



## **Summary of the Strategic Plan of the Auditor-General for the 2009/10 Financial Year**

Date: 13 November 2008

### **1. Introduction**

The Office of the Auditor-General tabled its budget and business plan as prescribed in section 38(2) of the Public Audit Act, No. 25 of 2004 (PAA), for consideration by the Standing Committee on Auditor General (SCoAG).<sup>1</sup> The Committee held a meeting with the AG to get more understanding and clarity on the issues raised in this plan. Section 38 (3) of the PAA requires SCoAG to consider the budget and business plan of the AG within two months of receipt and make recommendations to the National Treasury and the Speaker for tabling in the National Assembly.<sup>2</sup>

The purpose of this summary is to assist the Committee by highlighting the issues of concern, as raised in the business plan.

### **2. Auditor-General's Challenges for the 2007/08 Financial Year**

The AG identified and reported some challenges that were detriment in pursuing its goals in the 2007/08 financial years. Even though the AG made some efforts to address its key challenges, the following concerns remain:<sup>3</sup>

- High vacancy rate, which results in audit work being outsourced to external firms, thus resulting in increased costs of the audit work.
- Growing liquidity difficulties as a result of the current funding model. However, numerous engagements were conducted with SCoAG regarding a new model, which is expected to commence in the 2009/10 financial year.
- Late or non-payment of invoices by auditees, which negatively impacts on debt collection.
- Need for continuous improvement in the maturity levels of business processes.

### **3. Strategic Goals and Objectives for 2009-2012**

The AG identified six strategic goals with sixteen objectives that aim to support the achievement of its vision and maintain a good reputation. These include:<sup>4</sup>

- Reputation management excellence, which will be pursued by improving reputation, communication and branding, and building and maintaining key relationships.
- Value and service excellence, that will be driven through improving quality and timeliness of audit reports, ensuring cost effective auditing and relevance of products and services, and enhancing service offerings and features.
- Financial stability, by improving financial performance and the management of working capital.

<sup>1</sup> Public Audit Act, 2004

<sup>2</sup> Ibid

<sup>3</sup> Annual Report, 2008

<sup>4</sup> Budget and Strategic Plan, 2009-2012



- Operational excellence, which will be achieved through improvement of ICT tools and key non-audit internal processes, and ensuring compliance with BBBEE legislation.
- Leadership and transformational excellence through improved leadership effectiveness and development of a professional and diverse workforce.

#### **4. Performance Measures and Targets for the 2009/10 Financial Year**

The AG has sixteen strategic objectives that are instrumental in achieving its strategic goals. These strategic objectives have measurable targets and are discussed in detail, as follows:

##### **Objective 1: Improve Reputation**

The reputation of the AG comprises collective opinion of both internal and external stakeholders. During the 2009/10 financial year, the AG envisages to strengthen media liaison, create awareness and understanding of its mandate and performance, invest in building and improving its corporate identity and help institutions to communicate more effectively through, and about their reports.

The AG uses Reputation Index (RI) to measure stakeholder opinions, which is measured by the percentage of improvement on the overall reputation index. The 2009/10 target will be measured by the levels of AG's compliance with its communication, stakeholder relationship management and branding milestones for the year. This target is not clearly set in percentage terms, which might make the measurability of its achievement to the target difficult during the reporting period. Further clarity and understanding from the AG might be required in this regard.

##### **Objective 2: Build and maintain key relationships**

The AG identified its key stakeholder groupings, which include internal employees, prospective employees and its customers. The AG reaffirmed its commitment of implementing and refining the planned actions per stakeholder group to improve reputation index results.

The AG measures its performance in this area by the percentage of improvement on the reputation index per key stakeholder group. The AG targeted to achieve 60 to 70.9 per cent achievement of all the milestones in the identified action plans during 2009/10 financial year. The Committee might not be aware of the action plans and milestones envisaged by the AG to achieve this objective. This might make it difficult for the Committee to assess the AG's achievement in this goal. The Committee might be interested to know much about these action plans or might request them from the AG for better understanding and improved oversight.

##### **Objective 3: Improve communication**

Effective communication is a key driver for enhancing the reputation of the AG. The AG emphasise on ensuring that all communication is clear and consistent, and provides clarity on the reputation promise and the key message emanating from it. To measure the effectiveness of communicating the reputation promise and key messages to stakeholders, a content audit is conducted annually by the independent external service provider.



