



AUDITOR - GENERAL
SOUTH AFRICA

STRATEGIC PLAN AND BUDGET CONSULTATION

2020-23

SAI SA MISSION

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

OUR ASPIRATIONS FOR THE PUBLIC SERVICE



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 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



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 vision

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

OUR STRATEGIC GOALS AND OBJECTIVES

- Demonstrate value-adding auditing
- Ensure high quality of our audits

VALUE ADDING AUDITING



- Ensure financial viability
- Enable operational effectiveness and efficiencies
- Attract, develop and retain great talent
- Create an enabling culture and leadership

VIABILITY



- Engage actively with citizens
- Achieve impact through visibility programmes

VISIBILITY FOR IMPACT



- Demonstrate clean administration
- Safeguard the ethical character of the organisation
- Drive the AGSA's transformation strategy

VISION & VALUES DRIVEN



VALUE-ADDING AUDITS



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STRATEGIC COMMITMENTS TO ADD VALUE



✓ We will **deepen our knowledge** of the auditees business and **apply all analytical tools**

✓ We will ensure **strict oversight of the governance process in section 4(3) audits** where we opted not to conduct the audit ourselves

✓ We will continue **implementing various measures** to strengthen our adherence to **audit quality standards**

✓ We will use the opportunity to **improve our audit efficiencies** by developing tailored audit models for auditees with lower risks or smaller budgets

OUTCOME MEASURES AND TARGETS



Demonstrate value-adding auditing	
Measure	Target
AG's view of the organisation's performance on value-adding auditing	Achieved
% completed actions as per the PAA project plan	80% - 100%
% implementation of actions to improve stakeholders' perception of our added value	80% - 100%
Ensure quality of our audits	
Measure	Target
% adherence to quality standards: audit engagements	80% – 90% (C1, C1#, C2 and C3 rating)

KEY STRATEGIC INITIATIVES

- Implement the amendments to the PAA (MI process)
- Institutionalise **strict oversight of the governance of section 4(3) audits**
- Continuously **improve the quality of our audits**
- Institutionalise mechanisms and **structures for developing deep knowledge of auditees**
 - Implement **light-scope audit models** for low-risk and small to medium audits
 - Apply **data analytics** to reduce audit risks and increase efficiencies
 - Evaluate the **country's readiness** to report on **realising the SDGs**
 - Complete the **rebalancing of the audit portfolio**
 - Evolve our **audit methodology** to ensure that it **identifies and responds to audit risks**



VISIBILITY FOR IMPACT



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STRATEGIC COMMITMENTS TO INFLUENCE CHANGE



✓ We will continue to **improve** our level of **communication** about our individual audit findings and of **forewarnings** about the status of the system of public administration as a whole

✓ We remain committed to **educating citizens and empowering them** to hold their elected representatives accountable

✓ Internally, we will drive **continuous improvement in our engagement tools and build capacity for impactful stakeholder interactions** so that we achieve the best return on the invested effort and time

OUTCOME MEASURES AND TARGETS



Achieve impact through visibility programmes	
Measure	Target
AG's view of the organisation's performance on visibility	Achieved organisational objectives
% implementation of our visibility programmes (constitutional stakeholder)	80% – 100% of the actions for 2020-21
% implementation of status of records review (eligible auditees)	80% – 100% of the planned reviews for 2020-21
Engage actively with citizens	
Measure	Target
% implementation of actions as per our citizen engagement programmes	80% – 100% of the actions for 2020-21

KEY STRATEGIC INITIATIVES

- Ensure high-quality, practical and effective **engagements with constitutional stakeholders**
- Continue implementing an **international participation programme**
- Continue implementing our **citizen engagement strategy**
 - a. Increase the reach and impact of engagements on our mandate and role by:**
 - enhancing community outreach
 - maintaining an appropriate social media presence
 - collaborating with Parliament to engage citizens
 - b. Enhance stakeholder awareness and understanding of audit outcomes by:**
 - improving responsible media coverage
 - engaging on province-specific issues
 - deepening the engagement with professional associations and industry organisations



VIABILITY



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STRATEGIC COMMITMENTS TO REMAIN VIABLE

✓ Our **financial viability** remains paramount. We will **pursue collecting audit fees by using our resources optimally**

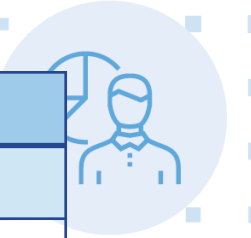
✓ An ongoing priority **is to continuously improve skills and professionalisation within our workforce**. The availability of **professional staff, both in audit and support areas**, is vital to enabling us to effectively exercise our mandate

✓ **Implementing the amended PAA** comes with its own additional requirements. Our focus will therefore be on **training our staff adequately for that task and creating the required internal structures and capacity** to successfully implement our extended powers

✓ We will continue to provide opportunities for our staff to develop their **ability to audit complex environments**

✓ We will continuously balance the **investment in information technologies and audit-related tools** needed to execute our mandate with the envisaged benefit for our stakeholders

