

STRATEGIC PLAN AND BUDGET

OF THE AUDITOR-GENERAL
SOUTH AFRICA

2023-26

Scoag engagement
25 November 2022



AUDITOR-GENERAL
SOUTH AFRICA



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



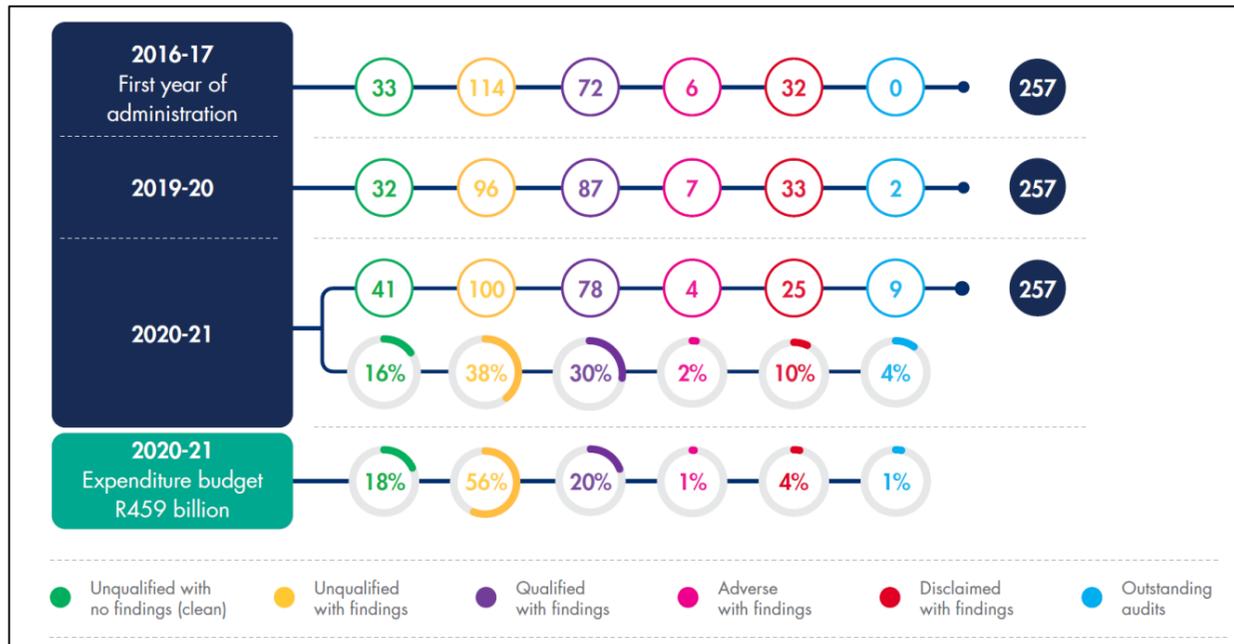
OUR STRATEGY

AGSA STRATEGY

#cultureshift2030

SHIFTING PUBLIC
SECTOR CULTURE
THROUGH INSIGHT,
INFLUENCE AND
ENFORCEMENT





LIMITED PROGRESS in audit outcomes, especially at the coalface of service delivery in local government and SOEs, is of significant concern for the AGSA, government, Parliament and citizens

News24
SA's municipalities racked up R26 billion in irregular expenditure - AG
On Tuesday, Auditor-General Tsakani Maluleke briefed Parliament on the 2019-'20 municipal audit outcomes. The case of a Eastern Cape municipality which spent...

TimesLIVE
Auditor-general report: Tracking billions blown by towns
The auditor-general's report on local government finances is a ... wasted R3.47bn on avoidable costs such as South African Revenue Service...

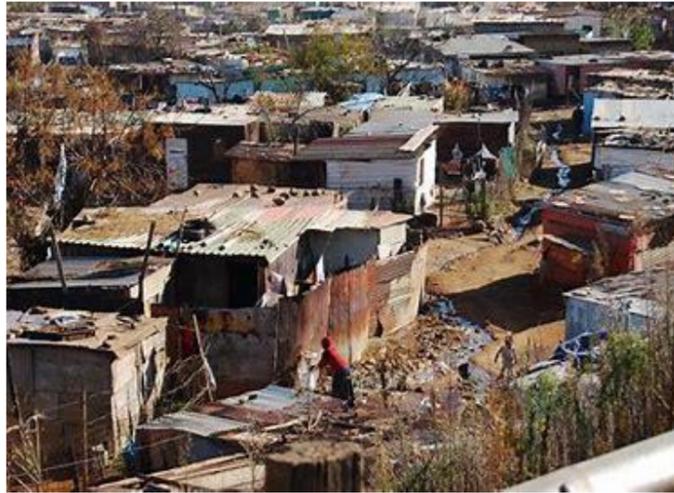
Biznews
R186 billion vanished from SA municipalities in just 10 years
Over just ten years, R186bn has seemingly disappeared from South African ... Auditor-General Tsakani Maluleke recently revealed that there was R26bn in...

IOL
SOEs ran up R68 billion in irregular expenditure
Auditor-General Tsakani Maluleke has found state-owned entities (SOEs) ran up R68 billion in ... Eskom (R11.2bn) and Airports Company South Africa (R0.6bn).

