLNESS PROGRAMME

We continue to provide employees with diverse opportunities and services aimed at fostering their well-being. Employees used the following services:

- Assistance services: 769 employees (2015-16: 735)

- Cases accepted to support individuals: 1 381 cases (2015-16: 1 326)
- Dependants supported: 62 dependents (2015-16: 26)
- Senior managers and executives who attended the exec care programme: 126 senior managers (2015-16: 91)

FIGURE 55: ACCIDENT AND INCIDENT REPORTS

	2016-17	2015-16	2014-15
Accident and incident report	14	16	14
No. of compensation claims	9	8	8
Motor vehicle accidents (non-disabling)	6	4	5
Motor vehicle accident (fatality)	1	0	0
TOTAL NO. OF EMPLOYEES	3 483	3 502	3 435

AGSA HEALTH AND SAFETY

We are committed to providing all staff and affiliates with a work environment that is physically safe and psychologically supportive. We hold strongly to our vision of zero harm, in which we protect the environment and our people go home safely each day with a sense of pride and achievement. There were 14 injuries during the year (2015 -16: 16), which affected less than 1% of our total staff.

HUMAN CAPITAL SERVICE DELIVERY MODEL

We embarked on a journey to re-structure our People Portfolio. The revised model and structure is a blueprint to bring this portfolio closer to business, to enhance responsiveness and agility and to drive greater levels of innovation and expertise. The intention is to move from a mere function of "service delivery" to a driver of strategic talent and business outcomes. The structure aims to cluster related functions together to avoid duplicating resources.

INCREASE OPERATIONAL EFFICIENCIES

FIGURE 56: PERFORMANCE AGAINST TARGETS FOR OBJECTIVE 3 OF THE GOAL VIABILITY



ORGANISATIONAL MANAGEMENT TOOLS

PEOPLESOFT ENTERPRISE RESOURCE PLANNING (ERP)

As part of our ongoing commitment to improve operational efficiencies, we successfully upgraded our PeopleSoft enterprise resource planning (ERP) tool. This has resulted in reduced technological complexities, re-engineered business processes and workflows, and organisational responsiveness to the ever-changing technological needs of stakeholders.

AUDIT SOFTWARE AND METHODOLOGY INTEGRATION

We withdrew our audit software project tender for a customised audit software, opting instead to update our TeamMate audit software. We implemented TeamMate R11 to eliminate the extensive risks faced with the R8 version that we were using because vendors no longer supported R8 and it was not compatible with the latest Windows 10, Internet Explorer 11 and Microsoft Office 2016. This strategic project therefore addressed our business continuity risk.

Our improved audit methodology was integrated into the updated audit software. Employees were successfully trained to use the new methodology in R11.

INCREASE INTERNAL VISIBILITY

FIGURE 57: PERFORMANCE AGAINST TARGETS FOR OBJECTIVE 4 OF THE GOAL VIABILITY



INCREASED INTERNAL VISIBILITY OF OUR TOP LEADERSHIP

Leadership engagements are a big part of our leadership DNA. During this second year of implementing our strategy, we created an environment for executive teams to deliberate the responses to our strategic intent. Two executive leadership workshops created clarity and provided impetus to the strategy implementation. To ensure that we effectively implement our strategy, the resolutions taken during the workshops were incorporated into the balanced scorecards of different business units and the impact of these painfully honest,

courageous conversations is evident in our results. Our strategic alignment at a business unit level was strengthened by the Auditor-General, Deputy Auditor-General and our EXCO team using various platforms - from visits to roadshows, various methods of broadcasting live messages and internal communication - to reach every member of staff.

We will continue our journey of ensuring our leadership’s presence using every possible means, reaching as many employees as possible as often as possible, as this has proven to be the most effective way of driving the achievement of our strategy and leading the organisation.

EMBED THE CONCEPT OF SUSTAINABILITY

FIGURE 58: PERFORMANCE AGAINST TARGETS FOR OBJECTIVE 5 OF THE GOAL VIABILITY



EMBED THE CONCEPT OF SUSTAINABILITY

Our executive team is gaining a solid understanding of the concept of sustainability in the auditing context, while integrated thinking is practiced daily. Our financial and human capital sustainability is well understood and articulated in our strategies. For the past year, our main aim was to create a tool that will allow us to capture all the information related to the use of natural resources. We are proud to note that phase 1 of the Environmental Management and Accounting System tool was successfully launched on 10 June 2016. This phase requires business units to capture relevant environmental performance Indicators such as mileage, water usage, electricity usage, etc. This information will be used to calculate the carbon footprint of the

organisation. The administration teams of the organisation have embraced the new development and are eager to be involved in this new journey of environmental sustainability.

One of the initiatives that we have been driving consistently in the last few years is the reduction of the use of paper. We have reached the stage where the total paper procured in kilograms is less than the recycled paper - 29 433 kg bought in 2016-17 versus 57 080 kg of copy paper that was recycled. This is due to our process of disposing of archived documents after every five-year cycle. We have eliminated the use of printed publications by migrating completely to digital publications (Press Reader for newspapers & magazines; Lexis Nexis for electronic annuals in accounting & auditing publications and legislation).

CONCLUSION ON THE PERFORMANCE OF THE VIABILITY STRATEGIC GOAL

Our funding model has assisted to maintain our financial sustainability during these tough economic times, although we did not achieve a positive surplus. We completed our necessary infrastructure-related upgrade projects. The debt collection patterns remain largely unchanged from previous years and litigation and ring-fencing agreements continue to be an effective method to collect our debt.

Since the introduction of a moratorium on filling positions, there has been a noticeable favourable variance between budgeted and actual staff costs. We achieved our occupancy targets and our staff turnover is at its lowest despite the current moratorium on filling vacancies. Of our senior leaders, 83% were recruited as internal career progressions. This accomplishment is testament to our talent management efforts.

We have implemented major projects to realise process efficiencies. These projects were delivered on time and within budget, despite our demanding and ever-changing environment. In some instances we were even able to achieve some savings.

KEY CHALLENGES

Our debt collection remains a challenge and is compounded by the current economic climate. In its second quarter review, Statistics South Africa reported that the South African economy has moved into a recession with the reported decrease of 0,7% in GDP during the first quarter of 2017, following a 0,3% contraction in the fourth quarter of 2016. The implications of this are higher interest rates and higher inflation, which is likely to increase pressure on municipal consumers who struggle to pay their rates and utility charges. This presents a massive challenge to municipalities' revenue streams, which could have a further negative impact on our collection efforts.

Our year-end cash balance is therefore projected to decline from R553 million to R540 million by the year-end in March 2018.

Resourcing scarce and critical skills has continued to prove challenging, especially within the auditing profession.

The low pass rate of our bursary holders and trainees is also of great concern.

OUTLOOK FOR FUTURE PERFORMANCE

Our efforts to increase collections will be accelerated, coupled with strict collection measures. We will continue using litigation and ring-fencing agreements to collect our debt while intensifying and diversifying our methods of engagement with our auditees and other relevant stakeholders to alleviate the pressure on our cash flow.

We have focused on improving our resourcing strategy and practices through a number of initiatives. We recognise the importance of our people in attaining sustained business performance. Our approach will continue to rely on leveraging the skills and experience already available within the organisation, while building a strong talent pipeline through our learnership programme and bringing in the necessary capabilities that will help position the organisation for long-term sustainable performance. We will also continue investing in measures to improve our trainee auditor pass rates.

Attracting and retaining talent, supported by leadership and talent management programmes, is key to transforming the organisation from good to great.

Increasing the pass rates of our bursary holders and trainees at both undergraduate and postgraduate level will receive special attention.

In mitigating the risks arising from the economic environment, we will continue to focus on improving efficiencies, in particular the effective use of our resources. This will be achieved by continuing to implement the revised audit methodology and TeamMate R11. We will continue to prioritise cost optimisation tactics, including head count rationalisation, while keeping the overheads growth below the inflation target.

We will continue to look for ways to decrease our operational costs by implementing technological solutions. We look forward to enhancing our audit programmes, ERP system and ICT infrastructure to improve and introduce further efficiencies to the organisation.

VISION AND VALUES DRIVEN

CONTINUE TO BE A TRANSFORMATIONAL ORGANISATION

FIGURE 59: PERFORMANCE AGAINST TARGETS FOR OBJECTIVE 1 OF THE GOAL VISION AND VALUES DRIVEN



FIGURE 60: AGSA'S CONTRIBUTION TO SUSTAINABLE SOCIO-ECONOMIC CHANGES IN SOUTH AFRICA



IMPLEMENTING OUR TRANSFORMATION STRATEGY

We use our broad-based black economic empowerment (B-BBEE) strategy to allocate relevant targets and monitor the progress of our strategic commitment to transformation. A dedicated team continuously monitors and reports on our progress, and any challenges are elevated to the executive for a decision.

We are proud to have achieved a level 2 B-BBEE contributor status for a third consecutive year. The rating was achieved against the generic codes of good practice as the previous CA charter was repealed in February 2016. While we are excited about our B-BBEE rating, we will further improve our B-BBEE contribution by aligning with a newly revised and signed CA charter.

OUR PERFORMANCE AGAINST THE FOUR ELEMENTS OF THE B-BBEE SCORECARD

FIGURE 61: B-BBEE SCORECARD PERFORMANCE



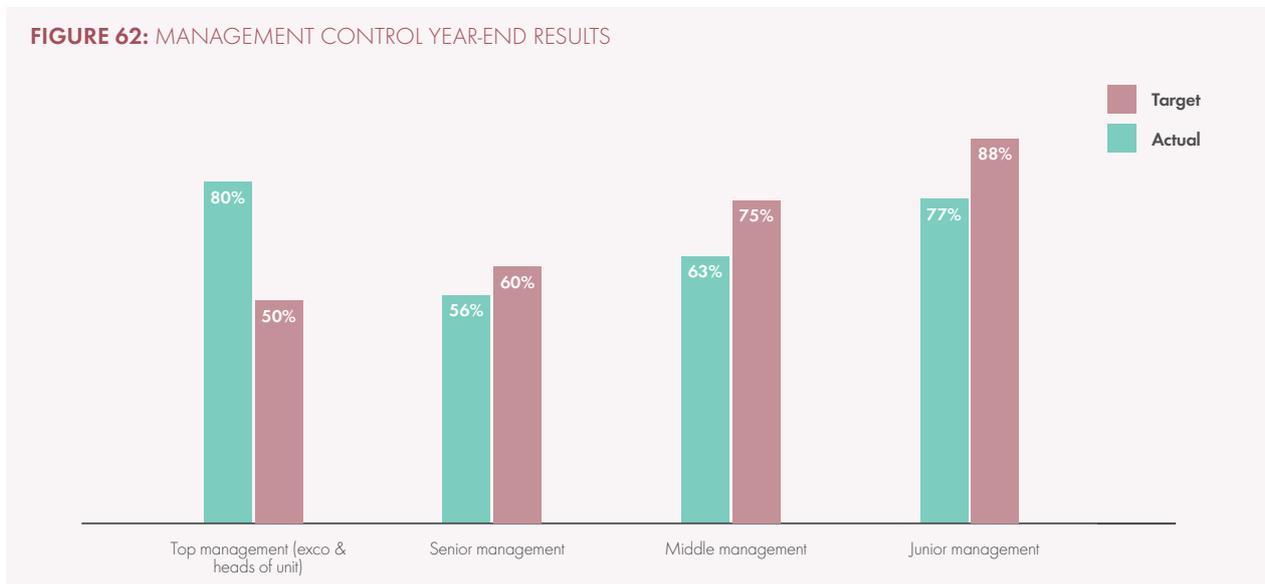
MANAGEMENT CONTROL

The breakdown of our workforce into demographic groups is presented in Figures 36 and 37. According to the Commission for Employment Equity (CEE) 2016-17 annual report, only 14,4% of top management positions in South Africa are occupied by black African people. We have exceeded this benchmark with our EXCO and heads of unit representation (figure 38). It is rewarding to see that our EXCO team consist of 80% black people while our heads of unit is 74%. We are also closing in on our target at senior management level. An area of improvement remains increasing the representation of black people at middle and junior management level.

The CEE's report also indicates that women and persons with disabilities remain severely under-represented in all aspects of employment equity. Although we have excelled in our employment of women (54,8%), we acknowledge that our employment of persons living with disabilities (1%) requires further effort.

In the last 10-15 years we have systematically contributed to alleviating the skills shortage facing our country, particularly in the chartered accountancy profession. During the 2016-17 financial year, we reviewed our trainee auditor scheme to increase the number of trainees with the CTA qualification. We targeted universities accredited by SAICA with an AGSA brand awareness campaign and attracted 103 CTA students. We also offered bursaries to undergraduate students to assist them to obtain their CTA qualification.

FIGURE 62: MANAGEMENT CONTROL YEAR-END RESULTS



We have dedicated CA training programmes, bursary schemes and sponsorships of previously black universities (universities of Fort Hare and Limpopo). We embrace a diversity of skills and currently host 13 interns in non-audit disciplines.

94,25% of trainees absorbed into the AGSA.

Based on our B-BBEE verification outcome, 1 050 of our 1 114 trainees (94%) were absorbed, i.e. moved into another level of the learnership or employed by the AGSA.

ENTERPRISE AND SUPPLIER DEVELOPMENT

The objective of our enterprise and supplier development programme is to provide financial and business support for qualifying companies to overcome obstacles and increase their market competitiveness. This should result in sustainable job creation and poverty alleviation. We have consistently achieved a full score on this code of good practice.

