



Promoting a culture of **accountability**

INTEGRATED ANNUAL REPORT 2022-23

Scoag engagement – 03 Nov 2023



AUDITOR-GENERAL
SOUTH AFRICA

Our vision, mission and values

VISION

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



MISSION

The Audit-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.



2

Our values underpin the culture of our organisation, build on the principles of mutual respect, trust, courage and ethical behaviour.



**WE CARE FOR
EACH OTHER**



**WE BUILD
TRUST**



**WE DO THE
RIGHT THING**



**WE EXCELL IN
ALL WE DO**



Purpose of the engagement

1. Account for the AGSA's 2022-23 performance (IAR)
2. Discuss the AG's request to retain the 2022-23 surplus
3. Hear the AGSA's audit committee's report
4. Approve the appointment of the AGSA's external auditor
5. Present the special report on MIs in the 2021-22 MFMA audit



AGSA 2022-23
Integrated Annual Report



Our strategic aspirations

We aspire

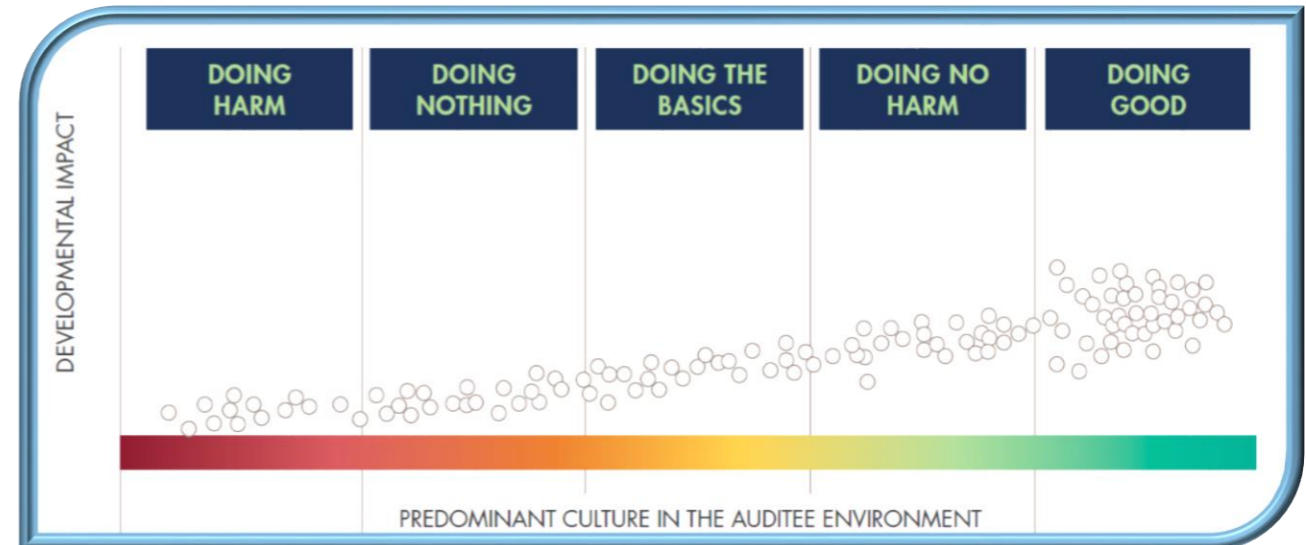
to have strong, more direct and consistent impact on improving the lived reality of ordinary South Africans

Accountability ecosystem

Broad-based, effective network of stakeholders that drive and deepen public sector accountability

Our theory of change is to

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



Our strategic goals

Insight

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

Influence

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

Enforcement

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

Shift public sector culture

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

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

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



Operating conditions

Complex audit environment

- State-owned enterprises audit portfolio has grown over the years, increasing the number of specialised and complex environments that we audit.
- Real-time audits has demonstrated the need for specialised audit skills, especially investigations skills.
- The poor quality of the annual financial statements and performance reports submitted by many of our auditees continues to absorb valuable audit time.
- Pushbacks and litigation often compromise our ability to meet our legislated deadlines and cause us to deploy scarce resources towards legal fees.

Persistent fraud and corruption

- We are faced with the continuous misuse of state resources. We are determined to provide insight and transparency on indicators of fraud, corruption and state capture that we detect through our audits.
- Many civil society organisations take up the fight against the spillage of public resources within the scope of their work. We will continue to fine-tune our collaboration with CSO for utilisation of their insights into our audit work and for dissemination of the audit outcomes.
- This will allow our stakeholders to continue holding government accountable, which in the long term should lead to improved state performance and betterment of lives of people.



Operating conditions

Fiscal challenges

- The persistent lack of prudence in spending, inadequate financial management and inadequate accountability for financial performance erode the limited public funds available, and the scope for beneficial spending on service delivery is severely limited.
- Stagnation in economic growth presents government with further fiscal constraints to delivering its programmes and generating revenue, especially at local government level, which exerts continued pressure on audit fees.
- The increased number of auditees in financial distress is compounded by the rise in the public's demands for service delivery and accountability, protests and destruction of public assets.
- Collecting outstanding debt, predominantly from local government and ailing state-owned enterprises, remains a challenge and threatens our sustainability.

Cyberattacks and new technologies

- Cyberattacks are on the rise globally, we recognise the potential for data breaches and have taken steps to protect our information from such threats.
- The environment has seen an influx of new technologies, specifically the pervasive use of digital tools, robotic process automation, machine learning and lately, the use of artificial intelligence.

Insufficient improvement in audit outcomes

- Continuous to limit the experience of citizens in respect of service delivery and undermines the trust in government.