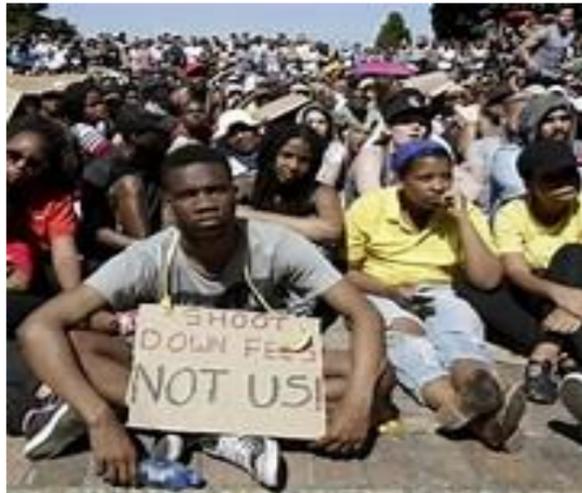
CONTINUED MISUSE of state resources and persistent weaknesses in systems of transparency, accountability and performance is of significant concern for citizens of South Africa broadly

BusinessTech
South African municipalities' R28.4 billion irregular spend in 4 charts
4 billion (\$2.2 billion) in the 2017 fiscal year as accountability "continues to fail in local government," the Auditor-General said. The bulk of the increase...





THE NEGATIVE IMPACT on the lived realities of people is the more important story of the impact on the lived reality of ordinary South Africans that is represented by the numbers, findings and audit outcomes



Regressing outcomes and the lived reality of ordinary South Africans that they represent have **DETRIMENTAL IMPACT ON OUR DEMOCRACY**

- POLITICAL/SOCIAL INSTABILITY
- SERVICE DELIVERY PROTESTS AND VIOLENCE
- OPTING OUT OF PUBLIC SERVICES
- LITIGATION AGAINST GOVERNMENT FOR CITIZEN TAKEOVER OF SERVICE DELIVERY
- OPTING-OUT OF DEMOCRATIC PROCESSES (E.G. VOTER APATHY)

Having reflected on our South African context and the root causes of the persistent undesirable outcomes, we have resolved that as long as there is no focus on improving the public sector culture, outcomes will not change materially



Chapter 3: Section 41

All organs of state must **secure the well-being of the people of the Republic**

Chapter 3: Section 41

All organs of state must provide **effective, transparent, accountable and coherent government** for the Republic as a whole

Chapter 9

AGSA's mandate: **Strengthen constitutional democracy in the Republic**

Status and functions of the AGSA

The AG has the power to:

- Perform an appropriate audit to ... determine whether appropriate and adequate measures have been implemented **to ensure that resources are procured economically and utilised efficiently and effectively**
- Take any appropriate **remedial action**, and
- **Issue a certificate of debt** ...where an AO or AA has failed to comply with remedial action



Strategic aspiration

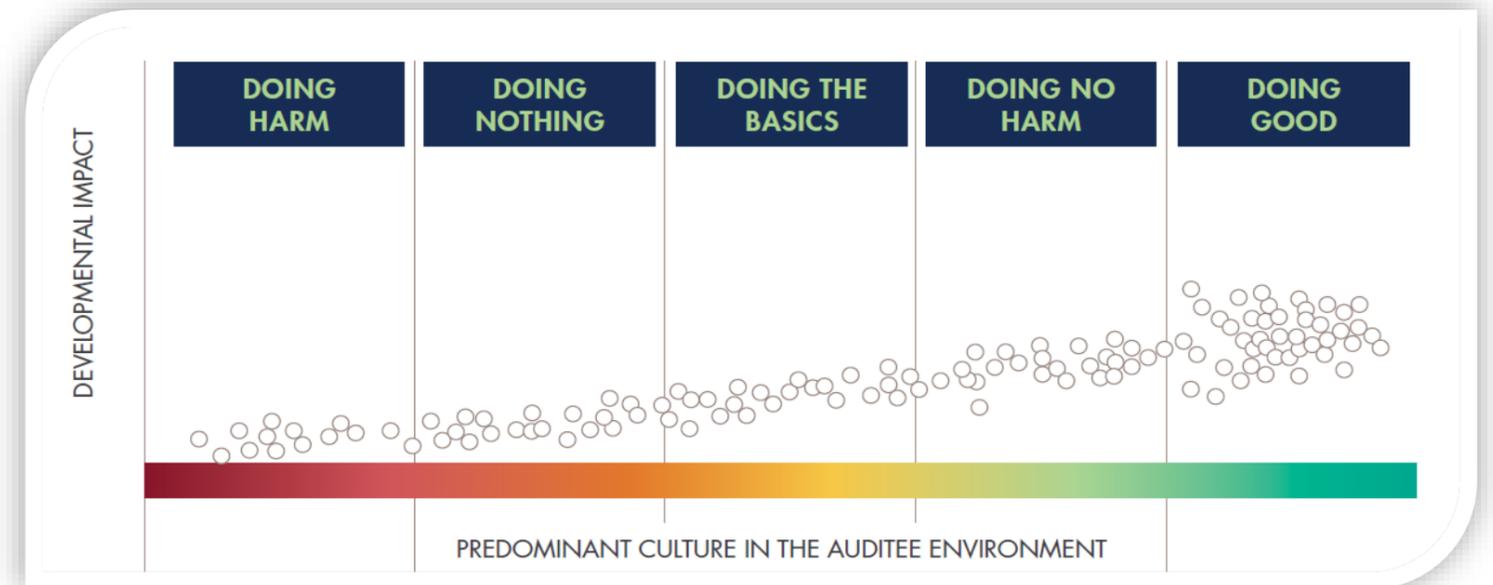
To have strong, more direct and consistent impact on improving the lived reality of ordinary South Africans

Accountability ecosystem

Broad-based, effective network of stakeholders driving and deepening public sector accountability

Theory of change

Sustainably and efficiently shift public sector culture through insight, influence and enforcement



We will realise our strategic aspiration by focusing on six strategic goals:

Sustainably



Acquire, develop and maintain the quantity, quality and configuration of people, resources and capabilities to safely achieve and sustain our desired levels of impact

Insight



Generate audit insights that illuminate understanding, drive action and yield results

Efficiently



Unlock latent capacity in the existing resource base and our people and lower the cost and effort with which we derive each marginal unit of quality, insight, influence and enforcement