The performance of this objective is measured by the percentage of compliance with reputation promise and key messages in identified documents. The AG envisages achieving 100 percent compliance of specifics and 45 to 79.9 per cent in areas where contextualisation is required, in the 2009/10 financial year.

#### **Objective 4: Improve branding**

The overall objective is to ensure that all branding requirements are adhered to, with compliance being measured annually by means of an independent visual audit. The AG sets specific targets for each year to determine brand compliance by all its business units. The AG uses a phased approach to reach a level where all 2D material (printing material) and 3D items (physical work environment) are fully brand compliant.

The AG's performance is measured by the percentage of compliance with all 2D and 3D branding requirements. It envisaged achieving 100 per cent compliance with 2D requirements and 60 to 79.9 per cent achievement of the development of 3D action plan.

#### **Objective 5: Enhancing service offerings and features**

The AG aims to fulfil its mandate by delivering the right mix of audit products and services. These include regulatory, performance, auditing of performance information and international audits. Regulatory audits remain the AG's main focus, but the AG intends to increase its efforts in other audit services, as follows:

##### *(a) Performance Auditing*

The intention is to evaluate the systems implemented and used by management to ensure economy in procuring resources and effectiveness and efficiency in the utilisation of such resources. The key themes for transversal performance auditing during the period under review include education, consultants and public enterprises. A transversal audit of provincial and municipal infrastructure will be conducted during the 2009/10 financial year. The process of identifying performance auditing focus areas is presently being refined with the assistance of an international expert. Furthermore, The AG will be undergoing an international peer review of its performance auditing practices in 2010.

The AG envisages allocating 10 per cent of its resources to performance auditing, which includes 5 per cent allocation of resources to value for money assertions. The performance measure in this area is the amount of audit income received from performance audit, which is targeted to be R49.7 million during the period under review.

##### *(b) Auditing of Performance Information (AoPI)*

The AG is moving towards the provision of four different audit opinions, including opinions on financial information, performance information, compliance with laws and regulations, as well as internal



control. Detailed plans on the phasing in of this approach are expected during 2009/10. Auditing of performance information commenced several years ago, and the emphasis has moved from process evaluation to a more detailed and comprehensive evaluation of the essence of service delivery. Separate opinion on performance information should be achieved in 2010, which will initially be introduced in the national sphere of government.

The AG measures its performance by the percentage of compliance with the predetermined audit coverage milestones as defined in the auditing of the AoPI plan<sup>5</sup>. The AG targeted to achieve 100 per cent compliance with the plan during the period under review.

#### *(c) International Auditing*

The most significant international commitment for the AG to date has been its appointment as a member of the United Nations Board of Auditors (UNBoA). The AG was reappointed in 2006 by the General Assembly of the United Nations for a six year term. Participation in international audits does not compromise the AG's ability to fulfil its local constitutional mandate and is not funded by the local taxpayers. International audits are conducted on a fully cost recovery basis<sup>6</sup>.

The AG set a target to retain income from international audits within 5 per cent target of total audit income.

#### **Objective 6: Improve quality of audit reports**

The AG committed itself to produce audit reports that meet the quality requirements of the International Standards of Auditing (ISA), specifically the International Standard on Quality Control (ISQC1). The AG's quality control policies and procedures are encapsulated in the quality control manual. The AG intends to roll-out this manual in 2009/10. Engagement performance and monitoring activities and processes ensure the quality of the AG's audit reports. Engagement performance processes include, among other things, governance structures of technical development, annual review of auditing standards, integration of new audit developments and a stringent quality process for audits. The monitoring process applies to auditing work done by private firms on behalf of the AG, which involves ongoing evaluations of each firm's quality control system.

The AG's goal is to deliver audit engagements and reports that meet professional requirements. The performance measure and targets are based on the percentage of reviewed audit engagements that meet the criteria of excellent performance. The AG targeted 75 per cent compliance with the quality review standard in the 2009/10 financial year.

#### **Objective 7: Improve timeliness of audit reports**

The deadlines for the submission of financial statements by auditees (national and provincial departments, local authorities, public and departmental entities) and the completion of audit reports

<sup>5</sup> The plan is attached to the budget and strategic plan (2009-2012)

<sup>6</sup> Costs incurred during the audit are claimed in full from the auditee.



by the AG is legislated in the Public Finance Management Act, No 1 of 1999 (PFMA), Municipal Finance Management Act, No 56 of 2003 (MFMA), as well as the PAA. However, some of the auditees submit their financial statements after the prescribed deadline and this affects the AG's deadlines.

