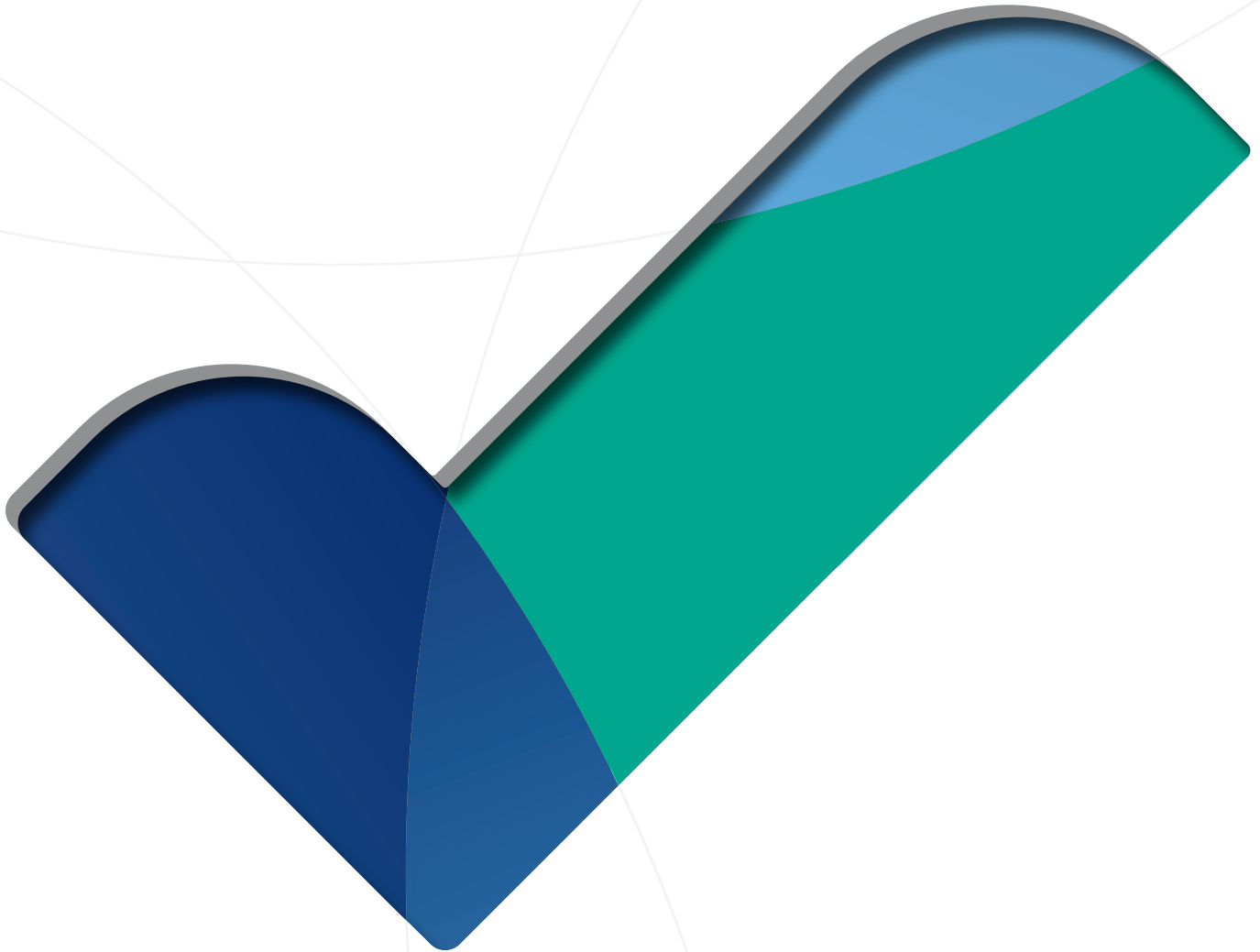


AUDITING WHAT MATTERS



INTEGRATED ANNUAL REPORT 2015-16



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence



AUDITOR-GENERA
SOUTH AFRICA

AUDITING WHAT MATTERS



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AUDITING WHAT MATTERS



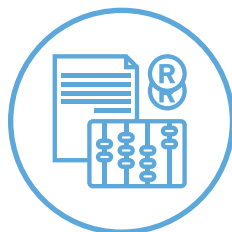
This integrated annual report is available on the AGSA website www.agsa.co.za

We focus on auditing areas that matter to achieving the country's strategic developmental goals and objectives for the benefit of the people of our country. Our research has shown that these six areas are integral to the wellbeing of the people of South Africa: Health, Education, Infrastructure, Housing, Water, and Safety and Security.



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AUDITING WHAT MATTERS

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LETTER TO THE SPEAKER

Ms Mbete
Speaker of Parliament
PO Box 15
Cape Town
8001

September 2016

Honourable Speaker Mbete

**Report to the Speaker in terms of section 10(2) of the
Public Audit Act, 2004 (Act No. 25 of 2004)**

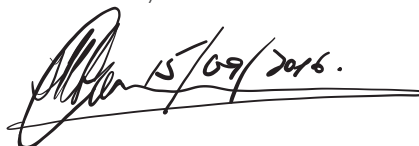
It is an honour to submit my annual report, including the audited financial statements, for the financial year ended 31 March 2016 as required by our guiding legislation.

It gives me great pleasure to announce that the Audit Committee, which was established in terms of section 40 of the Act, is satisfied with the Auditor-General of South Africa's (AGSA) audited financial statements and unmodified audit opinion.

This report presents the affairs of the AGSA both in terms of our financial results as well as the review of our performance against predetermined objectives.

I respectfully draw your attention to section 41(5) of the Public Audit Act, which requires submission within six months after the end of the financial year, and therefore request that this report be tabled in Parliament by 30 September 2016.

Yours sincerely



THEMBEKILE KIMI MAKWETU
AUDITOR-GENERAL

PREAMBLE TO THE CONSTITUTION

*We the people of South Africa,
Recognise the injustices of our past;
Honour those who suffered for justice and freedom in our land;
Respect those who have worked to build and develop our country; and
Believe that South Africa belongs to all who live in it, united in our diversity.*

*We therefore, through our freely elected representatives, adopt this
Constitution as the supreme law of the Republic so as to:*

- *Heal the divisions of the past and establish a society based on democratic values, social justice and fundamental human rights;*
- *Lay the foundations for a democratic and open society in which government is based on the will of the people and every citizen is equally protected by law;*
- *Improve the quality of life of all citizens and free the potential of each person; and*
- *Build a united and democratic South Africa able to take its rightful place as a sovereign state in the family of nations.*

May God protect our people!



PERFORMANCE HIGHLIGHTS 2015-16

VALUE-ADDING AUDITING



conducted **952** audits

96%

were **completed** within the legislated time frames.



6 stand-alone performance audits



Successfully **integrated specialised audit services** into education, health and infrastructure sectors audits



CAATs were performed at metros which resulted in a full population coverage enabling regularity audit to focus on the highest risk areas.



78% of our engagements **passed the quality review** against a target of **85%**



Focus at local government was **on delivering basic services**, particularly water and sanitation

VISIBILITY FOR IMPACT



MECs across all provinces **actioned most** of our recommendations



SCoPA **heightened its examination** of the accounting officers' role



PACs **public hearings addressed** unauthorised, irregular, fruitless and wasteful expenditure

Perception survey

78%

of **stakeholders** agreed that our **audits and services add value**

82%

considered our interactions to be of high quality.

89%

of our stakeholders **rated our brand as favourable**



The **briefing sessions on the PFMA and MFMA** audit outcomes received **widespread media coverage**

International success



Supported **INTOSAI working groups** on **key** national indicators, information technology audit, performance audit



The **AG attended** the historic inaugural **meeting of the BRICS SAI leaders**



The AG was bestowed an **honorary professorship** by the University of Nanjing



VIABILITY



Actual revenue
R2 835 million

The **full staff complement**, including TAs and STC, stood at **3 502**

92%

Good **occupancy** level

8,9%

improved staff turnover rate



Learnerships

1 107 SAICA trainee auditors
201 SAIGA trainee auditors
26 ACCA trainee auditors



Ring-fencing resulted in collections of **R73 million**



1 004 employees are **registered professionals**:

548 CA (SA) (Chartered Accountant South Africa)

358 RGA (Registered Government Auditor)

64 CISA (Certified Information Systems Auditor)

34 ACCA (Association of Certified Chartered Accountants)



11 of the **33** centenary scholarship bursary holders have **completed their degrees**.