We recently reviewed our supply chain management policy to ensure that we strengthen our practices in support of small- and medium-sized black businesses that are at least 51% black-owned and 30% black women-owned. During 2016-17, we reduced the payment period to such enterprises from 30 days to fewer than 10 days. While procurement has generally decreased, we did achieve our targets for procurement from qualifying small enterprises and 30% black women-owned businesses.

Two small audit firms (Tsebang Incorporated and Motheo Incorporated) were beneficiaries of our enterprise development programme, with Tsebang graduating to become part of our supply chain. This is a great success on the enterprise and supplier development code and we will use the lessons learnt to replicate this success with other worthy beneficiaries. Motheo Incorporated remains part of our enterprise and supplier development programme.

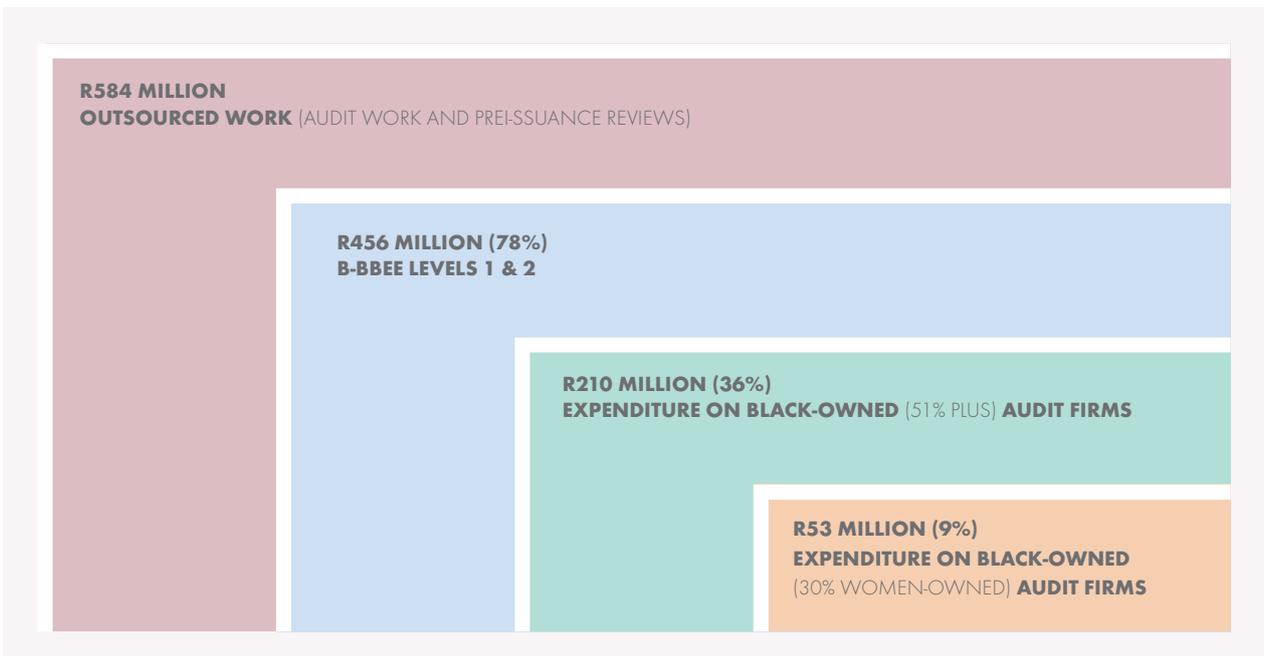
ALLOCATION OF CONTRACT AUDIT WORK

The main drive of the enterprise and supplier development programme is to allocate contract audit work to private audit firms. The work is allocated according to approved principles that include the views and the feedback of the auditing profession.

Our responsibility for transforming the profession extended to allocating work to B-BBEE level 1 and 2 audit firms, where we have seen visible transformation. The black ownership level in these firms increased and a substantial effort has been made to grow the black CA pipeline.

We increased the allocation of our outsourced contract audit work to black-owned firms to 36%. Our continuous engagement with the contract firms aims to address their concerns relating to the eligibility criteria, the required quality of audits and our oversight of the outsourced audits.

FIGURE 63: DISTRIBUTION OF CONTACT AUDIT AS AT 31 MARCH 2017



AUDITING SCHEDULE 2 MAJOR PUBLIC ENTITIES

We also contributed to the transformation of the profession by overseeing the appointment of the auditors for entities where we opt not to conduct the audit, specifically at the major SOCs. We audit 11 of the 21 schedule 2 entities, while 7 or 33% of the entities are audited by black-owned firms including a 100% black women-owned firm.

SOCIO-ECONOMIC DEVELOPMENT

We fine-tuned our approach to socio economic development to ensure that our initiatives support our strategic objectives of enhancing the trainee pipeline and growing the accounting

and auditing professions. Our staff were excited to participate in community upliftment projects aimed at supporting education and literacy, food security and the shelter needs of our beneficiaries.

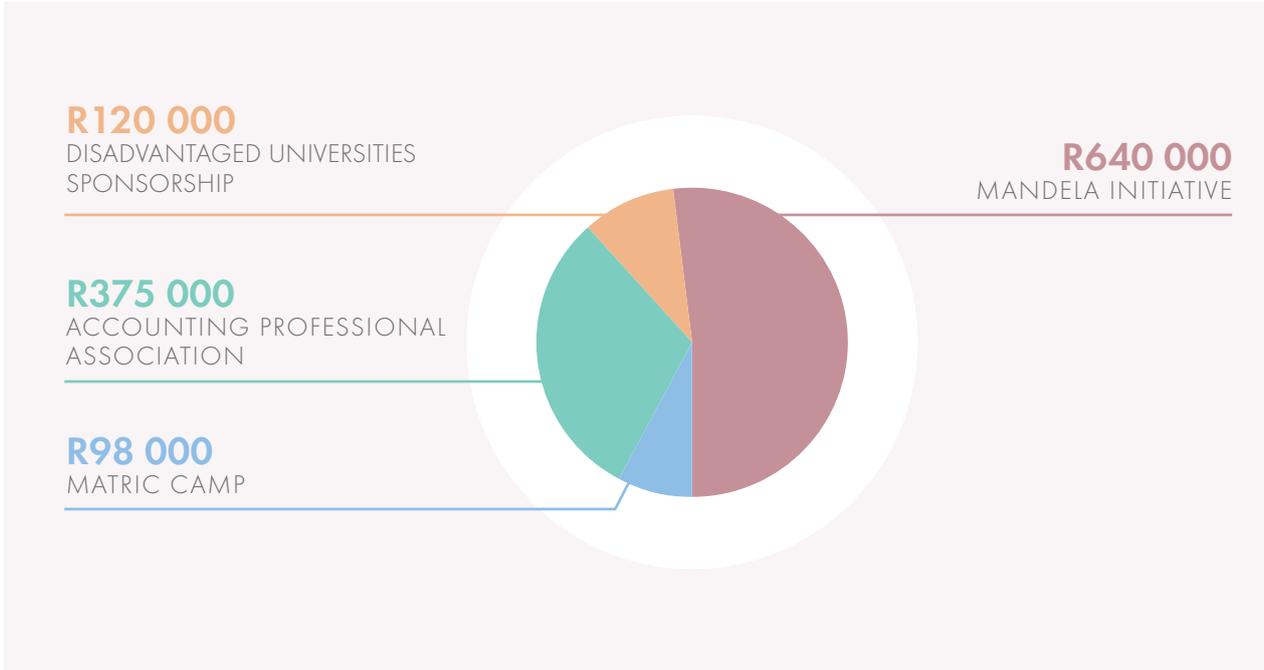
We held our annual matric camp at the Fundokuhle Secondary School in Pietermaritzburg. Grade 12 learners received extra lessons in Maths on 10 and 11 September 2016. Accounting and English lessons were provided on 24 and 25 September 2016.

Demonstrating our commitment towards employing people living with disabilities, the Auditor-General and the Deputy Auditor-General adopted the Filadelfia Secondary School in Soshanguve for partially sighted, physically disabled and hearing impaired learners.

FIGURE 64: SCHEDULE 2 MAJOR PUBLIC ENTITIES AUDITORS

NUMBER	ENTITY NAME	AUDITOR NAME	AUDITOR B-BBEE LEVEL
1	Independent Development Trust	AGSA	N/A - AGSA
2	Airports Company of South Africa Ltd	AGSA	N/A - AGSA
3	South African Post Office Ltd	AGSA	N/A - AGSA
4	Land and Agricultural Development Bank of South Africa	AGSA	N/A - AGSA
5	Armaments Corporation of South Africa	AGSA	N/A - AGSA
6	South African Broadcasting Corporation Ltd	AGSA	N/A - AGSA
7	CEF (Pty) Ltd	AGSA	N/A - AGSA
8	South African Nuclear Energy Corporation Ltd	AGSA	N/A - AGSA
9	South African Express (Pty) Ltd	AGSA	N/A - AGSA
10	South African Forest Company Ltd	AGSA	N/A - AGSA
11	South African Airways Ltd	AGSA	N/A - AGSA
12	Telkom SA Ltd	Ernst & Young Inc.	2
13	Trans-Caledon Tunnel Authority	Ernst & Young Inc.	2
14	Industrial Development Corporation of South Africa Ltd	KPMG and SizweNtsaluba-Gobodo	4 & 2
15	Denel	SizweNtsaluba-Gobodo	2
16	Transnet Ltd	SizweNtsaluba-Gobodo	2
17	Eskom	SizweNtsaluba-Gobodo, Ngubane Incorporation JV and PSTM	2 & 1
18	Alexkor Limited	Nexia SAB&T	2
19	Broadband Infraco Ltd	Nexia SAB&T	2
20	Development Bank of Southern Africa	Nkonki Inc.	1
21	Air Traffic and Navigation Service Company	Rakoma	1

FIGURE 65: SPENDING ON SOCIO-ECONOMIC DEVELOPMENT



ENSURE OUR OWN CLEAN ADMINISTRATION

FIGURE 66: PERFORMANCE AGAINST TARGETS FOR OBJECTIVE 2 OF THE VISION AND VALUES DRIVEN GOAL



MANAGING RISKS

One of the AGSA’s pre-eminent risks is the failure to lead by example in effective governance, oversight and ethical leadership. To manage this risk, we enthusiastically guard our reputation by ensuring clean administration. We also remain vigilant to other threats that have the potential to impede our ability to meet our strategic objectives. We therefore use risk management as a tool, shown in figure 67.

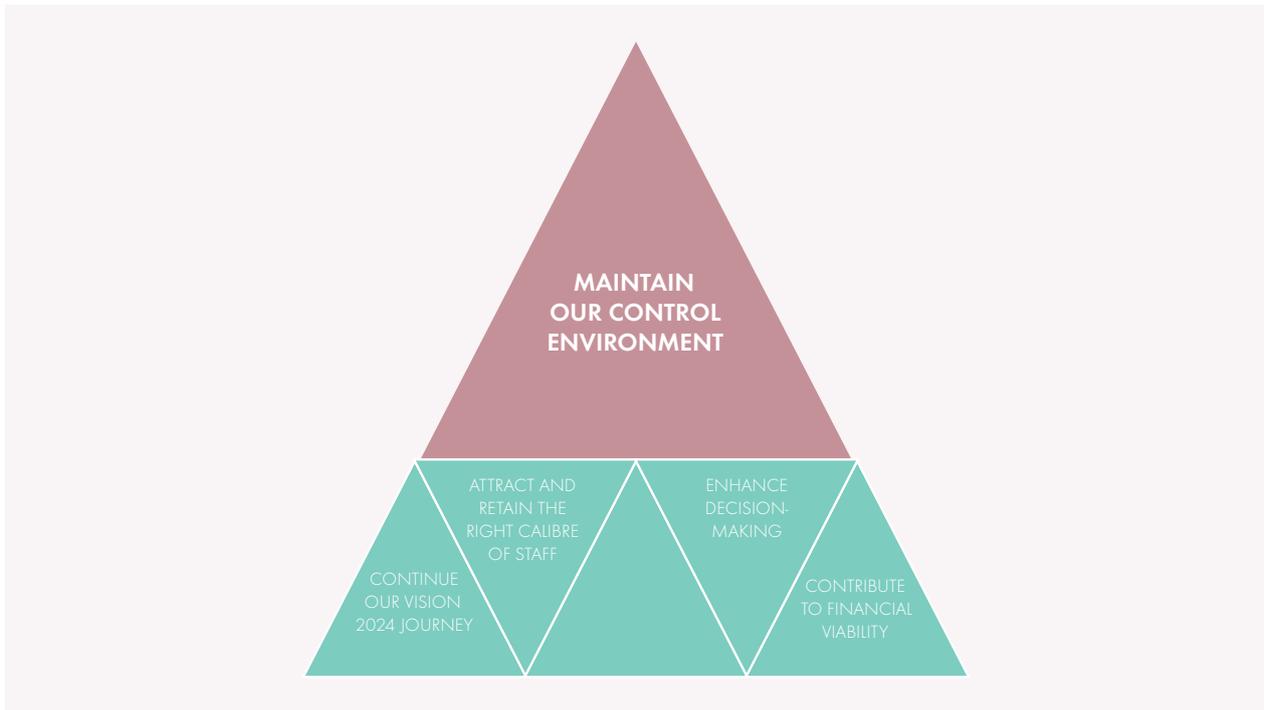
We continue leading in the area of having an established risk appetite statement, which outlines the strategic and operational parameters that the AGSA wishes to operate in while pursuing its strategic objectives. The effectiveness of our appetite statement was demonstrated in the early warning mechanisms it provided in areas of finance and human capital, which necessitated certain focused management steps being taken to bring the risk within

levels we were comfortable with. We are pleased that by the end of the financial the year, both appetite levels were reported to be in the safe zone.