Influence



Move stakeholders from mere awareness of our messaging to action on and advocacy of our messaging

Shift public sector culture



Move a critical mass of auditees towards organisational cultures characterised by transparency, integrity and accountability

Enforcement



Apply powers to directly and indirectly recover resources lost to the state and taxpayers, and ensure application of consequences for wrongdoing



STAGES	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Transition	Implementation	Implementation							
MI rollout	Implementation	Implementation	Implementation	Implementation	Institutionalisation	Institutionalisation	Institutionalisation	Institutionalisation	Institutionalisation
Value chain	Preparation	Preparation	Implementation	Implementation	Implementation	Institutionalisation	Institutionalisation	Institutionalisation	Institutionalisation
Metros	Preparation	Preparation	Implementation	Implementation	Implementation	Institutionalisation	Institutionalisation	Institutionalisation	Institutionalisation
Secondary cities			Preparation	Preparation	Implementation	Implementation	Implementation	Institutionalisation	Institutionalisation
Key public entities			Preparation	Preparation	Implementation	Implementation	Implementation	Institutionalisation	Institutionalisation



Preparation



Implementation



Institutionalisation



Early insight on the implementation of the strategy

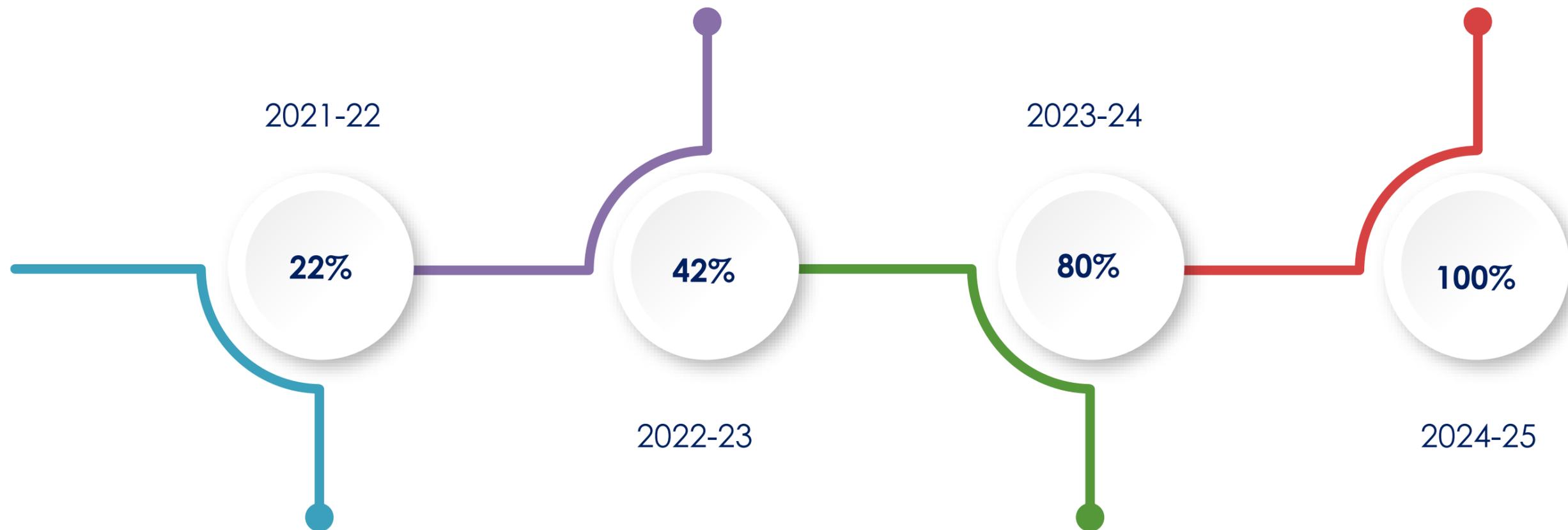
- Staff and leadership enthusiastically support the new strategy
- Good uptake on the concept of accountability ecosystem by various role players
- Developing the public sector culture baseline well underway
- Targeted audit approaches – a suite of audited methodologies already developed and piloted, e.g. disclaimer auditees
- Expanding and rich narrative around service delivery in our GRs
- Confident implementation of our extended powers; A good chance to issue a certificate of debt soon
- Strong start around the development of the much-needed technological capabilities, e.g. audit software and digital transformation



WHAT THE COUNTRY NEEDS



- We have been able to **scale up the implementation** of the MI process significantly across all categories of auditees
- We fast-tracked our plans and ensured the **full MI definition is being applied**
- We will implement our expanded powers in **every audit we conduct by the end of the 2024-25 financial year**