VISION AND VALUES DRIVEN



Received a **clean audit opinion**



R2,3 million paid to **Thuthuka bursary fund** - to **sponsor 40 students**

LEVEL

2

B-BBEE contributor, achieving our target

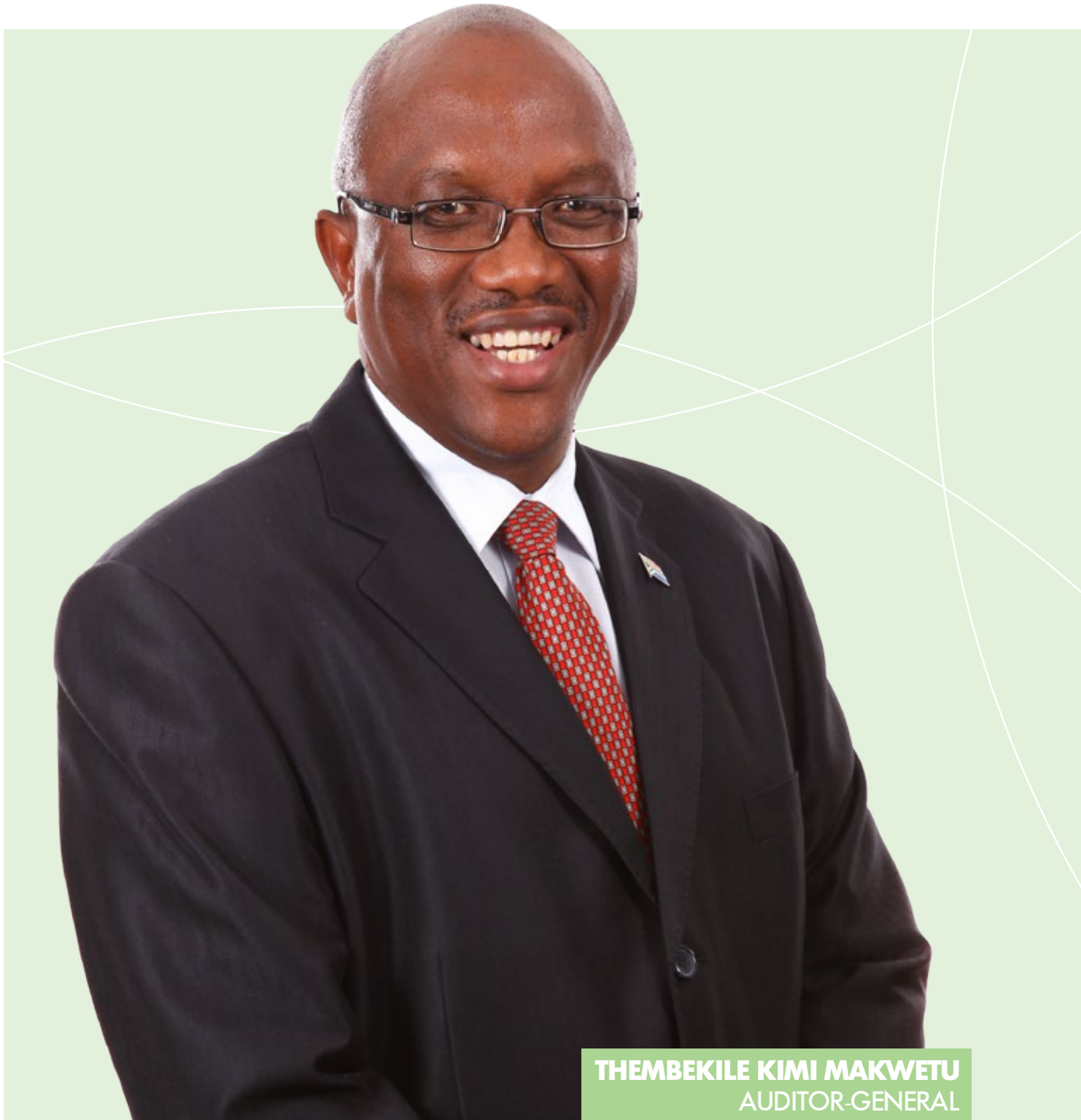


Supported **124 rural schools** across **nine provinces**



R10 million in support of the **131 students** in our **external bursary scheme**

MESSAGE FROM THE **AUDITOR-GENERAL**



THEMBEKILE KIMI MAKWETU
AUDITOR-GENERAL



With delight and respect I present the Integrated Annual Report 2015-16 of the Auditor-General of South Africa.



To all our stakeholders,

This report reflects our efforts to serve our country by executing our role in advancing the management of public funds and transparency of governance in the public sector.

In 2015-16 we implemented, for the first time, our new strategy aimed at increasing the value we provide to the country, strengthening the level of assurance on spending of public funds and building our competency and skills, and those of the auditing and accounting professions.

We developed and tested new approaches to deepen our knowledge and understanding of the business of our auditees. We became better at auditing in an integrated way and providing a holistic view of our clients' performance. In many cases such integration resulted in reduced audit fees.

Our visibility programmes are our mechanisms to engage with various stakeholders and encourage improvements in the fiscal and performance management disciplines of the public sector. We have seen the strategic insight emanating from our audits being realised and applied. Our reports have allowed the government at all levels to be better informed and to make better decisions. A number of departments have considered our recommendations when preparing their plans and budgets for the following performance periods. The public accounts committees have continuously dealt with matters of unauthorised, irregular and wasteful expenditure, using our results to inform their requests for detailed inputs from accounting officers. Using computerised audit techniques and investigative methods we delivered additional insight to some clients and made them aware of risks that they had not identified prior to the audits.

The improved depth and breadth of insight and the use of our audit results in consequence

management brought with it strong contestations of our audit opinions. While such cases require additional effort from us, they also demonstrate that our relevance and focus have increased and that we are touching the right pressure points. They further encourage us to step up the technical quality of our audits. This topic will receive firm attention in the next financial year.

Our relentless pursuit of clean administration in the public sector is only possible when we exhibit the desired behaviour ourselves. The leadership of the organisation has ensured that our operations are performed in an economical and efficient manner. We continued to manage our business risks well and to maintain a system of effective internal controls. Thanks to efficient planning and repositioning of our audits, we kept the escalation of our audit fees below the level of the consumer price index. We continued to maximise our contribution to transformation in the country by retaining our status as a B-BBEE level 2 contributor. Our staff and skills development efforts are achieving good results – the pass rates of our trainee auditors improved and we boast 548 qualified chartered accountants in our ranks. Of special importance to us is the observed ethical behaviour by our staff.

Looking forward, my assessment is that the organisation is as strong as ever and our sustainability is assured for the foreseeable future. Our independence is continuously reaffirmed. We are managing our financial resources well despite the challenges of collecting audit fees. The organisation has access to the required skills and competencies and we continue to grow scores of qualified audit professionals. Our intellectual, relationship and social capitals increase steadily thanks to conscious and systematic efforts. Although our environmental footprint is minimal due to the nature of our work, we have started quantifying our impact on the environment.

In line with our undertaking to contribute to improving the lives of the people of South Africa, our performance audits focused on health, education, water and sanitation, housing and other important areas of life

During the last few years progress, albeit slow, has been made to improve the audit outcomes in the public sector environment; but there is still a lot of work to be done. Good financial management will only become standard practice in all our public institutions when it has the backing of everyone. We are calling for more cooperation to accelerate, intensify and make practical the implementation of the principles of accountability, transparency and integrity within government and the public entities. It is time to move towards enforcing accountability. Neglecting this can be very costly.

On that note, I take this opportunity to thank the AGSA's staff for their selfless dedication and commitment in executing their duties. Their attention to detail, integrity and professional judgement has been integral to the success of this organisation and our ability to deliver our mandate.

OVERVIEW OF PERFORMANCE BY THE **DEPUTY AUDITOR-GENERAL**



TSAKANI RATSELA
DEPUTY AUDITOR-GENERAL



2015-16 was an exciting and fruitful first year of implementing the 4V strategy.

We used this year to introduce and align staff to the strategy by conducting robust discussions that outlined the expectations and the required commitment from everyone.

VALUE-ADDING AUDITING

The aim of our audits is to enhance oversight, accountability and governance in all spheres of government. But for our audits and our reports to help develop good financial and leadership practices, they must offer information that is clear, relevant, and reliable.

We therefore concentrated on deepening our understanding of the value chains in which our auditees operate. In many of our audits we applied our integrated audit approach, which uses our specialised audit services consisting of information systems auditing, investigations and performance auditing in addition to regularity auditing. This approach saw larger quantities of data analysed and insight improved through the co-ordinated expert input of information systems auditing and investigation teams. Our performance auditing specialists were deployed to generate additional understanding of the auditees' performance in service delivery.

Based on the audits conducted, the deficiencies in financial and performance management and the reasons for non-compliance with legislative requirements were outlined in our audit reports and then summarised in our general reports.

Our 2014-15 MFMA General Report was invigorated with a new approach in reporting the audit cycle results. For the first time we launched a singular consolidated general report, in which we included a summary section for each province, providing the users of our reports with depth and breadth of audit insight. The general report included an assessment of implementing initiatives linked to the medium term strategic framework (MTSF) and related to financial and performance management, and reporting. This should, ultimately, lead to

improved audit outcomes. Assurance provided by the offices of the premier, treasuries and departments of cooperative governance, and commentary on their role in implementing the medium term strategic framework outcomes, also formed part of the report.

We continued to develop our improved audit methodology aimed at providing a solid foundation for expressing conclusions on reporting on predetermined objectives, as well as its further alignment with the requirements of the Public Audit Act, 2004 (Act No. 25 of 2004), the audit standards and local and international best practices in auditing. The methodology will also support our integration approach and will start being implemented in the 2016-17 performance year.

QUALITY OF AUDIT

One of the areas where we need to improve our performance is the quality of our audit files. We reached 78% compliance with quality standards against a target of 85%, as confirmed by our independent quality control assessment committee. We have already analysed in detail root causes for the regression and strict corrective steps are being taken and monitored to ensure that we improve in the shortest possible time. The corrective actions are focused on strengthening our pre-issuance review process, enforcing the application of standards on finalising the audit files and linking the quality scores to the organisation's reward system.

VISIBILITY FOR IMPACT

Meaningfully and continuously engaging our external stakeholders has become an important instrument to encourage and enable action and improvements in public sector administration. Through such engagements we confirm that all the relevant stakeholders are adequately informed, that our reports are well understood and that appropriate commitments for clear actions are based on our recommendations.



We focused on building a strong foundation for the success of our strategy, to achieve our objective of delivering our mandate for the benefit of the people of our country

In this regard, we welcome the government's commitment to dealing with instances of conflict of interest and consequence management in the public service as outlined by the president. To support this commitment, the coordinating ministries were delegated to execute the recommendations made in our reports. Notably, the Department of Public Service Administration has begun to develop regulations to deal with conflicts of interest in the public sector.

Premiers have continually provided platforms of interaction that enable discussions of solutions for good governance. The members of the executive councils across all provinces showed a great deal of interest in interacting with us, and have actioned most of our recommendations. We expect that the members of the executive councils will track the extent and impact of the recommendations.

It is encouraging to note that the majority of the public audit committees' public hearings addressed direct audit recommendations and trends and, in 2015-16, the main topic during the hearings was unauthorised, irregular, fruitless and wasteful expenditure. In deepening

oversight, some public audit committees further facilitated joint hearings or referred areas of concern to portfolio committees to ensure proper follow-through on matters raised with departments and entities. The Standing Committee on Public Accounts intensified its questioning of accounting officers invited to the hearings on their role in ensuring strong internal controls and consequence management.