It is great to note that none of the seven 2016-17 strategic risks identified at the beginning of the year materialised as these risks were mitigated by our various management and business processes. All these strategic risks remain relevant going forward and an additional two strategic risks have been identified. These relate to the inability to protect organisational resources (information, data, etc.) against cyber threats and a loss of credibility due to the environment that we operate in. Over the course of the next year, we will introduce appropriate mitigation strategies to manage the risks identified.

We have implemented all our risk management initiatives, which were aimed at improving our risk maturity level from ‘risk defined’

FIGURE 67: MANAGE RISKS

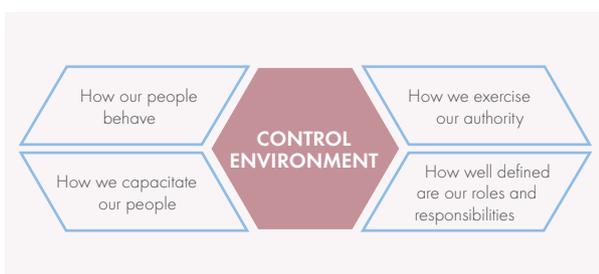


to 'risk managed'. Although we have improved in areas previously identified as requiring attention, especially risk awareness and have a proactive approach to risk management, we continue to use largely manual processes to respond to the needs of our organisation in this area. Going forward, the governance, risk and compliance tool will ensure efficiencies in compliance and risk management activities. The actions that emanate from the recently conducted risk culture survey will also be rolled out in the next performance period. As such, the full benefits of the improved risk maturity level will only be experienced in the following financial year.

SUSTAINED HEALTH OF THE INTERNAL CONTROL ENVIRONMENT

An efficient and effective control environment enables us to achieve our organisational objectives. This type of environment is characterised by the behaviour that we demonstrate as we execute our roles and responsibilities, exercise our authority and display our competence as individuals responsible for ensuring that the health of our internal control environment is sustained into the future.

FIGURE 68 CONTROL ENVIRONMENT



Our risk management philosophy aims to ensure a healthy internal control environment. This involves the constant evaluation and review of the adequacy and effectiveness of organisational controls. Additionally, in the past financial year, we re-evaluated our policies, procedures and processes to strengthen our internal controls. We also revised the compliance management framework, which included reviewing and assessing the compliance universe, to update our legislative requirements and level of compliance.

Based on the work that we have performed over the period, our internal compliance assessment plots our maturity level at 'risk aware'. Considering the initiatives that we have committed to for the 2017-18 performance year, which includes completing compliance risk management plans for all legislation and automating the compliance management process for effective integration, we are confident that we will achieve the 'risk defined' maturity level.

COMBINED ASSURANCE

The effective and efficient use of all levels of assurance remains vital to our approach to combined assurance. We evaluated and revised the organisation's combined assurance model and aligned it to the requirements of the King Code on Corporate Governance (King IV). Moreover, we streamlined roles and responsibilities to create a greater synergy between the different stakeholders within the combined assurance model. We remain committed to optimising the assurance effort of each assurance provider identified in the model.

ETHICAL AND INDEPENDENCE REQUIREMENTS

Ethics management and monitoring is an ongoing function designed to set the ethical requirements for the AGSA, continuously determine the level of adherence to these ethical principles and implement corrective action where required.

We align ourselves to the fundamental principles espoused in the International Ethics Standards Board for Accountants (IESBA code for professional accountants), the INTOSAI ISSAI 30 code of ethics for SAIs and its core values.

We have therefore adopted the following ethical principles:

FIGURE 69: AGSA'S ETHICAL PRINCIPLES



To this end, we revised our policy on ethics to ensure that AGSA employees not only have a guiding framework on ethical conduct and decision-making, but that they are also aware of the governing processes consistent with international best practice and the strategic direction of the organisation.

This newly revised policy is responsive to our external environment and aligns to the new public service regulations. As part of the policy revision, we have addressed the uncharted territory of providing clear guidelines on political neutrality. We also introduced an additional safeguard to the threat of objectivity and independence by implementing a cooling-off period for high risk officials, especially those considered to have significant influence over an audit such as senior managers and above, when joining auditees. We will continue to create awareness and appreciation of these ethical principles by rolling out the policy on ethics in the next performance year.

In this reporting year, we reached our target of 100% response rate on annual declarations compared to 97% in the previous cycle. Overall, we have improved our compliance and maturity levels in ethical requirements to maintain good governance and accountability in the organisation.

Building an ethical culture depends significantly on the tone and exemplary behaviour of those charged with the responsibility of leading our staff on the ground. To this end, we prioritised our initiative of creating dialogue and engaging with our leadership under the umbrella of AGSA conversations. These conversations create an interactive platform where leaders co-create and sustain an ethically sound environment.

ADDRESSING CONCERNS ABOUT UNETHICAL CONDUCT AND INTEGRITY MATTERS

Employees, stakeholders and members of the public can report suspected unethical conduct to the ethics office by using the complaints process in terms of section 13(1)(c) of the PAA. Ethics complaints may be reported at ethics@agsa.co.za. The Risk and Ethics business unit independently investigates and resolves the reported matters.

The policy and procedure on complaints was revised late in the previous cycle to include protection for employees from occupational detriment should they make a protected disclosure.

The six complaints that were pending as at 31 March 2016 were finalised in the current year. A further 17 complaints were recorded and processed under the complaints management process in the 2016-17 performance year. Figure 66 details their status of resolution.

Twelve complaints were finalised during this period, and five were pending as at 31 March 2017. These complaints will be finalised in the next financial year.

In the 2015-16 performance year, we saw a significant increase in category 2 complaints, whereas in the 2016-17 year we have seen a significant increase in category 3 complaints. This can be attributed to greater awareness about the complaints resolution process, as well as growing confidence and trust in how the complaints process is handled.

FIGURE 66: STATUS OF COMPLAINTS

COMPLAINT	DESCRIPTION OF COMPLAINT	2016-17		2015-16	
		COMPLAINTS LODGED	COMPLAINTS RESOLVED	COMPLAINTS LODGED	COMPLAINTS RESOLVED (INCLUDING COMPLAINTS RESOLVED IN 2016-17)
1	Complaints not in the policy	0	0	3	3
2	Operational complaints	6	5	5	5
2 & 3	Operational and misconduct complaints	3	2	3	3
3	Misconduct and criminal matters.	8	5	4	4
4	Complaints about the AG not the institution.	0	0	0	0
5	Complaints relating to the Protected Disclosures Act.	0	0	0	0
TOTAL		17	12	15	15

CONCLUSION ON THE PERFORMANCE OF THE VISION AND VALUES STRATEGIC GOAL

Overall, good progress was made in the areas of transformation, risk and ethics. We achieved our target level 2 B-BBEE contributor status. We also improved our risk maturity level to “risk managed” (from ‘risk defined’). The ethics campaign, with the central themes of accountability, conflict of interest and handling complaints, has gone a long way towards increasing awareness of the importance of ethics in our environment.

KEY CHALLENGES

Our main challenges are to change the prevailing mind-set to see that transformation is not a parallel event but an integral part of the organisational strategy, and to address diversity-related issues, especially attitudinal challenges to including people living with disabilities in the workforce.

The pass rate of our trainees at both undergraduate and postgraduate level is of concern

Our financial constraints will necessitate a review of the allocated enterprise and supplier development programme budget; however, we will continue to rigorously support businesses that have more than 30% Black women ownership, rural and farm businesses and schools for learners with disabilities.

OUTLOOK FOR FUTURE PERFORMANCE

The re-introduction of the CA charter will assist us to maximise our contribution to the transformation of the profession. We will strive to ensure that our level 2 B-BBEE contributor status becomes sustainable through our recently revised transformation-related strategies.

Change in the prevailing mindset is needed to see that transformation is not a parallel event but an integral part of the organisational strategy. We aim to enhance the way we manage employment equity by ensuring that while we appoint people from diverse backgrounds, we also address the diversity-related issues that may result. Improving attitudinal challenges to including people living with disabilities in the workforce will continue to be a key focus area for the organisation.

Increasing the pass rate of our trainees at both undergraduate and postgraduate level will receive special attention.

With our improved risk awareness, we foresee a greater appreciation of the risk management tools reported on above in the next year. Our focus for the upcoming performance period is to consolidate the risk management tools that we have implemented over the years and ensure that they are optimally used to manage different risk exposures. Our aim is to maintain our risk maturity level at “risk managed” by the end of the 2017-18 performance period.

We will continue to create awareness and appreciation of ethical principles by rolling out the policy on ethics in the next performance year. We are confident that our AGSA conversations will not only continue building on the successes achieved this year, but will assist us to protect the integrity and reputation of the AGSA in everything we do and in our interaction with others.



05

Section Five

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

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The AGSA has **achieved a CLEAN AUDIT**



The AGSA **has, or has access to, ADEQUATE RESOURCES** to continue operating as a going concern for the foreseeable future.



An **independent external auditor** found 'the report on performance against predetermined objectives is fairly stated, in all material respects,
IN ACCORDANCE WITH THE PREDETERMINED CRITERIA.'

HOUSING



The Breaking new ground policy document ties in with goals 1, 2 and 11 of the SDGs by describing sustainable human settlements as:

well-managed entities in which economic growth and social development are in balance and result in sustainable development, wealth creation, poverty alleviation and equity.

Government expenditure on housing has grown faster than any other budget item since 1994, yet it remains in crisis. The problem has been to create sustainable human settlements and to efficiently implement programmes to address this.

We audited the urban renewal programme in Gauteng to assess whether they had been implemented according to the initial objectives. The performance audit assessed four urban renewal projects, including the construction of housing, and other buildings such as clinics and community centres.

The audit led to a review of the programme to overcome the challenges that we found to service delivery and to ensure that citizens of the four areas benefitted from sustainable human settlements.

AUDIT COMMITTEE'S REPORT

The Audit Committee (the committee) is delighted to present its report for the financial year ended 31 March 2017. The committee, an oversight body established in terms of section 40 of the Public Audit Act 25 of 2004 (PAA), is wholly independent and fulfils its responsibilities as guided by its terms of reference.

The terms of reference of the committee has formally been adopted and were duly reviewed in the performance period, in line with the governance requirement to have them reviewed annually.

This report sets out how the committee discharged its responsibilities, thus meeting its legislative and governance duties during the reporting performance period.

OVERVIEW OF ACTIVITIES

As set out in the Audit Committee work-plan, the committee received and interrogated information provided by management, independent assurance providers and other relevant organisational structures, coupled with relevant explanations, giving confidence that the organisation's:

- resources and financial expertise are adequate and effective
- systems of internal controls over financial reporting are adequate and can be relied upon
- risk management processes are adequate and operating effectively.

COMMITTEE MEMBERSHIP AND ATTENDANCE

The committee membership and attendance at meetings is reported in the corporate governance section of this integrated annual report.

Primary work performed by the committee:

- **Effectiveness of internal controls**

One of the primary responsibilities of the committee is to oversee the system of internal financial control, the financial statements and reporting processes. To this end, during the performance period, the committee:

- Considered the effectiveness of the systems of internal control and the supporting governance processes, particularly as they relate to -
 - financial management and internal controls of financial reporting
 - risk management and compliance processes
 - information technology risks, especially those relating to financial reporting
 - compliance with legislative and other legal requirements.
- Considered the written assessment issued by the internal auditors on the adequacy and effectiveness of the organisation's system of internal controls and risk management.
- Received and considered reports from management and the organisation's independent assurance providers on the functioning of the internal controls as assessed by them.
- Assessed the organisation's performance against the approved 2016-17 risk appetite statement.
- Approved the 2017-18 risk appetite statement.
- Received and considered reports, and evaluated performance against the risk management implementation plan, as approved.
- Reviewed the appropriateness of the management of the strategic risks for the financial year 2016-17 -
 - considered the potential emerging reputational risks the organisation may be presented with, including the assurance provided by management in how these are mitigated
 - approved the organisation's strategic risk profile for the financial year 2017-18.
- Reviewed the results of the 2016-17 combined assurance matrix on the organisation's risks.
- Reviewed and approved the 2017-18 combined assurance model and supporting matrix.

The committee therefore concludes that the systems of internal controls of the organisation can be relied upon for the integrity and reliability of the financial statements; the safeguarding, verification and maintenance of the organisation's assets; and the detection of fraud and compliance with legislation.

Evaluation of the annual financial statements

The committee:

- Considered whether the annual financial statements fairly present the financial position, the results of operations and cash flows of the organisation in all material respects.
- Reviewed the accounting policies and practices of the organisation, satisfying itself that they are appropriate, adequate and comply with the appropriate requirements of the IFRS.
- Reviewed the external auditor's audit report.
- Reviewed the management representation letter relating to the financial statements signed by the Deputy Auditor-General.
- Considered the accounting treatments, significant unusual transactions, the summary of uncorrected misstatements and accounting judgements.
- Met separately with management and the independent assurance providers prior to every Audit Committee meeting and considered any representations.

The committee also noted management's confirmation of going concern for the 2017-18 financial year. Except for external factors impacting on the organisation's cash inflows, which management has assured the committee that they are employing appropriate risk mitigation strategies to manage, the committee is satisfied that the AGSA will maintain the ability to trade as a going concern for the foreseeable future.

