



A ROADMAP FOR HIGH IMPACT **OUTCOMES**

Scoag engagement – 7 October 2022

**INTEGRATED ANNUAL
REPORT 2021-22**



MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution 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



VISION

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



ASPIRATIONS

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



oversight and accountability



commitment and ethical behaviour by all



strong financial and performance management systems



a value-adding assurance provider in the form of the AGSA



VALUES



We care for each other



We build trust

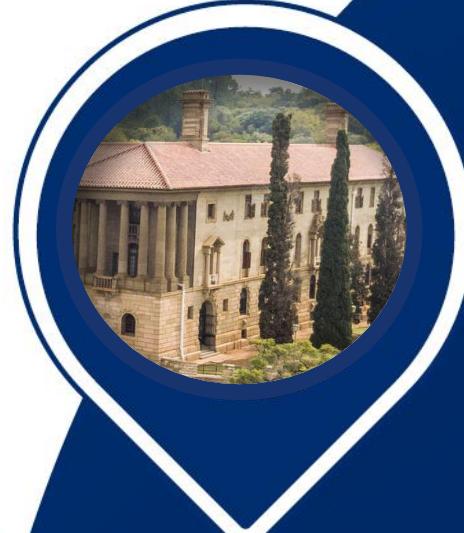


We do the right thing



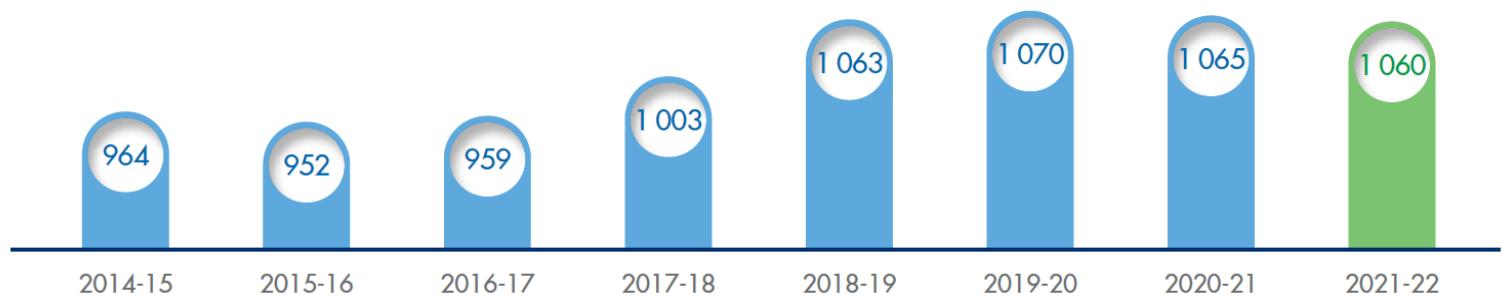
We excel in all that we do

Integrated Annual Report (IAR) 2021-22

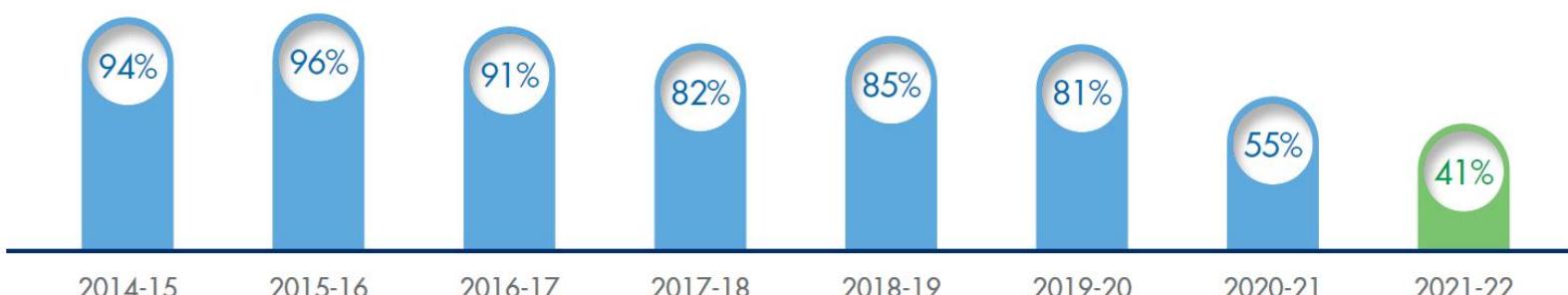




Tough operating conditions for auditors



Total number of audits



Audits completed within the legislated timelines

1 Consolidation of some national departments resulted in a slight decrease in the number of our annual audits.

2 On average, we completed a combined 41% of our audits within legislated timelines and a further 47% of national and provincial audits and 26% of local government audits since.

3 The covid-19 pandemic had a negative impact on the progress of public sector reporting and auditing.

4 The knock-on effect resulted in some 2019-20 MFMA audits being concluded well within the 2020-21 audit cycle, leading to a late start to a number of 2020-21 PFMA audits

5 These tough operating conditions were amplified by the July riots in KwaZulu-Natal and Gauteng.

6 The impact of the pandemic on our staff, their families and auditees put great pressure on our audit teams, who worked a considerable amount of overtime to overcome the backlog.

7

Despite all the challenges, we finalised our annual and real-time audits and continued to increase our relevance as a supreme audit institution.



National and provincial audit outcomes

- We continued to audit the infrastructure grant management across sectors in the national and provincial government environment, with the emphasis on health, education and human settlement. We recognised an overall weakness in government's approach to infrastructure projects.
- At the Department of Health, we highlighted certain key weaknesses such as the medico legal claims that the sector should focus on, as it has the potential to cripple the State.
- In the human settlements sector, we discovered that although grant money provided for building houses or title deed restoration was fully used, uncoordinated planning across the sector resulted in a shortfall.
- Our reporting went a step further and included money wasted, continued shortage of housing, shortage of good schools and poor access to healthcare facilities. Coupled with the poor quality and maintenance of infrastructure, this exposes the public to harm.
- Our report highlights that central to the financial health problems at SOEs are the poor state of corporate governance, coupled with a weak internal control environment, instability at a leadership level, non-compliance with legislation and a lack of consequence management.
- Overall, the 5% improvement in national and provincial audit outcomes indicates slow progress in the journey towards wholesale good governance.



Local government audit outcomes

- Local government was characterised by accountability and service delivery failures, poor governance, weak institutional capacity and instability. The number of clean audits slightly increased, but the improvement was not widespread.
- Disclaimed audit outcomes persisted, although a technical limitation on the financial statements are also an indicator of a lack of service delivery in those communities, as observed by our audit teams. These failures have a direct impact on the lived realities of citizens.
- Using consultants in addition to available permanent financial officials at a substantial price tag did not provide the intended outcome of submitting financial statements for auditing without material errors.
- The economic downturn played a significant role in the dire financial state of municipalities, but the lack of basic financial controls causing unbilled revenue and poor debt-collection practices added to local government's weak financial health.
- Our experts identified poor, ineffective or limited environmental management, monitoring and enforcement, as well as deficiencies in managing and delivering wastewater and solid waste services. The impact is a significant likelihood of negative effects to both service delivery and the environment.
- We included actionable recommendations to all role players in the local government accountability ecosystem.
- Clean audits continue to represent less than a fifth of the local government budget.



Implementation of our expanded powers



We implemented the full MI definition at 189 auditees (146 previously) and identified high-quality MIs. We plan to increase the number of auditees to 372 in the 2021-22 audit cycle.



We have experienced an impressive learning curve among our staff and support units. Various guidance documents and best practice information have been collected and shared among teams.



We continued to keep the advisory committee on material irregularities (ACMI) aware of the developments in implementing the MI process. We expect that this part of the mechanism will be activated soon.



We supported our auditors with access to several platforms where technical and legal experts provided guidance on a range of complex matters and emerging challenges, which contributed to identifying high-quality, impactful MIs.



Our technical specialists directed their efforts to developing the remaining methodologies and creating or enhancing the guidance using practical examples from implementation during previous years.

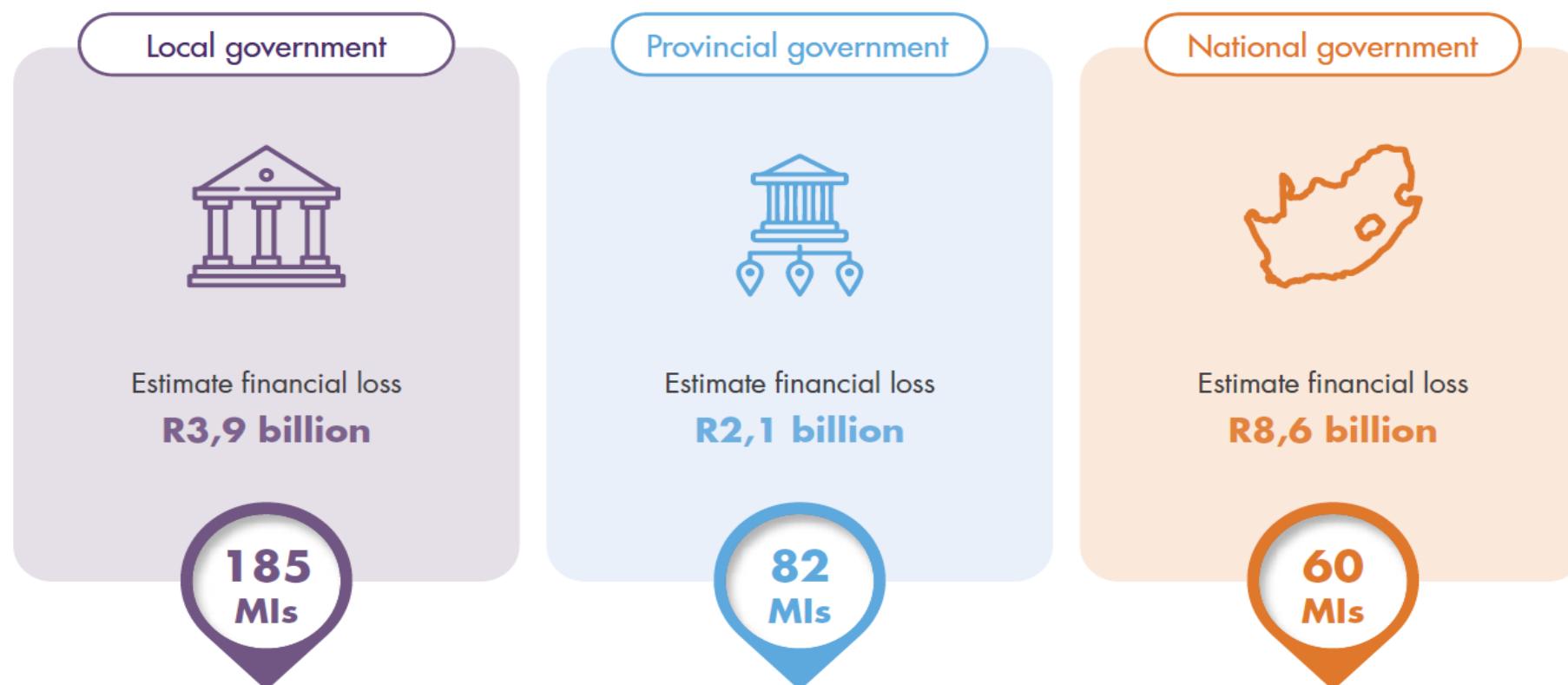


We continued to mitigate against potential risks to our audit quality during the MI process by subjecting selected audits to independent reviews and widely sharing the lessons learnt throughout the organisation.