Both the Auditor-General's PFMA and MFMA media briefings received widespread coverage on provincial and national media platforms. This is the result of our sound and mutually beneficial relations forged with the media over the years. Media platforms assisted us in disseminating our audit messages to the people of South Africa.

THOUGHT LEADERSHIP IN THE PUBLIC SECTOR

For a number of years we held national workshops aimed at encouraging and demonstrating techniques of proper records management as one of the cornerstones of achieving a clean audit. This year we hosted smaller provincial sessions, which allowed us to provide immediate, unambiguous and meaningful feedback to each participant to address unique challenges in the respective provinces, and most importantly, to extract commitments and hold the provinces accountable for executing their commitments.

The lessons learned from the municipalities that were successful in achieving clean audits in the previous cycles were summarised and issued as part of our thought leadership series. We believe that these real examples and practical tips will inspire and assist other organisations to achieve similar outcomes.

FINANCIAL PERFORMANCE

We delivered cost efficient audits to our clients, a big portion of which operate under immense budgetary constraints.

Our actual revenue was R2 835 million (2014-15: R2 750 million). This represents a year-on-year increase of 3%, which is significantly

below the annual inflation of 6% for the period and demonstrates our commitment of affordable fees to the auditees.

Overdue investment in information technology platforms, support and capacity building was a major driver in the overheads cost. Our full staff complement, including trainee auditors and short-term contracts, stood at 3 502 at 31 March 2016, registering a 2% growth mainly in the audit business units. The cost optimisation strategies that we put in place during the year, as well as underspending in certain categories of overheads, allowed us to continue maintaining our overheads expenses below budget.

We continue to experience low debt collection, which poses a major liquidity risk. The total outstanding debt (including accruals) as at 31 March 2016 was R679 million compared to R709 million in the same period last year and represents 24% of the total revenue (2014-15: 26%). Local government debtors amounted to R343 million (2014-15: R366 million) or 51% of the total debt.

For the first time we decreased our total debt by 4%, mainly due to improved collection processes such as ring-fencing and litigation. The impact of our improved collection processes ensured that we achieved our debt collection target for provincial business units – a target we did not achieve in the previous year.

However, given that many of our auditees are under financial distress, the debt collection is likely to deteriorate. Over the past three years we have seen an increase in the number of financially distressed auditees from 66 auditees in 2011-12 to 86 auditees in 2014-15. The National Treasury's underpayment, currently averaging 44%, of the debt of the 1% auditees' that require assistance, increases our financial risk.

DEVELOPING OUR HUMAN CAPITAL

Talent management is a continuous process in the organisation and the ability to attract and retain the right calibre of staff to successfully deliver on the 4V strategy remains a strategic priority for us.

The process is championed by the top leadership and emphasises developing talent pipelines, and retaining staff by improving benefits and learning and development opportunities. Specific attention is on improving line managers' people and leadership skills.

Our trainee auditor programme resulted in 32 candidates passing their final qualifying examinations. These candidates will be eligible to register with their respective professional bodies when their articles have been signed off. We also encourage our permanent staff who have not yet qualified to register with their respective professional bodies and complete their board exams. It is great to see that 90 staff members were successful in the final SAICA exams.

Our organisational dedication to professionalisation and the success of our training programmes have increased the number of professionals that we employ. Currently we are proud to record 548 qualified chartered accountants (ICAs), 348 registered government auditors (IRGA), 64 certified information systems auditors (CISA) and 34 association of chartered certified accountants (ACCA) in our midst. This continued growth has ensured that the AGSA has a wide range of auditing skills necessary to execute its mandate.

VISION AND VALUES DRIVEN

One of the questions that we answer daily is how our conduct makes us deserving of our independence. To allow our stakeholders every opportunity to provide us with feedback, we continued to review and improve our mechanisms for reporting unethical conduct and integrity matters against the AGSA.

Every year the executive committee conducts a strategic risk analysis to identify risks that could have an impact on the organisation's ability to achieve its goals. During the 2015-16 performance period, we identified nine strategic risks. We put mitigation measures in place that allowed us to bring the risks of inadequate information technology governance structures, enterprise architecture and security of personnel, assets and operations down to acceptable levels. We



continue to work on reducing the remaining strategic risks to a level within which we can continue operating successfully.

Our contribution to transformation in the country was demonstrated by our achievement of an overall level 2 B-BBEE contributor status for the second time in a row. Sustained effort throughout the years has allowed us to meet the employment equity targets at most occupational levels except at the middle management level. One category in which substantial progress is required is the employment of black people living with disabilities. We are working hard at increasing awareness in the organisation and have outlined strategies to attract and retain such employees. The inclusion of people with disabilities in the training programmes will be a major focus area in 2016-17.

In support of transforming the profession, the vast majority of our contract audit work, 80%, was outsourced to B-BBEE level 1 and level 2 audit firms, while over R92 million of the total amount was paid to black-owned firms. Through our enterprise and supplier programme we assisted three audit firms based in the Eastern Cape, Limpopo and North West. Work experience was provided to their trainees by including them in some of the AGSA's audit assignments.

To demonstrate our commitment to small businesses, we have improved our procurement and payment practices by prioritising payment to qualifying small enterprises and emerging micro enterprises.

INTERNATIONAL VISIBILITY

We continued to be an active leader and contributor within the international community of supreme audit institutions (INTOSAI) in working groups, subcommittees and task forces.

We shared our rich experience in auditing performance objectives and government plans in the working group on key national indicators, resulting in our inputs being incorporated into the guidance documents under development. The knowledge that we obtained about the

approaches to auditing key national indicators in other countries has been passed on to the national Department of Performance Monitoring and Evaluation.

Our active participation in two projects of the working group on information technology audit contributed to growing our knowledge base in the areas of information technology governance and data mining, which will be used to redesign the relevant AGSA programmes and implementation processes, including data analytics.

We continued to host the secretariat of AFROSAI-E (the community of English speaking SAIs in Africa) and made available senior staff as subject matter experts in support of their capacity development programmes. During the year, AFROSAI-E trained 1 700 participants on the African continent (40% female) through 82 capacity-building projects.

We give special appreciation to the personal efforts of our Auditor-General who, in his role as the chairperson of the INTOSAI capacity building committee, wholeheartedly championed the drive to professionalise audit offices worldwide by adequately structuring the work of the capacity building committee. One of the topics that the Auditor-General avidly advocated in the past year was the role of SAIs in contributing to the achievement of the UN sustainable development goals, which represent the global agenda for reducing poverty and achieving decent and sustainable life for all. The Auditor-General's personal contribution was recognised by the international community with an honorary professorship at the University of Beijing, China. The Auditor-General's unending energy and passion are an inspiration to staff and leadership equally.

WHAT DO OUR STAKEHOLDERS SAY ABOUT US

At the end of the 2014-15 reporting period we conducted a widespread survey to ask our stakeholders for feedback on our work. It is very pleasing to note that our stakeholders do see value in the work we do. 78% of auditees' senior management found our audits and services to

add value while the majority perceived the timing around the release of the general reports helpful in assisting them to understand past challenges and in forecasting future challenges for effective oversight. The survey also confirmed the areas for improvement that we have picked up in the environment and highlighted new focus areas for the organisation. We have ongoing initiatives to address the challenges that were highlighted through this survey. These include increasing our relevance to the individual auditees by auditing what matters and understanding their business better, increasing audit efficiencies to make our services more affordable, improving the quality of our reports and maintaining a positive relationship with our stakeholders.

CONCLUSION

Overall, we performed well during the year, achieving a number of our key objectives as set out in the strategy. We are very encouraged by the initial indicators of a solid foundation starting to take root that will enable us to achieve our strategic vision.

I would like to thank the Auditor-General for his leadership in implementing the 4V strategy. My wholehearted gratitude also goes to every team member for their dedication, hard work and professionalism in pursuit of excellence.

EXECUTIVE COMMITTEE OF THE AGSA



BARRI MAGGOTT

NATIONAL LEADER: OPERATIONS
AND AUDIT SUPPORT



EUGENE ZUNGU

NATIONAL LEADER:
AUDIT SERVICES



SOLOMON SEGOOA

CORPORATE EXECUTIVE:
AUDIT



SIBONGISENI NGOMA

CHIEF FINANCIAL OFFICER



BARRY WHEELER

CORPORATE EXECUTIVE:
AUDIT



SULEMAN BADAT

CORPORATE EXECUTIVE:
SPECIALISED AUDIT SERVICES



THANDEKA ZONDI

CORPORATE EXECUTIVE: STRATEGIC
AUDIT PROJECTS AND OUTREACH
PROGRAMMES



ALICE MULLER

CORPORATE EXECUTIVE:
AUDIT



JAN VAN SCHALKWYK

EXECUTIVE IN THE OFFICE OF THE
AUDITOR-GENERAL



VUSI MSIBI

CORPORATE EXECUTIVE:
AUDIT



SAKHIWO NGOBESE

CORPORATE EXECUTIVE:
COMMUNICATIONS AND
TECHNOLOGY



MABATHO SEDIKELA

CORPORATE EXECUTIVE:
AUDIT



TWO

AUDITING WHAT MATTERS

SECTION CONTENTS

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WHO WE ARE

ORGANISATIONAL MANDATE, FUNCTION, NATURE OF OWNERSHIP AND LEGAL FORM

Chapter 9 of the Constitution of the Republic of South Africa, 1996, establishes the institution of the Auditor-General of South Africa (AGSA) as one of the state institutions supporting constitutional democracy. The Constitution

entrenches the AGSA's independence by directing that it is subject only to the Constitution and the law. The Constitution requires the AGSA to be impartial, and to exercise its powers and perform its functions without fear, favour or prejudice.

The AGSA is by definition an organ of state in terms of section 239(b)(i) of the Constitution, has full legal capacity and acts as a juristic person.