Internal audit work

The internal audit function is mandated to independently apprise the committee of the existence, adequacy and effectiveness of the organisation's risk management, internal control and governance processes as directed in its charter. In relation to the work of SizweNtsalubaGobodo (SNG), as the appointed internal auditors, the audit committee performed the following:

- Commissioned an independent external quality assessment review on the conformance of the internal audit activity to the International Standards for the Professional Practise of Internal Auditing. The outcome of the review will form the basis of the strategy to be applied on the internal audit activity at least for the next financial year.
- Reviewed and approved the annual internal audit plan as well as the audit fee. The committee satisfied itself that the internal audit coverage plan made provision for effectively addressing the risk areas of the organisation.
- Considered the reports of the internal auditors on the systems of internal controls, risk management and maintenance of effective internal control systems, as well as soft controls in the area of ethics management.
- Reviewed observations and recommendations by internal audit, and the adequacy of corrective actions taken by management in response.
- Engaged with the internal auditors without management being present during closed sessions.
- Obtained comfort on the efforts of coordination between the internal auditors and external auditors.

SNG's term of office as the internal auditor to the AGSA comes to an end in March 2018. To this end, the committee will in due course commence with processes to appoint an internal auditor for the 2018-19 performance period.

External auditors and their independence

In line with section 39 of the PAA, the committee is satisfied that the external auditor was independent of the AGSA and was not conflicted, as required in section 39(2)(c) of the PAA. In arriving at this determination, the committee reviewed and took the following into consideration:

- Representations made by the external auditors to the committee, on their independence. Assessed the external auditor against the criteria on objectivity and independence as specified by IRBA and considered the external auditor's previous appointments as external auditors to the AGSA.
- The quantum of other work undertaken by the external auditor for the AGSA. The external auditor did not, except as external auditor or in rendering permitted non-audit services as approved by the audit committee, receive any remuneration or other benefit from the organisation.
- Approved the external audit plan, the budgeted external audit fee for the reporting period and the terms of engagement of the external auditors, including pre-approving all non-audit services that the external auditor provided.
- Reviewed the external auditor and the quality of the external audit process, and found it to be satisfactory.

The incumbent independent external auditor's term of office is coming to an end with the presentation of these financial statements. Accordingly, a formal process to appoint an incoming independent external auditor has been initiated.

A recommendation to the Standing Committee on the Auditor-General (SCoAG) for the appointment of an independent external auditor will duly be made in line with section 39(1) of the PAA.

SUSTAINABILITY AND PREDETERMINED OBJECTIVES

The committee reviewed internal audit reports as well as the external audit opinion on the predetermined objectives and sustainability, and received the necessary assurances that material disclosures were reliable and did not conflict with the financial information.

ASSESSMENT OF THE FINANCE FUNCTION AND THE CHIEF FINANCIAL OFFICER

The committee considered and reviewed the performance and expertise of the chief financial officer and the finance function, and is satisfied that the resources and expertise within the finance function are adequate and appropriate to fulfil its requirements.

THE INDEPENDENCE OF AUDIT COMMITTEE MEMBERS

The independence of the committee members was continuously evaluated and appropriate action was taken to ensure that all potential conflicts were adequately mitigated.

CONCLUSION

The committee confirms that it was able to carry out its work to fulfil its legislated mandate in unrestricted conditions. For this, the committee would like to thank the leadership of the AGSA and all its structures, particularly those that enable the work of the committee.

Having regard to all integrated report elements and risks that may influence the integrity of the report, the committee thus recommended to the Deputy Auditor-General that she may sign the integrated annual report and the accompanying annual financial statements.

REMUNERATION COMMITTEE'S REPORT

BACKGROUND STATEMENT

In order to lay the right foundation for remuneration practices, the organisation has developed a remuneration policy, procedures and processes, which are made available to all employees through the organisation's Intranet. Any amendments to the policy principles are communicated to employees following consultations (where applicable). The organisation also has well-established governance structures that oversee all remuneration practices, e.g. the remuneration committee (REMCO) and management approval framework (MAF).

OVERVIEW OF THE MAIN PROVISIONS OF THE AGSA REMUNERATION POLICY

The AGSA subscribes to a pay for performance philosophy to drive high performance. The key principles that shape our policy are:

- the transparency of remuneration practices, promoted by communicating them to all employees
- internal and external equity, promoted by ensuring that the organisation regularly benchmarks its pay scales and broader remuneration practices
- annual salary adjustments that are based on market information, CPI and affordability
- performance bonuses that are discretionary and based solely on performance
- professionalisation promoted by providing a conducive environment to advance employee experience and qualifications
- approving all remuneration transactions according to the relevant level of authority.

The total short-term, long-term and termination benefits paid to the members of the executive committee are disclosed in our annual financial statements.

INTERNAL AND EXTERNAL FACTORS THAT INFLUENCE REMUNERATION

Remuneration considerations and decisions are always based on a combination of external market benchmarks, trends and practices; changes in legislation relating to remuneration; environmental factors such as stakeholder perceptions; the organisation's reputational considerations; as well as internal factors affecting the organisation such as affordability, staff retention and employee engagement.

KEY FOCUS AREAS AND DECISIONS TAKEN BY THE REMUNERATION COMMITTEE DURING THE REPORTING PERIOD

Over 2016-17, the committee considered and made recommendations on the following matters:

- Annual salary increases and performance bonuses – reviewed submissions and recommendations.
- The implementation of the total reward statement (TRS) and the pension fund.

USE OF REMUNERATION CONSULTANTS

There have been areas of specialty where external remuneration consultants were used, which include:

- Introducing the TRS – This is a new initiative for the AGSA and the reward industry. The AGSA required remuneration consultants to develop the TRS and to transfer their knowledge and skills to internal resources.
- Market benchmarking – This is an area of specialty that can only be provided by those accredited as salary survey houses for the purposes of, among other things, developing pay scales, providing salary increase projections and recommending best practices on executive remuneration.
- Sanlam – One of the organisation's initiatives was the introduction of a pension fund. This is also a function that requires specialist expertise and in-depth knowledge of various pension fund legislation.

The committee has satisfied itself that the AGSA remuneration policy has achieved its objectives.

FUTURE AREAS OF FOCUS

The remuneration committee is committed to the principles of accountability and transparency and to ensuring that remuneration arrangements align rewards with performance. In line with the objectives of the organisation's people strategy, the key focus area for the future will be to review the reward philosophy in its entirety.

DEPUTY AUDITOR-GENERAL'S REPORT

As the Deputy Auditor-General I am required by the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) to maintain adequate accounting records and am responsible for the content and integrity of the financial statements and related financial information included in this report. It is my responsibility to ensure that the financial statements fairly present the financial position 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 the International Financial Reporting Standards (IFRS) and the PAA. External auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with the IFRS and the PAA, and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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

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

I am 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 financial statements. However, any system of internal control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

I have reviewed the AGSA's cash flow forecast for the year to 31 March 2018 and, in the light of this review and the current financial position, I am satisfied that the AGSA has, or has access to, adequate resources to continue operating as a going concern for the foreseeable future. The going concern basis assumes that the AGSA will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the normal course of business.

I am not aware of any matter or circumstance arising since the end of the financial year that will materially affect these financial statements.

The financial statements set out on pages 99 to 137, which have been prepared on the going concern basis, were approved and signed by me on 18 September on behalf of the AGSA.



Tsakani Ratsela
Deputy Auditor-General

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of the Auditor-General of South Africa (AGSA), which comprise the statement of financial position as at 31 March 2017, the statement of surplus or deficit and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the AGSA as at 31 March 2017, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

BASIS FOR OPINION

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the AGSA within the meaning of the Independent Regulatory Board for Auditors' (IRBA) *Code of professional conduct for registered auditors* and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

RESPONSIBILITIES OF THE DEPUTY AUDITOR-GENERAL

The Deputy Auditor-General is responsible for the preparation and fair presentation of these financial statements in accordance with the IFRS and for such internal control as is determined as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The audit committee is responsible for overseeing the AGSA's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISAs, we exercise professional judgment and maintain professional scepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the AGSA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained to the date of our auditor's report. However, future events or conditions may cause the AGSA to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide the accounting authority with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the accounting authority, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

REPORT ON PREDETERMINED OBJECTIVES

INTRODUCTION

We have audited the report on performance against predetermined objectives of the AGSA for the year ended 31 March 2017, as set out on pages 45 to 85 of the *Integrated annual report 2016-17*.

THE DEPUTY AUDITOR-GENERAL'S RESPONSIBILITIES

The Deputy Auditor-General is responsible for the preparation and fair presentation of the report on performance against predetermined objectives as required by section 41(1)(a) of the PAA, and for such internal control as determined necessary to enable the preparation of a report on performance against predetermined objectives that is useful and reliable.

AUDITOR'S RESPONSIBILITY

As required by section 41(4)(b) of the PAA, our responsibility is to express an audit conclusion on the report on performance against predetermined objectives.

ASSURANCE WORK PERFORMED

We conducted our audit in accordance with the International Standards on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical financial information*.

We report on whether we have received all the information and explanations required to conduct the engagement, or if we became aware of additional information, the omission of which may result in the report on performance against predetermined objectives being materially misstated or misleading.

We provide reasonable assurance with respect to the usefulness of the information contained in the annual performance report.

We further provide reasonable assurance with respect to the reliability of the following selected material objectives as set out in the annual performance report:

- Value-add
- Visibility for impact
- Viability
- Vision and values driven

The criteria used as a basis for the audit conclusion are as follows:

USEFULNESS OF INFORMATION

Presentation: Performance against predetermined objectives is reported using the relevant principles from the National Treasury guidelines.

Consistency: Objectives, indicators and targets are consistent between planning and reporting documents as required by the National Treasury regulations.

Measurability: Indicators are well defined and verifiable, and targets are specific, measurable and time bound, as required by the National Treasury Framework for Managing Programme Performance Information.

Relevance: The indicators relate logically and directly to an aspect of the AGSA's mandate and the realisation of strategic goals and objectives, as required by the National Treasury Framework for Managing Programme Performance Information.

RELIABILITY OF INFORMATION

Validity: Reported performance has occurred and relates to the AGSA.

Accuracy: Amounts, numbers and other data relating to reported performance have been recorded and reported correctly.

Completeness: All actual performance that should have been recorded has been included in the report on performance against predetermined objectives.

The audit involves performing procedures to obtain audit evidence about the usefulness of the annual performance report and reliability of the objectives as set out in the annual performance report. The procedures selected depend on the auditor's judgement, including our assessment of the risks of material misstatement of the annual performance report. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some, even material, misstatements may not be detected, even though the audit is properly planned and performed in accordance with the ISAE 3000. The procedures performed include the following:

- Understanding and testing the internal policies, procedures and controls relating to the management of, and reporting on, performance information.
- Evaluating and testing processes, systems, controls and review of documentation in place at a detailed level to support the generation, collation, aggregation, monitoring and reporting of the performance indicators and targets.
- Evaluating, testing and confirmation of the existence and consistency of planned and reported performance information as well as the presentation and disclosure thereof in accordance with applicable requirements and guidance.
- Conducting detailed audit testing and obtaining sufficient appropriate audit evidence to verify the validity, accuracy and completeness of reported indicators and targets.

We believe that the evidence obtained from the work performed provides an appropriate basis for the reasonable assurance conclusions expressed below.

CONCLUSION

On the basis of our procedures described in this report, we conclude that in our opinion the report on performance against predetermined objectives is fairly stated, in all material respects, in accordance with the predetermined criteria.



Kwinana and Associates (Gauteng) Incorporated
Registered Auditors

Zivanai Zvarevashe
31 July 2017
Alenti Office Park, Block A
457 Witherite Street
The Willows Ext 82
Pretoria

INDEPENDENT ASSURANCE REPORT ON SELECTED KEY PERFORMANCE INDICATORS

We have undertaken a limited assurance engagement on selected key sustainability performance indicators, as described below, and presented in the 2016-17 Integrated Annual Report of the Auditor-General South Africa for the year ended 31 March 2017 (the Report).

SUBJECT MATTER

We are required to provide limited assurance on the following key sustainability performance indicators, prepared in accordance with the Global Reporting Initiative (GRI) G4 Guidelines.

Category	Key Sustainability Performance Indicators	Boundary
Economic	Application of the funding model. Amounts and initiatives in respect of: <ul style="list-style-type: none"> • Trainee auditors scheme • Preferential procurement • Corporate social investment 	Republic of South Africa
Social	Amounts and initiatives in respect of: <ul style="list-style-type: none"> • Bursaries and scholarships • Rural schools programme • Social responsibility programmes • Enterprise and supplier development 	Republic of South Africa
Cultural	Disclosures in respect of: <ul style="list-style-type: none"> • Employee profile • Diversity • Staff turnover • Ethics training initiatives • Employee wellness programme • Employee relations 	Auditor-General of South Africa
Stakeholder engagements	Disclosures in respect of: <ul style="list-style-type: none"> • Employees • Cabinet • Auditees • Constitutional stakeholders • Contract firms • Media 	Republic of South Africa

DEPUTY AUDITOR-GENERAL'S RESPONSIBILITIES

The Deputy Auditor-General is responsible for the selection, preparation and presentation of the key performance indicators in accordance with the GRI G4 Guidelines. This responsibility includes the identification of stakeholders and stakeholder requirements, material issues for commitments with respect to sustainability performance and for the design, implementation and maintenance of internal control relevant to the preparation of the Report that is free from material misstatement, whether due to fraud or error.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. In accordance with International Standard on Quality Control 1, Kwinana and Associates (Gauteng) Incorporated maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

OUR RESPONSIBILITY

Our responsibility is to express a limited assurance conclusion on the selected key performance indicators based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board. That Standard requires that we plan and perform our engagement to obtain limited assurance about whether the selected key sustainability performance indicators are free from material misstatement. A limited assurance engagement undertaken in accordance with ISAE 3000 involves assessing the suitability in the circumstances of Auditor-General's use of GRI G4 Guidelines as the basis of preparation for the selected key sustainability performance indicators, assessing the risks of material misstatement of the selected key sustainability performance indicators whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the selected key sustainability performance indicators.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. The procedures we performed were based on our professional judgement and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:

- Interviewed management and senior executives to obtain an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process;
- Inspected documentation to corroborate the statements of management and senior executives in our interviews;
- Reviewed the process that Auditor-General has in place for determining material selected key sustainability performance indicators to be included in the Report;
- Inspected supporting documentation on a sample basis and performed analytical procedures to evaluate the data generation and reporting processes against the reporting criteria;
- Evaluated whether the selected key sustainability performance indicators presented in the Report is consistent with our overall knowledge and experience of sustainability management and performance at Auditor-General.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether Auditor-General's selected key performance indicators have been prepared, in all material respects, in accordance with GRI G4 Guidelines.

