" " " SC Auditor-General

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REPORT OF THE STANDING COMMITTEE ON THE AUDITOR-GENERAL ON THE ANNUAL REPORT OF THE AUDITOR-GENERAL FOR THE 2010/11 FINANCIAL YEAR.

The Standing Committee on the Auditor-General, having considered the Annual Report of the Auditor-General 2010/2011 dated 11 November 2011, report as follows

1. INTRODUCTION

The Constitution of the Republic of South Africa (Act 108 of 1996) requires state institutions supporting democracy to be accountable to the National Assembly (NA), and to report on their activities and the performance of their functions to the Assembly at least once a year. In addition, section 10(1) of the Public Audit Act no. 25 of 2004 requires the Auditor-General (AG) to report annually to the National Assembly on his or her activities and the performance of his or her functions.

The NA established the Standing Committee on Auditor-General (SCoAG) as an oversight mechanism to monitor the performance of the Auditor-General. The AG's annual report forms a significant part of this Committee's responsibility in meaningfully overseeing the performance of AG's Office.

Auditor-General of South Africa (AGSA) is the Supreme Audit Institution of the Country. Section 181 (1) (e) of the Constitution establishes the AG as the institution that strengthens constitutional democracy in South Africa. The governing principle vested upon the AG by section 181 (2) of the Constitution states that the AGSA is independent, and subject only to the Constitution and the law, and it must be impartial and must exercise its powers and perform its functions without fear, favour or prejudice. Section 4 of the Constitution prescribes that no person or organ of state may interfer4e with the functioning of the AGSA. Section 181 (5) of the Constitution provides that AGSA is accountable to the National Assembly (NA), and must report on its activities and the performance of its functions to the NA at least once a year. Section 181 (3) of the Constitution requires that one of the organs of state, through legislative and other measures , must assist and protect AGSA to ensure the independence, impartiality, dignity and effectiveness of AGSA. Hence, the mandate of the Standing Committee on Auditor-General (SCoAG), it stems from the section 181 (3) of the Constitution. The mandate of SCoAG is to assist and protect the AGSA to ensure its independence, impartiality, dignity and effectiveness of AGSA.

1.1 Legislative functions of the AG

The mandate and the functions of the AG are prescribed in the Constitution. Section 188 (1) of the Constitution states that the AG must audit and report on the accounts, financial statements and financial management of – all national and provincial state departments and administrations; all municipalities, and any of the institutions or accounting entity required by national or provincial legislation to be audited by AG.

AG has the additional powers and functions prescribed by national legislation (Public Audit Act 25 of 2004). The Public Audit Act 25 of 2004 (PAA) - gives effect to the provisions of the Constitution which is establishing and assigning functions to the Auditor-General to provide for the auditing of institutions in the public sector; to provide for accountability arrangements of the AG; to repeal certain obsolete legislation; and to provide for matters connected therewith.

1.2 **Corporate governance structures of the AG**

Corporate governance refers to the process and structures for overseeing the direction and management of the AG in order to carry out his or her mandate and objectives effectively. The legislative framework for the governance and accountability systems of the AG is set out in the Constitution and the PAA. Governance structures in the context of the AG comprise of the SCoAG, Audit Committee (AC), Executive Committee (EXCO), Remuneration Committee (Remco) and Quality Control Assessment Committee (QCAC).

SCoAG – is established in terms of section 55 (2) (a), and (b) (i) (ii) of the Constitution which prescribes that the NA must provide for mechanism - to ensure that all executive organs of state in the national sphere of government are accountable to it; and to maintain oversight of any organ of state. Therefore, SCoAG is established in terms of the constitution and the Rule 208A of the NA. Section 10 (3) of the PAA requires that the NA must provide for a mechanism to maintain oversight over the AG in terms of section 55 (2) (b) (ii) of the Constitution. The governance functions of SCoAG are indicated as follows:

- SCoAG must consult the person recommended in terms of section 193 of the Constitution for appointment as AG and make recommendation to the President for the determination of the conditions of employment of that person, including an appropriate salary, allowance and other benefits. [section 7 (1) of the PAA]
- SCoAG must maintain oversight over the AG. [section 10 (3)]
- SCoAG must be consulted by the AG before, the AG issue a code of conduct for authorised auditors. [section 12 (3) of the PAA]
- The AG must consult SCoAG before determines the standards for audit. [section 13 (1)]
- The AG must consult the SCoAG after the AG determined the basis for calculation of audit fee. [section 23 (1) of the PAA]
- The AG after consulting SCoAG, must appoint a person with appropriate qualifications and experience as the DAG. [31 (1) of the PAA]
- The AG must at least six months before the start of financial year submit the budget and business plan to SCoAG for consideration. [section 38 (2) of the PAA]
- The AG must submit the annual report, the financial statements, and the audit report on those statements within six months after the financial year to SCoAG and the Speaker of the NA for tabling in the NA. [section 41 (1) of the PAA]
- The AG may, after consultation with the National Treasury and by agreement with SCoAG, 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 a surplus not retained must be paid into the National Revenue Fund. [section 38 (4) of the PAA]

- SCoAG must annually appoint an independent external auditor to audit the accounts, financial statements, and financial statements, and financial management and performance information of the AG. [section 39 of the PAA]

Audit Committee – section 40 (1) of the PAA requires that the DAG must establish an audit committee and appoint its members in consultation with the AG. Contemplated in section 43 (3) (b) (ii) of the PAA states that the AG must maintain a system of internal audit under the control and direction of an audit committee.

- The Audit Committee must in the annual report comment on – the effectiveness of internal control; and its evaluation of the AG's annual financial statements; and
- It may communicate any concerns it may have to AG, external auditor of the AG and SCoAG. [section 40 (6) (a) and (b) of the PAA]

Executive Committee – the PAA gives both the AG and the DAG the authority to delegate any power and duty assigned to them to any member of staff. The Executive Committee was established to assist the DAG to manage the business and affairs of the organisation in terms of the delegation of authority as per the AGAS's management approval framework.

The Executive Committee is composed of the DAG as chairperson and the corporate executives, meets on average eight times during the year and holds special meetings at regular intervals. The Committee focuses on reviewing and directing the implementation of AGSA's business and strategic plans throughout the year.

Remuneration Committee – human resource management and related issues, including terms and conditions of employment, must be dealt with in accordance with generally accepted human resource practice and applicable labour legislation through appropriate management, consultative and, where applicable, negotiation processes. [section 35 of the PAA] Therefore, the AG established the Remuneration Committee (Remco) to provide specialised advice on remuneration and related issues. This Committee plays an advisory role and the final decision-making power rests with the AG. Remco reviews and makes recommendations on the following issues:[1]

- General trends and practices regarding employment benefits, including the structuring of conditions of employment and remuneration packages.
- The framework or broad policy for the remuneration of executive and senior management.
- Targets and rules for any performance-related pay schemes, whether current or proposed.
- General Salary increase.
- Any other human resource management issue which the AG may wish to table for discussion.

Note: Remco also advises SCoAG on the AG's conditions of employment.

Quality Control Assessment Committee – is an internal oversight body that assists the AG and DAG to accomplish their responsibilities in implementing a system of quality control in the AGSA. Its mandate stems from the policy on monitoring of quality control to ensure adherence to

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standards as per section 13 (1) (a) of the PAA, which states that the AG, after consulting SCoAG, must determine the standards to be applied in performing audits which the AG must perform in accordance with section 11 of the PAA.

1.3 Accountability by the AG

Section 10 (1) of the PAA requires that, the AG must annually submit a report to the NA on his or her activities and the performance of his or her functions, including:

- The standards to be applied to audits as determined in terms of section 13 (1) of the PAA which states that the AG, after consulting the oversight mechanism (SCoAG).
- The report of his or her overall control of the AG's administration in terms of section 30 (2); and
- The annual report, the financial statements and the audit report on those statements in terms of section 41 (1) which prescribes that the Deputy Auditor-General (DAG) must for each financial year prepare an annual report and financial statements, including cash-flow information, which fairly present the state of affairs of the AG, including its business, financial results, performance against pre-determined objectives and financial position as at the end of the financial year.

  Section 41 (5) requires that the AG must submit the annual report, the financial statements and the audit report on those statements within six months after the financial year to which they relate to the oversight mechanism (SCoAG) and to the Speaker for tabling in the NA.

The main purpose of this report is to evaluate the AG's performance as part of the Committee's oversight responsibility and a deepening understanding of key strategic and operational objectives achieved, as set out in the strategic plan and budget of the AG.

2. ANALYSIS AND FINDINGS

2.1 Auditor-General's remarks

The AG pointed out that the auditing to build public confidence has inspired AGSA to stay focused and improve its business processes. He further emphasised that AGSA's actions are driven by an appetite to realise good governance and clean administration, not only for the benefit of auditors, but for the greater good of the country.