The AG is committed to an overall performance target for finalising audit reports within the legislative deadlines for financial statements submitted on time. The AG targeted to achieve 80 per cent compliance with statutory and legislative guidelines for PFMA organisations and 60 per cent compliance for MFMA organisations.

#### **Objective 8: Ensure reliance of products and services**

This is defined as a balancing of the quality of auditing and stakeholder requirements. The AG proposes to combine the effect of all efforts to improve the relevance of products and services to be measured through a custom-developed relevance index. The AG plans to develop a relevance index in 2009/10 as part of work in defining its relevance and value. The AG will also set a baseline for the relevance index in 2009/10.

#### **Objective 9: Ensure cost-effective auditing**

The cost of government auditing is driven by the combination of things: those that are related to government auditing and those that are related to the AG. These include, among other things, size and complexity of the departments and entities, maturity of financial management within departments and entities, effectiveness of audit supervision by the AG, the ratio of contracted audit work to private audit firms and the efforts to increase operational efficiency by the AG. The AG prices its audit work to ensure that a small surplus is achieved, which is used to fund capital purchases and accumulate funding for the future.

The AG anticipated a surplus of 4 per cent of the audit income in the 2009/10 financial year. The cost of audit is influenced by the tariff structure that is used as a basis for pricing audit work. During the 2007/08 financial year, the AG revised its funding model in consultation and agreement with stakeholders. This agreement enables the AG to secure sufficient funding to secure its mandate. In 2009/10, the AG has budgeted for audit fees of R1.71 billion, which increased by 32.6 per cent from the 2008/09 audit fee of R1.29 billion. This increase is largely due to the principles of funding model which allowed lifting of the cap on tariff, inflationary impact on both internal tariffs and contract work tariffs, and the inflationary impact on remuneration costs. The AG uses a gross profit ratio to measure the percentage of income used to cover operating expenditure. The targeted gross profit ratio for 2009/10 is 34 per cent.



#### **Objective 10: Improve financial performance**

The AG developed a Financial Turnaround Plan, which focuses on employing the right people in Finance, deliver product that is relevant and timely and streamline processes to increase efficiencies. The main measure that the AG will use for financial sustainability is the increase in the percentage of net surplus within the five year target of 6 per cent. The AG projected a net surplus of 4 per in 2009/10.

#### **Objective 11: Improve working capital management**

Collecting funds from the auditees and paying creditors are critical factors for the efficient management of working capital. The AG's target is 30 debtors' day for national and provincial government, 90 debtors' day for local government and 30 creditors' days after the date of statement. The AG ring-fenced certain debt to ensure that long outstanding debt does not affect the collection of current debt. The AG further employed the e-billing tool, which will assist in speeding up billing process and therefore facilitate collection from auditees.

The AG will continue focusing on the development and implementation of solutions for working capital management issues. Solutions are needed with regard to slow and non-paying debtors, growth in audit work performed by private firms with no compensation for administration and funding costs to the AG, and investing in technology and professional development. The AG targeted 80 per cent compliance with creditor payment terms in 2009/10.

#### **Objective 12: Improve the key non-audit internal processes, including quality and risk issues**

The AG is determined to achieve operational excellence by improving its processes. Where the processes are not at the required level, they are re-engineered in such a way as to lift their maturity to the desired level. The Human Capital and Finance processes were prioritised for re-engineering in 2008/09. The Finance process maturity will be based on the financial management maturity model while Human Capital will be measured according to the capacity maturity model. The 2009/10 and five year target is to move all the key internal processes to level 3<sup>7</sup> minimum.

#### *Risk Management*

The risks that have been identified dictate which processes are prioritised for improvement projects. Risk management has focused on key operational risks as monitored through the Control Self Assessment tool (CSA). In the 2009/10 financial year, enterprise-wide risk management will be introduced to address the current fragmented risk management approach. Enterprise-wide risk management provides a coherent framework for dealing with all the risks. Once the framework has been adopted and implemented through out the AG, it is envisaged that the control environment will be substantially strengthened.

<sup>7</sup> Processes are documented, standardised and communicated



### **Objective 13: Ensure compliance with Broad Based Black Economic Empowerment (BBBEE) legislation**

The AG is committed to complying with and supporting the objectives of BBBEE as a vehicle for transformation. The AG has a BBBEE strategy in place, whose implementation will occur in phases. The first phase is to align relevant policies and procedures with the strategy, which will be a key focus for 2009/10.