Insight

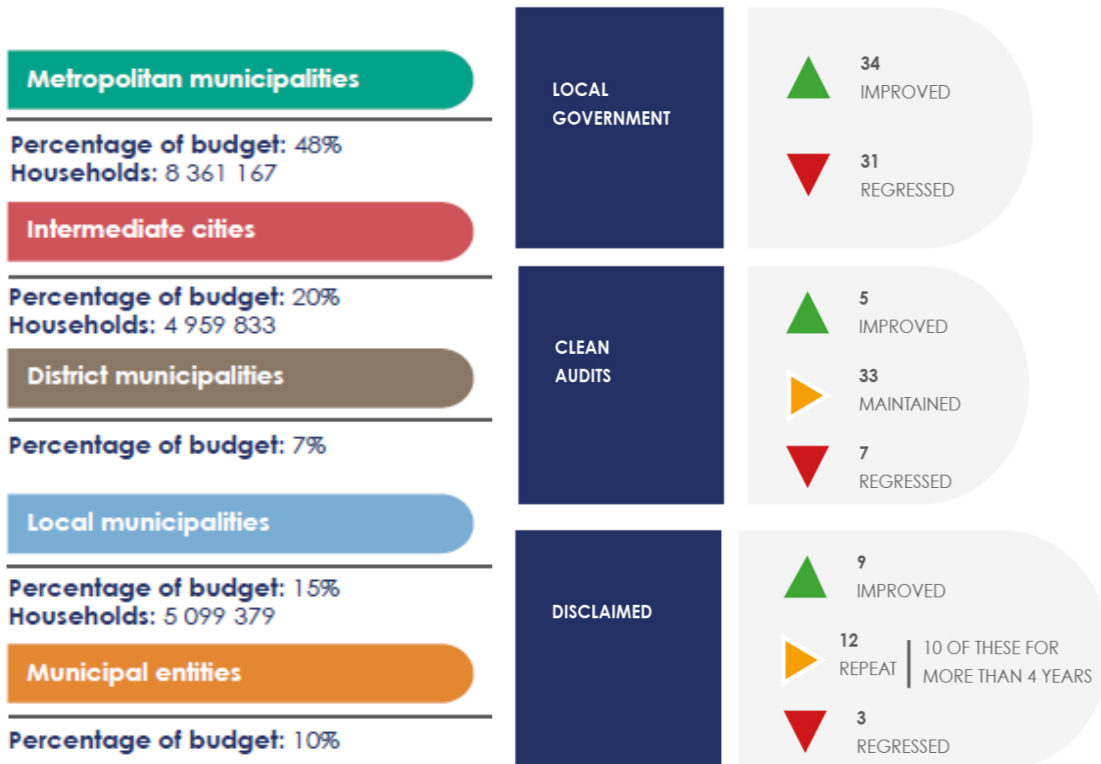


2021-22 cycle audit outcomes

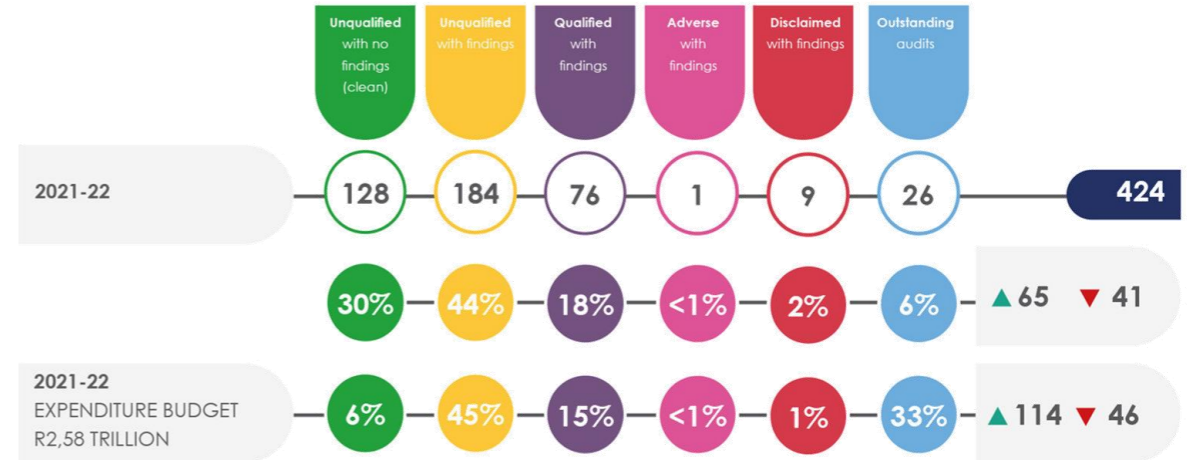
General reports

serve as a state-of-governance account

They look at how all three tiers of government have performed, provide a comprehensive analysis of the audit outcomes and represent the main source of insight into the stewardship of public funds in the country.



Audit outcomes of national and provincial audits



Audit outcomes of state-owned enterprises (excluding subsidiaries)



Our general reports focus on reporting on service delivery



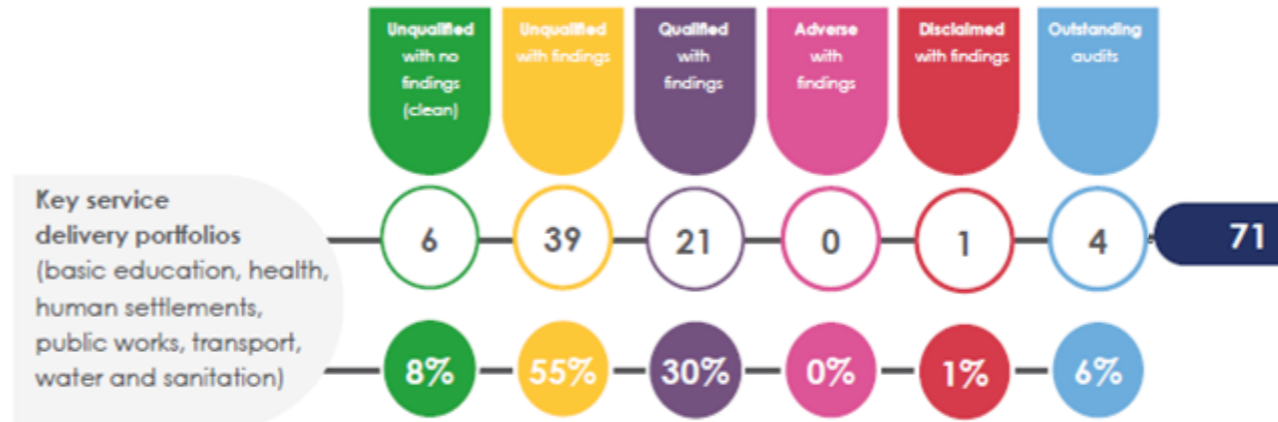
Budget
= R2,58 trillion

key service delivery portfolios and SOEs
30% of the budget

Consistently worst outcomes

Auditees from these groups account for 58% of the outstanding audits and 31% of the modified audit opinions (qualified, adverse and disclaimed).

Audit outcomes of key service delivery portfolios



We **changed the way we wrote and positioned the messages on service delivery**. Along with key recommendations and commitments, the insight into the impact of these results are meant to stimulate understanding and discourse to encourage a shift in culture.

Audits outstanding

National and provincial

26 audits incomplete at 15 September 2022

15 did not submit financial statements
6 submitted financial statements late
5 delayed the audit

11

Local government

16 audits incomplete at 17 February 2023

3 did not submit financial statements
12 submitted financial statements late
1 delayed the audit



- Published the **water sector report**
- Issued a **special report related to the Postbank cybersecurity risk**
- Issued the **performance report on the rehabilitation of derelict and ownerless mines**, which highlighted the lived realities of citizens by indicating the possible health and safety concerns for local communities around these mines
- A special audit report that dealt with the immediate activities of the **flood disaster relief** provided the public with insight on the response to the disaster. Our insight elicited an admission by government that it was ill-prepared to manage disasters, and it provided commitments that we monitor on an ongoing basis



Improving our ways to deliver insights



- **Using multidisciplinary teams** on audits continues to be effective in delivering tailored audit insight. We harness a diversity of skills and expertise to achieve complex audit objectives and to navigate the complexities of an environment associated with high expenditure and greater audit risk
- We underpin the success of our audit data analytics by **acquiring appropriate tools**, e.g. transforming and analysing vast volumes of data, advanced analytics, and other techniques.
- We **used dashboards** to visualise auditees' business in a succinct and complete way to perform enhanced data analytics and to identify key risks



Improving our delivery of insights

To direct how audits are planned and carried out so that they amplify our strategy's objectives and demonstrate the urgency of continued relevance to citizens, we developed an **integrated audit plan** to define key messages. This will inform scoping decisions, stakeholder plans, resourcing and the tools required to support the audit machinery in its planning, execution and reporting at a strategic level.