The AG appreciated the support of government in responding on time to AGSA's invoices, as this contributed positively to AGSA ability to carry out its mandate independently. The AG continue to work with the provincial leadership to resolve the local government debt collection challenges that still remain in some of the provinces.

The AG highlighted that AGSA's centenary milestone is yet another testimony to the capacity that has developed over the years to sustain the mission and constitutional mandate of AGSA with renewed levels of excellence. These are outstanding contributions that gave rise to the nomination of the AGSA as a worthy recipient of the prestigious Jorg Kandutsch Award at XXth International Conference of Supreme Audit Institutions (INCOSAI) in November 2010. The International Organisation of Supreme Audit Institutions (INTOSAI) presents this award to a Supreme Audit

Institution (SAI) that distinguishes itself through significant achievements and contributions in the field of public auditing. The recipient must have a sound organisational structure and innovative working methods; adhere to INTOSAI's Strategic Plan; obtain positive results by introducing effective audit systems of public revenues and expenditures; and assist other INTOSAI members.

2.2 **Deputy Auditor-General's Role**

The Deputy Auditor-General (DAG) is the Accounting Officer in the administration of the Auditor-General. [Refer to section 43(1) of the PAA]. The DAG in his review report stressed that the overall objective of independent audits is to make a difference in the lives of citizens by contributing to trust, efficiency and effectiveness. Therefore, an independent and effective SAI is accordingly a necessary precondition for democracy.

Since his appointment in 2007, he has been responsible for the overall performance of AGSA and directly accountable to the AG. DAG appreciated the fact that AGSA's performance over the past year was exemplary and also acknowledged the support, cooperation and guidance received from AGSA's oversight structures during the financial year.

2.3 NONFINANCIAL PERFORMANCE

The nonfinancial performance in this report is based on measuring actual performance against targets set on the following predetermined objectives as indicated in AGSA's strategic plan for 2010/11 financial year:

2.3.1 **Simplicity, clarity, and relevance of message of AGSA's reports** – committing to this objective adhere to INTOSAI framework for communicating and promoting the value and benefits of Supreme Audit Institutions.

- For 2010/11 AGSA set a target at 100 per cent to achieve this objective. At the end of the year under review AGSA achieved this target by 100 per cent.

  The achievement is indicated by commitments from different stakeholders, including legislative oversight, the executive, accounting officers and coordinating ministries, to address the root causes of audit outcomes.

2.3.2 **Visibility of Leadership** – committed to fundamental requirement 13 of INTOSAI, as AGSA promised to improve visibility of its leadership to stakeholders through clear communication.

- The performance target for the year under review was set at 100 per cent to achieve high-quality, value adding stakeholder interactions. AGSA achieved target as promised in the strategic plan for 2010/11.

  The fulfilment of this objective is shown by annual PFMA and MFMA road-shows that the AG leadership shared the audit outcomes of PFMA and MFMA audit cycles with both the executive and legislative arms of government as well as structures such as the Association of Public Accounts Committees (APAC), the South African Local Government Association (SALGA) and the Speakers' Forum.

2.3.3 **Leading by example** – promised to lead by example on matters of risk management, internal controls, transformation and quality and timeliness of AGSA's products as encouraged by fundamental requirement 11 of INTOSAI.

- A target set was to achieve clean audit report by AGSA and the clean audit report was achieved.

  The achievement is proven by an independent assurance on risk management measures, internal and external auditors reviewed the adequacy and effectiveness of AGSA's processes, policies and controls. AGSA's measures to track audit findings ensured that all corrective actions were implemented timeously, thus reduced the rate of repeating audit findings from internal and external auditors.

- Another target was set at level 4 rating for achievement of identifying Broad Based Black Economic Empowerment (BBBEE). The target was exceeded as AGSA achieved level 3 contributions to BBBEE.

  This achievement is indicated by the certification of Empowerdex which evaluates the contribution to BBBEE. Committing to developmental role in the auditing profession, AGSA increased its actual spending on private firms by 7 per cent to R543 million, of which 57 per cent was spent on the growth and development of small and medium accounting and auditing firms.

- A target was set at 85 per cent on regulatory audit for adhering to quality standards. But AGSA did not achieve the target as its performance fell to 77 per cent that is below 85 per cent target which was set for 2010/11.

  However, 77 per cent achievement is still above the industry benchmark of 75 per cent.