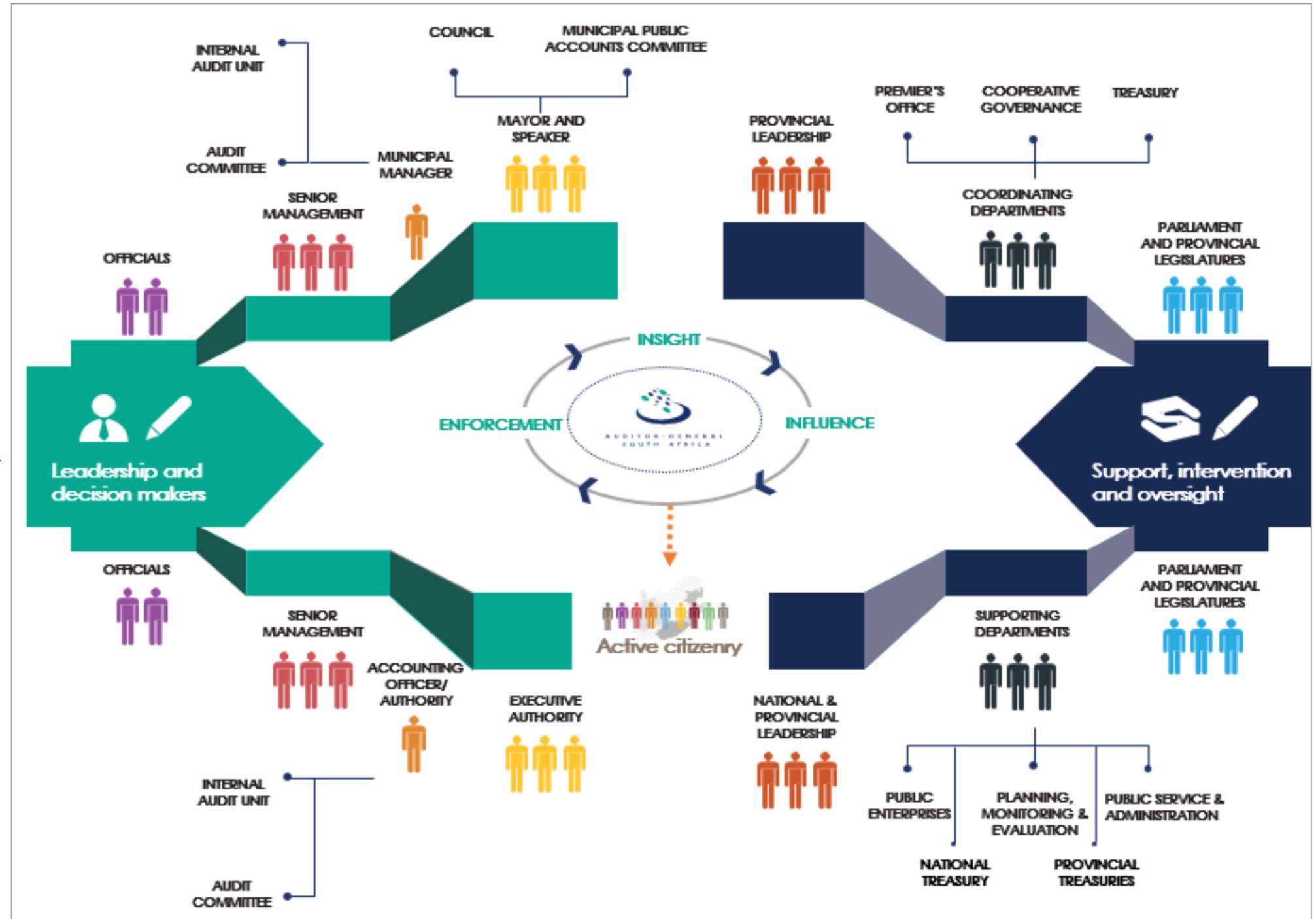


- A substantial part of implementing the MI process depends on the work of various public bodies and law-enforcement agencies
- The work with the Fusion Centre during our first real-time audits enriched cooperation with the Special Investigating Unit and the Office of the Public Protector, and opened opportunities to leverage these relationships to support our audits
- Engagements with the Competition Commission, and the DPCI enhanced our audit teams' capacity to review the SCM processes.
- **We will continue to build relationships with public bodies** and improve the processes of collaboration – from **referrals for investigations, to proactive sharing of risks identified during the audits, to enhancing the capacity of the audit teams**



- A supreme audit institution cannot drive good performance and management of public resources on its own
- We are calling all role players to be active in improving the management of public resources and service delivery.
- We will continue to make an effort to:
 - understand the mandate of relevant role players
 - provide insight on their performance
 - and locate solutions for substandard or undesirable outcomes