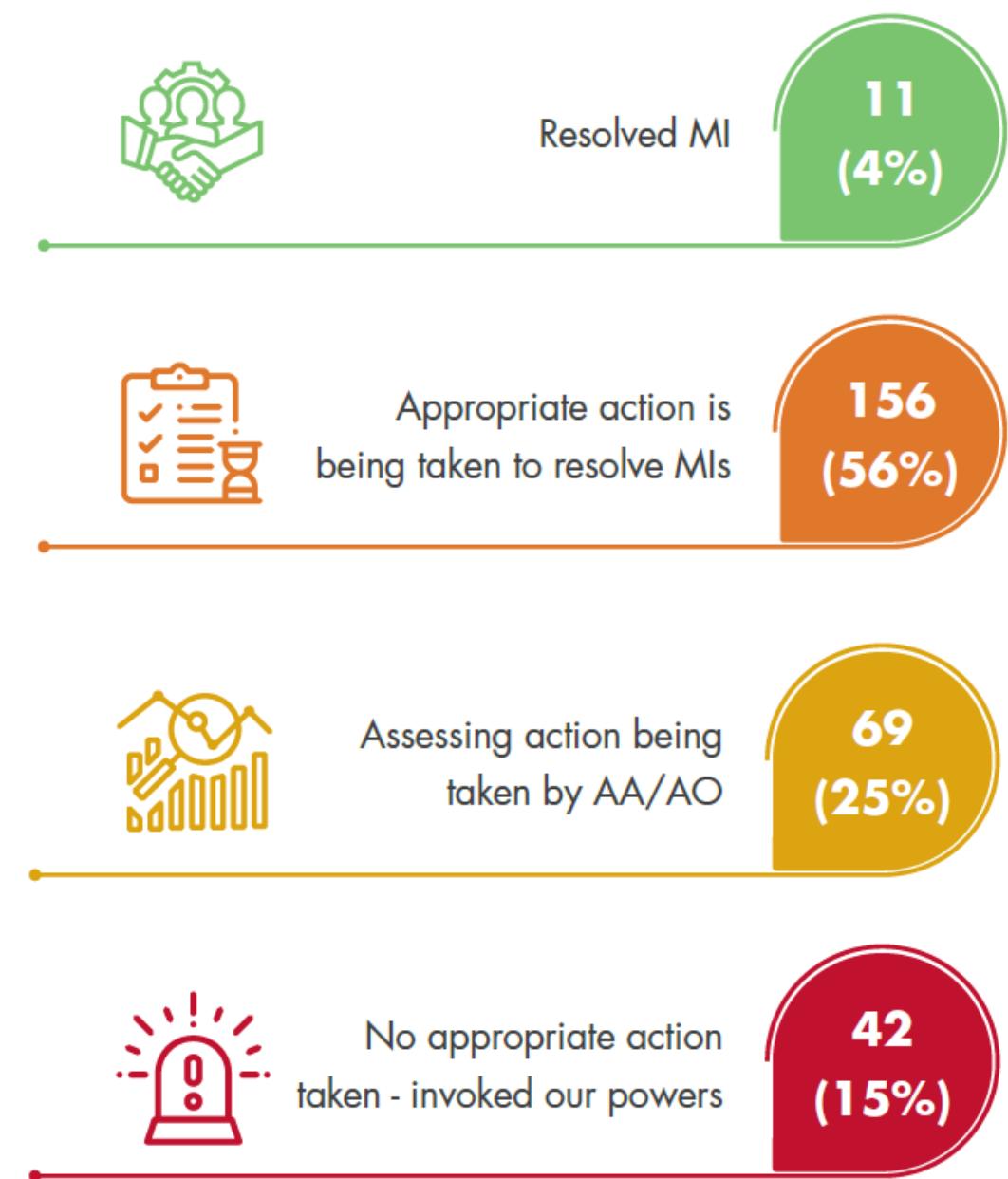


Status of identified material irregularities

By 15 April 2022, we had a total of 327 MIs on our system at various stages in the process. We estimate the total financial loss of these MIs to be R14,7 billion.



We notified the accounting officers and authorities of a further 39 of these MIs. However, our deadline for their response was later than 15 April 2022, which was the cut-off date for inclusion in this report. As 10 MIs were resolved in the previous year, we include the details on the remaining 278 MIs in this report.





Status of identified material irregularities



Most AOs acted on the recommendations: internal controls improved to prevent further loss, disciplinary action was taken against the officials responsible, fraud and criminal investigations were instituted and supplier contracts were cancelled.



Those matters within their control included delays in internal investigations to identify the officials responsible and quantify losses, delays in finalising disciplinary processes against officials, and instability at accounting officer or authority level.



The external factors hampering MI resolution processes included delays in criminal investigations by the Special Investigating Unit and Directorate for Priority Crime Investigation (Hawks), suppliers undergoing liquidation which hampered recovery, delays in recovery by the Office of the State Attorney, and delays in resolving matters of intergovernmental processes.



Vaccine real-time audit



- The real-time audit approach created a space for us to immediately engage – and management to take immediate corrective action – on matters as and when they were detected.
- Our multidisciplinary teams, which included financial and specialised audit services, used their wealth of diverse skills to gain a holistic view of the initiative, understand critical concepts in the health industry and provide efficiencies through data analytics.
- Centralised procurement and the National Treasury being involved earlier in the process led to fewer potential leakages, indicating that mostly the money was used to procure and distribute the vaccines.
- We concluded the vaccine real-time audit and presented the outcomes to the minister of health (supported by the director-general), the portfolio committee on health and the National Task Team of Directors-General (chaired by the director-general in The Presidency).
- During 2021-22, we used an alternative approach to reporting the results of special audits on the covid-19 relief funds by incorporating a close-out report of these audits in the 2020-21 national and provincial general report.
- We also published the results of our audit of each government initiative on our website.



Using all our capabilities to deliver audits

- Using multidisciplinary teams on audits has been one of our 4V strategy's major objectives to help deliver tailored value to stakeholders.
- Multidisciplinary teams harness a diversity of skills and expertise to achieve complex audit objectives and gain a deep understanding of our auditees' businesses.
- The main impediment in using this approach is the availability of quality data from auditees in a usable format to enable data analytics. We now use a direct link to the auditees' ERP systems to extract data directly.
- Scarce specialist skills, specifically to deal with fraud and investigations, has prompted us to look internally and find innovative ways to capacitate our teams.





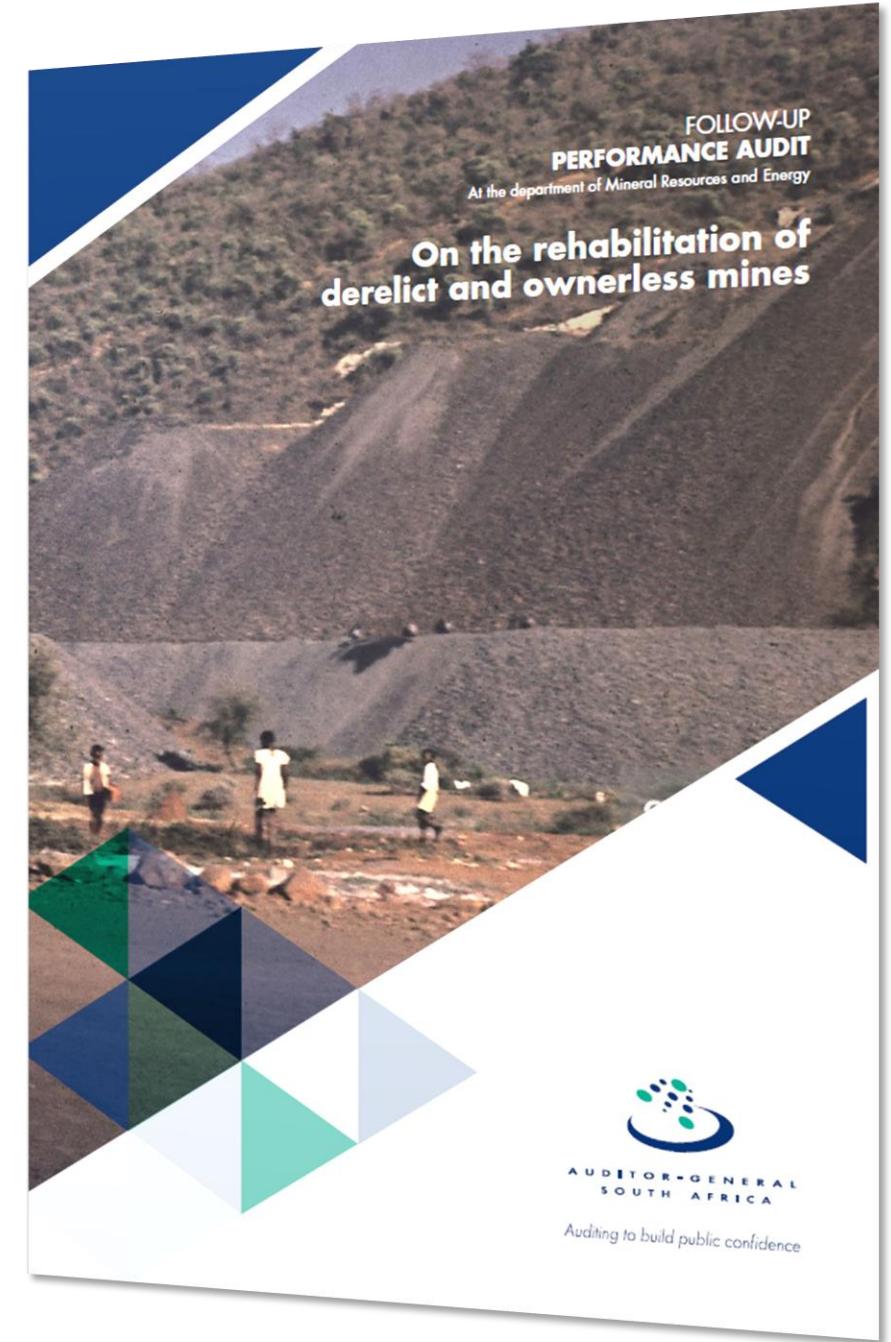
Evolution of our audit programme

- We developed three new methodologies for the annual financial statement review engagements aligned to ISRE 2400, audit of predetermined objectives findings engagements, and compliance findings engagements.
- We piloted a limited assurance audit of predetermined objectives approach at selected municipalities during the 2020-21 local government audits, which allowed us to achieve efficiencies in audit hours and audit staff levels.
- Based on the feedback from the 2020-21 local government pilot on the audit of predetermined objectives limited assurance approach, we saw an average of 42% reduction in audit hours.
- After in-depth preparation over the last few audit cycles, we have taken over and signed off on the Transnet audit for the first time in 2021-22.
- Currently, we audit 15 of the 21 schedule 2 entities. We are continuously assessing the audit risks of the remaining schedule 2 SOEs and our plans include taking over two further audits.
- We intend to take over the Eskom audit in the next few years, once we have created the necessary capacity and capability for such a complex audit.
- We have opted out of auditing 19 provincially funded museums in line with section 4(3) of the PAA.



Stand-alone performance audit

- The follow-up performance audit on the rehabilitation of derelict and ownerless (D&O) mines was tabled on 30 March 2022. This 2021 follow-up audit evaluated the department's progress since our previous audit in 2009, focusing on whether the issues highlighted in the previous report still existed.
- The audit revealed that progress has been very slow and has had an impact on the environment and communities located close to these mines.
- These unrehabilitated D&O mines and mine openings often cause air pollution from dust or toxic gases, infertile soil and severely degraded water resources that are often devoid of life.
- Illegal mining also contributes to these issues, as it uses unsafe mining methods and threatens the viability of government's holing programme when the illegal miners open previously sealed mine openings.