  The challenge in achieving the target was - the first-time implementation of clarified international standards on auditing, which required new working papers. In addition, municipalities implemented the full Generally Recognised Accounting Practice (GRAP) framework and audited for the first-time on reporting against predetermined objectives.

- Target was set at 90 per cent for auditing and submission of PFMA reports to comply with statutory and legislative deadlines by AGSA. AGSA exceeded the target as achieved 96 per cent of PFMA audit reports within the legislated timeframe.

The achievement is evidenced by the completion and submission of PFMA audit reports within two months of receipt of the financial statements by AGSA as required by section 40 (2) of the PFMA.

- A target was also set at 90 per cent for auditing and submission of MFMA audit reports to comply with statutory and legislative deadlines by AGSA. AGSA exceeded the target by 7 per cent as completed 97 per cent of MFMA audits within the legislated timeframe.

  Achievement of this target is indicated by a number of audits that were completed and submitted to the accounting officers within three months of receipt of the municipal financial statements by AGSA as required by section 126 (3) of the MFMA.

- For investigations a target was set at 95 per cent, but the actual performance fell below at 50 per cent, the target was not achieved.

2.3.4 **Strengthen human resources** - AGSA promised in 2010/11 strategic plan to strengthen its human resource strategy, with particular focus on the comprehensive trainee auditor scheme in line with fundamental requirement 10 of INTOSAI for service excellence and quality considerations. AGSA also planned to attract and retain more women in senior positions and persons with disability across all levels of the organisation.

- Target was set at 80 per cent of occupancy levels. This target was exceeded as AGSA achieved 89 per cent.

  The achievement ascribed mainly to the establishment of a Recruitment Centre of Excellence to deal with scarce skills in the auditing environment, a trainee auditor retention strategy and a comprehensive salary benchmarking in the market.

  Achievement also attributed to increased numbers of audit professionals who passed their final qualifying examinations and completed their practical experience by 73 per cent from the 2009/10.

2.4 FINANCIAL PERFORMANCE

2.4.1 **Funding** – management committed to run the organisation economically, efficiently and effectively and in accordance with laws and regulations to ensure financial sustainability and report publicly on these matters. This commitment adheres to fundamental requirement 8 of transparency and accountability derived from INTOSAI framework for communicating and promoting the value and benefits of SAIs.

- **Net surplus** – a target was set at 4 per cent (R69 million) for 2010/11. The target was exceeded by 3.2 per cent as AGSA achieved 7.2 per cent (R133 million). This is a great achievement compared to R99 million achieved in 2009/10 financial year.

- **Debt collection is still a challenge** – the following table indicates major categories of debtors excluding accrual debts that are maturing after 31 March 2011:

Auditee	Rm	Days outstanding
National departments	44	13
Provincial departments	94	27
Local departments	159	204
Statutory bodies	47	91
Total amount	**R344 m**	

Source: AG (2011)

The above table highlights that these auditees should have paid the amounts of audit fees that are indicated in the second column before 31 March 2011 as they already overdue by the number of days that are reflected in the last column.

- **Credit payment terms** – AGSA committed to pay its creditors within 45 days in 2010/11. The actual performance indicates that AGSA honoured its creditors within 34 days exceeding the target committed to by 11 days.

Given the number of days which audit fees are outstanding, it could be a risk that AGSA is exposed to run short of cash as AGSA pays its creditors within 34 days compared to overdue audit fees by 13, 27, 91 and 204 days.

2.4.2 **Financial position** – the information was extracted from the audited balance sheet (statement of financial position) of the AG. The statement of financial position summarises the finances of the AG as at 2010/11 financial year as follows:

- ASSETS:

	R'000
Non-current assets	76,362
Current assets	717,033
Total assets	**793,395**

The non-current assets, of AGSA include property, plant and equipment owned and leased which their values are stated at cost less accumulated depreciation and adjustment for any impairment (defect) over the estimated useful life as follows:

a. Computer equipment approximately 3 to 6 years.
b. Notebooks about 3 years.
c. Motor vehicles at 5 years.
d. Furniture and fittings approximately 6 to 15 years.
e. Office equipment about 3 years.
f. Leasehold improvements over the period of the lease.

The depreciation charge for each period is recognised in the statement of comprehensive income.

Certain items of communication equipment are leased for a period of two years. The average lease amounts to R272,581 per month in 2011.

Certain items of office equipment are leased for a period of three years at the average lease payments of R214,533.

AGSA has operating leases for all of the premises occupied by its head office and regionally based staff in the major centres of the country. The office premises are leased for periods between two and 13 years. The average lease amounts to R3,075,588 per month in 2011 escalating between 6.5 per cent and 10 per cent per annum.