LIMITED ASSURANCE CONCLUSION

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the selected key performance indicators as set out in the subject matter paragraph for the year ended 31 March 2017 are not prepared, in all material respects, in accordance with GRI G4 Guidelines.

RESTRICTION OF LIABILITY

Our work has been undertaken to enable us to express a limited assurance conclusion on the selected sustainability information to the Auditor-General in accordance with the terms of our engagement, and for no other purpose. We do not accept or assume liability to any party other than Auditor-General, for our work, for this report, or for the conclusion we have reached.



Kwinana and Associates (Gauteng) Incorporated

Registered Auditors

STATEMENT OF FINANCIAL POSITION

	Notes	2017 R'000	2016 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	2	90 164	84 960
Intangible assets	3	44 662	20 771
Current assets			
Trade and other receivables	4	671 212	558 706
Cash and cash equivalents	5	553 229	617 428
Total assets		1 359 267	1 281 865
RESERVES AND LIABILITIES			
Reserves			
General reserve	6	795 664	690 933
Special audit services reserve	7	4 964	4 964
Accumulated (deficit)/surplus	8	(14 578)	104 731
Liabilities			
Non-current liabilities			
Retirement benefit obligations	9	63 587	68 327
Operating lease liability	10	33 729	39 074
Current liabilities			
Trade and other payables	11	475 901	373 836
Total reserves and liabilities		1 359 267	1 281 865

STATEMENT OF SURPLUS OR DEFICIT AND OTHER COMPREHENSIVE INCOME

	Notes	2017 R'000	2016 R'000
Revenue	12	2 977 211	2 835 248
Local services rendered		2 976 411	2 835 241
International services rendered		800	7
Direct audit cost		(2 058 229)	(1 929 095)
Recoverable staff cost	13	(1 334 574)	(1 224 049)
Contract work	14	(576 259)	(569 979)
Subsistence and travel		(147 396)	(135 067)
Gross surplus		918 982	906 153
Other income	15	2 974	6 311
Foreign exchange gains	23.4	-	211
Contribution to overheads		921 956	912 675
Non-recoverable staff cost	13	(629 682)	(554 746)
Depreciation expense	2	(30 410)	(32 907)
Amortisation expense	3	(15 357)	(4 737)
Other operational expenditure	16	(318 348)	(264 981)
Retirement benefit obligations - current service costs	9	(940)	(1 071)
Operating (deficit)/surplus before finance charges		(72 781)	54 233
Interest income	17	69 218	61 107
Interest expense	17	(20 665)	(16 685)
(Deficit)/surplus for the year		(24 228)	98 655
Other comprehensive income			
Items that will not be reclassified to deficit or surplus			
Actuarial gains - retirement benefit obligations	9	9 650	6 076
Total comprehensive (deficit)/surplus for the year		(14 578)	104 731

STATEMENT OF CHANGES IN EQUITY

	General reserve R'000	Special audit services reserve R'000	Accumulated surplus/(deficit) R'000	Total R'000
Balance at 1 April 2015	552 930	4 964	138 003	695 897
Transfer of accumulated surplus to reserves	138 003	-	(138 003)	-
Total comprehensive surplus			104 731	104 731
Surplus for the year	-	-	98 655	98 655
Other comprehensive income				
Actuarial gains	-	-	6 076	6 076
Balance at 31 March 2016	690 933	4 964	104 731	800 628
Transfer of accumulated surplus to reserves	104 731	-	(104 731)	-
Total comprehensive deficit			(14 578)	(14 578)
Deficit for the year	-	-	(24 228)	(24 228)
Other comprehensive income				
Actuarial gains	-	-	9 650	9 650
Balance at 31 March 2017	795 664	4 964	(14 578)	786 050
Notes	6	7	8	

STATEMENT OF CASH FLOWS

	Notes	2017 R'000	2016 R'000
Cash flow from operating activities			
Cash receipts from auditees	23.1	2 856 714	2 870 164
Total direct audit cost payments	23.2	(2 057 681)	(1 949 738)
Operational expenditure payments	23.3	(848 757)	(823 503)
Interest received	17	63 174	55 983
Interest paid	17	(2 768)	(10)
Realised foreign exchange gains	23.4	-	211
Net cash inflow from operating activities		10 682	153 107
Cash flow from investing activities			
Additions to property, plant and equipment	2	(36 695)	(31 881)
Additions to intangible assets	3	(39 248)	(18 116)
Proceeds from sale of property, plant and equipment	2	1 062	4 492
Net cash outflow from investing activities		(74 881)	(45 505)
Net (decrease)/increase in cash and cash equivalents		(64 199)	107 602
Cash and cash equivalents at the beginning of the year		617 428	509 826
Cash and cash equivalents at the end of the year		553 229	617 428

ACCOUNTING POLICIES

1 PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared according to the IFRS, issued by the International Accounting Standards Board (IASB), and in line with the requirements of the PAA. The financial statements are presented in South African rand, which is the AGSA's functional currency. All financial information has been rounded to the nearest thousand unless stated otherwise. The 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, except for the changes in estimated useful lives of property, plant and equipment.

Standards, amendments and interpretations relevant to the operations of the AGSA that are not yet effective but that have been adopted early:

Standard	Effective	Details	Impact
IAS 7 - Statement of cash flows	01/01/2017	Disclosure initiative: amendments requiring entities to disclose information about changes in their financing liabilities. The additional disclosures will help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses).	No impact on the financial statements of the AGSA.

Standards, amendments and interpretations relevant to the operations of the AGSA that were not yet effective and that were not adopted early:

Standard	Effective	Details	Impact
IFRS 9 - Financial instruments	01/01/2018	<p>A final version of IFRS 9 has been issued, which replaces IAS 39: <i>Financial instruments: recognition and measurement</i>. The completed standard comprises guidance on classification and measurement, impairment hedge accounting and derecognition:</p> <ul style="list-style-type: none"> IFRS 9 introduces a new approach to the classification of financial assets, driven by the business model in which the asset is held and their cash flow characteristics. A new business model was introduced which does allow certain financial assets to be categorised as 'fair value through other comprehensive income' in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. The new model introduces a single impairment model that is applied to all financial instruments, as well as an 'expected credit loss' model to measure financial assets. 	The AGSA is conducting an initial assessment of the potential impact of adopting IFRS 9.

Standards, amendments and interpretations relevant to the operations of the AGSA that were not yet effective and that were not adopted early (continued):

Standard	Effective	Details	Impact
IFRS 9 – Financial instruments (continued)	01/01/2018	<ul style="list-style-type: none"> IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity. In addition, enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements. IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39. 	The AGSA is conducting an initial assessment of the potential impact of adopting IFRS 9.
IFRS 15 – Revenue from contracts from customers	01/01/2018	<p>A new standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five step methodology that is required to be applied to all contracts with customers.</p> <p>The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were previously not comprehensively addressed and improve guidance for multiple-element arrangements.</p> <p>The new standard supersedes:</p> <ul style="list-style-type: none"> (a) IAS 11: <i>Construction contracts</i> (b) IAS 18: <i>Revenue</i> (c) IFRIC 13: <i>Customer loyalty programmes</i> (d) IFRIC 15: <i>Agreements for the construction of real estate</i> (e) IFRIC 18: <i>Transfers of assets from customers</i> (f) SIC-31: <i>Revenue-barter transactions involving advertising services.</i> 	The AGSA has completed an initial assessment of the potential impact of adopting IFRS 15.
IFRS 16 – Leases	01/01/2019	<p>A new standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7: <i>Statement of cash flows.</i></p>	The impact on the AGSA's financial statements is yet to be determined.

Standards, amendments and interpretations relevant to the operations of the AGSA that were not yet effective and that were not adopted early (continued):

Standard	Effective	Details	Impact
IFRS 16 - Leases (continued)	01/01/2019	<p>IFRS 16 contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding which information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee.</p> <p>IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.</p> <p>IFRS 16 also requires lessors to provide enhanced disclosures that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.</p> <p>IFRS 16 supersedes the following standards and interpretations:</p> <ul style="list-style-type: none"> (a) IAS 17: <i>Leases</i> (b) IFRIC 4: <i>Determining whether an arrangement contains a lease</i> (c) SIC-15: <i>Operating leases - incentives</i> (d) SIC-27: <i>Evaluating the substance of transactions involving the legal form of a lease.</i> 	The impact on the AGSA's financial statements is yet to be determined.

1.1 SIGNIFICANT JUDGEMENTS AND ACCOUNTING ESTIMATES

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

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. Advice on the appropriateness of the assumptions is taken from independent actuaries. Changes in the assumptions used may have a significant effect on the statement of surplus or deficit and other comprehensive income, and statement of financial position.

Allowance for impairment of receivables

An allowance for the impairment of trade receivables is established when there is objective evidence that the AGSA will not be able to collect all amounts due according to the original terms of receivables. The calculation of the amount to be allowed for impairment of receivables requires the use of estimates and judgements.

Annual evaluation of property, plant and equipment and intangibles

To review property, plant and equipment and intangibles for possible impairment, changes in useful lives and changes in residual values at the end of each financial year, reference is made to historical information and the intended use of assets.

1.2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost less accumulated 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 AGSA and the cost can be measured reliably. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. Estimates are mainly based on historical information relating to the use, and the intended use, of the asset. Depreciation is calculated on the straight-line method to write off the cost, less residual value, of each asset over its estimated useful life as follows:

Item	Useful life	
	2017	2016
Computer equipment	3 to 8 years	3 to 6 years
Notebooks	3 years	3 years
Motor vehicles	5 years	5 years
Furniture and fittings	6 to 19 years	6 to 15 years
Office equipment	3 to 5 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 surplus or deficit.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. The effects of any changes to residual values, useful lives and depreciation methods are accounted for on a prospective basis.

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

An intangible asset is an identifiable, non-monetary asset without physical substance. Intangible assets are identifiable resources controlled by the organisation from which the organisation expects to derive future economic benefits.

An intangible asset is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the organisation and the cost of the asset can be measured reliably.

Computer software

Acquired computer software licences are carried at cost less any accumulated amortisation and any impairment losses. Estimates relating to useful lives are mainly based on historical information relating to the use of the assets 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 (current and comparative period)
Enterprise resource management system - PeopleSoft	14 years
Other software	3 years

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the AGSA, and that will generate probable economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and overheads directly attributed to preparing the asset for use. Other development expenditures are recognised as an expense as incurred. The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each reporting date. The effects of any changes to residual values, useful lives and amortisation methods are accounted for on a prospective basis.

The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

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 exist, the recoverable amount of the asset is estimated. An impairment loss is recognised, in surplus or deficit, for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The AGSA assesses at each reporting date whether there is any indication that an impairment loss recognised in previous 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 previous years. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

1.5 FINANCIAL INSTRUMENTS

Financial instruments are recognised when the AGSA becomes party to the contractual provisions of the instrument. Financial instruments carried in the statement of financial position include cash and bank balances, trade and other receivables and trade and other payables. These instruments (excluding cash and bank) are carried at their amortised cost.

Financial assets

The AGSA classifies its financial assets into one of the categories discussed below, depending on the business model assessment that centres on whether financial assets are held to collect contractual cash flows. The AGSA has not classified any of its financial assets as fair value through profit and loss. The accounting policy for each category is as follows:

Receivables measured at amortised cost

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through providing 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 method, less allowance for impairment.

Impairment allowances are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the AGSA will be unable to collect all of the amounts due under the terms receivable, the amount of such an allowance 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 amounts are recorded in a separate allowance account with the loss being recognised within operational expenditure in surplus or deficit. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated allowance.

Financial liabilities

Trade payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Derecognition

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

1.6 CASH AND CASH EQUIVALENTS

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

Operating leases – lessee

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

1.8 EMPLOYEE BENEFITS

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care) are recognised in the period in which the service is rendered and are not discounted.

The expected bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

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

Post-employment medical care benefits - Defined benefit plan

The AGSA provides post-retirement medical care benefits to certain employees and their legally recognised spouse (and/or dependants) at time of death. The entitlement to post-retirement medical benefits is based on the employee being on the staff rules terms and conditions, remaining in service up to retirement age of 65 (or when reaching 50 in the case of early retirement) and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using the projected unit credit method. Actuarial gains and losses arising from experience adjustments are recognised in other comprehensive income in the statement of surplus or deficit and other comprehensive income in the period in which they occur. Interest cost and service cost are recognised in surplus or deficit in the period in which they occur. The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation. Valuations of these obligations are carried out annually by independent qualified actuaries.

Leave liability

The AGSA calculates the value of leave not taken at year-end based on the guaranteed package or basic salary. The value of leave is recognised in the statement of financial position as a short-term employee benefit.