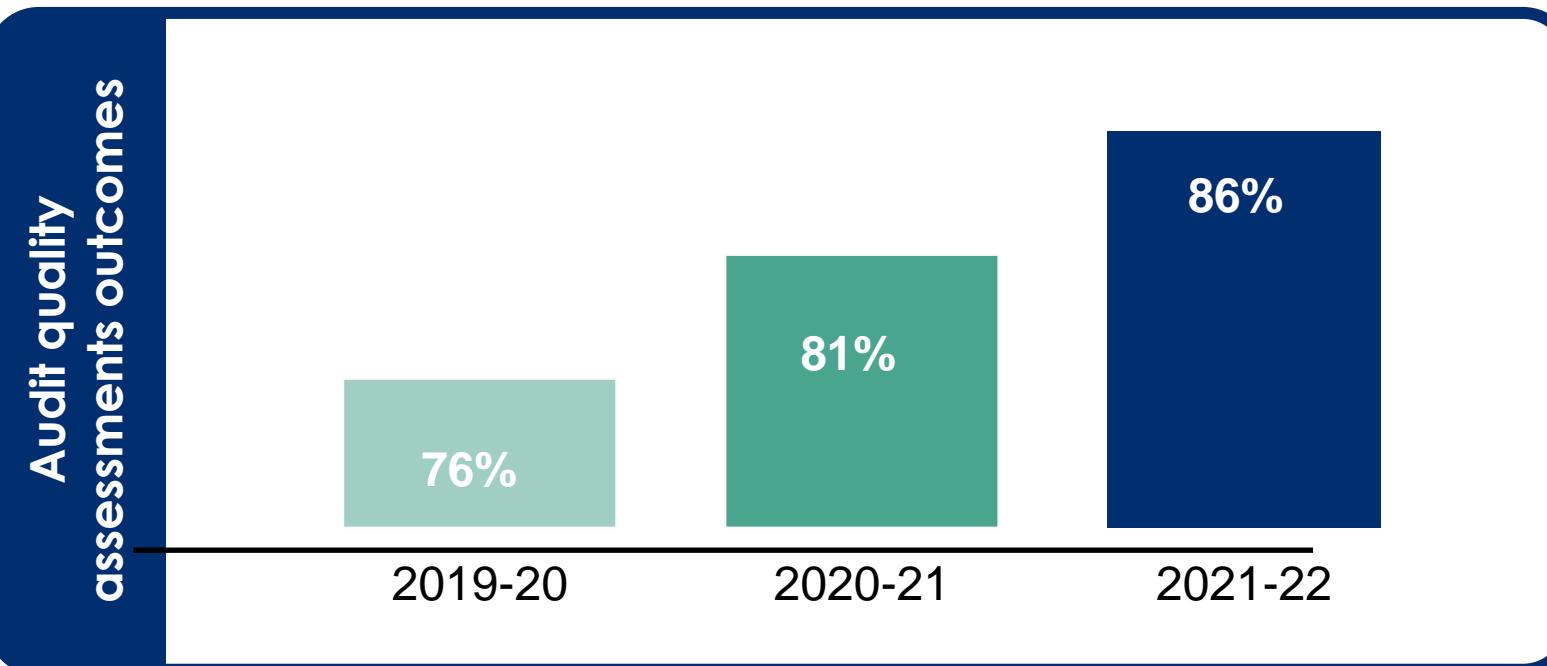


Litigation against the AGSA

- During the past 24 months, we have faced an increase in the number and complexity of legal challenges, or threats of legal challenges, over the audit and audit-related services we render.
- Our audit opinions on the Western Cape Provincial Department of Agriculture financial statements for the 2016-17 and 2017-18 financial years were challenged in court. Although the court did not support some of our findings, it concluded that the AGSA's audit opinions were not reviewable in terms of the Promotion of Administrative Justice Act 3 of 2000.
- The Road Accident Fund (RAF) took our 2020-21 audit report on judicial review. The court saw no credible argument to interrupt, delay or halt the AGSA from executing its constitutional obligations and, as such, we published the report. The RAF successfully applied for leave to appeal at the SCA. This case is ongoing.
- In another matter during the 2020-21 audit, the National Lotteries Commission (NLC) management pushed back on findings raised and indicated that they would take the AGSA to court. The auditee did not follow through on its threat.
- While resolving disputes in a court of law is a democratic process, it creates pressure and a difficult psychological environment for our audit teams to perform their duties without fear, favour or prejudice. We have reviewed our dispute resolution process and have brought it to this meeting for consultation with the esteemed committee.



Audit quality



This year, we subjected 70 audit engagement files for 69 engagement managers to a post-issuance quality review. We are proud to announce that we achieved a rating of 86% compliance with engagement quality standards for the 2021-22 performance year.

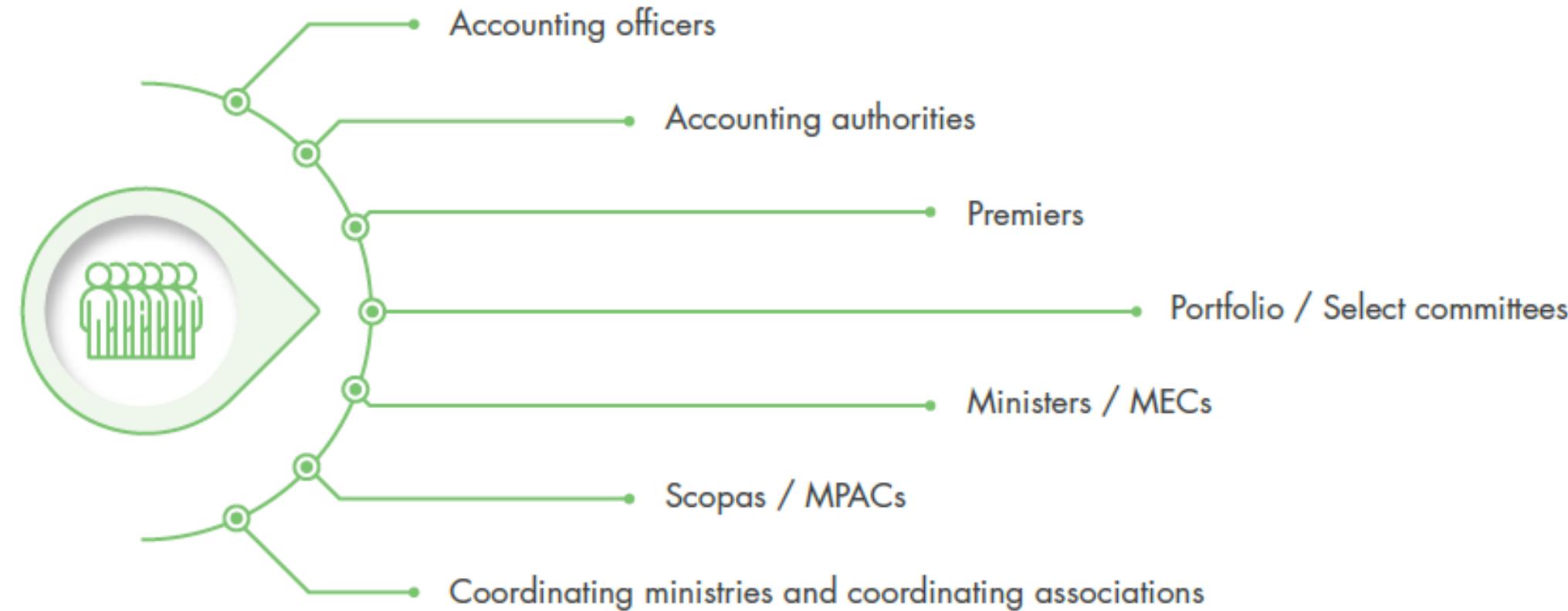
This improvement from the last two cycles is testament to our sustained and consistent effort to implement key initiatives that improve audit quality and yield consistent, compliant results.

- We have made substantial progress in preparing the organisation for implementing the ISQM.
- Our teams finalised the ISQM risk profile and conducted continuous risk assessments, which is a significant highlight of the ISQM journey.
- The proactive reviews on a selection of national and provincial, and local government audits implementing the MI process were part of a wider support plan for those audits that included internal peer reviews and external pre-issuance reviews.
- A ‘post-flight’ AQI report for the 2020-21 audit cycles listed potential audit quality risks that needed to be addressed in the 2021-22 national and provincial, and local government audit cycles.



Constitutional stakeholder engagement

To strengthen our impact and influence change, we targeted 501 interactions with 270 prioritised constitutional stakeholders. Our 618 interactions exceeded this target and strengthened our relationships with our stakeholders.



Our customised messages and interactions help to deepen our stakeholders' understanding of audit outcomes, MIIs, the PAA, the status of records review (SoRR) and preventative controls, and to clarify the corrective actions needed to further their specific mandates. In our interactions, we focused on the key root causes of poor performance, highlighted good practices and encouraged corrective measures. This is critical to helping our constitutional stakeholders understand their roles and responsibilities and entrench them as part of the public sector accountability ecosystem.



Constitutional stakeholder engagement

- **The National Assembly and National Council of Provinces** – we briefed the house chairpersons of both the National Assembly and NCoP on the audit outcomes and elevated the key issues that needed oversight attention. All these engagements assisted to prepare parliamentary and legislative communities for more pointed engagements when the general reports were launched.
- **Portfolio committees** – Our insight during the budget review and recommendation report (BRRR) process helped committees to frame appropriate questions for the executive authorities and their accounting officers, and to make informed decisions regarding budget adjustment approvals. While appreciating our insights, some raised their unhappiness with the pace of implementing our expanded mandate and the link between a clean audit opinion and service delivery. We reassured the committees of our commitment to effectively address these concerns and drive better stakeholder understanding. We also highlighted their role in tracking and monitoring the implementation of identified MIIs.
- **Standing Committee on Public Accounts (Scopa)** – The national Scopa depends on us to support its thematic approach to oversight. As a result, we receive requests for briefings on diverse topics based on the committee's focus at the time. This work is outside of the annual briefings on our national, provincial and local government audit cycles. The select committee on appropriations continues to demonstrate interest in our work by summoning provincial MECs of finance, mayors and municipal managers to give an account of the poor financial and project management that normally result in grant funds going back to the National Treasury.
- **Provincial engagements** – During our engagements with premiers, we reinforced the importance of setting the correct tone at the top and demanding a culture of compliance and ethics in driving the right behaviour in the public sector. We shared our insight into the root causes of undesirable performance with mayors and municipal managers and challenged them to strengthen their oversight of the municipal machinery to ensure an improvement in people's lived experiences. We also participated in the Salga integrated councillor induction programme as a key strategic partner in training new councillors.
- **Association of Public Accounts Committees** – Our engagement with the APAC on the audit outcomes of both audit cycles gave public accounts committees an acute understanding of the root causes of poor audit outcomes and performance. The APAC, in turn, shared its understanding of public sector challenges with us, and together we co-created solutions. The APAC is able to drive accountability by asking the right questions during public hearings and demanding action from accounting officers and executive authorities.