AGSA also attained computer software licences (categorised under intangible assets) which are carried at cost less any accumulated amortisation (pay-off) and any impairment losses. Amortisation on cost is provided to write down the intangible assets over their useful lives as follows:

a. Enterprise resource management system – PeopleSoft approximately 14 years.
b. Other software for the period of 3 years.

Current asset is an asset in the balance sheet which can either be converted to cash or used to pay current liabilities within 12 months. It includes cash, cash equivalents, short term investments, receivable and inventory.

• EQUITY:	R'000
Total equity	**341,143**

Equity is the balance after all debts and obligations have been paid off. It includes outstanding debts that can be converted to cash in a short period of time or within a year.

• LIABILITIES	R'000
Non-current liabilities	82,254

Current liabilities	369,998
Total liabilities	**452,252**
TOTAL EQUITY AND LIABILITIES	793,395

Source: AG 2011 financial statement

2.4.3 **Working capital** – is the amount of money that an organisation has on hand or it will have in a given year. Working capital is calculated by subtracting current liabilities from current assets as reflected in the audited balance sheet of the AG for 2010/11. The *current liabilities* of the AG includes the value of trade and other payables, provisions and finance lease obligation for 2010/11 and subtracted from the *current assets* which includes the value of trade and other receivables and cash and cash equivalents, calculated as follows:

Current assets	717,033
Less: Current liabilities	(369,998)
Net current assets	**347,035**

The working capital includes managing the relationship between AGSA's short-term assets and its short-term liabilities. The objective in calculating the working capital was to determine whether AGSA is able to continue its operations and that it has sufficient cash flow to satisfy its maturing debt and upcoming operational expenses in 2011/12 financial year.
A positive net current asset indicates that AGSA will not have difficulty in financing its debts and day-to-day operations.

2.4.4 **Comprehensive income** – with reference to the audited income statement (statement of financial performance) of the AG the purpose is to highlight the financial performance of the AG in 2010/11 financial year as indicated in their income statement and it is summarised as follows:

• INCOME AND COST	R'000
Revenue	1,850,432
Less: Direct audit cost	(1,298,188)
Gross profit	**552,244**
Add: Contribution to overheads	36,738
Total gross profit and contribution to o/heads	**588,982**
Less: Indirect cost	(502,794)
Surplus from operations	**86,188**
Add: Interest received	56,541
Total surplus from operations and interest received	**142,729**
Less: Interest paid	(9,612)
Net surplus for 2010/11	**133,117**
TOTAL COMPREHENSIVE INCOME AS AT 31 MARCH 2011	133,117

Source: AG (2011)

AGSA rendered the international services in 2010/11 financial year and accumulated 1 per cent of total revenue. This is an achievement due to the fact that AGSA policy directive requires that service rendered internationally should not exceed 5 per cent of the total revenue.

AGSA recorded R133 million net surplus as at 31 March 2011.
The income statement indicates how much money AGSA generated and how well is performing. The high operating surplus means AGS has effective control of costs.

2.4.5 **Statement of changes in equity** – the objective of the statement of changes in equity is to demonstrate the movement in balances included in equity. The opening balance which is the closing balance of previous year agrees to the previous year's (2009/10) audited financial statements. The closing balance for the year under review must also agree to the amounts reflected in the statement of financial position as follows:

	General Reserve	**Special audit services reserve**	**Retained earnings/ (accumulated loss)**	**Total**
	Rm	Rm	Rm	Rm
Opening balance at 1 April 2009	**129,412**	**4,964**	**(25,515)**	**108,861**
Transfer of accumulated Loss to reserves	(25,515)	-	25,515	-
Total comprehensive Income for 2009/10	-	-	99,165	99,165
Balance at 31 March 2010	**103,897**	**4,964**	**99,165**	**208,026**
Total comprehensive Income for 2010/11	-	-	133,117	133,117
Balance at 31 March 2011	**103,897**	**4,964**	**232,282**	**341,143**

Source: AG (2011)

A fund set aside to finance special investigations or audits for which the AG may not be able to recover the cost from a specific auditee. The special audit services reserve amount of R4,964 has not been increased in 2010/11.
AGSA indicated that the former Audit Commission instructed that the reserve should not be increased before further guidance is provided by the SCoAG which is established in terms of section 55 (b) (ii) of the Constitution, prescribes that the NA must provide for mechanism to maintain oversight of any organ of state.