ACCOUNTABILITY AND REPORTING

The AGSA accounts to the National Assembly by submitting an annual report, financial statements and the audit report on those financial statements. In addition, the Auditor-General (AG) annually submits reports to the National Assembly on their activities and performance [sub-section 10(1)].

OUR VISION



To be recognised by all our stakeholders as a relevant **SUPREME AUDIT INSTITUTION** that enhances public sector accountability.

OUR MISSION



The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) 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. This is our reputation promise.

OUR VALUES



- » We value, respect and recognise our people
- » Our accountability is clear and personal
- » We are performance driven
- » We work effectively in teams
- » We value and own our reputation
- » We are proud to be South African

ORGANISATIONAL FUNCTIONS, BENEFICIARIES AND PRODUCTS

The functions of the AGSA are described in section 188 of the Constitution. These functions, together with the powers necessary to perform them, are further regulated by chapters 2 and 3 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

For each audit a report is prepared. These reports are made public and are tabled in the relevant legislatures, such as Parliament, provincial legislatures and municipal councils or bodies with a direct interest in the particular audit. Audit reports may be provided to any other legislature or organ of state if the AGSA considers it in the public interest to do so. In addition to these audit-specific reports, the AGSA publishes general reports (GR) in which the outcomes of the respective audits at national and provincial levels, and at municipal level, are analysed.

BUSINESS MODEL

The AGSA generates revenue by charging its auditees for the amount of work required to complete an audit, based on a publicly available, transparent, annually revised structure of audit fees.

Section 38(4) of the PAA authorises the AGSA to retain any surplus, or a portion of it, following consultation with the National Treasury and after approval by the Standing Committee on the Auditor-General (SCoAG). If approved, such surplus is used as working capital and for general reserve requirements. The portion of a surplus not retained is paid into the national revenue fund.

THE WAY WE ARE ORGANISED

The AGSA has a head office in Pretoria and provincial offices in each of the nine provinces of South Africa. The provincial offices enhance accessibility to our clients and deliver our services in the most cost-effective manner possible.

The organisation comprises 15 regularity audit business units, nine operating in each of South Africa's provinces and six at national level, three specialised audits services units, and 14 support business units (figure 2.2). A shared services model exists for all enterprise



Every year, the AGSA conducts mandatory audits of government departments, certain public entities, municipalities and municipal entities (our clients or auditees). The institution also conducts discretionary and special audits, such as performance audits and investigations. From time to time we are called on to perform international audits.

resources – financial and human capital, information and communication technology (ICT) services, communication, technical services, quality control and others.

While the AGSA is based in South Africa and delivers a service that benefits local interests, the business operations of some of our auditees require the execution of audit work elsewhere in the world. In the past we have been the auditors of the World Health Organization, part of the

United Nations Board of Auditors and have conducted audits for the African Union. Our intention is to tender for international audit assignments when they become available.

Participation in international initiatives is necessary to enhance our reputation and gain experience that adds value for our auditees. The AGSA therefore actively participates in international programmes and cooperates with other SAIs and selected institutions.

SCALE OF THE ORGANISATION



FIGURE 2.1: DISTRIBUTION OF PERSONNEL

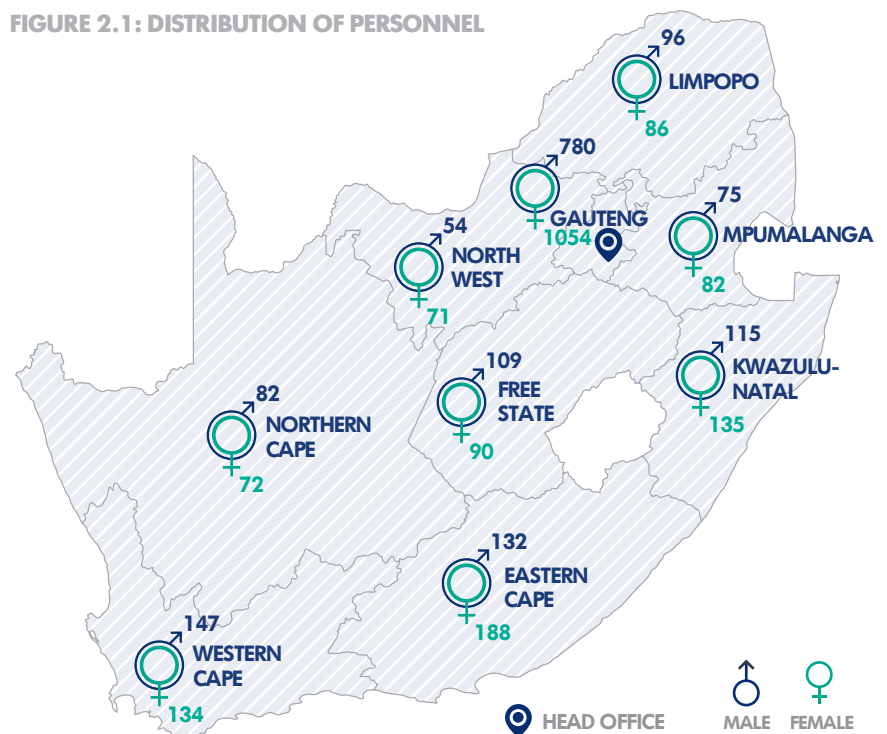
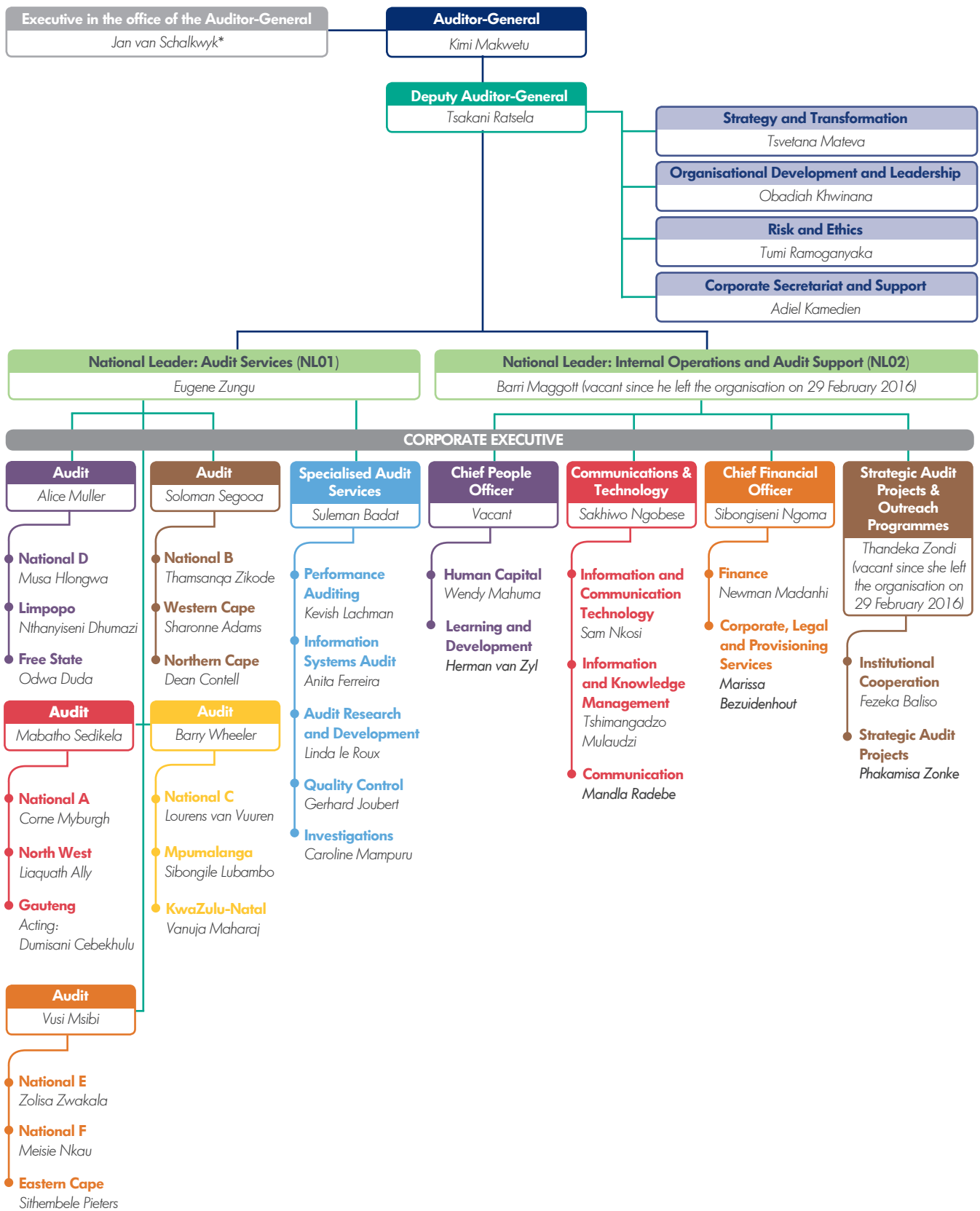


FIGURE 2.2: MANAGEMENT STRUCTURE AUDITOR-GENERAL OF SOUTH AFRICA AS AT 31 MARCH 2016



*CE Jan van Schalkwyk was transferred from an audit portfolio to the AG's office in July 2015.

ORGANISATION'S SUPPLY CHAIN

We are subject, and fully subscribe, to the five pillars of public procurement regulations set out in section 217 of the Constitution, which are unpacked in our supply chain management policy and procedures.

FIGURE 2.3: THE FIVE PILLARS OF PUBLIC PROCUREMENT REGULATION



We have a decentralised supply chain function and each business unit is empowered to procure its own goods and services in line with the policy and procedures. Procurement of goods and services in excess of R500 000 is done using open tenders that are duly scrutinised by a bid evaluation committee and approved by the tender committee or at the appropriate senior level.