1.9 REVENUE

Revenue is recognised when the outcome of a transaction involving the rendering of services can be estimated reliably. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the organisation
- the costs incurred for the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable. Revenue arising from rendering audit services consists of the invoiced value charged net of value-added tax.

1.10 INTEREST INCOME

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.

1.11 FOREIGN CURRENCIES

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

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

1.12 IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of the PAA. 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 surplus or deficit in the period it was incurred.

1.13 LOSSES THROUGH CRIMINAL CONDUCT

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

1.14 RELATED PARTIES

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the AGSA. All individuals from the executive management are regarded as key management according to the IFRS definition.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or be influenced by, key management individuals in their dealings with the AGSA.

Other related party transactions are also disclosed in terms of the requirements of IFRS. Qualitative and quantitative materiality is considered in disclosing these transactions.

NOTES TO THE FINANCIAL STATEMENTS

2 PROPERTY, PLANT AND EQUIPMENT

2017	Cost R'000	Accumulated depreciation R'000	Carrying amount R'000
Computer equipment	120 973	(80 552)	40 421
Motor vehicles	7 451	(4 787)	2 664
Office equipment	3 390	(2 512)	878
Furniture and fittings	64 130	(38 429)	25 701
Leasehold improvements	50 477	(29 977)	20 500
	246 421	(156 257)	90 164

The carrying amounts are 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	35 989	22 324	(727)	(17 165)	40 421
Motor vehicles	3 693	193	-	(1 222)	2 664
Office equipment	431	693	(6)	(240)	878
Furniture and fittings	26 112	3 779	(342)	(3 848)	25 701
Leasehold improvements	18 735	9 706	(6)	(7 935)	20 500
	84 960	36 695	(1 081)	(30 410)	90 164

The useful lives of property, plant and equipment was revised during the year (refer to note 27).

	2017 R'000
Proceeds on disposal of property, plant and equipment	1 062

2 PROPERTY, PLANT AND EQUIPMENT (continued)

2016	Cost R'000	Accumulated depreciation R'000	Carrying amount R'000
Computer equipment	126 917	(90 928)	35 989
Motor vehicles	7 891	(4 198)	3 693
Office equipment	2 907	(2 476)	431
Furniture and fittings	62 208	(36 096)	26 112
Leasehold improvements	41 755	(23 020)	18 735
	241 678	(156 718)	84 960

The carrying amounts are 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	37 621	17 550	(1 252)	(17 930)	35 989
Motor vehicles	4 909	194	(70)	(1 340)	3 693
Office equipment	361	340	4	(274)	431
Furniture and fittings	25 858	7 581	(379)	(6 948)	26 112
Leasehold improvements	19 223	6 216	(289)	(6 415)	18 735
	87 972	31 881	(1 986)	(32 907)	84 960

2016

R'000

Proceeds on disposal of property, plant and equipment

4 492

The AGSA has operating leases for all of the premises occupied by its head office and regionally based staff in the major centres of the country (refer to note 19).

3 INTANGIBLE ASSETS

2017	Cost	Accumulated amortisation	Carrying amount
Computer software - purchased	R'000	R'000	R'000
Enterprise resource management system - PeopleSoft	34 277	(19 171)	15 106
Other software	75 716	(46 160)	29 556
	109 993	(65 331)	44 662

The carrying amounts are reconciled as follows:

	Opening carrying amount	Additions	Disposals	Amortisation charge	Closing carrying amount
Computer software - purchased	R'000	R'000	R'000	R'000	R'000
Enterprise resource management system - PeopleSoft	523	15 326	-	(743)	15 106
Other software	20 248	23 922	-	(14 614)	29 556
	20 771	39 248	-	(15 357)	44 662

2016	Cost	Accumulated amortisation	Carrying amount
Computer software - purchased	R'000	R'000	R'000
Enterprise resource management system - PeopleSoft	18 950	(18 427)	523
Other software	51 767	(31 519)	20 248
	70 717	(49 946)	20 771

The carrying amounts are reconciled as follows:

	Opening carrying amount	Additions	Disposals	Amortisation charge	Closing carrying amount
Computer software - purchased	R'000	R'000	R'000	R'000	R'000
Enterprise resource management system - PeopleSoft	719	-	-	(196)	523
Other software	6 673	18 116	-	(4 541)	20 248
	7 392	18 116	-	(4 737)	20 771

4 TRADE AND OTHER RECEIVABLES

	2017 R'000	2016 R'000
Trade receivables (refer to note 22.2)	805 810	679 269
Allowance for impairment of receivables ^[1]	(177 367)	(169 295)
Net trade receivables	628 443	509 974
Staff debtors	10 518	13 548
Prepayments	32 053	34 988
Other debtors	198	196
	671 212	558 706
^[1] Allowance for impairment of receivables		
Balance at the beginning of the year	(169 295)	(178 501)
Used during the year	4	1 909
Adjustment of allowance for impairment of receivables (refer to notes 16 and 23.3)	(8 076)	7 297
Balance at the end of the year (refer to note 22.2)	(177 367)	(169 295)

5 CASH AND CASH EQUIVALENTS

	2017 R'000	2016 R'000
Call account at Public Investment Corporation	149 175	131 482
Investment reserved for specific liabilities ^[2]	136 464	110 028
Investment to fund working capital requirements	12 711	21 454
Overnight call account	1 694	31 582
Notice deposit	136 357	175 820
Current bank account	266 003	278 544
	553 229	617 428

5 CASH AND CASH EQUIVALENTS (continued)

	2017	2016
	R'000	R'000
^[2] Investment reserved for specific liabilities		
The liabilities covered by this investment include the following:		
Post-retirement benefits: medical care contributions (refer to note 9) ^[3]	63 587	68 327
13th cheque accrual (refer to note 11)	9 055	8 784
Leave pay accrual (refer to note 11) ^[4]	112 947	100 671
Repayment to former TBVC states employees - deductions of salary over-payments	198	201
Payments made by staff in terms of the AGSA's notebook ownership policy	52	39
	185 839	178 022

^[3] The future service liability for post-retirement benefit: medical care contributions totalling R6 382 000 (2016: R8 023 000) 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.

^[4] Only R84 776 472 (2016: R70 799 000) of the leave pay accrual is ring-fenced through the investment reserved for specific liabilities. The balance of R28 170 938 (2016: R29 872 000) is covered through the current account as this can be encashed within the current year.

6 GENERAL RESERVE

	2017	2016
	R'000	R'000
Balance at the beginning of the year	690 933	552 930
Transfer of accumulated surplus to reserves (refer to note 8)	104 731	138 003
Balance at the end of the year	795 664	690 933

Accumulated surplus that was recommended by the Standing Committee on the Auditor-General (SCoAG) and approved by Parliament (in terms of section 38(4) of the PAA) to be retained for working capital and general reserve requirements of the AGSA.

7 SPECIAL AUDIT SERVICES RESERVE

	2017 R'000	2016 R'000
Balance at the beginning and end of the year	4 964	4 964

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

8 ACCUMULATED (DEFICIT)/SURPLUS

	2017 R'000	2016 R'000
Balance at the beginning of the year	104 731	138 003
Transfer of accumulated surplus to general reserve (refer to note 6)	(104 731)	(138 003)
Total comprehensive (deficit)/surplus for the year	(14 578)	104 731
Balance at the end of the year	(14 578)	104 731

Accumulated surplus is available to fund the AGSA's on-going activities after consultation with the National Treasury and by agreement with SCoAG (in terms of section 38(4) of the PAA).

9 RETIREMENT BENEFIT OBLIGATIONS

	2017 R'000	2016 R'000
Post-retirement benefits: medical care contribution	63 587	68 327
The liability is reconciled as follows:		
Balance at the beginning of the year	68 327	69 861
Current year provision	(2 224)	884
Current service cost	940	1 071
Actuarial gains	(9 650)	(6 076)
Interest expense adjustment on retirement benefit obligations (refer to note 17)	6 486	5 889
<u>Less: Payments made</u>	(2 516)	(2 418)
Balance at the end of the year (refer to note 5)	63 587	68 327

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 as at 31 March 2017 by Alexander Forbes using the projected unit credit method.

	2017	2016
The valuation is based on the following principal actuarial assumptions:		
The discount rate reflects the timing of benefit payments and is based on market bond yields.	9,8%	9,9%
Subsidy increase rate (based on the inflation rate)	7,0%	7,5%
Expected retirement age	63	63
Number of continuation members	203	202
Average age of continuation members	68,9	68,1
Percentage continuation members married	75%	77%
Number of in-service members	156	167
Average age of in-service members	53,5	52,7
Average years of past service of in-service members	28,0	27,3

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
- No increase in the subsidy increase rate
- A one-year decrease or increase in the expected retirement age

9 RETIREMENT BENEFIT OBLIGATIONS (continued)

2017

	Discount rate		
	Assumption 9,80%	-1%	+1%
Accrued liability 31 March 2017 (R'000)	63 587	73 145	55 812
% change	-	15,2%	-12,2%

	Subsidy increase rate	
	Assumption 7,00%	0%
Accrued liability 31 March 2017 (R'000)	63 587	29 230
% change	-	-54,0%

	Expected retirement age		
	Assumption 63 years	1 year younger	1 year older
Accrued liability 31 March 2017 (R'000)	63 587	64 973	62 192
% change	-	2,2%	-2,2%

2016

	Discount rate		
	Assumption 9,90%	-1%	+1%
Accrued liability 31 March 2016 (R'000)	68 327	79 309	59 563
% change	-	16,1%	-12,8%

	Subsidy increase rate	
	Assumption 7,50%	0%
Accrued liability 31 March 2016 (R'000)	68 327	29 022
% change	-	-57,5%

	Expected retirement age		
	Assumption 63 years	1 year younger	1 year older
Accrued liability 31 March 2016 (R'000)	68 327	69 925	66 735
% change	-	2,3%	-2,3%

10 OPERATING LEASE LIABILITY

	2017 R'000	2016 R'000
Total operating leases	43 862	48 273
Current portion included in trade and other payables (refer to note 11)	(10 133)	(9 199)
Non-current portion	33 729	39 074

11 TRADE AND OTHER PAYABLES

	2017 R'000	2016 R'000
Trade payables	41 438	45 465
Operating leases - current portion (refer to note 10)	10 133	9 199
Net trade payables	51 571	54 664
Accruals	67 526	64 464
13th cheque accrual (refer to note 5)	9 055	8 784
Leave pay accrual (refer to note 5)	112 947	100 671
Performance bonus accrual	144 530	116 387
Staff creditors	7 401	6 925
Value-added tax and PAYE	82 871	21 941
	475 901	373 836

Ageing of trade payables:

	Total R'000	Current R'000	30-60 R'000	60-90 R'000	90-120 R'000	120+ R'000
2017						
Trade payables	41 438	4 579	24 873	8 755	1 598	1 633
2016						
Trade payables	45 465	5 136	36 416	2 916	311	686

12 REVENUE

	2017 R'000	2016 R'000
Local services rendered	2 976 411	2 835 241
Own hours	2 251 724	2 127 944
Contract work recoverable (refer to note 14)	583 586	577 361
Subsistence and travel	147 130	135 060
Present value of revenue adjustment (refer to note 17)	(6 029)	(5 124)
International services rendered ^[5]	800	7
Own hours	549	7
Subsistence and travel	266	-
Present value of revenue adjustment (refer to note 17)	(15)	-
	2 977 211	2 835 248

^[5] International income relates to the Eastern & SA Association for Accountants (ESAAG) and the South African Customs Union (SACU) audits.

13 STAFF COST

	2017 R'000	2016 R'000
Management salaries (refer to note 21.1)	39 181	36 351
Other non-recoverable staff salaries	278 889	253 907
Other staff expenditure	160 293	140 050
Performance bonus	131 563	113 661
Group life scheme	20 626	16 689
Other employer contributions	8 104	9 700
Course fees and study assistance	111 856	92 972
Accrued leave pay accrual	39 463	31 466
Total non-recoverable staff cost	629 682	554 746
Recoverable staff cost (part of direct audit cost)	1 334 574	1 224 049
Total staff cost	1 964 256	1 778 795
Average number of staff	3 498	3 474

14 CONTRACT WORK

	2017 R'000	2016 R'000
Contract work recoverable (refer to note 12)	583 586	577 361
Present value of contract work recoverable adjustment (refer to note 17)	(7 327)	(7 382)
	576 259	569 979

This represents work done by external audit firms on behalf of the AGSA. Work is allocated to audit firms based on a tender process. No mark-up is applied to contract work.

15 OTHER INCOME

	2017 R'000	2016 R'000
Sundry income ^[6]	2 898	3 704
Telephone charges recovered	76	101
Profit on sale of property, plant and equipment (refer to note 23.3)	-	2 506
	2 974	6 311

^[6] Sundry income consist mainly of income from AFROSAI-E, APAC, the AGSA's gift shop, tenders sold and salaries recovered for academic trainees.