We expanded our menu of methodologies for different categories of auditees, creating opportunities for efficiencies and a simpler audit process for specific auditees. Piloting and implementing approvals were completed in 2022-23 for three new methodologies:

- financial statements review
- audit of performance objectives (AoPO) findings engagement
- compliance findings engagement

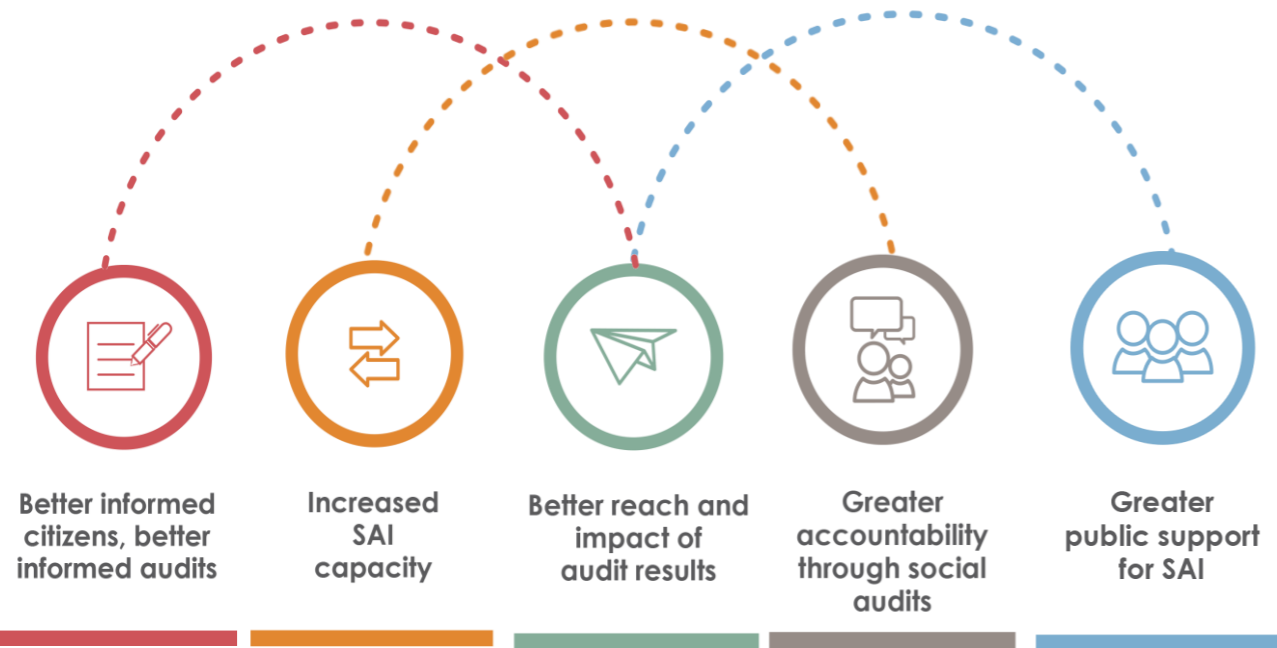
The integrated one-year audit plan (OYAP) was developed using insight from integrated environmental scanning information and the audit risk register to:

- determine the audit themes
- identify the required AGSA tools and levers that will enable audit execution
- highlight the key institutions and clusters where work will be undertaken



Collaboration with CSOs proves beneficial

In our unique way we strengthen democracy by giving effect to the fundamental human rights entrenched in the Constitution. The missions of most CSOs are in some way linked to basic human rights. They are therefore ideally positioned to **feed insight about basic human rights, citizen experiences and service delivery expectations into our audit work**



Benefits of SAI-civil society engagement

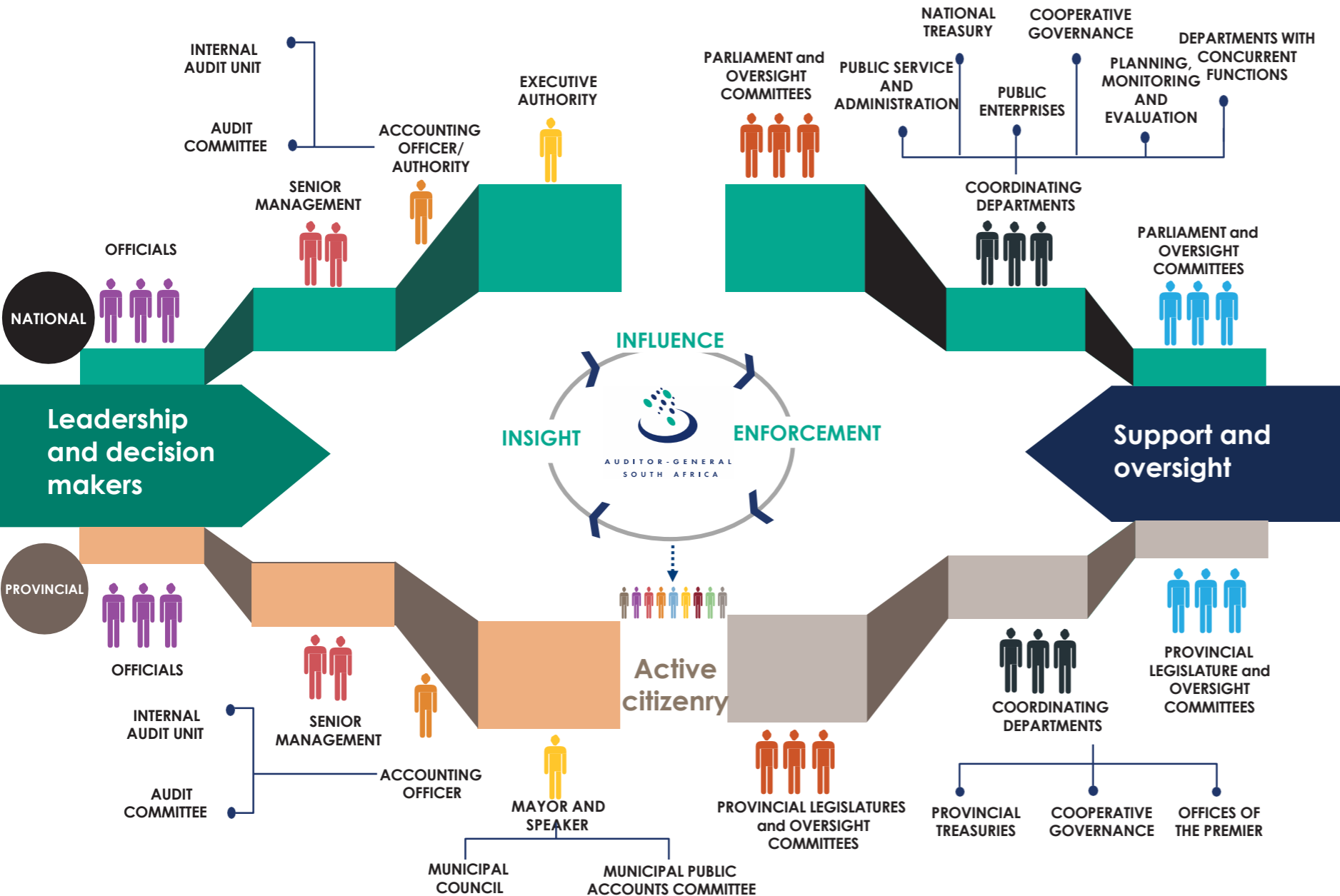
- **Basic processes to identify CSOs** for engagement at BU level were used throughout the year
- **CSO insight** worked well as input to audit cycle planning
- We fully implemented using CSO insight on sector work and to inform the related messaging. Key examples were using **CSO insight in the flood relief audit processes and on the metro financial health, indigent debt and equitable share analysis**
- An **enabling toolkit** to support CSO work of the was made available and enhanced as needs evolved