Non-constitutional stakeholder engagement

- **Law-enforcement and other agencies** – The Fusion Centre provided us with reports on the South African Social Security Agency and the Unemployment Insurance Fund, and a list of data to assist us when performing our functions. In turn, we provided the Fusion Centre with data to assist its investigations.
- **Task team on the professionalisation of the public sector** – We used our experience in professionalising our workforce to advise the minister of public service and administration on creating a capable, ethical and developmental public service.
- **Office of the Accountant-General** – published the updated Modified Cash Standard financial reporting framework documents, which included our inputs. We also continued to engage on numerous contentious technical matters brought up by our auditees. The majority of these matters were resolved during our engagements.
- **Office of the Chief Procurement Officer** – Our engagements centred on key legislation that impacts our audits, specifically the Constitutional Court judgment that invalidated the Preferential Procurement Regulation of 2017.
- **Accounting Standards Board** – Our participation in review projects resulted in enhanced guidance to address transversal practices and trends arising from an incorrect understanding, interpretation and application of the standards.
- **Independent Regulatory Board for Auditors** – Our participation on the IRBA project task team to explore the need for additional disclosures and increase the value of audit reports resulted in a proposal to include enhanced disclosures in the audit report.
- **South African Institute of Chartered Accountants** – We participated on Saica's Assurance Guidance Committee, which issued guidance as technical articles and webcasts on real-time audits, the response to the recent civil unrest and common errors made in audit reports.
- **Stakeholder interactions with contracted audit firms** – Our continuous communication with contracted audit firms ensures that they are kept abreast of all developments and remain aligned to our audit methodology and our needs.



Citizen engagement

- **Enhancing community reach** – As part of our community engagement programme, we developed citizen reports for all three special reports and the 2019-20 national and provincial, and local government general reports. We also displayed our messages on various platforms to reach citizens.
- Our **social media platforms** allowed us to share our reports and audit outcomes and encouraged discussions on a multitude of other topics. These discussions helped us to educate the public, which grew our following as citizens responded to our messaging.
- Our **engagements with the media** helped them to understand our work and how we implement our expanded mandate. We held various workshops with regional and community media, the South African National Editors Forum and the Institute for the Advancement of Journalism. Information-sharing sessions included journalists from mainstream, regional and community media to help our messages reach all the citizens of South Africa.
- **Interactions with professional associations and industry organisations** helped us reinforce our messages and create greater awareness of the mechanisms available to the AGSA to strengthen the accountability ecosystem. These stakeholders continued their advocacy work by holding auditees accountable and monitoring implementation through public statements and reports.
- The auditor-general **met with various CSOs** to share audit outcomes, a special report (SR3) and progress on MIs. The AG stated our intention to collaborate with CSOs in line with global best practices (Intosai-P12), expand the accountability ecosystem and enhance the accountability value chain. Our goal is to improve the audit product and message to ensure that AGSA reports reflect and touch citizens' lived experiences.



Citizen engagement

Auditor-general engagements

- Saica – Narrowing the expectation gap
- Abasa Womens forum
- Wits School of Governance
- Public dialogue with civil society organisation Afesis Corplan and Daily Dispatch newspaper
- Combined CSO engagement
- Business Unity South Africa (Busa)

Points of discussion

- Dysfunctions in internal audit, remuneration and audit committees
- Consequences management
- Leadership failures
- Developing a gender transformed leadership pipeline
- Resilience of institutions to respond to crisis
- Building adequate controls to enable monitoring and prevention of financial loss
- Mechanisms and strong instruments to enforce accountability
- Capable administration
- Ethical leadership

Publications

We profiled our trainee audit scheme in the November edition of the Accountancy SA (ASA) magazine and our Head of National audit in the Accountancy SA magazine in the January edition.

Professional associations and industry bodies

- ProudlySA Public Sector Procurement Forums
- Saica
- Association for the Advancement of Black Accountants of Southern Africa (Abasa)
- African Women Chartered Accountants (Awca)
- South African Medical Technology Industry Association (Samed)
- Salga management committee and National Executive Committee meeting
- State-Owned Entities Procurement Forum (SOEPF)
- CFO SA Finance Indaba
- South African Institute of Government Auditors (Saiga)

Points of discussion

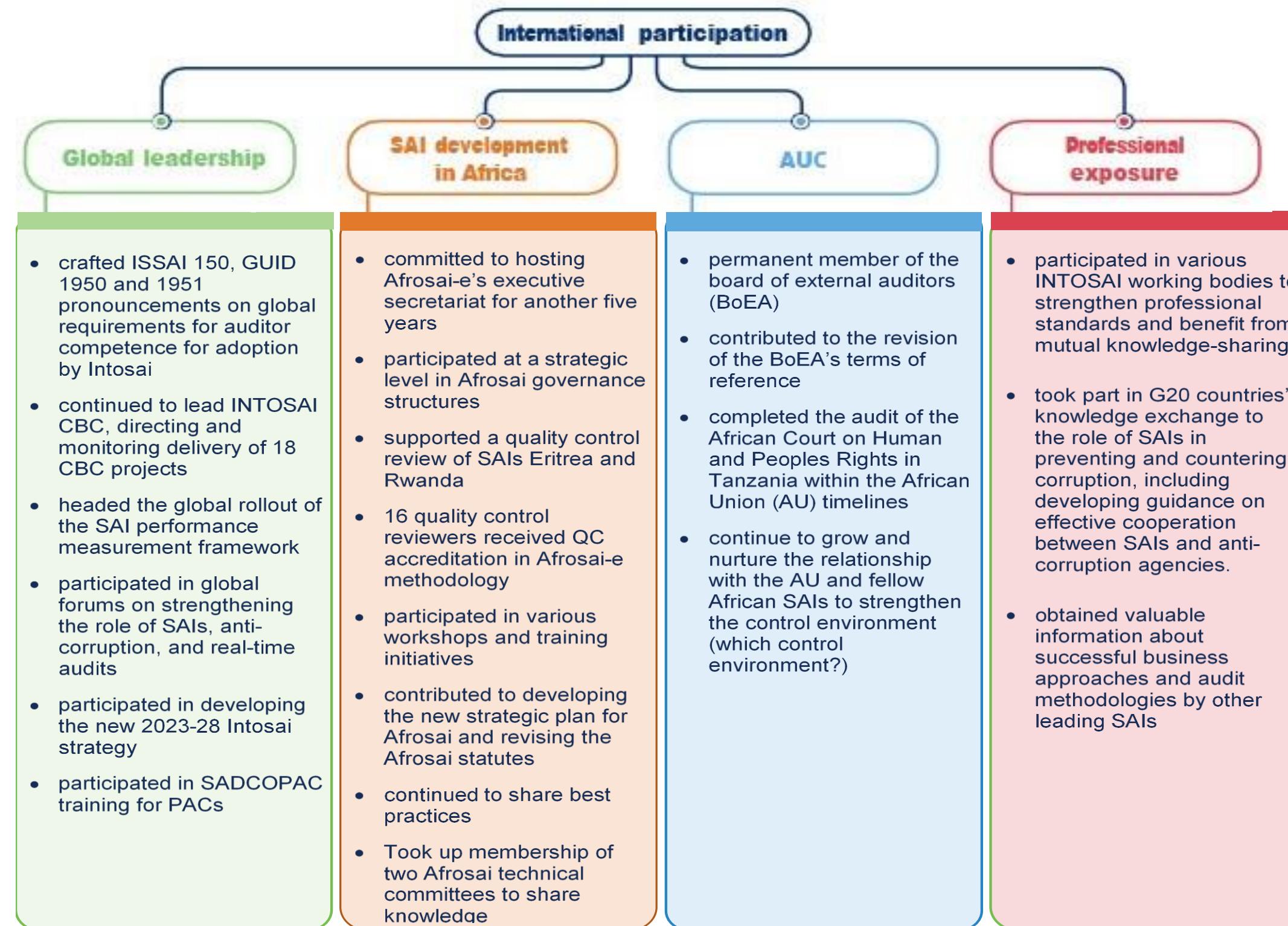
- The role of professionals in building capable administration
- Influencers and drivers of change to respond to the future of work
- Impact of the outcomes on the health ecosystem
- Real-time audits
- Role of public accounting and auditing professionals

Academic institutions

- University of Johannesburg (UJ)
- 2021 International Conference of Accounting and Business (ICAB) conference
- Human Science Research Council (HSRC) and Sol Plaatjie University
- Gordon Institute Business School (Gibs) of the University of Pretoria
- South African Accounting Association (SAAA)

Points of discussion

- Impact of emerging technologies on the auditing profession
- Progressive and sustainable improvements required to drive change
- New and emerging roles for accountants
- Reforms required to future proof the accounting profession





Citizen engagement

AGSA recognition

- As part of their annual women's conference and recognition awards in August 2021, Awca honoured head of national audit, Bongi Ngoma, as the winner of the 2021 public sector CFO of the year award. This provided an opportunity for profiling and showcasing the depth of leadership in the AGSA. These awards are recognition of the calibre of women leaders in the AGSA who continuously demonstrate the tenacity to succeed in their careers, and who continue to raise the bar of excellence within the chartered accountancy profession
- Bongi Ngoma won three awards from CFO South Africa: CFO of the year, the public sector CFO of the year, the transformation & empowerment award
- Mabatho Sedikela was recognised and awarded as public sector woman executive of the year by Abasa
- Sisonke Mvumbu, audit manager at the Eastern Cape business unit, won the under 35 women leader of the year award by Abasa
- The auditor-general was honoured with the Charlotte Manya-Maxeke institute's 4th annual bring her up: Women of firsts award
- AGSA was named the 2021 Corporate sector company of the year by the ACFE South Africa



Bongi Ngoma



Mabatho Sedikela



Sisonke Mvumbu

Leader in Public Accountability

Post-humous award to the former AG Thembekile Kimi Makwetu.

It is in honour of the invaluable contribution to the country Kimi made during the course of his career.





Financial performance highlights: 2021-22



Revenue from trading: R4 395 million, representing a year-on-year increase of 29% from R3 395 million in 2020-21. Of this percentage, about 23% relates to revenue from the catch-up audit work that could not be completed in the previous year.



We saved R112 million as on 31 March 2022 by resource pooling, where we prioritised using our own resources before considering outsourcing work.
Our national audit units generated R23 million by adopting provincial audits.



We received R141 million debt settlement to liquidate old debt for financially distressed and 1% debtors from NT.
We reported the risk to our liquidity of some auditees not settling their audit fees. With the intervention of the National Treasury director-general, we collected R94 million.



We achieved a net surplus of R40 million, which is 0,92% of audit revenue.

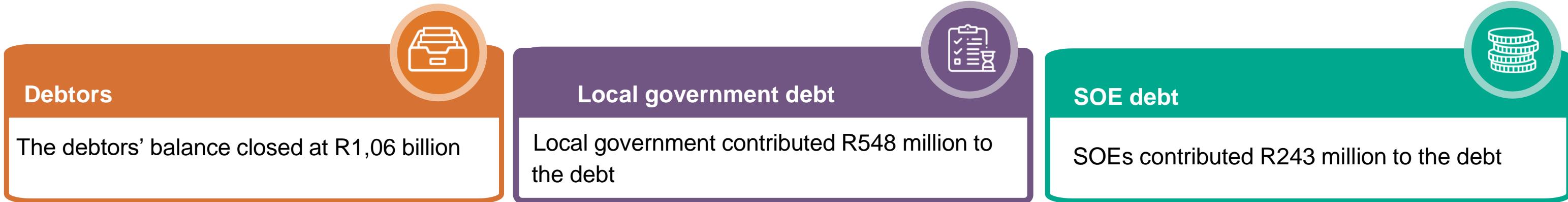


Cash balance of R770 million is higher than previous year balance of R576 million due to our financial performance, the improved cash collections, cash inflows and the well-managed outflows resulted in a year-end cash balance, including short-term investments, resulting in 2,1 months' cover.