It is a deliberate organisational strategy to outsource some of our audits. The audit firms that perform such audits on our behalf are appointed through a strict selection process based on the size of the firms, their location in the respective provinces, expertise, quality of audit work and on principles aimed at supporting transformation in the country. In the 2015-16 financial year, 20%

(R577 million) of our audit work was performed by contracted firms. Of this amount, R460 million was allocated to B-BBEE levels 1 and 2 firms, with over R92 million outsourced to firms that were more than 51% black owned.

A breakdown of the allocation of audit work to our suppliers is provided in the vision and values driven section of this report.

SIGNIFICANT CHANGES DURING THE REPORTING PERIOD

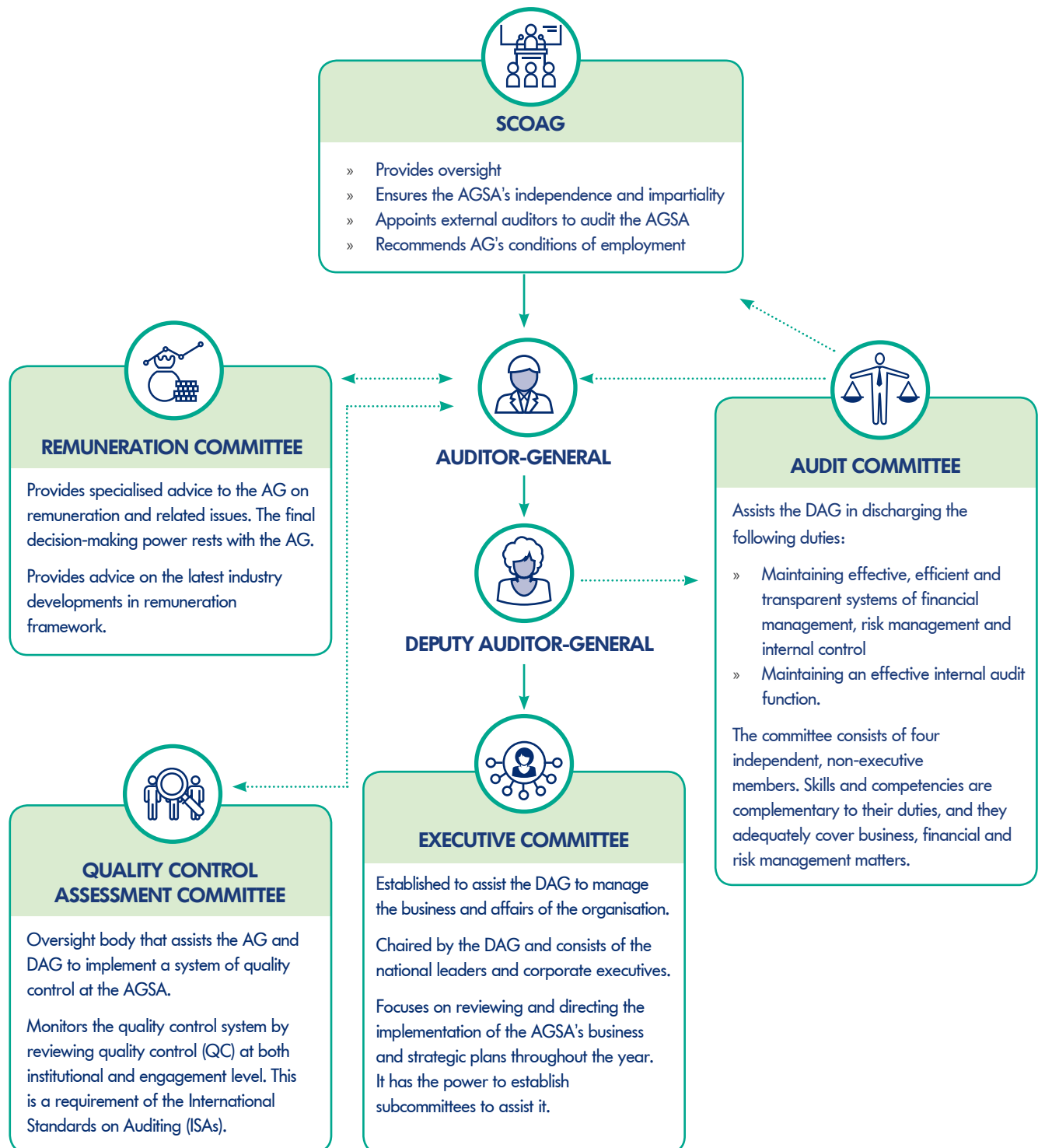
No significant changes in the ownership, size, structure and the supply chain of the organisation occurred and no new products were developed or introduced during the reporting period.

CORPORATE GOVERNANCE

Governance framework

Our governance framework is defined by the Constitution and the PAA. The AGSA, in line with its policy to adhere to best practice, embraces the principles of the King III code on corporate governance.

FIGURE 2.4: GOVERNANCE FRAMEWORK OF THE AGSA



STANDING COMMITTEE ON THE AUDITOR-GENERAL (SCOAG)

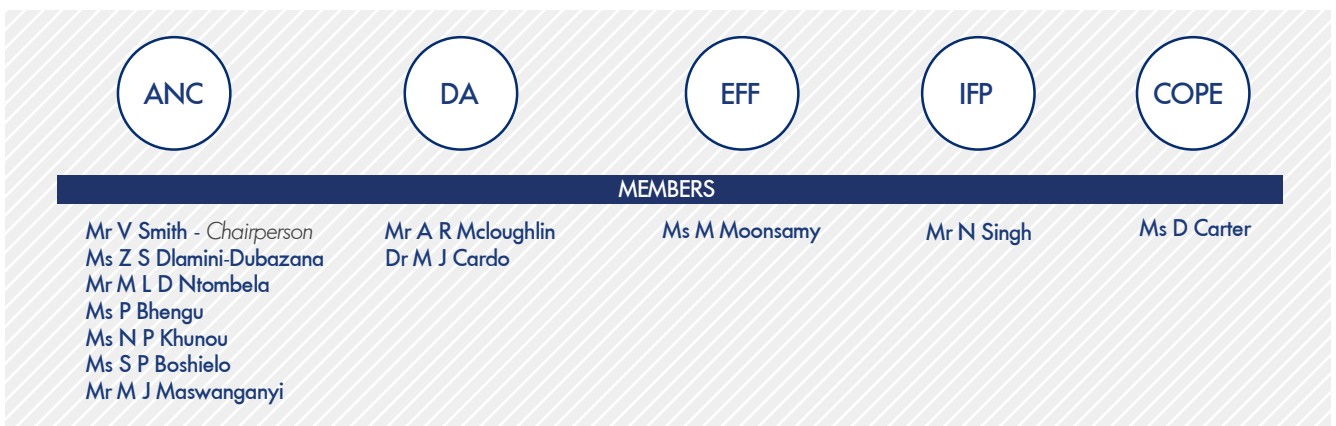


The National Assembly has established SCoAG as an oversight mechanism in accordance with section 55(2)(b)(iii) of the Constitution and section 10(3) of the PAA.

The committee dealt with the key issues of discussing the strategic plan and budget, considering the annual report and appointing the external auditors.

SCoAG met four times during the year. Figure 2.5 lists the members of the committee.

FIGURE 2.5: COMPOSITION OF THE STANDING COMMITTEE ON THE AUDITOR-GENERAL



AUDIT COMMITTEE



Section 40(1) of the PAA mandates the DAG to establish an Audit Committee and to appoint its members.

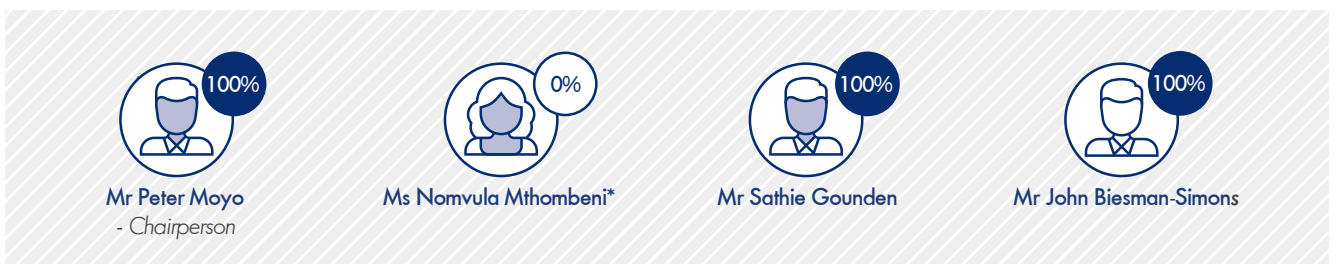
The Audit Committee met three times during the year to discuss:

- » the status of internal controls and risk management in the organisation
- » integrated reporting and financial statements, and recommend them for approval to the AG

- » sustainability and performance information
- » the work of the internal audit function
- » the appointment, independence and functioning of the external auditor.

In performing its duties and functions the committee also adopted principles of the King III code and its terms of reference, which are reviewed annually. The full report of the Audit Committee chairperson is presented on page 72.

FIGURE 2.6: COMPOSITION OF THE AUDIT COMMITTEE



*Ms Mithombeni resigned as an Audit Committee member effective 31 August 2015.

QUALITY CONTROL ASSESSMENT COMMITTEE (QCAC)



The QCAC is an oversight body that ensures that the AGSA adheres to section 13(1)(a) of the PAA to determine the standards to be applied when performing audits. The QCAC consists of the AG, the DAG, an external Audit Committee member and an external member co-opted by the AG annually.

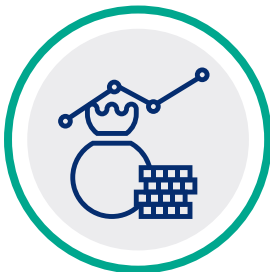
In its meeting on 5 May 2016, the QCAC decided on the final assessment results of the audit engagements that were subjected to QC reviews in the 2015-16 performance year. Details of the results are found in the section on the quality of audits on page 43.