The BBBEE performance target has been set in accordance with the level of contributor rating. The target has been set at BBBEE rating level 5 in 2009/10.

### **Objective 14: Improve information and communication technology (ICT) tools**

The ICT business Unit has embarked on a five year strategic plan that supports the overall organisational strategy. The enterprise architecture has been established with clear technology direction and progress has been made by upgrading the AG's legacy systems and implementing the necessary infrastructure for system integration over the next two years.

Technological maturity was measured based on the Control Objectives for Information and related Technology (COBIT) maturity model for technology as defined by Information Systems Audit and Control Association (ISACA). A target of level 3 capability maturity was set for 2009/10.

### **Objective 15: Improve leadership effectiveness**

The leadership effectiveness was launched in 2006 to enhance leadership practices. The purpose was to promote a healthy culture and motivated employee cooperatives (corps). Among other things, the AG will continue to develop leadership competencies, to support the senior leadership team, and design and implement performance management.

The key driver for leadership initiative is the culture index. The AG's current culture index (2007/08) stands at 15 per cent, and the AG plans to implement all the actions that are drivers of the culture index in 2009/10.

### **Objective 16: Develop a professional and diverse workforce**

The achievement of the AG's mission depends on the right people, in the right jobs at the right time. The AG will further strive to ensure compliance with Employment Equity (EE) requirements. Its EE target in its work force is 80 per cent for designated groups (women, disabled people, African, Indian and Coloured people) and 20 per cent from non-designated groups (white males and foreigners). Furthermore, the AG has 90 per cent trainee accountants from designated groups and 10 per cent from non-designated groups.

The AG envisaged establishing a baseline number for unqualified staff and reducing it by 5 per cent in 2009/10 and beyond. Most importantly, the AG realised a need to retain its trainee accountants after



they qualify. It targeted to establish baseline retention for those who completed trainee contracts, and improve their retention by 10 per cent per year. Another AG's priority is to address the high turnover rate among employees in general, particularly those with professional skills. It envisage establishing baseline turnover for band D and band E retention for those who completed trainee contracts, and improve their retention by 20 per cent for band D and 25 per cent for band per year

## **5. Budget information**

The 2009/10 revenue budget has been compiled using a revised tariff formula. In 2008 SCoAG agreed to a revised tariff approach which would effectively align revenue generation with underlying costs. This approach is aligned with the method of determining hourly rate for contract work, whereby recoverable staff costs are marked up by a fixed factor per band, and rates are determined with reference to standard recoverable hours. This approach has been adopted by the AG and included in the 2009/10 budget preparation.

### *(a) Income*

The AG envisages generating revenue of R1.7 billion in the 2009/10 financial year. The highest portion of revenue of R1.3 billion will be generated from own hours, R507.4 million from contract work and R74.8 million from S&T recoverable.

### *(b) Direct Audit Expenditure*

The targeted expenditure for the 2009/10 financial year is R1.1 billion, which comprises R546.8 million for personnel (own hours), R507.4 million for contract work and 74.8 million for S&T recoverable. It is important to note that no profit is made from contract work, the profit is only generated from own hours.

### *(c) Gross Income*

Gross income for the 2009/10 financial year is targeted to be R577.7 million, with a margin of 34 per cent.

### *(d) Net Surplus or (Deficit)*

This is the difference between income and expenditure. The AG envisages reporting a net profit of R66 million or 4 per cent in the 2009/10 financial year. This is an increase of R31.6 million compared to the deficit of R34.4 million targeted in the 2008/09 financial year.

## **6. Conclusion**

The Auditor-General reported challenges that were detrimental in fulfilling its mandate during the 2007/08 reporting period. Some of the challenges related to the finding and financial difficulties of this office and the scarcity of audit skills, which negatively impacted on both financial stability and delivery





of AG's services. This budget and strategic document responds to, and provides plans to overcome such challenges during the 2009/10 financial year. The funding model that was agreed to with the Committee (SCoAG) will commence its implementation during the period under review, and financial performance is expected to improve as reflected in the net surplus of R66 million.

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#### **Sources**

Auditor-General, Annual Report, 2008-11-06

Auditor-General, Budget and Strategic Plan, 2009-2012