We managed our overhead expenses tightly and they were R1 447 million – just R48 million above the previous year's expenditure of R1 399 million.



Financial performance highlights: 2021-22



Year	National government R million	Provincial government R million	Local government R million	Statutory debtors R million	Other debtors R million	Total debt R million
2019-20	75	163	425	71	197	931
2020-21	62	35	722	57	209	1085
2021-22	80	130	548	59	243	1060

The cash collections for the organisation performed exceptionally well for the year. R5 billion was collected, which is R2 billion or 55% more than in the previous year. We also collected R53 million (R471 million cumulatively) through ring-fencing and R156 million (R642 million cumulatively) through the litigation process.



AGSA workforce

On 31 March 2022 we had 3 765 staff members, including trainee auditors and short-term contract employees, reflecting an increase of 62 employees from last year's total of 3 703.

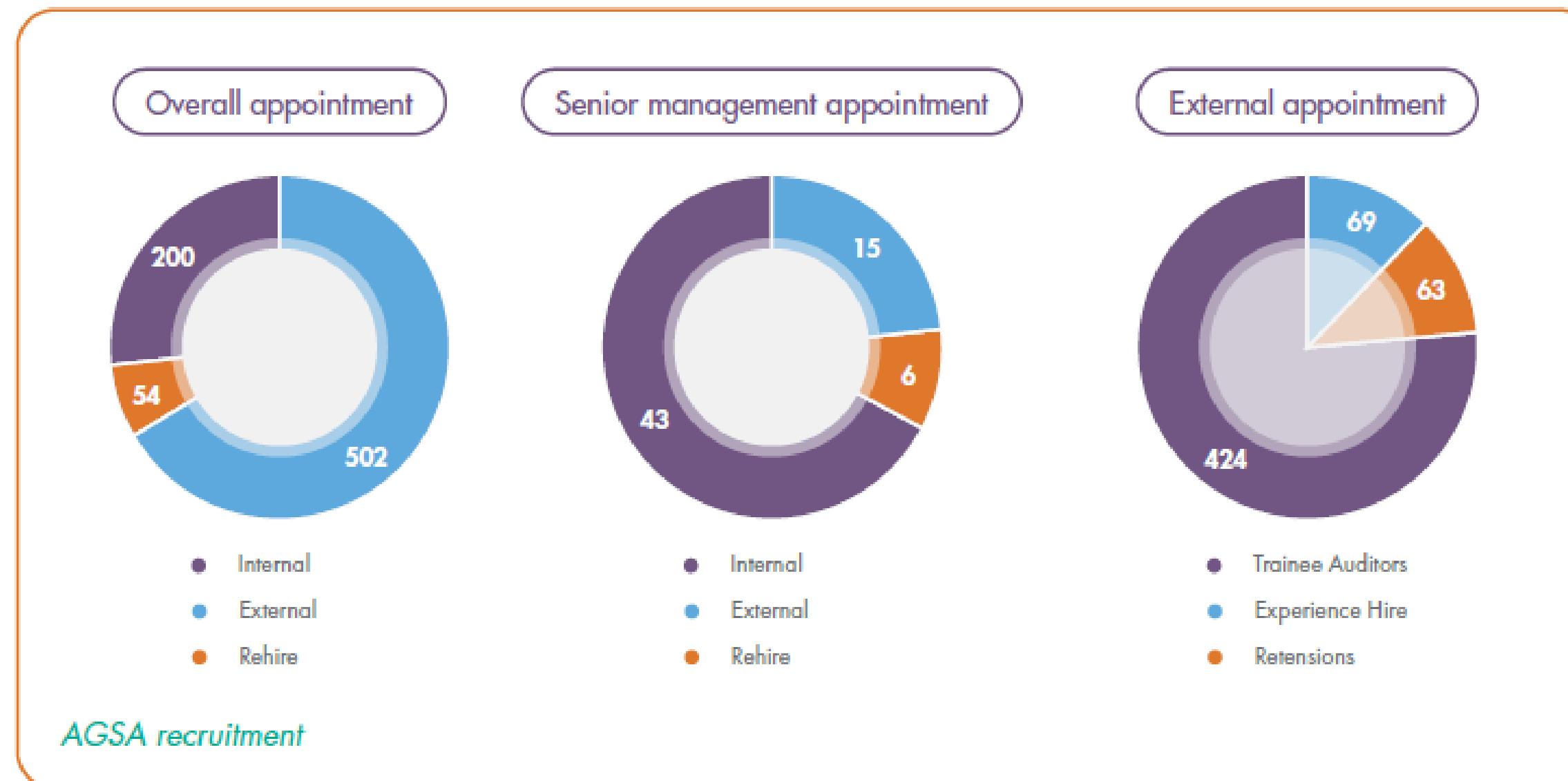
	2020-21	2021-22
Occupancy rate	88,81%	84,82%
Number of positions	4 171	4 430
Number of employees	3 703	3 765
Vacancies	468	665
Voluntary staff turnover	3,16%	5,90%

AGSA workforce profile



Appointments

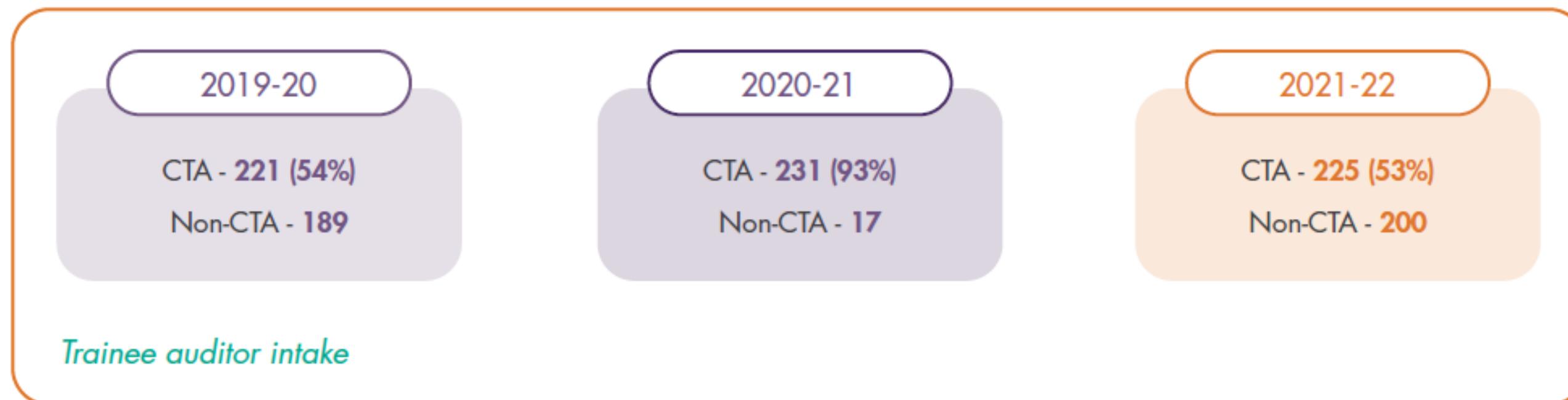
Internal appointments reflected an increase of 44%, from 139 in the previous year to 200 in 2021-22. External appointments, excluding trainee auditors, increased by 28% from 54 in the previous year to 69.





Trainee auditor scheme

We recruited 425 trainees, of which 225 (53%) had attained their CTA. Last year, we had decreased our intake to maintain our financial viability following the impact of the covid-19 pandemic. While we increased our intake in 2021-22, the number of trainees with a CTA remained steady as competition in the market rose. We are concerned about a trend at universities of reduced CTA classes.



We were recognised as the **employer of choice in the public sector** for the second consecutive year and ranked third in the aspirational employer of choice category, up from 11th in 2021. The awards reward excellence and innovation in the graduate employment field. Being voted the top employer in the public sector by graduates showcases the AGSA as an organisation that provides an uplifting working environment for graduates entering the workforce.



Trainee auditor scheme

Ethnic group	Total learners		Saiga		Saica		2021-22		Isaca		ACFE		2021-22	
	Men	Women	Men	Women	Men	Women	Saiga, Saica		Men	Women	Men	Women	Isaca, ACFE	
African	428	641	2	1	401	598	1 002		21	36	4	6	67	
Coloured	18	29	0	0	16	29	45		2	0	0	0	2	
Indian	14	15	0	0	14	15	29		0	0	0	0	0	
White	3	3	0	0	3	3	6		0	0	0	0	0	
Total	463	688	2	1	434	645			14	23	4	6		
Total M&F	1 151		3		1 079		1 082		37		10		69	

Learnership profile

Ethnic group	Men	Women
African	1	4
Coloured	1	0
Total	2	4
Total	6	

Learners with disability



Trainee auditor assessment outcome

The January 2022 Initial Test of Competence (ITC) results mirrored the 28% CTA pass rate. Our CTA support plan aims to address the pass rate decline in both the CTA and ITC, using the successful AGSA Bootcamp model.

ITC results	2020		2021		2022
	January	November	April	September	January
Total:	400	355	520	417	321
Passed:	142	68	217	215	86
Failed:	258	287	303	202	235
Percentage pass:	36	19	42	52	27

AGSA ITC results



Trainee auditor assessment outcome

Our Assessment of Professional Competence (APC) 2021 results increased significantly, from 16% to 57%. We recognised and congratulated the 308 AGSA candidates who were successful in the 2021 APC examination.

APC	2019	2020	2021
Total:	375	381	544
Passed:	149	61	308
Failed:	226	320	235
Percentage pass:	40	16	57

AGSA APC results

In 2021, we launched #APClifestyle as a preparatory programme to support our APC candidates. The programme was designed to help our aspirant chartered accountants bridge the gap between competencies for their learnerships and competencies for examination success. #APClifestyle introduced candidates to preparing for a designation and not an examination event and embedded critical thinking as a lifestyle.

We also provided our candidates with support initiatives such as emotional readiness, stress and time management sessions.



Bursary scheme

The bursary scheme, which currently has 38 bursars, provides opportunities to people with disabilities, socio-economic development candidates, the so-called ‘missing middle’ and AGSA employee family members. We decreased our spending on bursaries in 2021-22 to R5,9 million, mainly due to financial constraints during the covid-19 pandemic.



Forty-nine Thuthuka candidates began their articles with the AGSA in 2022. The AGSA-Thuthuka partnership continues to be an important lever in highlighting the AGSA as a formidable training organisation in the public sector for aspirant chartered accountants. We have provided R12 500 000 to be paid to Thuthuka in 2022-23 for 2021-22.



Technical training

- Technical training update – Our planned training hours decreased from 39 hours in 2020-21 to 30 hours in this period. This was caused by the delayed 2020-21 national and provincial, and local government audits, which meant that employees were not available for training programmes.
- SOE training – The training for the year averaged 5,8 hours, which is a significant decrease from the previous year's average of 13,6 hours. We rolled out five SOE micro-learning sessions; two sessions could not be rolled out in time as we reprioritised resources.
- Audit principles assessment – Of our 1 676 auditors, 1 199 (72%) completed the assessment and 57% achieved a pass of 70%. This is an increase from the previous year's 51% pass rate. The assessment's outcome was used to identify areas that require further training interventions.
- PAA training – This year, we delivered key training to a further 1 796 auditors within the different audit business units. To date, all our audit staff have attended the PAA MI training. In addition, we also trained 98 individuals from 34 outsourced audit firms. These firms have been allocated audits that form part of our PAA implementation for the national and provincial, and local government 2021-22 audits.