16 OTHER OPERATIONAL EXPENDITURE

	2017	2016
	R'000	R'000
Auditors' remuneration		
Statutory audit services	3 483	3 139
Adjustment of allowance for impairment of receivables (refer to notes 4 and 23.3)	8 076	(7 297)
Governance costs	911	666
ICT services	55 934	42 794
Internal audit fees	5 178	4 215
Legal costs	5 897	4 056
Loss on sale of property, plant and equipment (refer to note 23.3)	19	-
Operating leases - land and buildings	109 137	92 903
Operating leases - equipment	6 027	6 028
Other operational expenses (excluding staff cost)	23 234	17 364
Outsourced services	16 380	23 367
Receivables written off as uncollectable	-	69
Recruitment costs	15 362	16 862
Stakeholder relations	27 167	21 201
Stationery and printing	8 331	9 726
Subsistence and travelling	28 481	24 525
Telephone and postage	8 815	8 767
Present value of expenditure adjustment (refer to note 17)	(4 084)	(3 404)
	318 348	264 981

17 NET INTEREST COST

	2017 R'000	2016 R'000
Interest income		
Interest income - bank, investments and debtors	63 174	55 983
Interest income on bank and investments	36 844	31 625
Interest on overdue debtors accounts	26 330	24 358
Present value of revenue adjustment (refer to note 12)	6 044	5 124
	69 218	61 107
Interest expense		
Interest on repayment of salary over-payments in the former TBVC states	(1)	(10)
Interest on VAT payment	(2 767)	-
Present value of expenditure adjustment	(11 411)	(10 786)
Present value of contract work recoverable adjustment (refer to note 14)	(7 327)	(7 382)
Present value of other expenditure adjustment (refer to notes 16)	(4 084)	(3 404)
Interest expense adjustment on retirement benefit obligations (refer to note 9)	(6 486)	(5 889)
	(20 665)	(16 685)

18 NOTEBOOK LOSSES

	2017 R'000	2016 R'000
106 (2016: 90) notebook computers stolen and written off at the carrying amount	443	296

The AGSA policy is to self-insure notebook computers as this has proven to be more economically effective.

19 COMMITMENTS

	2017 R'000	2016 R'000
Operating lease commitments		
The future minimum commitments are as follows:		
Due within one year	91 155	68 527
Land and buildings	87 163	63 120
Office equipment	3 992	5 407
Between one and five years	165 182	157 619
Land and buildings	165 045	153 369
Office equipment	137	4 250
More than five years	64 418	-
Land and buildings	64 418	-
	320 755	226 146

The office premises are leased for periods between two and thirteen years. The average lease payments are R7 263 555 (2016: R6 069 210) per month. The lease payments escalate between 6,5% and 10% annually. The lease agreements are renewable for periods between one month and ten years at the end of the lease term and the AGSA does not have the option to acquire the land and buildings.

Certain items of office equipment are leased for a period of three years. The average lease payments are R332 663 (2016: R450 600) per month. The lease agreements are renewable at the end of the lease term and the AGSA does not have the option to acquire the office equipment.

Other commitments

Thuthuka

The AGSA has committed to funding 210 undergraduate students for a period of three years while they complete their studies, at a rate per student that is determined every year by the Thuthuka Bursary Fund trustees and on condition that the AGSA can stop its financial contribution by written notice. As the rate per student is determined yearly, the commitment cannot be quantified; however, the yearly commitment at current rates amounts to R14 605 500 (210 students x R69 550 per student).

19 COMMITMENTS (continued)

Centenary Scholarship fund

The AGSA launched the Centenary Scholarship Fund during the centenary celebrations in November 2011. This one-off initiative enables 32 young students to pursue careers in the financial management or accounting streams at SAICA-accredited universities. The AGSA funds students for undergraduate and postgraduate studies if they progress academically and for a maximum of five years. The funds provided include tuition, accommodation, books and living allowance. The students are required to work for the AGSA for a duration equivalent to the years funded. Due to the varying costs of studies across the universities and the pass rate, the amount cannot be quantified; however, the yearly commitment at current rates is estimated at R1 500 000.

External bursaries

External bursaries are awarded annually to full-time students for undergraduate and postgraduate studies until they complete the qualification and on condition that all subjects are passed. Failed subjects are repeated at the student's own expense. If a student fails repeatedly, the bursary agreement is terminated and the amount advanced must be repaid to the AGSA, or in certain instances redeemed through employment at the AGSA if the student already has a degree. Due to the varying costs of studies across the universities and the pass rate, the amount cannot be quantified, but will be managed within the budgeted amount of R10 872 000 for approximately 143 students for the 2017-18 financial year.

	2017	2016
	R'000	R'000
Capital commitments		
Approved and contracted ^[7]	24 238	11 500
Approved but not yet contracted	65 065	67 180
Total approved ^[8]	89 303	78 680
Source of funding		
Internal financing	89 303	78 680
	89 303	78 680

^[7] Property, plant and equipment approved and contracted in 2016-17 for the 2017-18 financial year.

^[8] This relates to property, plant and equipment approved during 2016-17 for the 2017-18 budget.

20 CONTINGENT LIABILITIES

Legal claim

During the 2017 financial year, a review application was brought against the AGSA in the High Court of South Africa. The AGSA's legal advisors believe that the AGSA has reasonable defences against the claim and that the probability of loss will be unlikely. Accordingly, no provision has been made in the annual financial statements.

21 RELATED PARTIES

Transactions with related parties are on an arm's-length basis at market-related prices.

21.1 KEY MANAGEMENT PERSONNEL COMPENSATION

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

Position	Name	Appointment date	Termination date	2017		
				Gross remuneration R'000	Performance bonus R'000	Total remuneration R'000
Auditor-General ^[9]	T Makwetu	1 Dec 2013		5 935	-	5 935
Deputy Auditor-General	T Ratsela	1 Apr 2014		3 560	528	4 088
National Leader	EM Zungu	1 Jul 2014		2 965	591	3 556
Corporate Executive	AH Muller	1 Mar 2008		2 402	490	2 892
Corporate Executive	BR Wheeler	1 Mar 2008		2 384	490	2 874
Corporate Executive	JH v Schalkwyk	1 Nov 2010		2 428	496	2 924
Chief Financial Officer	SS Ngoma	1 Nov 2012		2 191	447	2 638
Corporate Executive	SN Ngobese	1 Jan 2013		1 987	406	2 393
Corporate Executive	S Badat	1 Mar 2014	28 Feb 2017	2 270	-	2 270
Corporate Executive	VT Msibi	1 May 2013	31 Jan 2017	2 066	-	2 066
Corporate Executive	MS Segooa	1 Aug 2014		2 159	441	2 600
Corporate Executive	MM Sedikela	1 Jan 2016		2 138	293	2 431
Chief People Officer	MM Mabaso	1 Aug 2016		1 467	220	1 687
Corporate Executive	V Maharaj (Acting)	1 Dec 2016		711	116	827
Total management compensation (refer to note 13)				34 663	4 518	39 181

[10]

21 RELATED PARTIES (continued)

21.2 KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

Position	Name	Appointment date	Termination date	2016		
				Gross remuneration	Performance bonus	Total remuneration
				R'000	R'000	R'000
Auditor-General ^[9]	T Makwetu	1 Dec 2013		5 573	-	5 573
Deputy Auditor-General	T Ratsela	1 Apr 2014		3 333	384	3 717
National leader	EM Zungu	1 Jul 2014		2 719	312	3 031
National leader	B Maggott	1 Aug 2014	28 Feb 2016	2 466	-	2 466
Corporate Executive	AH Muller	1 Mar 2008		2 255	259	2 514
Corporate Executive	BR Wheeler	1 Mar 2008		2 255	259	2 514
Corporate Executive	JH v Schalkwyk	1 Nov 2010		2 280	262	2 542
Chief Financial Officer	SS Ngoma	1 Nov 2012		2 016	236	2 252
Corporate Executive	SN Ngobese	1 Jan 2013		1 877	214	2 091
Corporate Executive	S Badat	1 Mar 2014		2 373	-	2 373
Corporate Executive	VT Msibi	1 May 2013		2 191	256	2 447
Corporate Executive	MS Segooa	1 Aug 2014		2 027	233	2 260
Corporate Executive	TP Zondi	1 Aug 2014	29 Feb 2016	1 855	-	1 855
Corporate Executive	MM Sedikela	1 Jan 2016		518	198	716
Total management compensation (refer to note 13)				33 738	2 613	36 351

[10]

^[9] Included in the Auditor-General's salary is deferred compensation of R1 369 681 (2016: R1 286 086).

^[10] This includes all remuneration paid to management.

Compensation to management is summarised as follows:

	2017	2016
	R'000	R'000
Short-term employee benefits	37 811	35 065
Long-term employee benefits - termination	1 370	1 286
	39 181	36 351

21 RELATED PARTIES (continued)

21.3 OTHER RELATED PARTIES

The executive secretariat of AFROSAI-E is hosted by the AGSA. It is headed by a chief executive officer appointed by the AFROSAI-E Governing Board, while the AGSA performs an oversight role.

As documented in a memorandum of understanding (MoU) between the AGSA and AFROSAI-E, the AGSA provides or finances a budget for the chief executive officer, premises and other necessary resources for the functioning of the executive secretariat. The budget compilation and financial reporting is in line with the AGSA's budget and financial reporting prescripts. The costs are recovered at a mutually agreed monthly rate as specified in the MoU.

A new MoU was effected on 1 May 2016, which resulted in AFROSAI-E no longer being a related party.

2016

R'000

Related party balances

Trade receivables

363

Related party transactions

Revenue

893

Expenses

4 481

22 FINANCIAL INSTRUMENTS

The carrying amount of financial assets and liabilities reasonably approximate their fair value due to the short-term nature of the financial instruments.

22.1 MARKET RISK

22.1.1 INTEREST RATE RISK MANAGEMENT

The exposure to changes in interest rates relates primarily to the AGSA's current and call accounts.

Interest rate sensitivity

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

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

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

2017

	Current & call account interest rate		
	Current balance	+1%	-1%
Net deficit (R'000)	(14 578)	(9 091)	(21 269)
% change	-	37,6%	-45,9%
Current bank and call account balances (R'000)	553 229	558 716	546 538
% change	-	1,0%	-1,2%

2016

	Current & call account interest rate		
	Current balance	+1%	-1%
Net surplus (R'000)	104 731	111 116	98 380
% change	-	6,1%	-6,1%
Current bank and call account balances (R'000)	617 428	624 214	611 478
% change	-	1,1%	-1,0%

22 FINANCIAL INSTRUMENTS (continued)

22.2 CREDIT RISK

Financial assets that potentially subject the AGSA to concentrations of credit risk consist principally of cash and short-term deposits placed with a financial institution that has a short-term bank deposit credit rating by Fitch of F1+ (2016: F1+) (Moody's: P -3 [2016: P1] and Standard and Poor: A -3 [2016: A2]), as well as with the Public Investment Corporation (PIC). The PIC is wholly owned by the South African government and invests funds on behalf of public sector entities based on investment mandates set by each client and approved by the Financial Services Board. Trade receivables are presented net of the allowance for doubtful receivables. Credit risk with respect to trade receivables is limited to some degree due to the AGSA's constitutionally conferred audit mandate. However, the AGSA has a significant concentration of credit risk with local government debtors.

All financial assets are unsecured. The carrying amount of financial assets included in the statement of financial position represents the AGSA's exposure to credit risk in relation to these assets.

An analysis of the ageing of trade receivables that are 30 days and over is as follows:

R426 692 000 (2016: R369 762 000) of receivables, comprising 53,0% (2016: 54,4%) of total receivables, are in arrears. Local government debtor arrears comprise R372 372 000 (2016: R303 274 000), which is 87,3% (2016: 82%) of total arrears and amounts to 46,2% (2016: 44,7%) of total receivables.

Included in the local government debt of R390 million (2016: R343 million) is an amount of R291 million (2016: R297 million) owed by the 1% and financially distressed municipalities, which is due from National Treasury in terms of section 23(6) of the PAA.

A breakdown of the ageing and concentration of credit risk that arises from the AGSA's trade receivables (refer to note 4) in relation to the type of auditees is as follows:

2017	Total	Current	30 - 120	120+
Debtor type	R'000	R'000	R'000	R'000
National	90 205	89 357	848	-
Provincial	150 488	144 465	3 089	2 934
Local	390 633	18 261	138 667	233 705
Statutory	42 535	23 954	564	18 017
Other ⁽¹¹⁾	131 949	103 081	4 367	24 501
	805 810	379 118	147 535	279 157

22 FINANCIAL INSTRUMENTS (continued)

22.2 CREDIT RISK (continued)

2016	Total	Current	30 - 120	120+
Debtor type	R'000	R'000	R'000	R'000
National	72 828	72 266	562	-
Provincial	127 969	119 069	6 685	2 215
Local	343 071	39 797	100 408	202 866
Statutory	38 425	21 629	1 300	15 496
Other ⁽¹¹⁾	96 976	56 746	7 360	32 870
	679 269	309 507	116 315	253 447

2017	Total	Fully performing	Past due but not impaired	Impaired
Debtor type	R'000	R'000	R'000	R'000
National	90 205	89 238	967	-
Provincial	150 488	144 465	5 549	474
Local	390 633	18 261	228 030	144 342
Statutory	42 535	23 954	3 102	15 479
Other ⁽¹¹⁾	131 949	103 081	11 796	17 072
	805 810	378 999	249 444	177 367

2016	Total	Current	30 - 120	120+
Debtor type	R'000	R'000	R'000	R'000
National	72 828	72 147	672	9
Provincial	127 969	119 069	8 416	484
Local	343 071	39 797	152 727	150 547
Statutory	38 425	21 629	14 191	2 605
Other ⁽¹¹⁾	96 976	56 746	24 580	15 650
	679 269	309 388	200 586	169 295

⁽¹¹⁾ Other receivables include unlisted public entities, municipal entities and utility agency corporations.

22 FINANCIAL INSTRUMENTS (continued)

22.3 LIQUIDITY RISK

Liquidity risk is the risk that the AGSA will not be able to meet its financial obligations as they fall due.

The AGSA has adequate cash balances at its disposal and minimum long-term debt, which limits liquidity risk. Nevertheless, budgets and cash flow forecasts are prepared annually to ensure that liquidity risks are monitored and controlled.