Influence



Promoting active accountability ecosystem



Our stakeholder engagements remained focused on driving impact and change in line with our strategy. The engagements were planned carefully and in a systematic way, considering up-to-date environmental insights, platform selections and targeted key messages for each stakeholder. Central point in the discussions was the concept of accountability ecosystem

We encourage all roleplayers to work together with an awareness of how their respective roles influence both the roles of others within the ecosystem and the ecosystem at large

The next step in the process is to report on the overall performance of the system and to define plans to improve its performance



Constitutional stakeholders engagements intensify

Objective 1: to provide an understanding of the audit outcomes, the key failures that lead to disappointing outcomes and material irregularities, and the areas that need to improve

Objective 2: to obtain commitments to drive improvements



Annual target for 2022-23
524 engagements

681 (130%)

actual engagements



Non-constitutional stakeholders across the board

To achieve the required culture shift, we must maintain meaningful relationships with our strategic partners in the accountability ecosystem

Standard
setters:

ASB
IRBA

Departments:

DPME
NT
Salga

Citizens

Media
Universities
NGOs

Professional
bodies:

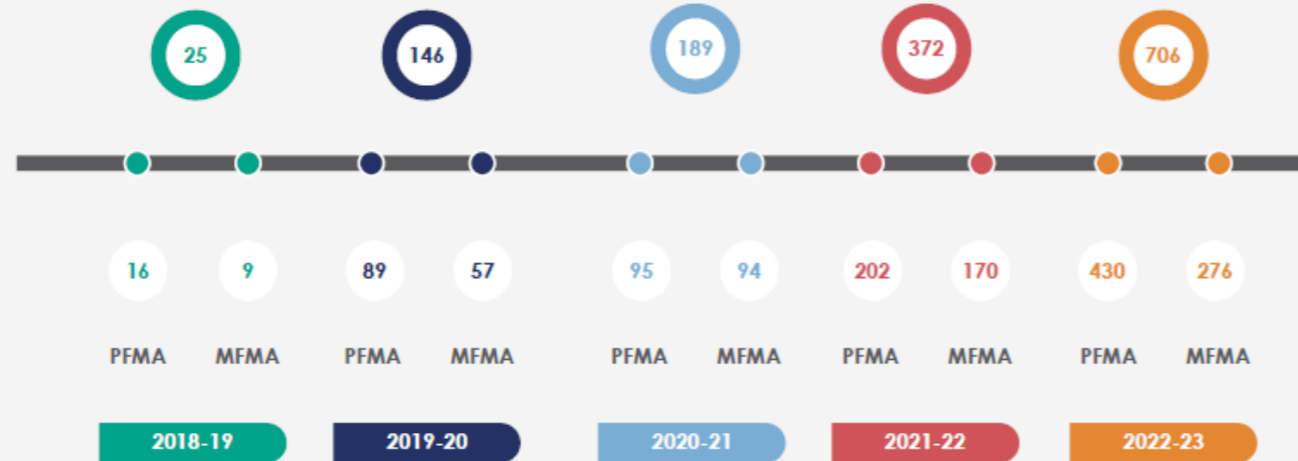
Saica
IIASA
PSACF



Enforcement



Good progress on the implementation of our mandate



We will achieve full implementation at all 879 institutions in the 2024-25 financial year

We are nearing full implementation of our expanded mandate

Since the PAA amendment:

- we have become confident in applying this unique mandate
- have built skills and capacity
- have now shifted our focus towards extracting maximum impact from the MI mechanism

Challenges faced in implementing material irregularity process

- Instability in public sector leadership positions
- Requests for extensions on implementation dates that caused delays in the material irregularity process
- Delays in investigations referred to public bodies
- Delays in public bodies signing memorandums of understanding (MoUs)
- Delays in obtaining information that extended the time auditors spent on an audit



MI process is making an impact

Impact of MI process (PFMA 2021-22)



From **INACTION** to **ACTION**

179 Mis on **non-compliance and fraud** resulting in:

169 material **financial loss** (estimated R12 billion)

9 substantial **harm to public sector institution**

1 **misuse of material public sector resource**

No actions were taken to address **82%** of matters until we issued notifications



ACTIONS taken by **AUDITEES**

R636 m Financial **loss prevented**

R509 m Financial loss **in process of recovery**

R14 m Financial loss **recovered**

39 **Internal controls improved** to prevent recurrence

36 Responsible officials identified and **disciplinary process** completed or in process

15 **Fraud/criminal investigations** instituted

5 **Supplier contracts stopped** where money was being lost



Impact of the MI mechanism during the 2021-22 cycle

Impact of MI process (MFMA 2021-22)



From **INACTION** to **ACTION**

No actions were taken to address **87%** of matters until we issued notifications

Status of 182 active and assessed MIs

29 Resolved MI

103 Appropriate action taken to resolve MI

50 No appropriate action taken – invoked our powers



ACTIONS TAKEN BY AUDITEES

R310,16 m

Financial loss **in process of recovery**

R150,55 m

Financial loss **recovered**

R18,85 m

Financial loss **prevented**

46

Internal controls improved to prevent recurrence

58

Responsible officials identified and **disciplinary process** completed or in process

14

Fraud/criminal investigations instituted

1

Supplier contracts stopped where money was being lost

15

Outstanding financial statements submitted



Shift public sector culture



Culture shift – categorisation of auditees

To address the twin challenges of poverty and inequality, the state requires well-run and effectively coordinated state institutions staffed with skilled public servants who are committed to the public good and are capable of delivering consistently high-quality services, while prioritising the nation's developmental objectives

If the public service is to deliver on its part of the constitutional promise, it must embrace a culture of performance, accountability, transparency and integrity. It is not until such a culture is entrenched within the public service that we will begin to see consistent, meaningful and sustained improvements in audit outcomes

To this end, we have:

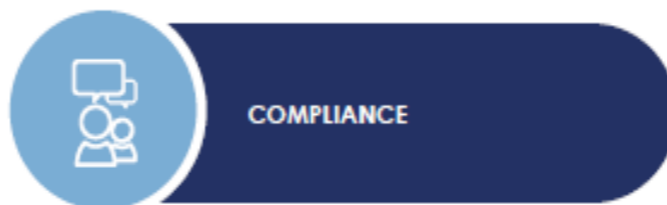
- established measurement principles
- developed detailed plotting criteria based on our definitions
- categorised criteria into four cardinal areas linked to culture attributes we seek in the public sector
- Piloted our thinking at 422 auditees
- Developed a tactical approach to driving culture change by identifying practical initiatives for the auditors to implement



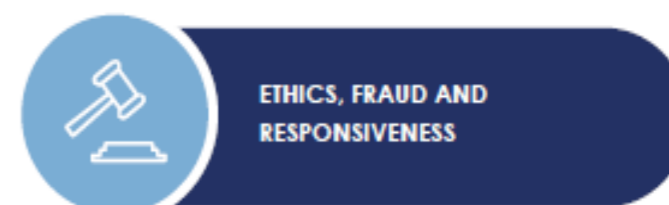
Deals with financial reporting and financial health
(transparency and performance)



Deals with planning, reporting and delivery
(transparency and performance)



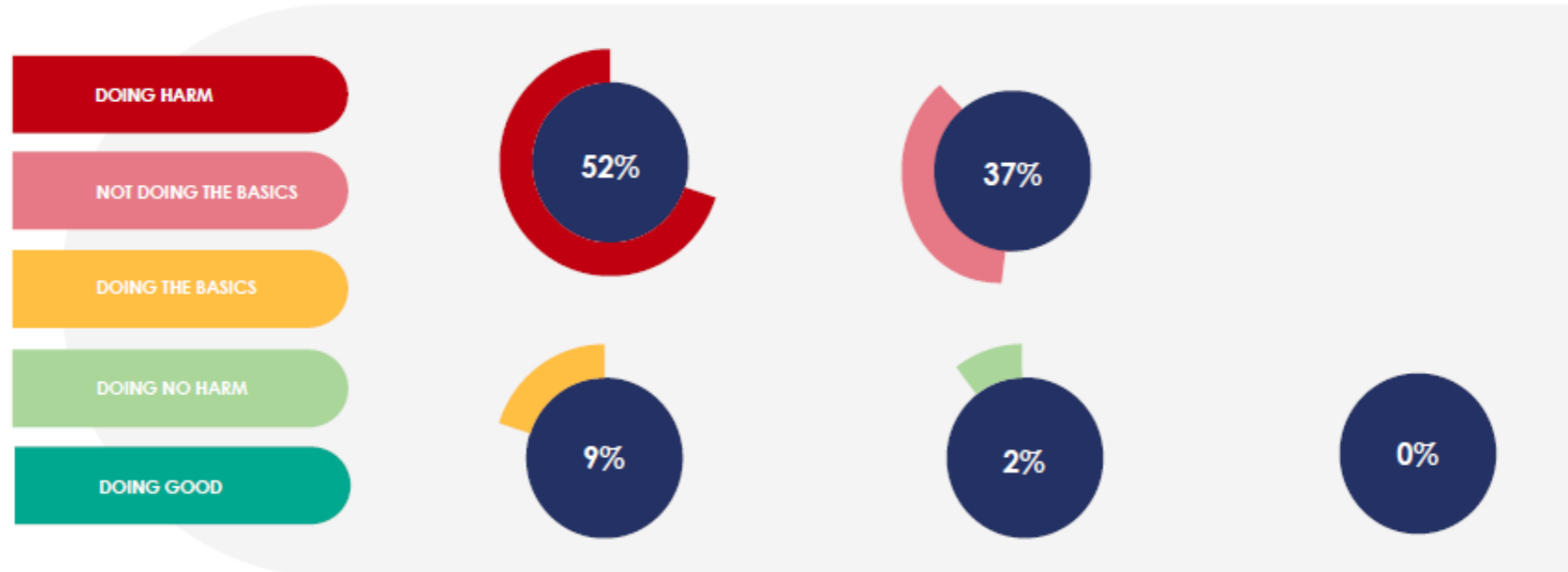
Deals with compliance with legislation
(accountability and integrity)



Combines most of the behavioural areas
(accountability and integrity)



Culture shift – categorisation of auditees



None of the institutions plotted fell into the category of doing good, and none of the local government auditees even achieved a doing no harm rating

This sets the bar high, which is firmly consistent with our message that a shift in culture to performance, accountability, transparency and integrity is urgently required

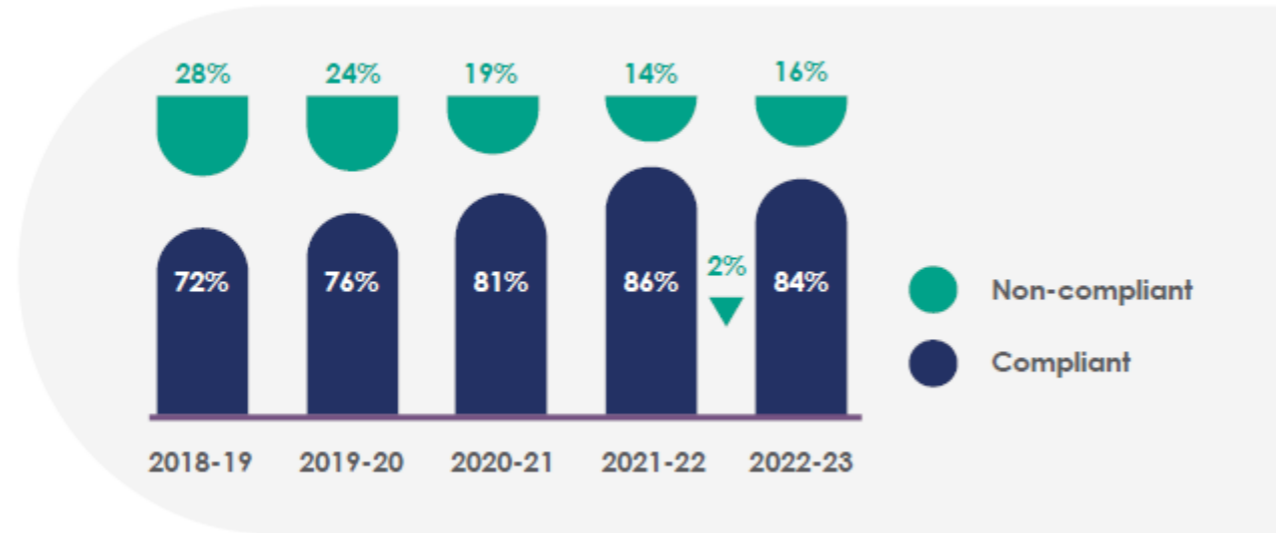
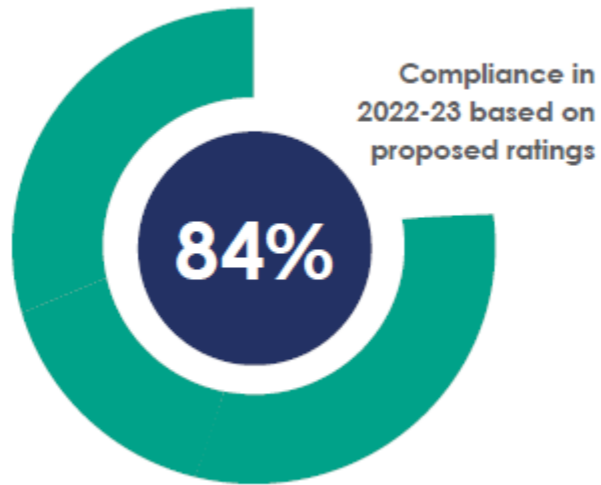
This is a tough starting position, given our ultimate vision for the success of our strategy: a minimum of 30% of institutions that we audit shifting to doing good by 2030, with less than 10% in the doing harm category.