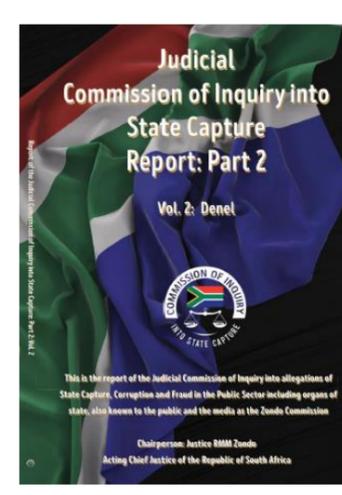
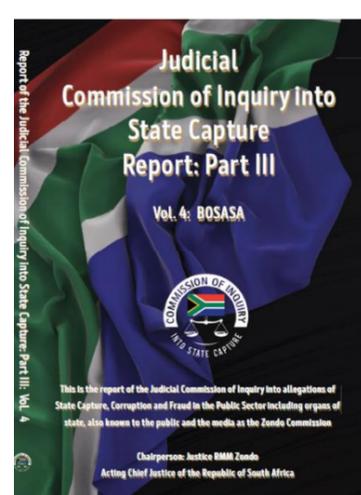
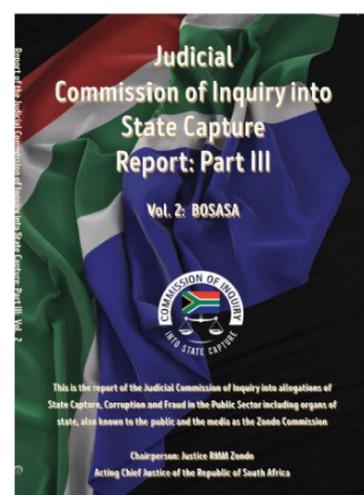
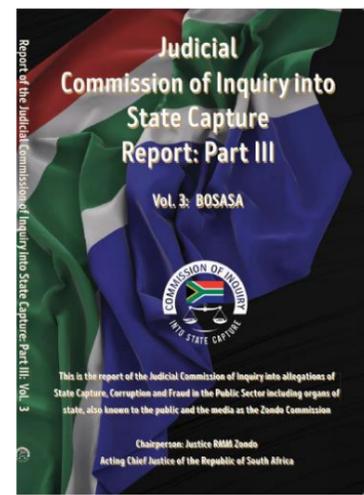
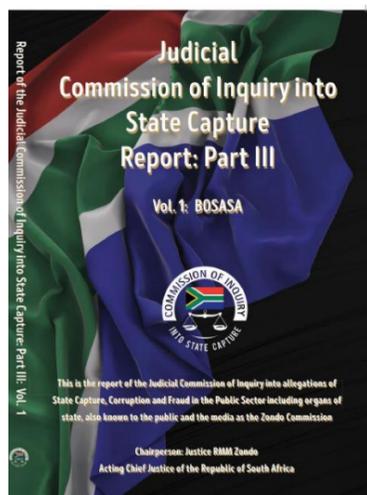
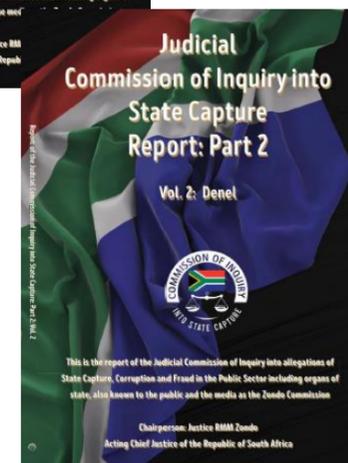
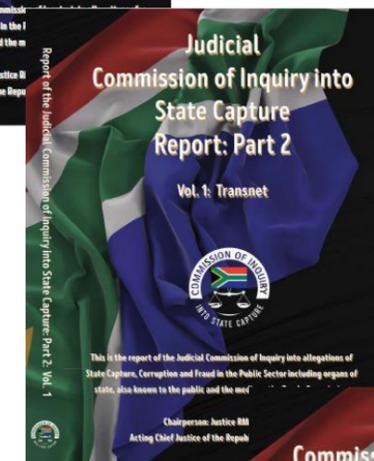
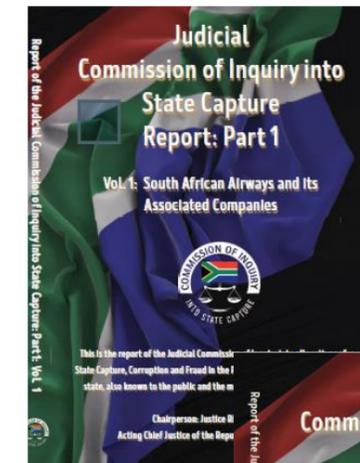
with the intention to influence improvement in performance, that in turn will bring an improvement in the lives of ordinary South Africans.



- “...The auditors failed dismally to detect any of the fraud and corruption...” par 10.
- “...Auditors who correctly discharge their responsibilities and who will call management to account for breaching their obligations under the PFMA will contribute significantly to curbing the tide of corruption and irregular conduct that engulfed some of South Africa’s SOEs over a number of years ...” par 967

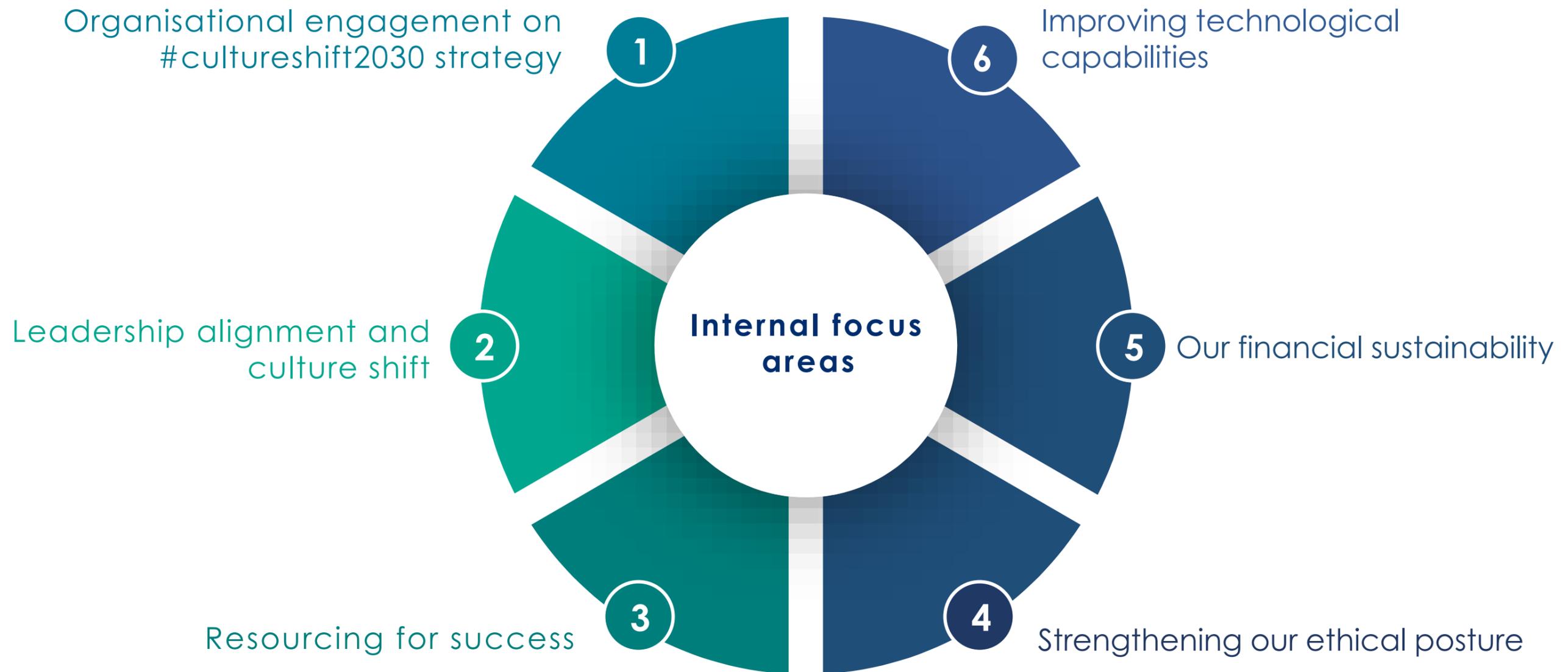
We commit to develop and execute a programme that considers the commission’s findings, observations and recommendations on our:

- Audits and audit risk assessments, scoping and processes
- Audit methodology and its effectiveness, as well as
- Skills, systems and tools to perform fraud data analytics and identify indicators of fraud corruption and capture as early as possible
- Expanded narrative on fraud and corruption



WHAT THE ORGANISATION NEEDS





STRATEGIC GOAL 1

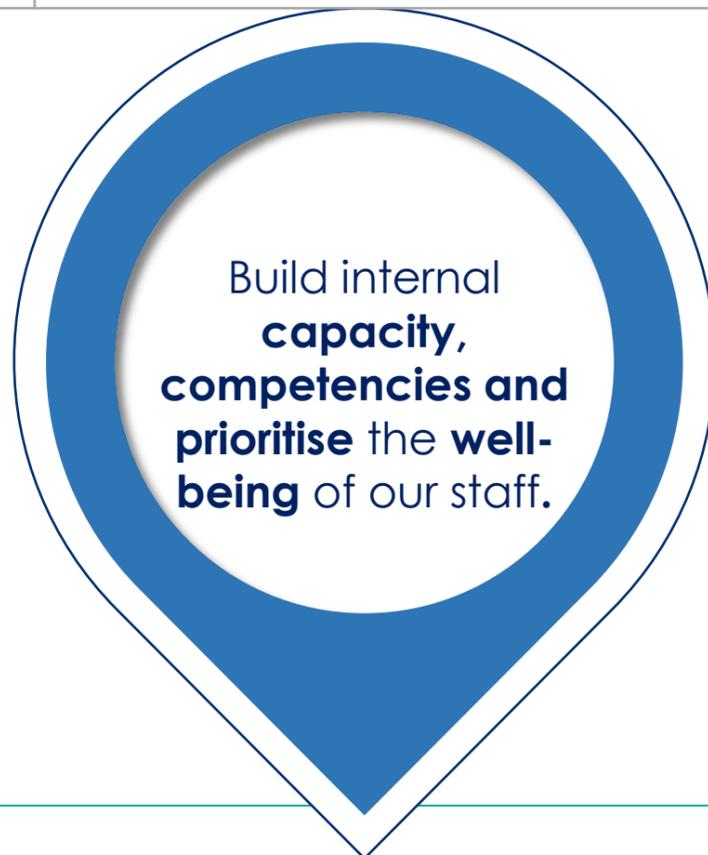
SUSTAINABILITY

Acquire, develop and maintain the quantity, quality and configuration of resources and capabilities to achieve and sustain our desired levels of impact

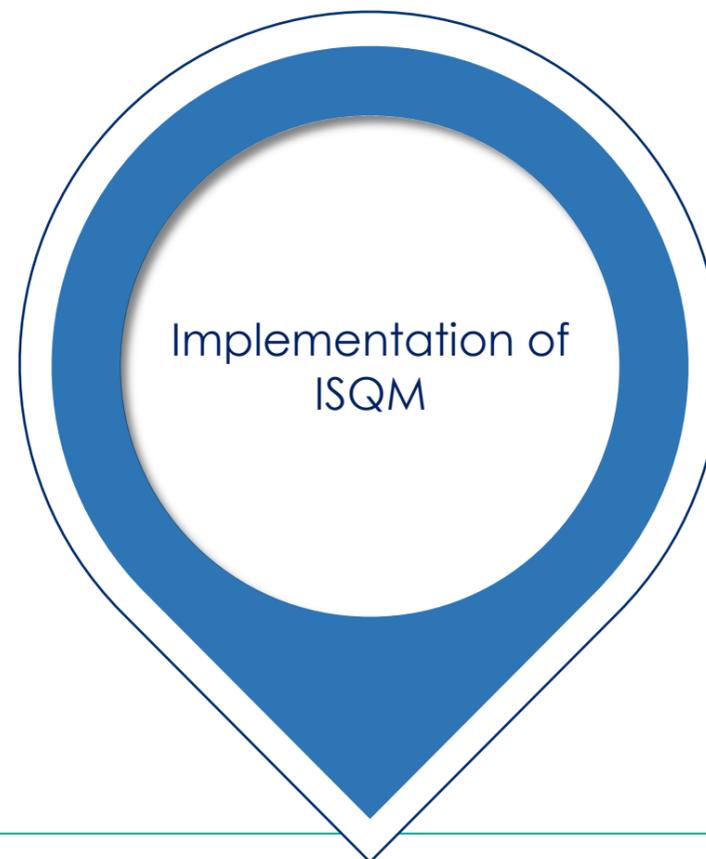
Targeted outcome	Key performance indicator	Targets		
		2023-24	2024-25	2025-26
Financially viable and sustainable AGSA	% net surplus	1% – 4%	1% – 4%	1% – 4%
	Cash safety margin (months)	2 – 2,5	2 – 2,5	2 – 2,5



Targeted outcome	Key performance indicator	Targets		
		2023-24	2024-25	2025-26
Engaged, high-performing employees retained	Turnover of high-performing employees	<6%	<6%	<5%
	Achievement of APC pass rate	50%	55%	60%
	Achieve AGSA desired culture rating	Improve culture rating – self-assessment	Improve culture rating – 2% over baseline – independent assessment	Improve culture rating – self-assessment