AGSA's current funding model was introduced in April 2009; it has proven to be successful.

2.5 FINANCIAL RISKS

Financial risk is an umbrella term for any risk associated with any form of financing.

2.5.1 **Foreign exchange risk** - AGSA delivers a small portion of its audit services based on fixed sum contracts in foreign currencies.
Trade accounts receivable include receivables of Euro 21,161 in 2010/11 in respect of services delivered in foreign currencies not hedged by forward exchange contracts.
These balances have been translated at the year-end exchange rate of Euro 1 equal to R9.5286 in 2011 and Euro equal to R9.8329 in 2010.
Included in the bank balances at 31 March 2011 is an amount of 471,249 USD, in 2010 2,429,484 USD.
These balances have been translated at the year-end exchange rate of 1 USD equal to R6.7713 in 2011 and 1 USD equal to R7.3249 in 2010.

AGSA indicated that its policy does not take out forward cover on foreign exchange transactions.

2.5.2 **Credit risk** – credit risk is also called default risk that is the risk associated with a debtor going into default (not paying as promised). The creditor's loss of receivables and interest result to decrease in cash flow, and increased the collection costs.

AGSA indicated that financial assets which potentially subject the AG to concentrations of credit risk consist principally of cash and short-term deposits which are placed with a financial institution with a short-term deposit credit rating of F-2 as well as with the Public Investment Corporation.
The Public Investment Corporation is wholly owned by the South African Government and invests fund on behalf of public sector entities based on investment mandates set by each client and approved by the Financial Service Board.

Trade receivables are presented net of the allowance for doubtful receivables. Credit risk with respect to trade receivables is limited to some degree to the constitutionally entrenched audit mandate of the AG. However, the AG has a significant concentration of credit risk with local government.

All financial assets are unsecured. The carrying amount of financial assets included in the statement of financial position represents the AG's exposure to credit risk in relation to these assets.
Investment in the Public Investment Corporation is governed by the AG's investment strategy which requires 95 per cent of funds to be invested in conservative money market instruments where the initial capital investment is guaranteed and the balance is cash.

The analysis of debtors that are 30 days and over for 2011 and 2010 are indicated as follows:

- R165,558,000 in 2011 and R155,003,000 in 2010 of debtors, comprising 42.4 per cent in 2011 and 41 per cent in 2010 of total debtors in areas;
- Local government arrears comprise R123,953,000 in 2011, and R98,405,000 in 2010 or 74.9 per cent in 2011, and 63.5 per cent in 2010 of total arrears.

2.5.3 **Interest rate risk** – AG is also exposed to interest rate risk and effective interest rates on financial instruments includes the following:

- *Assets* – trade and receivables and cash in current accounts and call account in PIC investments and foreign investment. The total financial assets that amounts to R717,033.

- *Liabilities* – interest bearing borrowings, trade and other payables. The total financial liabilities amounts to R333,972.

2.5.4 **Liquidity risk** – AGSA has substantial cash balances at its disposal and minimum long-term debt which limits liquidity risk. Budgets are prepared on an annual basis to ensure liquidity risks are monitored.

3. CONCLUSION

AGSA has substantially achieved in both nonfinancial and financial performance in 2010/11 financial year. The independent auditor audited the predetermined objectives and the financial statement of the AG and expressed its opinion indicating that both predetermined objectives and the financial statement were fairly presented, in all material respects in accordance with the predetermined criteria and the regulatory requirements. The Audit Committee also expressed appreciation to the AG, DAG and management team for their dedication and support in improving the AGSA's internal control environment.
AGSA subjected itself to review by the Independent Regulatory Board for Auditors (IBRA) for ensuring that developments in auditing, accounting and training take the AGSA's public sector needs into consideration. Therefore a positive independent opinion confirms that information reported by AGSA was credible.
The Committee, having considered the surplus achieved by AGSA for the financial year 2010/2011, hereby approves the said surplus.

4. RECOMMENDATION

The Committee makes the following recommendations, that:

- the South African Local Government Association (SALGA) request its affiliates to pay all outstanding audit fees owed to the Auditor-General of South Africa (AGSA)

- AGSA continue with engaging the National Treasury, Cooperative Governance and Traditional Affairs (CoGTA), provincial leadership and non-paying auditees, in the current initiative to improve the collection of audit fees
- AGSA retain the surpluses achieved of R232 million for the financial years 2009/10 and 2010/11 in order to partially fund current projects.

Report to be considered