Growing the number of professionals

Our recruitment and talent management strategies have allowed us to retain our qualified auditors at the same level as in the previous year.

Ethnic group	Total		Acca		Saiga		Isaca		Saica		ACFE		FP (fiduciary practitioner)	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
African	422	501	11	10	148	182	23	38	236	269	4	2	0	0
Coloured	56	35	1	1	14	6	3	2	38	25	0	0	0	1
Indian	31	52	2	5	20	11	5	1	3	32	1	1	0	2
White	118	98	2	6	63	29	11	5	35	52	3	4	4	2
Foreign	47	7	3	3	0	1	1	0	43	3	0	0	0	0
Total	674	693	19	25	245	229	43	46	355	381	8	7	4	5
	1 367		44		474		89		736		15		9	

Our audit professionals per audit professional body

Our staff complement also consists of 850 non-audit employees with tertiary education (23%).

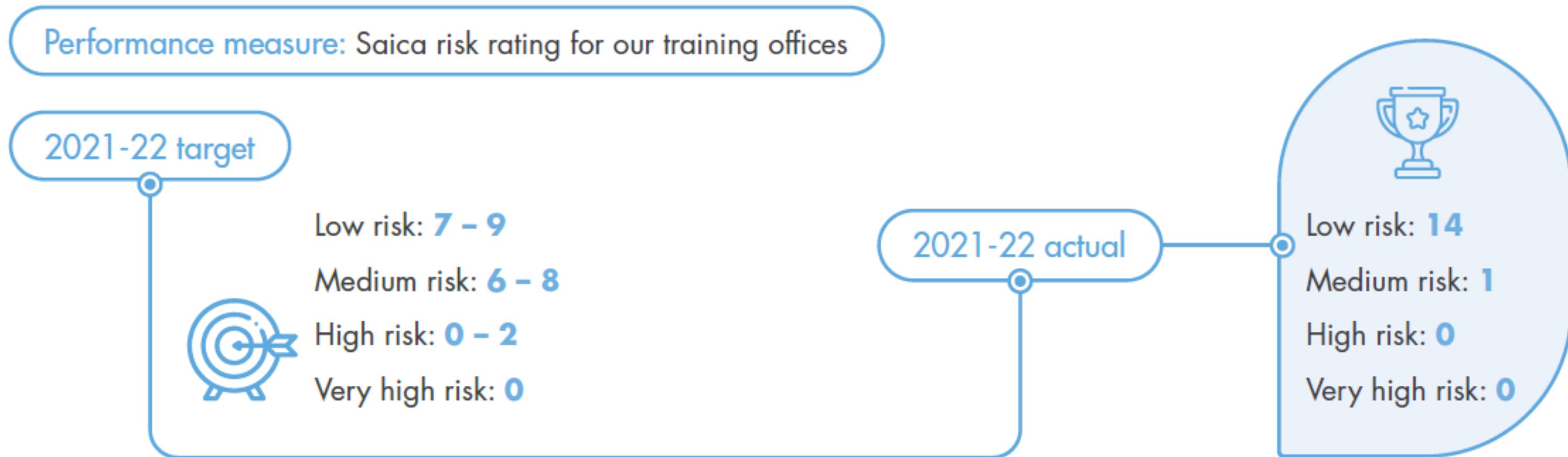


Employee health and wellness programme assistance

- Employee wellness continues to form an integral part of our strategic agenda. We recognise the value of a healthy and robust workforce and we have taken measures to achieve this goal.
- Problems relating to mental health – which includes stress, anxiety and depression – more than doubled from 307 in the previous year to 654 in 2021-22. This was consistent with the trends across the country, which pointed to elevated mental health problems due to the effects of the pandemic on the workforce and families alike.
- Relationship difficulties decreased from 659 to 576.
- An assessment of our environment pointed to the need for targeted and customised support for trainee auditors. Our EHWP held 69 sessions on emotional impact: two after the audit cycles, 12 for APC candidates and 16 for ITC candidates to address the emotional impact of negative examination results.
- We also implemented other initiatives such as emotional readiness, stress and time management sessions and engagement with psychologists to support ITC/CTA candidates.
- In total, 1 276 employees – including 91 immediate family members – accessed the employee health and wellness programme (EHWP) to address and manage psychosocial challenges.
- We provided these proactive initiatives to mitigate the risks associated with chronic mental ill health and associated physical illness.



Training offices and talent management



Almost all our training offices are on a low-risk rating, with one office on a medium-risk rating. This is proof that our monitoring and preventative controls and our training initiatives are effective. Four of our training offices (National B, National E, KwaZulu-Natal and Mpumalanga) obtained low-risk ratings in the current year.



Organisational culture

- To help employees grasp, embrace and live our values, we provided a collection of tools to begin guided values conversations and, despite these conversations not being consistent across the organisation, we received good feedback where they have taken place.
- We continued our employee wellness pulse surveys to gain insight on supporting our employees and their needs. Our March 2022 survey results indicated that over 90% of employees who responded were well aware of the new values and agreed that there was alignment between the values and their personal values.
- As part of the future of work journey, we have implemented the alternative work location policy. The core principles of the policy are thrive, trust, performance excellence and outcomes. The policy represents the first phase in our response to the overarching question: “What will happen to workplace flexibility beyond covid-19?”
- In 2021-22, we adopted a holistic evolutionary approach to our organisational structure to help us deliver on our promise of value, quality, efficiency and relevance. We re-organised our audit leadership, audit portfolio and risk management structures and established a dedicated expanded audit support portfolio.
- While we completed the audit support portfolio organisational design, changes in ICT leadership, together with project inefficiencies, have affected the ICT portfolio restructure. This had a negative impact on employee morale, which we responded to by providing change management, communication and employee wellness support. Our focus in 2022-23 will be on finalising this restructuring as quickly as possible.



Develop leadership capability



- 104 learners (61% senior managers and 39% managers) have completed their LDP journey.
- 15 learning executives completed their EDP1 journey and graduated in November 2021.
- The MDP was launched in June 2021 to build assistant manager leadership capabilities. Some 89 assistant managers enrolled in the phase 1 implementation, of which only 48% successfully completed the programme due to increased and different work pressures and workloads.
- We introduced project salus to debrief employees after they completed their audit cycles.
- We continue to support employees to build behavioural skills that contribute to personal and professional growth.



Progress on our technology optimisation journey

- Our technology strategy is currently being reviewed to ensure that matters of digital transformation and support for our strategic goals are included. While working on our technology strategy, we have optimised the ICT operating model for greater efficiency, refined job profiles and confirmed the roles required to fulfil the strategy.
- The audit software phase 1 market analysis has been completed. The “What good looks like” subcommittee undertook the analysis at the four major audit firms and the Council for Scientific and Industrial Research to benchmark their audit software. We also benchmarked against supreme audit institutions.
- We appointed a service provider to review our current PeopleSoft capability. Further research will determine the cost of the new ERP solution recommended and identify suitable ERP vendors in the market.
- We appointed a service provider to develop the case management solution to automate the MI process. Active work on the system began in January 2022 and is expected to be completed by the end of January 2023.
- Our disaster recovery plan simulated test in March 2022 was successful and will form part of our testing going forward.
- We completed our digital transformation roadmap, which maps the steps needed to become a digitally transformed organisation. The roadmap outlines the following three steps: laying the foundation, organisational recalibration and value creation. Laying the foundation is complete and included a digital transformation maturity survey and documenting the audit value chain.



Transformation journey

B-BBEE



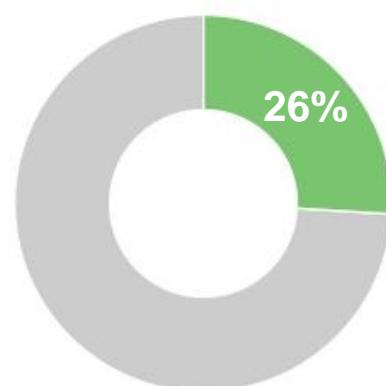
2018-19 2019-20 2020-21 2021-22

Over the past two years, the covid-19 pandemic saw us reduce our spending to ensure our financial sustainability; nonetheless, we still achieved a level 1 contributor status.

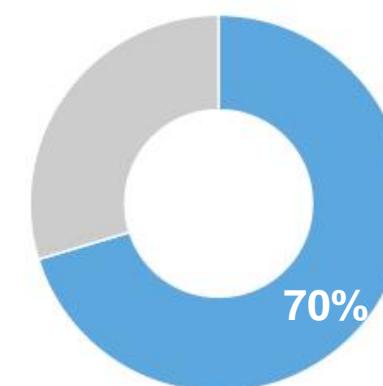
- Persons with disabilities continue to be the most vulnerable group in society and most likely to experience economic exclusion. As a result, we continue to elevate their challenges and difficulties and are making deliberate efforts to host an internship programme specifically focused on persons with disabilities.
- We also achieved the procurement target for designated groups, particularly small youth-owned businesses, and developed a B-BBEE procurement framework to safeguard our support of small black-owned businesses.

- We outsourced audit work and pre-issuance reviews to our ESD firms, assisting them to create a total of 298 jobs during the year. ESD beneficiaries shared 23% of our total outsourced audit expenditure (R201 million of our total outsourced audit expenditure).
- B-BBEE levels 1 and 2 audit firms were paid 88% (R777 million) of the total outsourced audit work.
- Our contracted audit work to 51% black-owned firms increased from 66% of our total expenditure in 2020-21 to 70% in 2021-22. The actual expenditure on these firms for 2021-22 was R613 886 371.
- Our audit work expenditure on 30% black women-owned firms increased from 21% to 26% in 2021-22.

Expenditure on 30% black women-owned firms



Expenditure on 30% black women-owned firms





Risk management

- Independent assurance is the third layer of defence in our combined assurance model. Our independent assurers had recorded 47 audit findings, an increase from 46 in the previous year. Many of these findings were in the ICT environment. Of the 47 audit findings, 40 have been resolved. This closure rate of 85% is a regression from 88% in the previous year.
- In addressing these findings, we have created leadership stability and ICT capacity, which will contribute to a sustainable system of internal control.
- Over 80% of the PAA project risk profile mitigations have been implemented; some have been institutionalised into business.
- We revisited the ethics and IT business risk profiles when assessing our ISQM business risks.
- We updated the audit business transversal risk profile following a risk assessment undertaken with one of the provincial business units. The transversal risk profile remains relevant and responsive to current environmental factors.



Ethics and complaints management

- We confirmed four ethical breaches related to travel and subsistence, conduct during an audit process and the conduct of certain staff. Our investigations recommended corrective and disciplinary action, which Business Support and Operations and the relevant business units' leadership are implementing.
- We declared October Ethics Month, with the theme 'Live It... We Do the Right Thing'. Our leadership is a core driver of ethical conduct; their messages demonstrated their personal ethics and contributed to strengthening the AGSA ethics environment.
- We achieved a compliance rate of 99,8% for 2021-22. The majority of outstanding declarations represent employees who were on extended leave.
- We received 78 complaints. Of the 29 (that fell within our mandate) received in 2021-22, 10 were referred to SMEs, 19 were investigated (nine were finalised and 10 are still in various stages of progress).
- We emphasised the audit escalation process for disagreements before lodging a complaint, both internally and on our website. This has resulted in a significant drop in audit-related complaints.
- The Fraud Prevention Framework was approved. The fraud prevention plan will be finalised by the end of the first quarter of the 2022-23 performance year.