Targeted outcome	Key performance indicator	Targets		
		2023-24	2024-25	2025-26
Improved quality of our audits	% adherence to quality standards: audit engagements	80% – 90% (C1, C1#, C2 and C3 rating)	80% – 90% (C1, C1#, C2 and C3 rating)	80% – 90% (C1, C1#, C2 and C3 rating)
	Evaluation of effective AGSA system of quality management by the AG	Reasonable assurance obtained	Reasonable assurance obtained	Reasonable assurance obtained



Targeted outcome	Key performance indicator	Targets		
		2023-24	2024-25	2025-26
High levels of ethical behaviour (staff seen to be beyond reproach and decisively responding to acts of unethical behaviour)	Achieve desired ethics maturity rating	Conduct external ethics maturity assessment	Improved ethics maturity level (self-assessment)	Improved ethics maturity level (independent assessment)
Safeguarded organisational reputation as exemplary organisation	External audit opinion	Clean audit	Clean audit	Clean audit



STRATEGIC GOAL 2

EFFICIENTLY

Unlock latent capacity in the existing resource base and our people and lower the cost and effort with which we derive each marginal unit of quality, insight, influence and enforcement

Targeted outcome	Key performance indicator	Targets		
		2023-24	2024-25	2025-26
Improved process efficiencies	Improve our business efficiency	2% – 3% improvement against baseline	8% – 10% improvement against baseline	11% – 15% improvement against baseline
Digitally transformed and technologically agile organisation	Implementation of approved audit software project roadmap	Commencement of project and achievement of targets as per plan	Software development and implementation as per plan	Software development and implementation as per plan
	Implementation of enterprise resource planning project roadmap	Commencement of project and achievement of targets as per plan	Software development and implementation as per plan	Software development and implementation as per plan





STRATEGIC GOAL 3

Shift public sector culture

Move a critical mass of auditees towards organisational cultures characterised by performance, transparency, integrity and accountability



Targeted outcome	Key performance indicator	Targets		
		2023-24	2024-25	2025-26
Clarity on how culture shift will be deployed and driven per auditee	Implementation of culture shift programme across each category of our auditee base	Refinement of culture shift framework and achieved mutual understanding among identified role players	Implementation of programmes in identified value chains and metropolitan municipalities	Implementation of programmes in identified secondary cities and state-owned enterprises
Improvement in lived realities of ordinary South Africans	Demonstrated social impact achieved using AGSA outputs	Identified initiatives leading to improved service delivery	Implemented initiatives leading to improved service delivery	Observed improved service delivery

Regularly publish status of **auditees' movement along cultureshift continuum**

Develop and enhance **our audit processes, methodologies and frameworks to cause culture shift**

Form relevant **culture shift coalitions**



STRATEGIC GOAL 4

INSIGHT

Generate audit insights that illuminate understanding, drive action and yield results

Targeted outcome	Key performance indicator	Targets		
		2023-24	2024-25	2025-26
Audit products designed, planned for and delivered in manner that amplifies culture shift	Multi-year audit plan with accompanying product vision	Audit insights derived and shared with stakeholders as per plan	Audit insights derived and shared with stakeholders as per plan	Audit insights derived and shared with stakeholders as per plan
	% completion of planned discretionary audit work	100% completion of planned discretionary audit work	100% completion of planned discretionary audit work	100% completion of planned discretionary audit work
	Favourable stakeholder view on unique insights delivered by AGSA	Establish baseline for how stakeholders value our insights	75% average rating	75% average rating

Develop, implement and institutionalise sustainable **model for rendering real-time auditing service**

Establish **centralised data analytics** and business intelligence capabilities

Obtain National Treasury permission for certain **categories of auditees to deviate from legislated disclosure requirements**

Accelerate **civil society organisation partnership** programme



STRATEGIC GOAL 5

INFLUENCE

Move stakeholders from mere awareness to action and advocacy of our messaging

Targeted outcome	Key performance indicator	Targets		
		2023-24	2024-25	2025-26
Improved stakeholder sentiments about the AGSA	% implementation of stakeholder sentiment improvement plan	90% – 100% of the plan for the year	10% improvement in stakeholder sentiment	90% – 100% of the plan for the year
Improved public sector culture through the combined efforts of the accountability ecosystem	Report on and implement measures to improve the performance of the accountability ecosystem	Implement identified actions to improve performance of accountability ecosystem Report on the performance thereof	Implement identified actions to improve performance of accountability ecosystem Report on the performance thereof	Implement identified actions to improve performance of accountability ecosystem Report on the performance thereof



STRATEGIC GOAL 6

ENFORCEMENT

Apply powers to directly and indirectly recover resources lost to the state and taxpayers and ensure application of consequences for wrongdoing

Targeted outcome	Key performance indicator	Targets		
		2023-24	2024-25	2025-26
Demonstrated effectiveness of the MI process	Finalise implementation of MI process across all auditees	80% of auditees	100% of auditees	MI impact report and improvement plan



2023-24 BUDGET



We will optimise access to resources required to fulfil our mandate

Current funding model	Compliance		
	2021-22	2022-23	2023-24
Self-funding	Yes	Yes	Yes
Mark factor	Yes	Yes	Yes
No capping on tariffs	Yes	Yes	Yes
Tariff increase in line with salary increase	Yes	Yes	Yes

Funding principles and key performance indicators	2021-22 Actual	2022-23 Budget	2023-24 Budget
Own hours %	74%	80%	81%
CWC %	22%	16%	15%
S&T %	3%	4%	4%
Gross profit %	33%	39%	40%
Overheads %	31%	41%	37%
Surplus/deficit %	0.9%	0.6%	1.4%