Sustainably



Audit quality remains above target

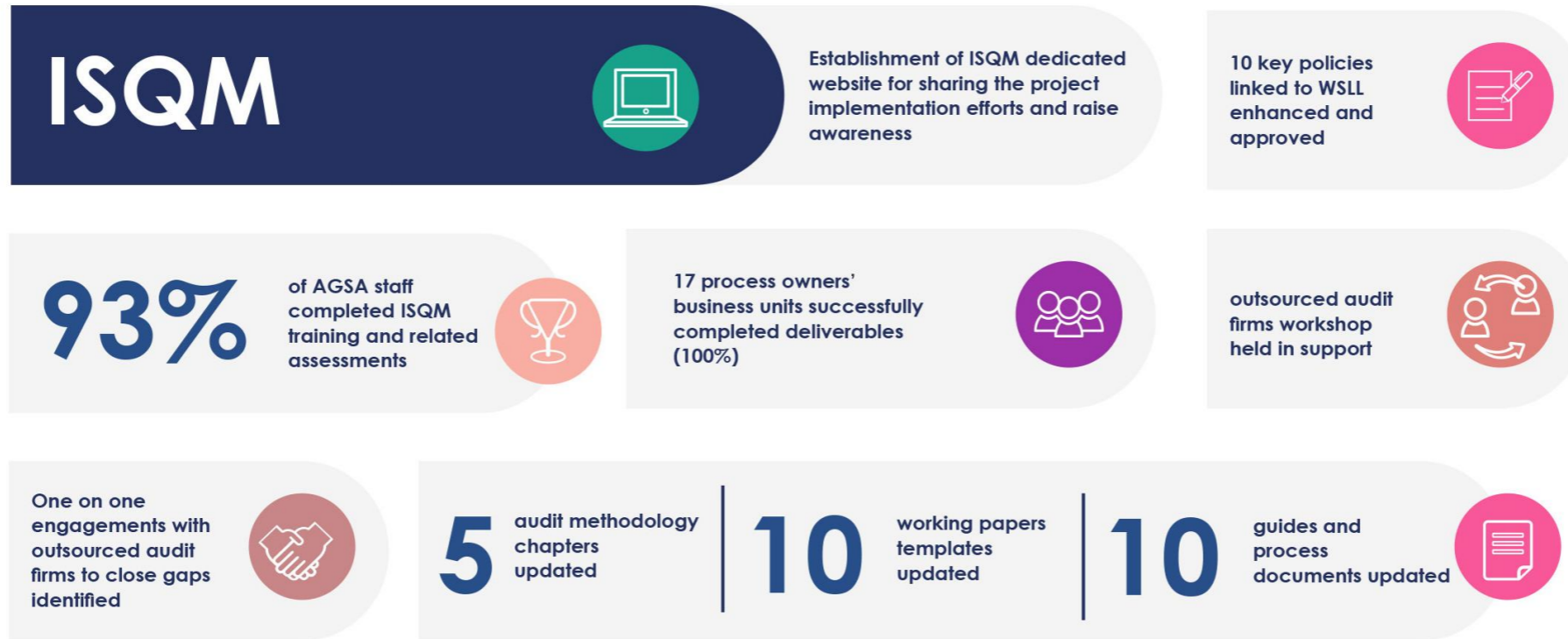


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28

The gradual and sustained improvement in the quality of audit outcomes over the past five years can be attributed to our investment in specific initiatives that have been implemented and embedded in the organisation over the years



Leading in the ISQM implementation



The new ISQM standard came into effect on 15 December 2022

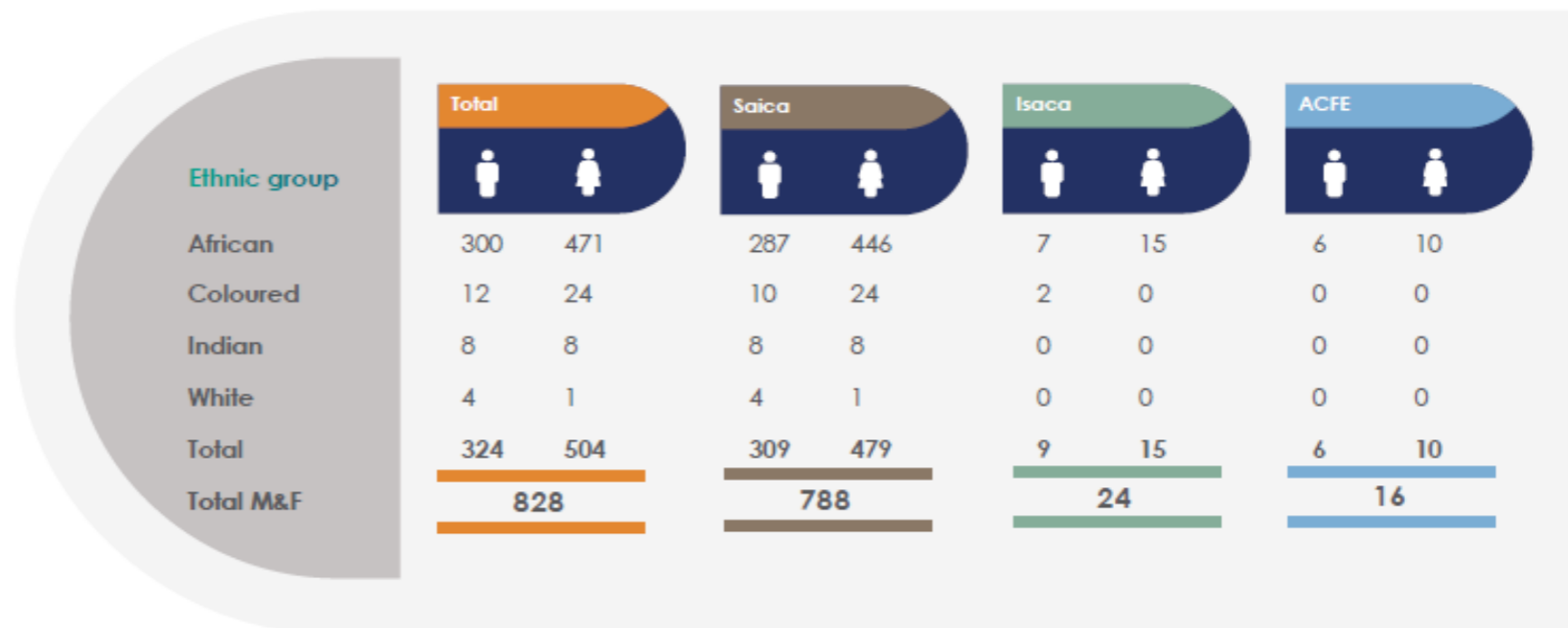
To comply with and adopt the standard within the prescribed timeline, we developed an effective system of quality management