OUTCOME MEASURES AND TARGETS



Maintain financial viability	
Measure	Target
Net surplus (%)	0% -1%
Level of safety/cash margin	1,5 - 2 months
Enable operational effectiveness and efficiencies	
Measure	Target
% implementation of ICT strategy	80% - 100% implementation of 2020-21 projects
% implementation of information and knowledge management solutions	80% - 90% implementation of 2020-21 planned actions
Attract, develop and retain great talent	
Measure	Target
Rating of our training offices by Saica	Low: 8-10, Medium: 5-7, H: 0, VH: 0
Create an enabling culture and leadership	
Measure	Target
Employee engagement index	55% - 60%
% implementation of staff engagement planned actions	80% - 90% implementation of 2020-21 planned actions

KEY STRATEGIC INITIATIVES

- Implement our **2019-24 finance strategy**
 - Optimise operational costs
 - Implement debt management strategies
 - Optimise own hours revenue through resource pooling and reduction of the CWC
- Implement our **2019-24 ICT strategy**
- Implement our **2019-24 people strategy**
 - Implement leadership development programmes (EDP, LDP and SEP)
 - Implement the trainee auditor tactical plan
 - Implement an integrated people technology solution
 - Implement our culture change plan
- Implement **information and knowledge management** solutions



VISION AND VALUES DRIVEN



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STRATEGIC COMMITMENTS TO LEAD BY EXAMPLE



Running our own corporate affairs appropriately. **Ensuring high levels of accountability, ethics and effective governance, is non-negotiable** so that we are deserving of our independence



A priority is to protect our audit teams, provide them with the **skills to deal with threats and intimidation**, and equip them with the **capacity and tools to carry out our mandate without fear, favour or prejudice** so that we achieve the best return on the invested effort and time



We will be **extra vigilant, and eradicate opportunities for ethical breaches**



In support of **our country's transformation objectives**, we will continue to fine-tune our procurement practices, enterprise and supplier development programmes, distribution of contract audit work, **employment of people with disabilities and youth**, and various other activities to **maximise our contribution to transformation**



OUTCOME MEASURES AND TARGETS



Drive the AGSA's transformation strategy	
Measure	Target
B-BBEE level	Level 2
Demonstrate clean administration	
Measure	Target
External audit opinion	Clean audit
Safeguard the ethical character of our organisation	
Measure	Target
% actions taken against reported ethical breaches	100%

KEY STRATEGIC INITIATIVES



- Implement an **integrated work approach** across the organisation
- Cultivate an **environment that enables the desired ethical behaviour**
- Reinforce our **transformation strategy** by developing our people, and supporting our suppliers and communities by:
 - Implementing **organisation-wide transformation awareness** activities
 - Increasing the number of **persons with disabilities**
 - Continuing to **strengthen our enterprise and supplier development programme**

2020-21 BUDGET



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FUNDING MODEL PRINCIPLES AND FINANCIAL KEY INDICATORS



Current funding model	Compliance		
	2018-19	2019-20	2020-21
Tariff increase in line with salary increase	Yes	Yes	Yes
Increase in tariff	7%	5%	5%
Increase in salary	7%	6%	6%
Mark factor	1,97	1,97	2,00
No capping on tariffs	Yes	Yes	Yes
Self-funding	Yes	Yes	Yes

Funding principles and key performance indicators	2018-19	2019-20	2020-21
Own hours %	83%	84%	83%
CWC and S&T %	17%	16%	17%
Gross profit %	37%	38%	38%
Overheads %	39%	40%	37%
Surplus %	1.3%	0.8%	1.4%
Cash Cover (months)	2 ~ 3	2 ~ 3	1,5 ~ 2

FUNDING MODEL PRINCIPLES AND FINANCIAL KEY INDICATORS



- The funding model surplus target is 1%~ 4% of audit income . The surplus of 0,8% in 2019-20 is below the target as additional costs were used to support and coordinate the extended functions and powers for the amended PAA. Appropriation income of R50 million is included in both 2019-20 and 2020-21 to fund the costs associated with the amended PAA
- The tariff increase is in line with the growth in salary costs. This ensures that our audit fees are affordable and ensures that the AGSA is viable and able to fund its operational costs
- In line with the risk tolerance levels, we aim to achieve a cash cover of not less than 1,5 months. This would ensure the availability of funds to meet ongoing planned and expected financial commitments
- However, there is an emerging risk of budgetary constraints from auditees manifested through write-offs (unbillable audit hours), which may exert pressure on the revenue and collections

2020-21 BUDGET: CAPITAL EXPENDITURE

Description	Budget 2019-20	Budget 2020-21
	R million	
Motor vehicles	4	1
Equipment	12	2
Furniture & fittings	11	5
Computer equipment	15	19
Computer software	13	20
Notebooks	22	27
Leasehold improvement	57	54
Total	132	128