Dispute resolution process





The need to improve the current process

Disputes/complaints are driven by:

- Differing legal interpretation.
- Differing application of accounting standards.
- Desire for clean audit by the auditees.
- The need for procedural fairness – auditees challenge the mechanism's resolutions in court.

Deficiencies of the current process:

- **Lengthy process** that impacts negatively the accountability cycle.
- **Overreliance** on external parties (e.g. National Treasury).
- Inadequate **leadership involvement**.
- Different processes for disputes and category 2 complaints.



How will the process be improved?

The revised process scope will include:



Planned improvements:

1. Formalised nature of the process.
2. **One process** for category 2 complaints and disputes.
3. Decreased duration of the process.
4. Full control over the process by the AG (will obtain assistance from strategic stakeholders, but **AGSA will make final decision**).
5. **Greater leadership** visibility.
6. Improved **understanding** of the process by role players.
7. **Expected to reduce litigation.**



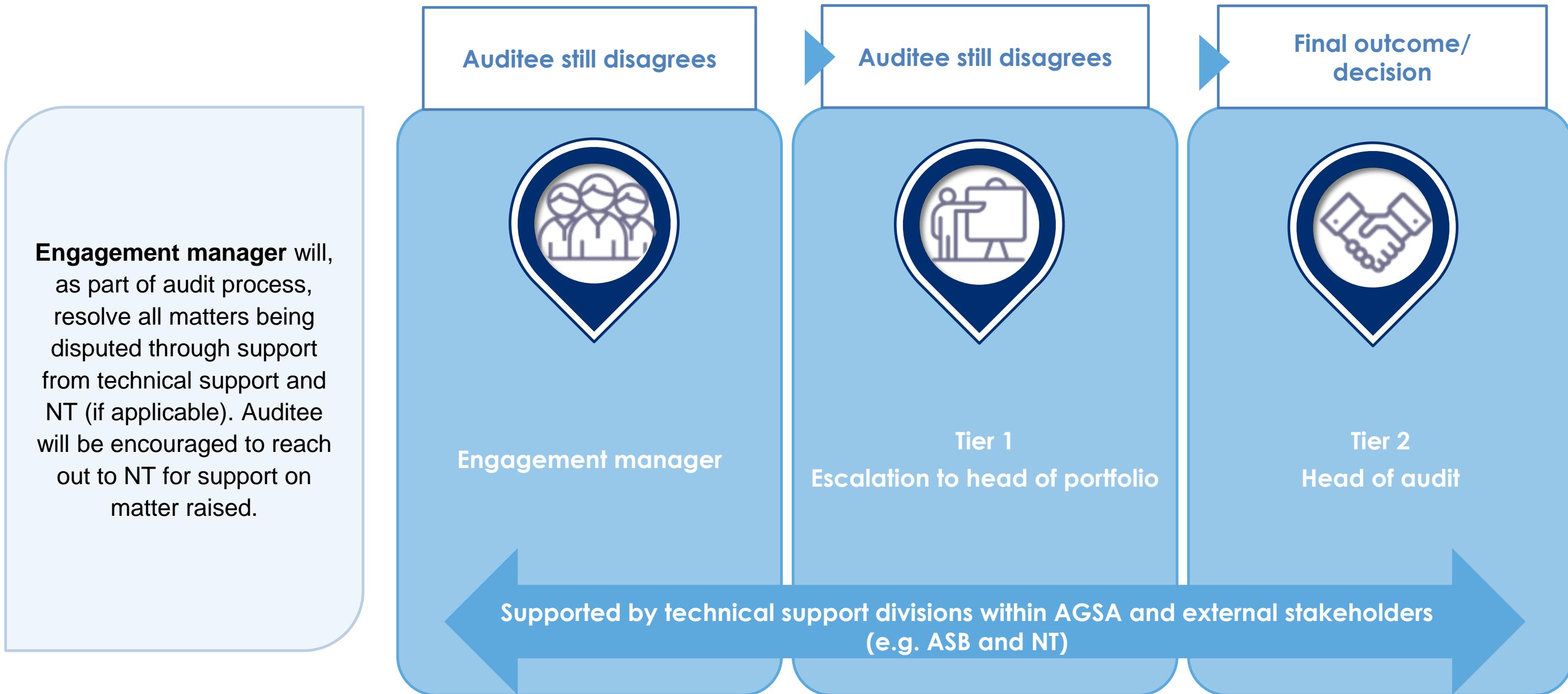
Review principles



1. Safeguard the independence of the AGSA.
2. Eliminate referral of audit disputes to external structures for resolution or decision-making.
3. Include multiple opportunities for auditee to be heard.
4. Ensure that resolution is always done in professional manner.
5. Audit is not a legal process – substance over form is important.
6. Cement the role of the engagement manager.
7. Classified as dispute if it cannot be resolved by engagement manager.
8. Enhance focus and attention to timely resolution.
9. Applicable to audit and audit-related services – irrespective whether report is signed or not.
10. Dispute resolution is responsibility and accountability of those with direct knowledge of auditee.
11. Auditor-general will delegate this accountability and decision-making to heads of audit.
12. Audit dispute resolution process entails two tiers/levels – first tier under stewardship of heads of portfolio and second (final) tier under leadership of heads of audit.
13. The AG only gets involved when cited as a respondent in court proceedings.

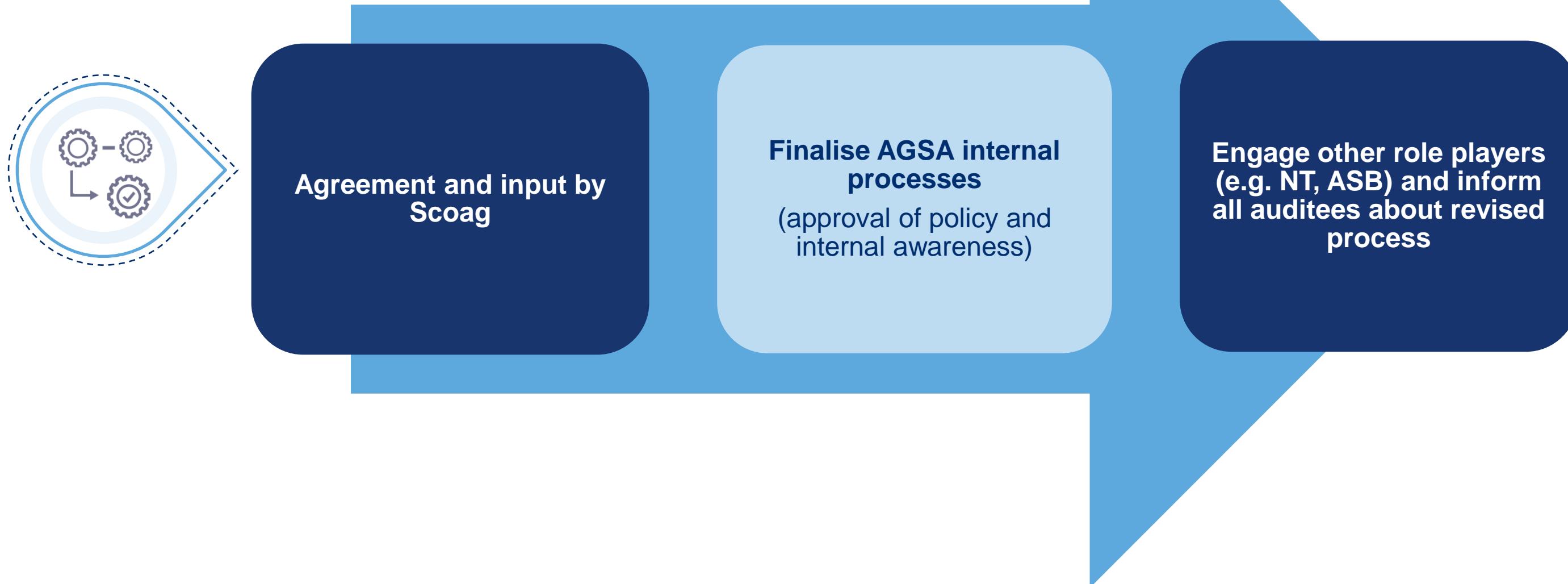


Proposed dispute resolution mechanism





Next steps



Post-retirement medical aid (PRMA)





Background

- The Post-Retirement Medical Aid (PRMA) initiative, born out of the need by the organisation to harmonise employee benefits and, in particular, the staff rules conditions of service on medical aid subsidy, is aimed at managing the financial liability associated with this benefit on the AGSA.
- Administratively, the AGSA is required to report on the provisions of the benefit as well maintain the benefit for as long as it is on the balance sheet.
- The PRMA is a historical employee benefit, which was governed by the Audit Arrangements Act and Policy Framework on medical assistance.

Salient aspects of legislation and framework



- Since inception of the 2002 revision of the framework, the AGSA annually benchmarked its assistance against the benefits paid by the Public Service.
- From 2002 until 2015, the benefit paid by the AGSA had been substantially higher than what the Public Service paid and was for that reason, as well as affordability considerations, not adjusted.
- When the Public Service benefit for the first time exceeded what was paid by the AGSA, the office was not in a position to match those adjustments and decided against it based on financial considerations at the time.
- Consequently, a court case was brought against the AGSA.



High court case (2016 – 2021)

Between 2016 and 2021, the AGSA had to respond to a high court case brought by four retired employees against the AGSA to review its decisions not to increase the PRMA benefit.

The high court dismissed the case against the AGSA and ruled (among other things) that the independent audit office could not be bound by decisions taken by the public service.

The four retired employees did not take the matter on appeal; therefore, the court's ruling stands.

The outcome of the high court case paved a way for AGSA to initiate a PRMA buy-out offer to eligible beneficiaries.



Buy-out initiative - detail

- The buy-out offer is a once-off, voluntary initiative, based on each member's personal details and the 31 March 2022 economic assumptions that were used to calculate the PRMA liability in the financial statements.
- A sweetener of 20% was added to the valuation amount to make the offer more attractive and hopefully increase the uptake. This is in line with industry practice.
- The total value of the buy-out offer (including the 20% sweetener) is **R60 793 542**.
- The buy-out offer, articulating individual actuarial assumptions and calculations, was presented to the beneficiaries from 24 to 29 June 2022.
- A live interactive information session webinar was held on 13 July 2022 to enable beneficiaries to seek clarity and to address questions and concerns relating to the buy-out offer.
- The webinar was a crucial milestone in the buy-out project, as beneficiaries had already had the opportunity to consider their individual assumptions and calculations.
- The beneficiaries were, furthermore, supported with decision-making by setting up a tax desk to address tax-related queries.



Buy out initiative - timelines

- The AGSA had envisaged effecting the payments in the months of August and September 2022, to allow for a 40-day window from the date of the webinar and to obtain insights on tax-related matters; particularly the tax directive, which is crucial for decision-making.
- The original deadline communicated to beneficiaries to make the once-off choice was 10 September 2022.
- Based on several requests from beneficiaries for extension and to allow SARS more time to process tax directive requests, early in September approval was granted for extension of the deadline to make the final once-off choice.
- Beneficiaries are now requested to respond by 10 October 2022.



Buy-out initiative - responses

DESCRIPTION	NUMBER	%
Total offers presented	337	(100%)
Offers accepted	250 (133 in-service, 117 external)	(74,18%)
Offers rejected	35 (2 in-service, 33 external)	(10,38%)
Accepted the offer but instructed to put on hold	8 (1 in-service and 7 external)	(2,37%)
Responses outstanding	52 (11 in-service, 41 external)	(15,43%)

Seven external beneficiaries accepted the offer, but instructed AGSA to put the payment process on hold awaiting feedback on two letters drafted and submitted to SAoAG early in September 2022.