1. The current funding model was confirmed by Scoag in 2008. Since then, all principles and the key financial indicators have been consistently met.
2. However, some of the desired surpluses have not translated into cash, resulting in a backlog in major capex and infrastructure projects.
3. Our budgeted cash cover for 2023-24 is 2,0 months, in line with our blue strategic target of **2 - 2,5** months



- In line with the culture shift strategy, we will be reviewing our funding model to consider pricing our services based on the value of insights (messages) we provide to our auditees and other stakeholders, instead of salaries and volume of recovered hours.
- The organisation is driving a strategy to improve operational processes, technology & audit methodology with the aim to improve audit efficiencies i.e. leverage on technology by automating our business processes and audit process,
- The investment in technology will result in a move in cost structure from human aspect to technology. This will not translate into hours and rates as technology will eliminate the mundane tasks that are done by people by automating our processes.
- Whilst our funding model has been financially sound to fund operations and minor capex projects in the past, it has however been unable to fund major capex projects.
- The reviewed funding model will be shared with ScoAG for consideration and approval once it has been finalised.

(R million)	Actual 2021-22	Budget	
		2022-23	2023-24
Audit income	4 394	4 355	4 569
- Own hours	3 269	3 519	3 720
- Contract work	1 125	836	849
Direct costs	2 962	2 665	2 750
Gross profit	1 432	1 691	1 819
Other income	66	74	83
Overhead expenses	1 502	1 787	1 837
Net surplus/(deficit)	-4	-22	65
Appropriation – PAA	44	50	-
Net surplus/(deficit)	40	28	65

- Budgeted revenue for 2023-24 is expected to grow by 5% from the 2022-23 budget, which is in line with the projected CPI of 4,6% to 5%
- Budgeted overhead expenses are expected to grow by 3%, which is below CPI, mainly driven by annual salary increases and investment in staff development. Some of the budgeted overhead expenses were decreased or kept the same as 2022-23 budget in support of the cost containment strategy



Description	Budget 2022-23	Budget 2023-24
	R million	
Motor vehicles	2	2
Furniture and equipment	5	5
Computer equipment	79	102
Computer software	115	237
Leasehold improvement	5	5
Total	206	351

- The year-on-year capex increase is mainly driven by investment in computer software and hardware in support of the improvement in ICT infrastructure and systems
- The 2023-24 budgeted surplus is not sufficient to cover the capex and we will need to draw from our reserves, which will have a negative impact on our cash cover going forward



Key update to the 2022-23 audit cycle auditor-general directive





To consult Scoag on the key updates to the auditor-general directive for the 2022-23 audit cycle in line with PAA section 13

PAA section 13

The auditor-general (AG) must determine the **standards, frequency, nature** and **scope** of audits.

In planning for the **2022-23 audits**, some changes have been made on the audit **standards** and **nature** of audits to be applied and performed respectively. These changes have impacted the directive and they form the basis of this Scoag consultation as required by PAA Section 13.

The updates to the directive result from **newly developed audit methodologies** to be applied in the 2022-23 audit cycle.



OBJECTIVE

The differentiated audit methodologies project supports the AGSA strategic goal to **drive a public sector culture shift.**

Amendments to the PAA provided opportunity for a **differentiated approach to mandatory audits** (financial statements, predetermined objectives and compliance).

Objective of project was to develop additional methodologies for mandatory audits – creating a **wider range of methodologies to match to differences** in size, nature and mandate of auditees



NEW METHODOLOGIES DEVELOPED

Methodologies were developed for the review of financial statements and non-assurance engagements (findings engagement) for the audit of predetermined objectives (AoPO) and compliance.

- Piloted in 2021-22 PFMA cycle and were successful in delivering on objectives of efficiency while still delivering insights
- Piloting also being done in 2021-22 MFMA cycle

Based on outcome of pilots **methodologies will be implemented from 2022-23 audit cycle** as follows:

- Review of financial statements – limited to small auditees where such reviews will be appropriate
- Findings engagement for AoPO - auditees selected based on their size and nature of mandate
- Findings engagement for compliance – all auditees going forward



KEY SUCCESS

- Deliver mandated audits in a **more efficient** manner
- **Continued integration** of all audit areas (AFS, AOPO and compliance)
- Continued ability to **address risks** identified appropriately and not resulting in a change in audit outcomes

- Still provides the **required information** for the formulation of **key messages**
- Producing an audit report that **is easy to understand and use**
- Limiting concerns from stakeholders through **effective upfront engagement**



Key updates to the directive for the 2022-23 audit cycle are as follows:



Implementation of the new methodologies will impact:

The standards and nature of audits as determined in the directive



Necessary updates to give effect to the implementation of the new audit methodologies in the 2022-23 cycle:

1. Inclusion of a **findings engagement methodology** using relevant principles from the pronouncements by the IAASB. This methodology was established as the pronouncements by the IAASB and the ISSAIs do not have an existing standard for a findings engagements for the audit of compliance and/or AoPO (para. 5, 11-13, 18 & 20 of the draft directive).
2. The implementation of the findings engagement for all compliance at all auditees also resulted in the removal of the following under the audit of compliance: (previous para. 10-15 of the directive)
 - ISAE 3000 and the consequent listing of subject matters and legislation as this was only required for limited assurance engagements by the standard.

FURTHER CONSIDERATIONS

No further significant updates have been made to the directive.

(*All other updates are considered editorial and/or minor updates and will not be dealt with in these slides. Refer to attached draft tracked changes document)



Decisions required



Today's decisions

- Comments on the strategic plan and budget
- Comments on the AG's annual directive
- Confirm the date(s) for the discussion of the status of the Mis

We appreciate the decisions received through the report submitted to Parliament

- Approve the retention of surplus
- Confirm the re-appointment of the external auditor

THANK YOU

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