- The year-on-year Capex increase is mainly due to **additional licenses** (Microsoft, Qlikview, Oracle, Teammate), **audit tools**, and the **electronic document management system**
- The **budgeted surplus of R53 million** includes a R50 million appropriation. **This surplus is not adequate** to fund the projected **Capex spending of R128 million**
- The AGSA will continue to engage with the National Treasury to secure the payment of the appropriation income
- In line with section 38(4) of the PAA, the AGSA has sought Scoag's approval to retain the 2018-19 surplus to fund some of its Capex



AG AUDIT DIRECTIVE



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PURPOSE OF THE AG DIRECTIVE



Public Audit Act section 13 requires the AG to determine:

- **the standards to be applied** when performing audits referred to in section 11 of the PAA
- **the frequency, nature and scope** of such audits
- **procedures for handling complaints** when performing such audits

MAIN CHANGES TO THE AG DIRECTIVE

Main changes to the directive	Reasons for changes
Updated with the introduction of material irregularities (MIs) in the PAA <ul style="list-style-type: none">• Reporting MIs identified during the audit (Par. 2)• Context of introducing MIs into the PAA (Par. 23)• Phased-in implementation of MIs (Par. 24)	Description of the annual audit should also include identification of MIs
Added new compliance scoping areas (Par. 11): <ul style="list-style-type: none">• Transfer of funds• Environmental management	As per the 2019 AGSA planning workshop resolutions. This addition will allow for material non-compliance matters on these subjects to be reported in the audit report
New paragraph explaining discretion of the AG on conducting investigations – difference between investigations and annual audit (Par. 25)	AG requested context be provided on the difference between investigations and annual audit
Deleted the procedural matters relating to the audits that the AGSA has opted not to perform in terms of section 4(3) and only included reference to the PAA regulations (Deleted previous par 27-53)	To avoid duplication of the newly issued PAA regulations
Overall alignment of wording to the PAA amendments (Par. 5, 7, 14)	Alignment to PAA amendment

IMPLEMENTATION OF MATERIAL IRREGULARITIES

Identification of material irregularities is **implemented in a phased approach** as follows:

- Material irregularities are **reported in the auditor's report** only if it relates to **non-compliance with key legislation** (as identified and reported through the audit of compliance) that **resulted in or is likely to result in a material financial loss**
- Material irregularity process is implemented at selected auditees audited by the AGSA that:
 - **represent a significant portion of the expenditure budget and irregular expenditure** of national, provincial and local government, including state owned entities
 - **are key contributors to the government priorities**



IMPLEMENTATION OF MATERIAL IRREGULARITIES

86 auditees selected for 2019-20 audit of national and provincial government. They include:

- Sixteen auditees included in first phase
- State owned entities with high irregular expenditure
- Key departments and entities (including procurement/implementing agents contributing to the following priorities of government:
 - Health
 - Education
 - Infrastructure development – in particular public works, human settlements, transport and water

The selected auditees represent a significant portion of the expenditure budget and irregular expenditure of national, provincial government:

- Expenditure budget of R1 089 billion (62% of total budget)
- 83% of the irregular expenditure of 2018-19
- 86% of the closing balance of irregular expenditure at end of 2018-19

Auditees for local government will only be selected at conclusion of 2018-19 audits



AGSA COMPLAINTS POLICY



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INTRODUCTION



AGSA complaints policy

Section 13(1)(c) of the PAA provides for the auditor-general to determine the procedures for handling complaints when performing audits, after consulting the oversight mechanism

The purpose of this section is to highlight key elements of the complaints handling process as outlined in the policy

THE CLASSIFICATION OF COMPLAINTS

The categories of complaints are:

Category 1: Complaints that do not fall within the scope of complaints mentioned in the policy

Category 2: Complaints pertaining to operational matters dealt with during the course/execution/scope of an audit *(as discussed in the previous slide)*

Category 3: Complaints pertaining to the conduct of the personnel and the administration of the AGSA

Category 4: Complaints relating to the actions of the AG in their official and personal capacity

Category 5: Complaints that fall within the scope and ambit of the Protected Disclosures Act; where an employee is subjected to occupational detriment after having made a protected disclosure



THE COMPLAINTS MANAGEMENT PROCESS

- Complaints lodged against the AGSA are dealt with by the Risk and Ethics BU, a unit independent of the audit portfolio. These complaints are reported, and trends are monitored by the audit committee
- A complainant may lodge a complaint directly or through an anonymous reporting channel, which was recently implemented
- To allow for a defined and consistent approach, our complaints policy provides for complaints to be classified into five categories
- Complaints that pertain to operational matters dealt with during the audit, execution, scope and audit outcome are classified and investigated under category 2
- Complaints pertaining to the DAG are escalated to AG for investigation and finalisation; similarly complaints pertaining to AG are escalated to Scoag
- The complaints process allows for an appeal to be lodged against the outcome of a complaint should the complainant be dissatisfied with the manner the complaint was handled. Appeals are lodged with the DAG for a final decision



OVERSIGHT DISCUSSION





End



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