FIGURE 2.7: COMPOSITION OF THE QUALITY CONTROL ASSESSMENT COMMITTEE



*Mr Sathie Gounden is an alternate member and not required to attend all meetings.

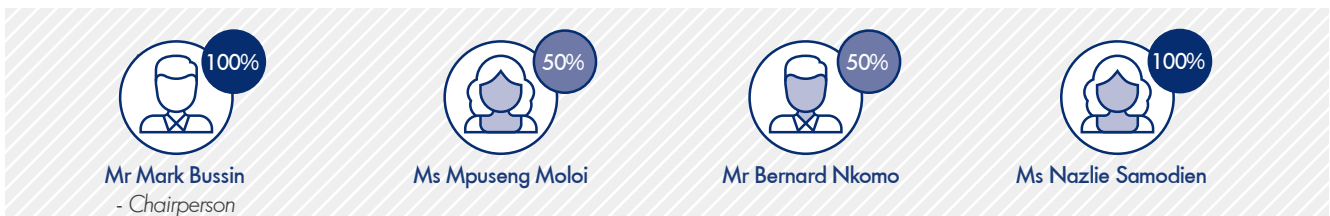
REMUNERATION COMMITTEE (REMCO)



The AG is responsible for determining the terms and conditions of employment of all employees in the organisation in accordance with section 34(3) of the PAA. Remco is established to provide specialised advice to the AG.

During the year the committee met twice to discuss the organisation's people strategy and to recommend to the AG the annual employee increases as per its mandate.

FIGURE 2.8: COMPOSITION OF THE REMUNERATION COMMITTEE



EXECUTIVE COMMITTEE (EXCO)



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 exco was established in terms of the delegation of authority set out in the AG's management approval framework.

The exco meets on average eight times during

the year and holds special meetings at regular intervals.

The exco met nine times during the 2015-16 financial year. It dealt with the implementation of strategic initiatives, approved various policies and strategic documents, and monitored management Information for issues and trends.

FIGURE 2.9: COMPOSITION OF THE EXECUTIVE COMMITTEE



* Ms Mabatho Sedikela was appointed in January 2016.

** Ms Thandeka Zondi and Mr Barri Maggott left the organisation in February 2016.

EXTERNAL CHARTERS, PRINCIPLES AND INITIATIVES THAT WE SUBSCRIBE TO OR ENDORSE

We subscribe to the International Ethics Standards Board for Accountants (IESBA) Code of ethics for professional accountants and have also adopted the INTOSAI Code of ethics for the organisation.



THREE

AUDITING WHAT MATTERS



SECTION CONTENTS

- 30** Reporting profile
- 31** Our long term strategy
- 33** Value and benefits of supreme audit institutions

REPORTING PROFILE

REPORTING CYCLE

Every year we produce an annual report to account to Parliament for our performance during each financial year, which begins in April and ends in March of the following year. The last annual report was tabled in Parliament on Wednesday, 2 September 2015.

REPORTING APPROACH

This integrated annual report provides a concise and balanced description of our challenges and successes from 01 April 2015 to 31 March 2016; a year in which we began implementing our AGSA 4V strategy.

It highlights our approach to addressing the social, economic, environmental and governance issues and risks that are material to the long-term success of the organisation and are important to our stakeholders. It also includes the financial statements.

Our integrated way of reporting is a result of the integrated way of thinking applied by the organisation's leadership and the executive teams in defining the imperatives for long-term, sustainable value creation for our stakeholders.

The report covers the performance of all business units in the organisation, including our head office and the nine provincial offices.

REPORTING PRINCIPLES, POLICIES AND PRACTICE

The content and format of this report were informed by both the *Guidelines for sustainable reporting of the global reporting Initiative (GRI) G4* and the *International integrated reporting <IR> framework*. Therefore this report meets the information and reporting requirements of both the IR and the GRI G4 'core' version.

The report also reflects the requirements of our governing legislation, the PAA, and the recommendations of the King III code on corporate governance and reporting.

The financial statements are prepared according to the International Financial Reporting Standards (IFRS).

MATERIAL FOCUS AND THE PROCESS TO DETERMINE THE CONTENT OF THIS REPORT

All matters that substantively affect the organisation's ability to create value over the short, medium and long term, thereby affecting the sustainability of the organisation and

the country, and relate to our financial and performance management, are material to us. We also consider our risks and opportunities as material since they provide scenarios that the organisation may face in the future.

These material topics are captured by the organisation's strategic commitments made to Parliament, based on our long-term strategy and outlined in detail in the AGSA's *Strategic plan and budget 2015-18*.

A summary of our strategy that revolves around the strategic goals are provided in section four.



These material aspects are applicable to all business units within the organisation, while the issues of value-adding auditing and visibility for impact are applicable to all our key stakeholders.

We continuously engage with our stakeholders to ascertain what is important to them so that we can respond to their needs.

There were no changes to, or limitations on, the scope and boundary of the identified material aspects. There was also no need for any restatements from the previous reports.

ORGANISATION'S POLICY AND PRACTICE ON SEEKING EXTERNAL ASSURANCE

We adhere to the principles of good governance as outlined in the King III code. As such, our combined assurance model defines the various role players that provide

assurance to the organisation. The model encompasses the assurance provided by management, internal specialists, internal audit and external audit.

An independent external auditor audits the financial statements, financial management and the AGSA's performance information, and assures the information on the selected sustainability performance indicators.

Furthermore, at certain intervals, the organisation voluntarily subjects itself to a firm-level review by the Independent Regulatory Board for Auditors (IRBA).

The assurance on this report was conducted according to the International Standard on Assurance Engagements 3000 (ISAE 3000: revised), issued by the International Auditing and Assurance Standards Board. The assurance statement is reflected on page 75 of this report.

RELATIONSHIP BETWEEN THE ORGANISATION AND THE ASSURANCE PROVIDERS

The external auditor is completely independent from the organisation. It does not receive any allocation of audits to be done on behalf of the AGSA and its income from the audit of the AGSA is less than 10% of the firm's annual revenue.

INVOLVEMENT OF THE HIGHEST GOVERNANCE BODY IN SEEKING ASSURANCE ON THE ORGANISATION'S SUSTAINABILITY REPORT

SCoAG, which oversees the work of the AGSA on behalf of Parliament, appoints the external auditor for a period of three years and their appointment is reviewed every year.

The Audit Committee facilitates contracting the external auditor in accordance with a process that is fair, equitable, transparent, cost-effective and in line with our transformation agenda.

The Audit Committee further examines the auditor's capacity and competence to provide assurance on the sustainability information. The members of this committee are trained annually by certified service providers on their responsibilities regarding the assurance of the integrated report.

APPROVAL OF THE REPORT

This report is reviewed and approved by the AG, Deputy Auditor-General and the Audit Committee before it is published for external use.

OUR LONG TERM STRATEGY

Our new organisational strategy, simply called the 4V strategy, is built on a vision of the AGSA as an integral part of the achievement of the country's strategic developmental goals and objectives.

As a result of this vision, we aspire to see a public service that is characterised by:



Our AG described our vision in simple words: *When in 2024 we look back at 30 years of democracy, we want to see a picture that upholds the basic values and principles governing public administration enshrined in the Constitution, a picture that we have helped to create.*



ROBUST FINANCIAL AND PERFORMANCE MANAGEMENT SYSTEMS



OVERSIGHT AND ACCOUNTABILITY



COMMITMENT AND ETHICAL BEHAVIOUR BY ALL



A VALUE-ADDING ASSURANCE PROVIDER IN THE FORM OF THE AUDITOR-GENERAL

To reach the vision, the 4V strategy assists us to execute our mandate and spread the "accountability wave" throughout the public sector, thus upholding the principles of democracy. The four strategic goals are:



VALUE-ADD AUDITING

The focus is on auditing areas that matter and influencing all players in the public sector to use public funds as intended; for the benefit of the people of the country.

We continuously enhance our audit approaches and focus areas so that the value we add ultimately results in increased levels of transparency, accountability and good governance and leads to noticeable improvements in all spheres of government.



VISIBILITY FOR IMPACT

Engaging stakeholders is integral to the execution of our mandate. The focus of the engagement is on enabling and compelling action. The required actions will be different for the different categories of stakeholders, but with the common goal of positively influencing service delivery and holding government accountable.

We will continue to encourage changes in the public sector through thought leadership, capacity building and impactful communication so that we achieve the best return on the effort and time invested.



VIABILITY

This strategic area encompasses the management of all the resources required for us to function: physical resources and infrastructure, financial resources, and human resources – skills, capabilities, competencies and processes for talent management.

We will continue to develop the professionalism of our staff, both in audit and support areas, and in the process, contribute massively to creating accounting skills in the country.



VISION AND VALUES DRIVEN

Our strategic intent is to run our affairs appropriately, leading by example with high levels of accountability and effective governance, such that we are deserving of our independence.

Our leaders will drive the organisational culture and transformation so that we have highly ethical, motivated and well-performing employees that are committed to achieving our Vision 2024.

The ultimate goal of the strategy is to build confidence in the ability of the public sector to deliver the necessary services for which it is the sole provider in the country and, by association, to build public confidence in the country's democracy. It seeks to provide direct links to the values entrenched in the founding legislation, i.e. the constitutional values of accountability, responsiveness and openness.

STRATEGIC RISKS

Our strategy considers all strategic risks identified by our executive committee. During the 2015-16 performance year, nine strategic risks were identified.