Implementing the ISQM was a massive project that had an impact on every part of the organisation, e.g. training reached 3 414 participants who spent a collective 6 690,17 hours on our eLearning platforms with a pass rate of 89%



Young professionals' development

The management of our trainee auditors' path through their training is done against a well-considered tactical plan. Our support is for the chartered accounting, information system auditing and forensic auditing disciplines



Year	AGSA	Saica	% Of total
2019	149	2 024	7,36%
2020	61	1 653	3,69%
2021	308	3 549	8,68%
2022	239*	2 711	8,82%
TOTAL	757	9 937	

We are the 3rd largest contributor to successful candidates in the APC exams in the country, i.e. 9% of successful CTA candidates come from our training programme. This proportion has increased steadily over the last four years



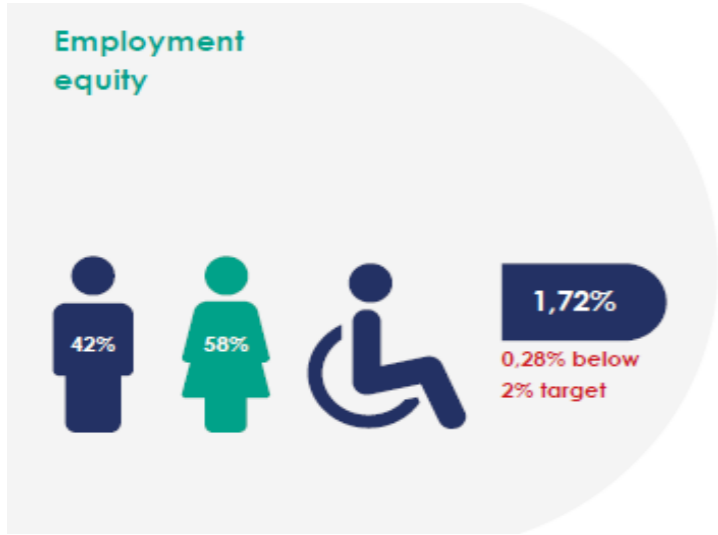
The professionalisation of the office continues

	Total		Acca		Saiga		Cisa		Saica	
	M	F	M	F	M	F	M	F	M	F
African	426	530	8	9	143	181	19	35	256	305
Coloured	48	31	1	1	13	6	3	1	31	23
Indian	61	45	2	2	20	11	5	1	34	31
White	112	85	5	5	55	26	11	4	41	50
Foreign	6	6	3	3		1			3	2
Total	653	697	19	20	231	225	38	41	365	411
	1 350		39		456		79		776	

Chartered accountants remain the largest group of audit professionals that we employ. We plan to grow the number of professionals in forensics and information systems auditing in line with our strategy as we aim to deliver differentiated audit insights to our stakeholders



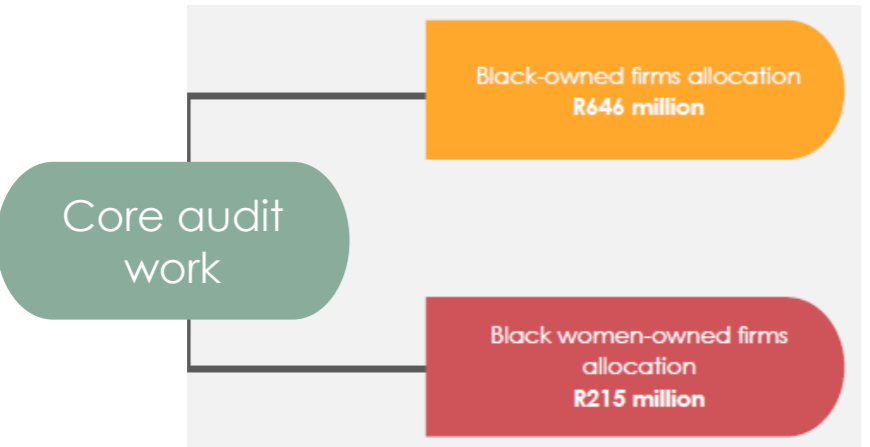
Unwavering contribution to transformation



Youth employment

In addition to building skills in the auditing and accounting professions, our trainee programmes also aim to contribute positively to youth employment

We are accessing opportunities to partner with non-governmental organisations that support youth employment initiatives



Enterprise and supplier development

We aim to accelerate growth and the sustainability of black owned enterprises in the auditing and accounting industry by assisting qualifying companies to overcome obstacles, increase their market competitiveness and, ultimately, to create jobs and become sustainable



Digitisation of our business

To allow us to adapt and thrive in the ever-evolving digital landscape, our *digital transformation strategy* is built on 4 pillars:

- enabling data-driven decisions
- strengthening our core operations
- improving our customer and user experience
- automating our business to bring efficiencies

Supported by two business units

Repositioned
ICT BU

Newly
established
DT BU

Major strategic projects for the year:

- Audit software programme to replace our current audit tools
- Improved cyber security through the replacement of the firewall
- Addressing audit findings – 96% of the findings due by end of the FY were closed
- Demonstrating the benefits of the use of bots by building *Imbewu* which automates the allocation of daily deposits
- IT service management tool
- Budget management tool

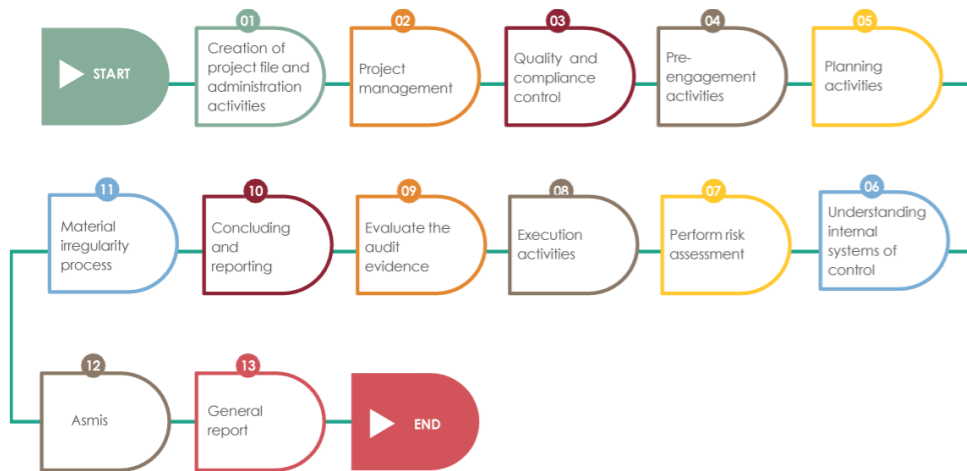


Efficiently



Audit process efficiency baseline established

To operate efficiently we must use our existing resources to create greater value.