Maturity profile of financial instruments

	1 year or less	1 to 5 years	Total
31 March 2017	R'000	R'000	R'000
Assets			
Trade and other receivables	639 159	-	639 159
Total trade and other receivables	671 212	-	671 212
Prepayments	(32 053)	-	(32 053)
Cash	553 229	-	553 229
Current account	266 003	-	266 003
Overnight call account	1 694	-	1 694
Notice deposit	136 357	-	136 357
Call account - PIC	149 175	-	149 175
Total financial assets	1 192 388	-	1 192 388
Liabilities			
Trade and other payables	486 034	-	486 034
Total trade and other payables	475 901	-	475 901
Operating leases	10 133	-	10 133
Total financial liabilities	486 034	-	486 034
Net financial assets	706 354	-	706 354

22 FINANCIAL INSTRUMENTS (continued)

22.3 LIQUIDITY RISK (continued)

31 March 2016	1 year or less R'000	1 to 5 years R'000	Total R'000
Assets			
Trade and other receivables	523 718	-	523 718
Total trade and other receivables	558 706	-	558 706
Prepayments	(34 988)	-	(34 988)
Cash	617 428	-	617 428
Current account	278 544	-	278 544
Overnight call account	31 582	-	31 582
Notice deposit	175 820	-	175 820
Call account - PIC	131 482	-	131 482
Total financial assets	1 141 146	-	1 141 146
Liabilities			
Trade and other payables	383 035	-	383 035
Total trade and other payables	373 836	-	373 836
Operating leases	9 199	-	9 199
Total financial liabilities	383 035	-	383 035
<i>Net financial assets</i>	758 111	-	758 111

23 NOTES TO THE CASH FLOW STATEMENT

23.1 CASH RECEIPTS FROM AUDITEES

	2017 R'000	2016 R'000
Revenue	2 983 255	2 840 372
Net (increase)/decrease in trade receivables	(126 541)	29 792
	2 856 714	2 870 164

23.2 TOTAL DIRECT AUDIT COST PAYMENTS

	2017 R'000	2016 R'000
Direct audit cost	(2 065 556)	(1 936 477)
Net increase/(decrease) in trade payables	7 875	(13 261)
	(2 057 681)	(1 949 738)

23 NOTES TO THE CASH FLOW STATEMENT (continued)

23.3 OPERATIONAL EXPENDITURE PAYMENTS

	2017 R'000	2016 R'000
Operational expenditure	(944 130)	(810 715)
Adjusted for:		
Operating leases	(4 411)	(6 071)
Interest income	(69 218)	(61 107)
Interest expense	20 665	16 685
Foreign exchange gains (refer to note 23.4)	-	(211)
Depreciation	30 410	32 907
Amortisation	15 357	4 737
Increase/(decrease) in allowance for impairment of receivables	8 076	(7 297)
Decrease in liability for post-retirement medical aid benefits	(4 740)	(1 534)
Loss/(profit) on the disposal of property, plant and equipment and intangible assets	19	(2 506)
	(947 972)	(835 112)
Other working capital changes	99 215	11 609
Decrease in other receivables	5 959	10 871
Increase in other payables	93 256	738
	(848 757)	(823 503)

23.4 FOREIGN EXCHANGE GAINS

	2017 R'000	2016 R'000
Realised foreign exchange gains	-	211
Foreign exchange gains (refer to note 23.3)	-	211

24 TAXATION

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

25 PROFESSIONAL INDEMNITY INSURANCE

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

26 EVENTS AFTER THE REPORTING PERIOD

No matters or circumstances arose after the end of the financial year that will materially affect these financial statements.

27 CHANGE IN ESTIMATES

The useful life of property, plant and equipment was revised during 2016-17 and changed as follows:

Item	Useful life	
	Revised	Original
Computer equipment	3 to 8 years	3 to 6 years
Notebooks	3 years	3 years
Motor vehicles	5 years	5 years
Furniture and fittings	6 to 19 years	6 to 15 years
Office equipment	3 to 5 years	3 years
Leasehold improvements	Over the period of the lease	Over the period of the lease

The effect of the change in estimate is as follows:

	2017		
	Net impact	After change	Before change
	R'000	R'000	R'000
Effect in the statement of financial position			
Non-current assets			
Property, plant and equipment	7 677	90 164	82 487
Effect in the statement of comprehensive income			
Depreciation	(7 677)	(30 410)	(38 087)

27 CHANGE IN ESTIMATES (continued)

Effect in the notes

Note 2 - Property, plant and equipment

2017	After change			Before change		
	Cost	Accumulat- ed deprecia- tion	Carrying amount	Cost	Accumulat- ed deprecia- tion	Carrying amount
	R'000	R'000	R'000	R'000	R'000	R'000
Computer equipment	120 973	(80 552)	40 421	120 973	(84 122)	36 851
Motor vehicles	7 451	(4 787)	2 664	7 451	(4 787)	2 664
Office equipment	3 390	(2 512)	878	3 390	(2 703)	687
Furniture and fittings	64 130	(38 429)	25 701	64 130	(42 345)	21 785
Leasehold improvements	50 477	(29 977)	20 500	50 477	(29 977)	20 500
	246 421	(156 257)	90 164	246 421	(163 934)	82 487

The carrying amounts are reconciled as follows:	After change				
	Opening carrying amount	Additions	Disposals	Deprecia- tion charge	Closing carrying amount
	R'000	R'000	R'000	R'000	R'000
Computer equipment	35 989	22 324	(727)	(17 165)	40 421
Motor vehicles	3 693	193	-	(1 222)	2 664
Office equipment	431	693	(6)	(240)	878
Furniture and fittings	26 112	3 779	(342)	(3 848)	25 701
Leasehold improvements	18 735	9 706	(6)	(7 935)	20 500
	84 960	36 695	(1 081)	(30 410)	90 164

27 CHANGE IN ESTIMATES (continued)

The carrying amounts are reconciled as follows:	Before change				Closing carrying amount R'000
	Opening carrying amount	Additions	Disposals	Depreciation charge	
	R'000	R'000	R'000	R'000	
Computer equipment	35 989	22 324	(727)	(20 735)	36 851
Motor vehicles	3 693	193	-	(1 222)	2 664
Office equipment	431	693	(6)	(431)	687
Furniture and fittings	26 112	3 779	(342)	(7 764)	21 785
Leasehold improvements	18 735	9 706	(6)	(7 935)	20 500
	84 960	36 695	(1 081)	(38 087)	82 487

28 COMPARATIVE INFORMATION

The classification of certain balance sheet items were restated for better classification. The effect of the reclassification in the previous year was as follows:

	2016	
	Restated	Originally disclosed
	R'000	R'000
Effect in the balance sheet		
Non-current liabilities		
Operating leases	39 074	-
Current liabilities		
Trade and other payables	373 836	412 910
	412 910	412 910
Effect in the notes		
Note 10 - Operating leases		
	39 074	-
Note 11 - Trade and other payables		
Operating leases - current portion	9 199	48 273
	48 273	48 273

GLOSSARY OF TERMS

A

ACCA	Association of Chartered Certified Accountants
AFROSAI	African Organisation of Supreme Audit Institutions
AGSA	Auditor-General of South Africa
APC	Assessment of Professional Competence
APAC	Association of Public Accounts Committees
ARD	Audit Research and Development
ASB	Accounting Standards Board

B

B-BBEE	Broad-based black economic empowerment
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C

CA	Chartered accountant
CCMA	Commission for Conciliation, Mediation and Arbitration
CISA	Certified information systems auditor
CoGTA	Department of Cooperative Governance and Traditional Affairs
CPD	Continuing professional development
CSF	Centenary Scholarship Fund
CSI	Corporate social investment
CSR	Corporate social responsibility
CTA	Certificate in the Theory of Accounting
CWC	Contract work creditors

E

EAP	Employee assistance programme
EE	Employment equity
ERP	Enterprise resource planning
EXCO	Executive committee

G

GRI	Global Reporting Initiative
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I

ICT	Information and communications technology
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
INTOSAI	International Organisation of Supreme Audit Institutions
IR	Integrated reporting
IRBA	Independent Regulatory Board for Auditors
ISA	International Standards on Auditing
ISQC 1	International Standard on Quality Control
ISSAIs	International Standards of Supreme Audit Institutions
ITC	Initial Test of Competence

M

MFMA	Local Government: Municipal Finance Management Act
MIS	Management information system
MPAC	Municipal public accounts committee

N

NCoP	National Council of Provinces
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O

OHS	Occupational health and safety
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P

PAA	Public Audit Act
PAC	Public accounts committee
PFMA	Public Finance Management Act
PPE	Public Professional Examination

Q

QC	Quality control
QCAC	Quality control assessment committee

R

REMCO	Remuneration committee
RGA	Registered government auditor

S

SAICA	South African Institute of Chartered Accountants
SAIGA	Southern African Institute of Government Auditors
SALGA	South African Local Government Association
SOC	State-owned company
SCoAG	Standing Committee on the Auditor-General
SCoPA	Standing Committee on Public Accounts

T

TBF	Thuthuka bursary fund
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ANNEXURE 1: GLOBAL REPORTING INITIATIVE GUIDELINES

The guidelines for sustainable reporting of the Global Reporting Initiative (GRI) G4 informed the content and format of the report, which meets the information and reporting requirements in accordance with the 'Core' version.

INDICATOR	DESCRIPTION	REPORT PAGE #
STRATEGY AND ANALYSIS		
G4-1	Statement from the most senior decision maker of the organisation about the relevance of sustainability to the organisation.	4 - 5
ORGANISATIONAL PROFILE		
G4-3	Name of the organisation	17
G4-4	Primary products and services of the AGSA	18
G4-5	Location of head office	24
G4-6	National footprint of the AGSA	24
G4-7	Nature of ownership and legal form	17
G4-8	Geographic breakdown, types of customers and beneficiaries	24
G4-9	Scale of the organisation including <ul style="list-style-type: none"> • Number of employees • Number of operations • Net revenue • Quantity of services / products offered 	24
G4-10	Workforce profile <ul style="list-style-type: none"> • Workforce by region and gender • Workforce by occupation group and gender • Workforce profile by race and age • New employee hires • State whether a substantial portion of the organisation's work is performed by contractors 	24 63 63 64 78
G4-11	Percentage of employees covered by collective bargaining agreements	72
G4-12	Description of AGSA's supply chain	27
G4-13	Report any significant changes during the reporting period regarding the organisation's size, structure or supply chain	27
G4-14	Report on whether and how the precautionary approach or principle is addressed by the organisation	
G4-15	External charters, principles and initiatives that we subscribe to or endorse	32
G4-16	Memberships maintained at an organisational level	27 - 29
IDENTIFIED MATERIAL ASPECTS AND BOUNDARY		
G4-18	Process for defining the report content and the Aspect boundaries	37
G4-19	Material aspects identified in the process for determining the content of this report	37
STAKEHOLDER ENGAGEMENT		
G4-24	List of stakeholder groups identified by the organisation	54
G4-25	Basis for identification and selection of stakeholders	54
G4-26	Organisation's approach to stakeholder management (Pursuing high-quality interactions – creating, owning, managing and sustaining relationships)	56
G4-27	Key topics raised through stakeholder engagement	53

REPORT PROFILE

G4-28	Reporting period	37
G4-29	Date of the most recent report	37
G4-30	Reporting cycle	37
G4-31	Contact details for enquiries	38
G4-32	Reporting principles, policies and practice	37
G4-33	Organisation's policy and practice on seeking external assurance	38

GOVERNANCE

G4-34	Governance structures within the AGSA	28
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ETHICS AND INTEGRITY

G4-56	• The organisation's ethical principle, standards and norms of behaviour such as code of ethics and code of conduct	32
	• Ethical and independence requirements	82

SPECIFIC STANDARD DISCLOSURES

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	• New employee hires	64
	• Staff turnover	64
G4-LA6	Occupational health	73
G4-LA12	Diversity and equal opportunity	
	• Workforce by region and gender	24
	• Workforce by grade, race and gender	63
	• Workforce profile by race and age	63
	• Executive committee by race group	63
G4-LA16	Labour practices and grievance mechanisms	72
G4-SO1	Local communities	
	• Socio-economic development (corporate social responsibility initiatives)	79-80

ANNEXURE 2: INTEGRATED REPORTING INDEX

IIRC CONTENT ELEMENTS	SECTIONS ADDRESSING CONTENT ELEMENTS
Organisational overview and external environment	<ul style="list-style-type: none"> • The Auditor-General’s message • The Deputy Auditor General’s overview of performance • Who we are • Value creation process • Strategic risks • Conditions under which we operate
Governance	<ul style="list-style-type: none"> • Corporate governance • The governance chain • External charters, principles and initiatives that we subscribe to or endorse
Business model	<ul style="list-style-type: none"> • Business model • Our value creation model • Value & benefits of supreme audit institutions
Risks and opportunities	<ul style="list-style-type: none"> • Strategic risks • Our value creation model
Strategy and resource allocation	<ul style="list-style-type: none"> • The Auditor-General’s message • The Deputy Auditor General’s overview of performance • Who we are • Value creation process
Performance	<ul style="list-style-type: none"> • Organisation’s performance against predetermined objectives • Value-adding auditing • Visibility for impact • Viability • Vision and values driven
Outlook	<ul style="list-style-type: none"> • The Deputy Auditor General’s overview of performance • Value-adding auditing • Visibility for impact • Viability • Vision and values driven
Basis of preparation and presentation	<ul style="list-style-type: none"> • Reporting profile



RP335/2017
ISBN: 978-0-621-4598-5



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