Audit process: Audit process failure



Stakeholder engagement: Failure to have a positive impact or be relevant to our stakeholders by not meeting their expectations

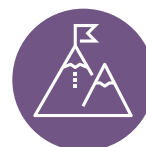
Financial viability: Negative impact on our financial viability because of pressure on our revenue by internal and external costs/factors

Technological: Lack of functioning IT governance structures and processes

Security: Security risk of personnel, assets and operations (personnel moving in and out of AGSA premises)

Human capital: Inability to attract and retain the right calibre staff to successfully deliver on the 4V strategy

Operating model: Not having the right operating model, processes and organisational design to support the 4V strategy

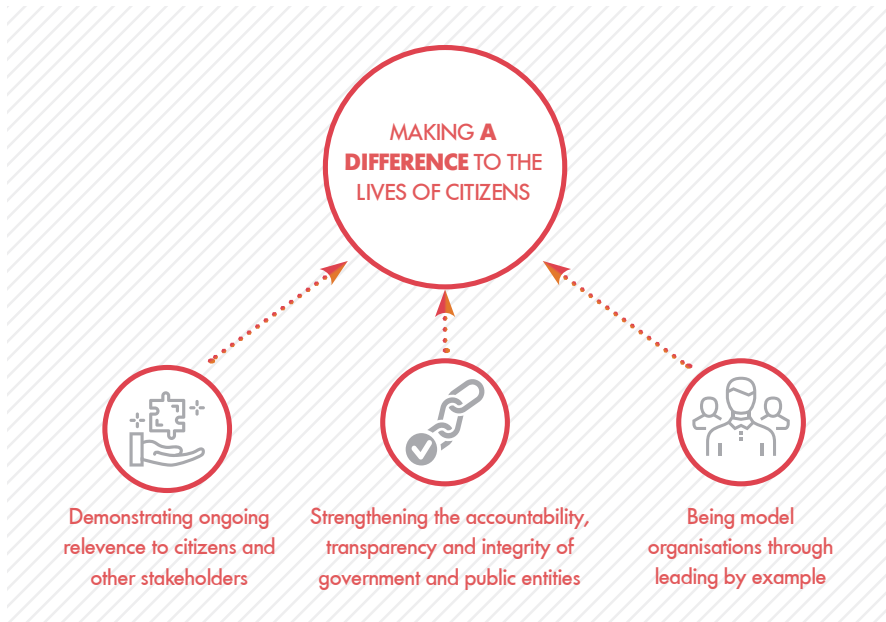


Leading by example: Failure to lead by example through effective governance, oversight and ethical leadership

Organisational culture: Embedding the right organisational culture to achieve our 4V strategy

VALUE AND BENEFITS OF SUPREME AUDIT INSTITUTIONS

Supreme audit institutions all over the world collectively agree and continuously strive to demonstrate that the value and the benefits that they add to the public sector revolve around three fundamental principles as displayed in the diagram. The work done in support of the principles ultimately results in a difference to the lives of the ordinary citizens of the respective countries.



The AGSA continually searches for ways to produce value for, and demonstrate value to, the people of South Africa. The measure of success of our 4V strategy is directly linked to the fundamental principles of the International Standards of Supreme Audit Institutions (ISSAI) 12. This integrated annual report provides us with an opportunity to holistically analyse our performance against our targets for adding value, being relevant and being a model organisation.

CONDITIONS UNDER WHICH WE OPERATE

The major aspects of our environment and their potential to affect the delivery of our mandate, which informed our strategy, were:

Global economic stagnation

- » Resulting in fiscal constraints on the delivery of government programmes
- » Requires government to prioritise such programmes and us to focus our efforts on remaining relevant when we select audit topics, providing value for money audits and seeking further internal efficiencies

Frequent changes in auditees' key personnel

- » This is as a result of leadership instability or elections. It increased the risk of an adverse impact on the progress of the AGSA's stakeholder engagement programmes

The low quality of school education

- » Has the potential to constrain the AGSA's resource pipeline at all levels and specialisations
- » The resulting competition for skilled labour and the scarcity of auditing skills in the country necessitated effective strategies to recruit, develop and retain professionals that will enable us to deliver on our mandate

Increased debt owed to the AGSA

- » Prolonged periods of debt, specifically by local government, continues to have a negative impact on our financial sustainability
- » We need to manage audit efficiencies and be disciplined and commercially astute on debt collection and cost containment programmes
- » We will explore the positive trend that has begun to emerge regarding collecting debt via litigation and structured payments (ring-fencing)

Rigorous engagement by various stakeholders

- » This sometimes led to outright contestation of the audit outcomes and audit opinion, which intensified the demand on the organisation's ability and capacity to defend itself in a court of law

Increase in "datafication"

- » Makes the security and storage of information/data an imperative
- » The promulgation of a number of statutes regulating access to, and protection and use of, information will have an impact on how we access such information in the line of duty

Cash constraints

- » Deficient capacity in planning and budget management skills in the public sector, and underinvestment in financial and performance management systems, which continued to have a negative impact on audit outcomes and, in turn, resulted in more time being spent on audits by our staff

Increased trend in urbanisation

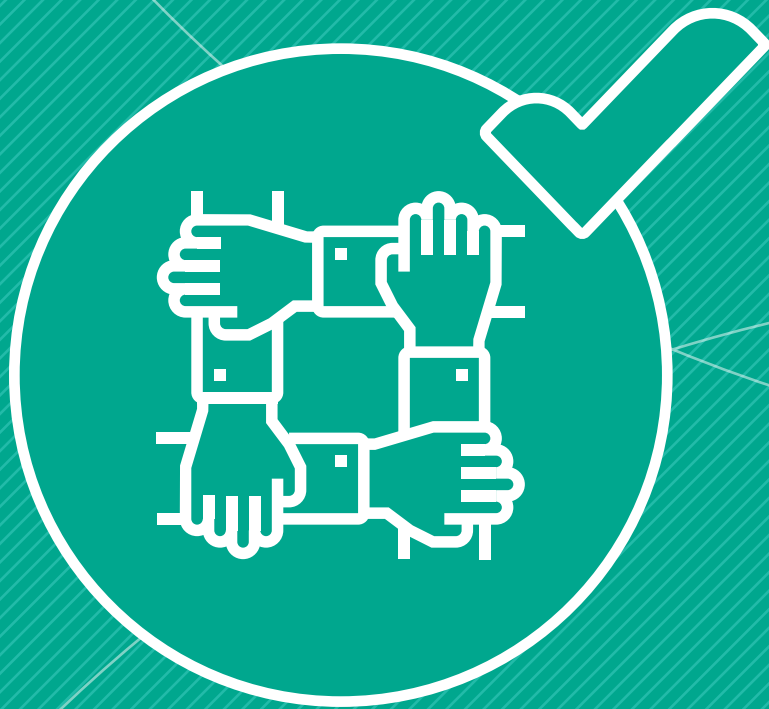
- » Challenges the availability of resources to the AGSA in rural provinces

Frequent and violent service delivery protests

- » Often prevent our staff from reaching the audit sites and create concerns for their safety and security

More complex auditing environments

- » Increased business reliance on information technology systems
- » This requires our auditors to ensure that their skills remain relevant at all times.



FOUR

AUDITING WHAT MATTERS

SECTION CONTENTS

- 36** How we implemented our strategy in 2015-16
- 36** Value-adding auditing
- 44** Visibility for impact
- 48** What our stakeholders say about us
- 49** Viability
- 64** Vision and Values driven

HOW WE IMPLEMENTED OUR STRATEGY IN 2015-16

VALUE-ADDING AUDITING

The main part of our mandate as an organisation is to enhance oversight, accountability and governance in all spheres of government through our audits. We

examine and report on the credibility of our auditees' financial statements, the accuracy and transparency of their performance reporting and their compliance with

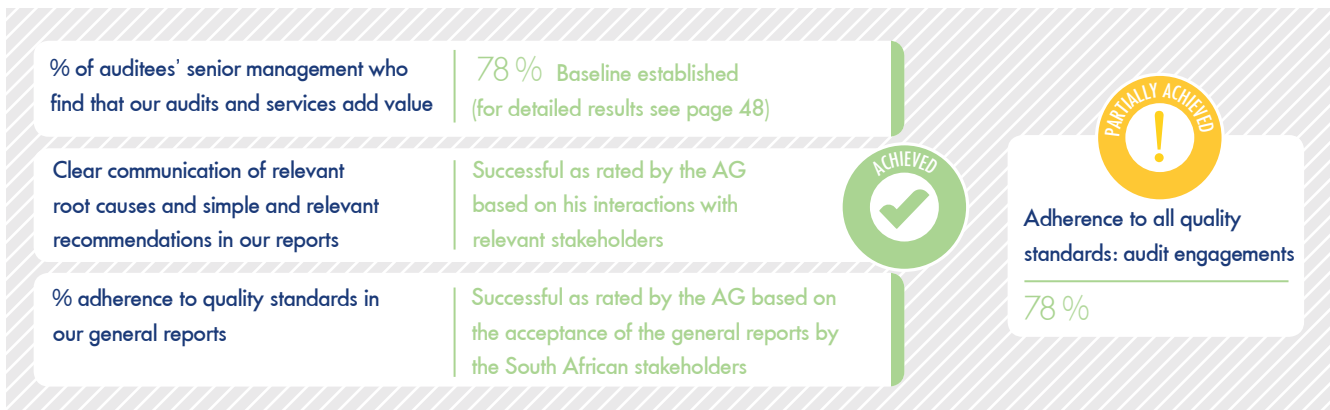
legislation. The information that we gather and the recommendations for improvements that we make empower our stakeholders to improve public administration.



WE ADD VALUE BY

- » Delivering a thorough audit of the status of financial and performance management in the public sector
- » Understanding the needs and expectations of our stakeholders
- » Auditing what matters and remaining relevant
- » Establishing a comprehensive view of the business of our individual clients
- » Outlining client-specific clear and actionable recommendations for improvement
- » Conveying our audit messages in a simple, clear and relevant manner
- » Developing new audit approaches and tools to deliver our audits in an efficient, cost effective manner

FIGURE 4.1: ACTUAL PERFORMANCE AGAINST PREDETERMINED OBJECTIVES



DELIVERING A THOROUGH AUDIT OF THE STATUS OF FINANCIAL AND PERFORMANCE MANAGEMENT IN THE PUBLIC SECTOR

The Constitutional guide is that in South Africa, relevant national legislation will prescribe measures to ensure transparency and expenditure control in each sphere of government.

The Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA) give effect to this guidance by putting in place an effective financial accountability system over the respective spheres of government.