- We assessed our audit process identified areas that would benefit from process automation
- introduced differentiated audit methodologies
- Integrated the use of data analytics and tools, e.g. DataSnipper
- intensified the monitoring of recoverable hours
- progressed well on the execution of our programme aimed at equipping our auditors with modern, responsive, efficient audit software

- Determined our business operating baselines
- Developed a proprietary tool for assessment of the efficiency of various business processes
- Rigorously implemented cost optimisation projects
- Defined efficiency targets to be achieved in the short to medium term, e.g. a specific ration of audit to support staff



Internal focus areas



Internal focus areas

Engagement and leadership alignment

- Our Leadership Summit was used to align all levels from senior managers and above
- Strategy roadshows where staff engaged leadership directly on implementing the #cultureshift2030 strategy
- Webinars, business unit leaders' forum, leadership sessions and others to ensure staff and leaders worked together

Improving technological capability

- We stabilised our ICT business function and closed most of our ICT related audit findings
- The digital transformation strategy was developed and is being implemented
- We made significant progress on audit software replacement, which we expect to be a game changer for our auditors and stakeholders

Financial sustainability

- Produced a fair set of financial results especially in the context of fiscal constraints
- Contained the increase in audit fees through our resource pooling and continuous improvement in productivity and recoverability rates
- Introduced the Ahluma centre in which we retained audit seniors or audit clerks to support our audit during peak times
- Overcame challenges and continued to optimise the use of our resources and reduce overheads

Strengthening our ethical posture

- Attained an independently assessed AA ethics maturity rating
- Proactively enhanced leadership capabilities by providing timeous intelligence on ethical misconduct and breaches
- Engaged our CWC firms on our approach to professional ethics

Resourcing for success

- Continued to professionalise the office
- Maintained 'low risk' Saica rating for all our training offices
- Sustained our specialist pipeline through bursaries, participation in Thuthuka, various attraction methods.
- Diversified our training programmes to ensure the availability of unique skills, e.g. ACFE
- Successfully retained high-performing employees
- Developed holistic health interventions for the various organisational levels



Financial performance



Financial performance highlights: main indicators



We generated an audit income of R4 583 million (2021-22: R4 395 million), or a year-on-year increase of 4%

This includes revenue generated through internal pooling of resources to the value of R221 million (2021-22: R120 million)

An initiative implemented in the second half of 2022-23, the recoverable Ahluma centre, resulted in R20 million in savings on outsourced work



Our overhead expenses of R1 405 million are 3% below the previous year's ones of R1 447 million

This was achieved through cost optimisation strategies implemented to weather economic uncertainties.



Our debt book closed at R1 080 million, up from R1 060 million last year. It represents 24% of total revenue (2020-21: 24%) and 1,18% year-on-year growth in debtors

We continue to implement our debt collection strategies to improve the quality of our debt book



Our net surplus increased from R40 million in the previous financial year to R263 million. This increase was a result of cost optimisation strategies

It will assist to preserve our liquidity and financial sustainability as we continue to navigate the difficult economic and fiscal challenges



Our bank balance closed at R707 million (2021-22: R770 million), which translates into a margin of safety of 1,6 months compared to a target of 2 to 3 months

The buy-out of the post retirement medical aid liability has contributed to the low margin of safety

Our financial viability and independence will continue to be solid for the foreseeable future and will be able to respond well to unforeseen circumstances. Going forward, we will direct our efforts towards attaining our #cultureshift2030 strategic goals.



Financial performance highlights: debt collection

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
2023-23	86	154	487	66	287	1080

Collection from ring-fencing



We collected R60 million (2021-22: R53 million) through ring-fencing agreements of R49 million and short-term payment plans of R11 million

Collection through litigation



Through litigation we collected R199 million, compared to R156 million in the prior year

We will continue to employ these debt collection methods as they have proven to be effective

Debt collection strategies

- Enhancing our collection targets
- Continued engagements with the National Treasury resulted in R76 million being paid to us in lieu of the two-year fee shortage for 1% debtors. This was in addition to the R72 million received during the course of the financial year
- With effect from 1 April 2023, each year we will receive the full 1% allocation from the National Revenue Fund. On average this will be R123 million, an increase from R72 million in the previous year
- We appreciate the support of the National Treasury to meet its commitment in respect of the 1% debt as this assists us in ensuring our financial sustainability. We are in discussion with the department to settle the historic shortfall for this category of auditees





Post-retirement medical aid liability

The post-retirement medical aid obligation of R49 million has reduced by R36 million (or 74%) to R13 million as of 31 March 2023.

258 members accepted our offer to buy out the liability. The cost of the buyout was R42 million, most of which was paid in the- 2022-23 financial year.



Retention of surplus



Request to retain surplus achieved in 2022-23 FY

Section 38 (4) of the Public Audit Act (PAA, 2004) states that: *The Auditor-General may, after consultation with the National Treasury and by agreement with the oversight mechanism, at the end of a financial year retain for working capital and general reserve requirements, any surplus as reflected in the financial statements or a portion thereof. The portion of surplus not retained must be paid into the National Revenue Fund.*

The AGSA is seeking approval from Scoag to retain the 2022-23 surplus of R263 million in line with Section 38 (4) of the Public Audit Act. This surplus was achieved through cost optimisation initiatives during the year.

In the past and on a number of occasions, we raised the matter of the debt collection challenges with National Treasury as well as Scoag. We stated that the retention of surplus funds thus far has been an academic exercise since these funds were tied up in long outstanding debt, especially from local government and certain state-owned entities.

As part of the #cultureshift2030 strategy, the organisation will embark on capital investment programmes to digitise our business and ensure that we improve our operational processes and efficiencies, i.e. leverage technology by automating our audit processes and business processes.

This will require significant financial investment that is estimated at R1,6 billion over 5-7 years. The retention of surplus funds is critical to achieving these objectives.

RETENTION OF
SURPLUS 2022-23

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Request to retain surpluses (if any) to be achieved in the medium term

Cognisant of the need for technology to deepen the insights we offer to stakeholders into the functioning of the public sector and its impact on the lived realities of South African people,

AND

Mindful of the advanced stage of implementing our expanded mandate, which requires more effort to enable consequence management,

AND

Considering that the only way for the supreme audit institution of SA to fund its needs and preserve its financial independence is through the collection of audit fees

We humbly request the committee to allow the AGSA, in principle, to retain the surplus funds for the medium term, subject to the mandatory annual consultation with the committee and the National Treasury.

This will allow the AGSA to plan adequately for multi-year capital project deliverables. The AGSA will account for the use of the surpluses through its annual reports.

**RETENTION OF
SURPLUSES
in the medium term
(in principle request)**



THANK YOU

Promoting a culture of
accountability

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