Of the group of seven, three beneficiaries were part of the original high court case (2016 – 2021)



AGSA response to complaints lodged with Scoag

- The AGSA respects the right of any citizen to approach parliamentary structures to raise complaints.
- Scoag is bound to consider the letters within the parameters of its mandate, powers and functions assigned by the Constitution, the PAA and Rules of the National Assembly.
- The AGSA assessed the letters and understood the root cause of the disappointment by complainants to be multifold:
 - Incorrect interpretation of the law in respect of the PRMA benefit.
 - Insufficient understanding of the High Court judgment; alternatively, disagreement with the High Court's application of the law.
 - Incorrect understanding of the functions and powers of Scoag, the AG and DAG.
- The AGSA implemented the buy-out initiative with continuous, independent legal and actuarial scrutiny.
- The process followed in the buy-out offer was fair and no beneficiary – retired or in-service – has suffered any prejudice.

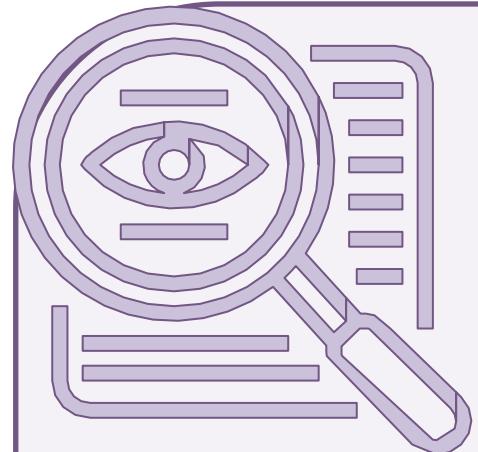


Conclusion

- The PRMA initiative is approaching conclusion.
- The final milestone being the payment to beneficiaries who opt to take up the offer.
- This is envisaged to take place at the end of September and October 2022.

Update on the CPO matter

The investigation



The CPO was placed on precautionary suspension on 5 July 2022, pending the completion of the Bowmans investigation.

Main findings in the Bowmans report:

- No dispute of fact in respect of what transpired at the 27 June 2022 meeting.
- Evidence found on the CPO's computer confirmed he was the author of the nine allegations.
- CPO was the author of a draft separation agreement to the value of R3 159 499.

Bowmans recommended formal disciplinary action for:

- Threats made against the AG.
- Failure to follow the correct process for complaints against the AG.

The charge sheet

No	Charge	Date served	Charge description
1	Gross misconduct	18/08/2022	Threatening the AG to cause her harm by disclosing her alleged impropriety.
			Contravention of section 10 of the Prevention and Combatting of Corrupt Activities Act 12 of 2004 (PRECCA) by attempting to extract an unauthorised gratification (financial separation).
2	Suspension breach	05/09/2022	Letter to 92 staff members in which the CPO disclosed material information concerning the investigation and disciplinary proceedings against him.
3	Gross dishonesty	20/09/2022	Non-disclosure of employment at a former employer from August 2010 to July 2013.
			Failure to disclose that his former employer laid criminal charges for alleged fraud relating to their bursary scheme [Brooklyn: CAS 407/09/2013].
			Failure to disclose that his former employer claimed damages as a result of alleged fraud [Labour Court: 1080/2013].
			Misrepresentation in his CV, stating that he was employed by the Bühler group from October 2010 to July 2016.

The hearing

Advocate Emmanuel Motuku SC was appointed the independent chairperson of the disciplinary hearing.

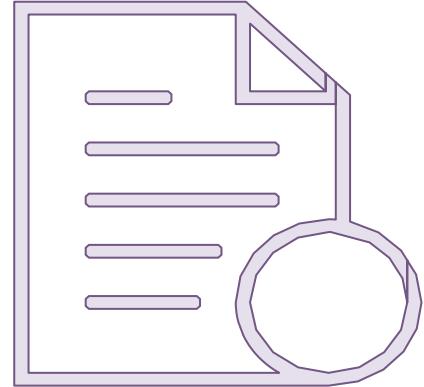
Advocate Louwrens Malan SC initiated the matter on behalf of the AGSA.

The hearing was set for 21 to 23 September 2022.

The proceedings:

- The CPO claimed that the AGSA denied him access to documents to prepare his defence.
- The AGSA provided the CPO with two bundles of evidence against him.
- The CPO repeatedly declined the invitation to make a list available of additional information required.
- The CPO objected to the chairperson's ruling to proceed and postpone after day one to attend to his list.
- The CPO abandoned the proceedings.
- The AGSA presented its evidence and the matter was finalised on 21 September 2022.

The resignation



CPO tendered his resignation on 22 September 2022, with immediate effect.

CPO's grounds for resignation:

- The AGSA denied him access to information vital to his defence.
- He applied for access to information at the hearing, which the chairperson denied.
- AGSA sought a predetermined outcome (unfair and constructive dismissal).

Legal team advised that grounds for resignation were factually incorrect and legally unsustainable.

DAG accepted the resignation, but held the CPO to his contractual notice period of three months.

The termination

No	Charge	Chairperson's finding
1	Threatening the AG to cause her harm by disclosing her alleged impropriety. Contravention of section 10 of the Prevention and Combatting of Corrupt Activities Act 12 of 2004 (Precca) by attempting to extract an unauthorised gratification (financial separation).	Guilty of gross misconduct
2	Letter to 92 staff members in which the CPO disclosed material information concerning the investigation and disciplinary proceedings against him.	Guilty of contravention
3	Non-disclosure of employment at a former employer from August 2010 to July 2013. Failure to disclose that his former employer laid criminal charges for alleged fraud relating to their bursary scheme [Brooklyn: CAS 407/09/2013]. Failure to disclose that his former employer claimed damages as a result of alleged fraud [Labour Court: 1080/2013].	Guilty of gross dishonesty
	Misrepresentation in his CV, stating that he was employed by the Bühler group from October 2010 to July 2016.	
dag accepted chairperson's recommendation – summary dismissal (28 September 2022)		

Former employer's legal matters



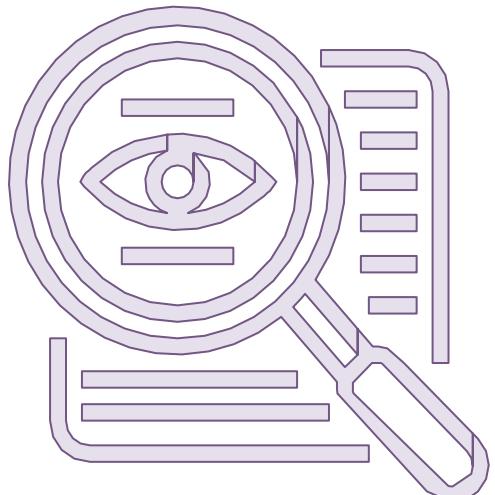
Former employer claimed damages from the CPO to the value of R1,9 million on the following grounds:

- Contractual duty of good faith
- Relevant labour legislation
- Delict
- Fraud

The claim for damages emanated from transactions relating to procurement of goods and services and the employer's bursary scheme.

Former employer opened a criminal case.

Where to from here?

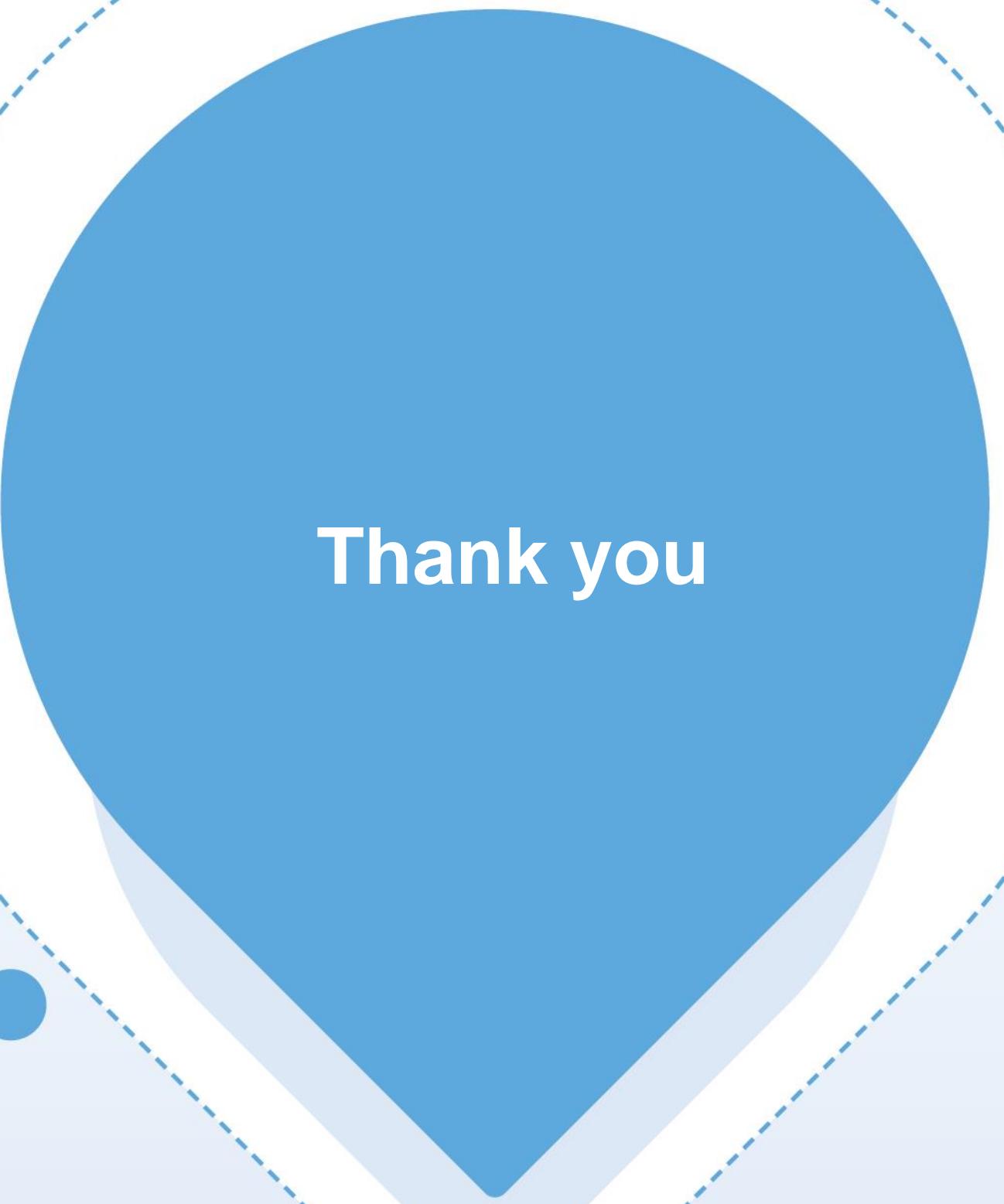


The DAG commissioned an internal investigation to consider risk exposure in the following areas:

- Procurement practices in the CPO portfolio
- Recruitment and appointment at senior levels
- The AGSA bursary scheme

Material findings and losses, if any, will be reported transparently:

- Annual financial statements in terms of section 41(1)(b)(i) and (iii) of the PAA
- Criminal case in terms of relevant legislation, including section 43(3)(k) of the PAA



Thank you



Auditor General of South Africa



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