The audit outcomes of our annual MFMA and PFMA audits are summarised and analysed in general reports (GR). These are aimed at delivering consistent, simple, clear and relevant messages to those charged with oversight and administration, and other key stakeholders. Our reports are produced in a manner that enhances understanding and simplifies the use of our audit reports. As such, our recommended remedial actions should be implemented, bringing about and sustaining the desired improvement in public sector administration.

2014-15 audit outcomes

We simplified the content of the 2014-15 MFMA general reports and aligned our messages to the priorities of the back-to-basics strategy for local government, while the 2014-15 PFMA general reports included summaries on the audit outcomes of ministerial portfolios and the outcomes of work done on the programmes and projects in the health, education, human settlements and public works sectors.

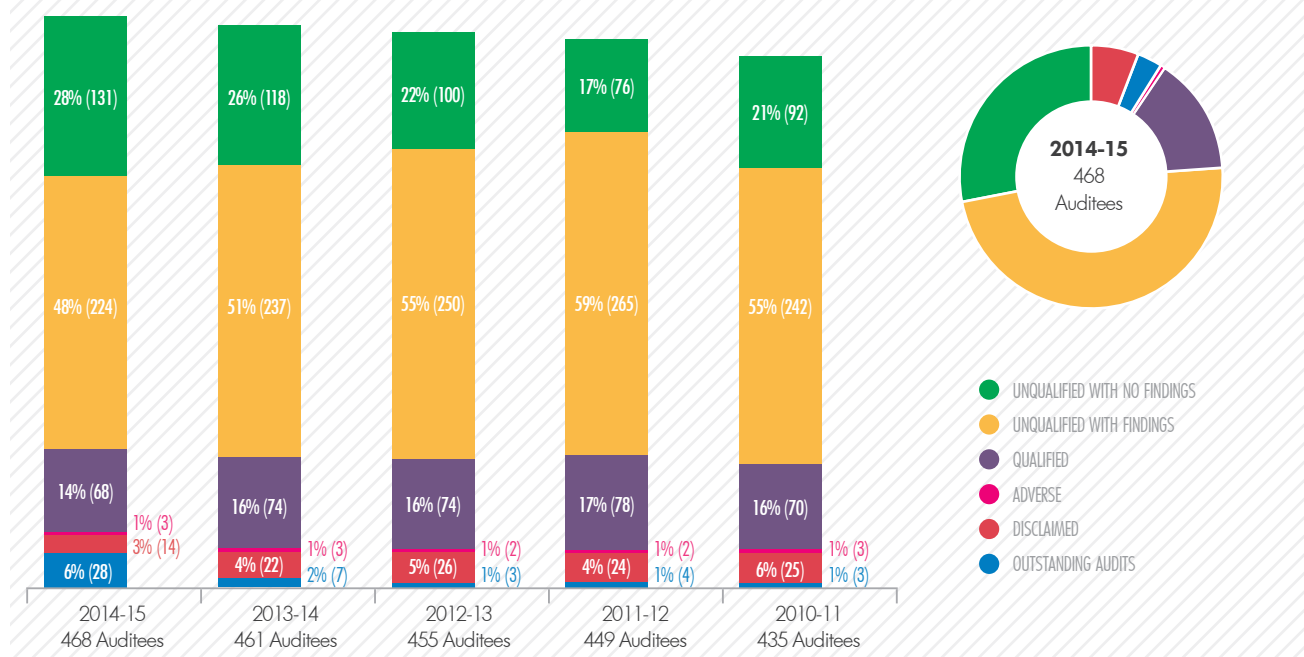
PFMA audit cycle

There has been a gradual improvement in the PFMA audit outcomes in the last five years. In the 2014-15 PFMA cycle the number of auditees that received a financially unqualified opinion with no findings (clean audits) increased to 131 (28%). These auditees comprise 47 departments and 84 public entities. The biggest move towards clean audit opinions in 2014-15 was by departments, increasing from 40 to 47 which demonstrate improvement in the internal controls and disciplines that support fiscal management.



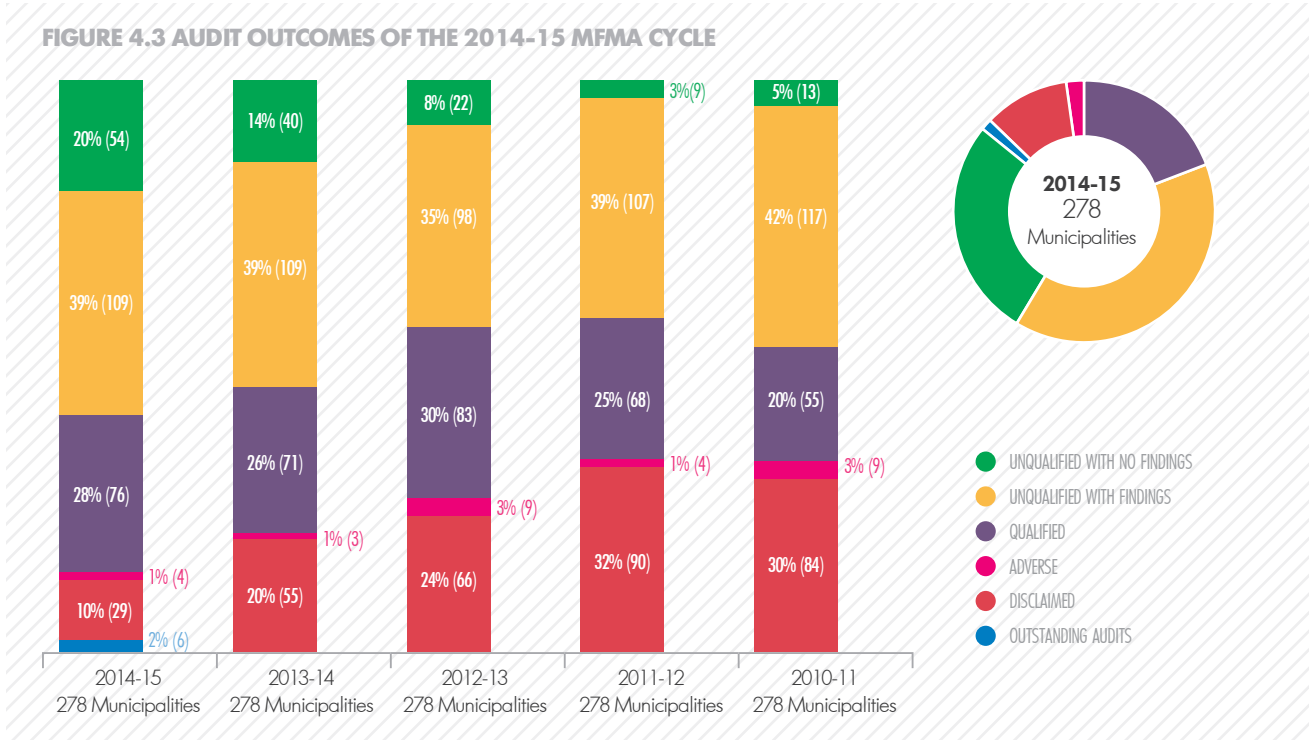
We audit all municipalities and municipal entities according to the MFMA and the country's 167 departments and 301 of its public entities according to the rules of the PFMA

FIGURE 4.2: AUDIT OUTCOMES OF THE 2014-15 PFMA CYCLE



MFMA audit cycle

Similarly, we have observed an overall improvement in the MFMA audit outcomes since 2010-11, albeit at a slower pace. The audit outcomes of six of the eight metros, and around half of the district (21 or 49%) and local (116 or 52%) municipalities have improved.

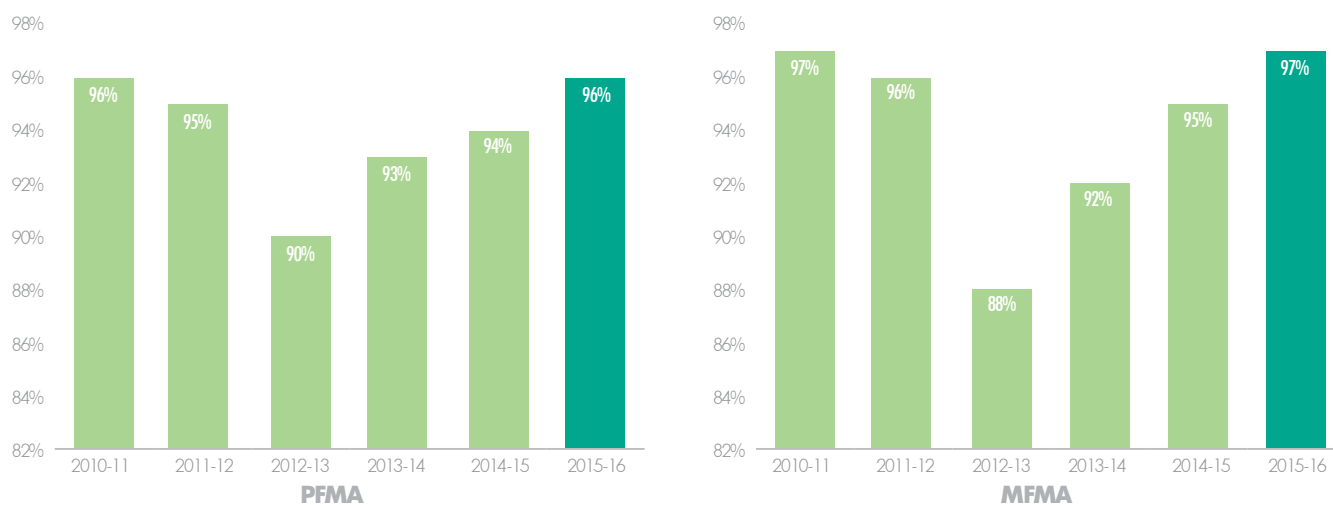


ENHANCING THE PACKAGING OF REPORTS AND MESSAGES

Our audit findings, root causes and recommendations are meticulously captured in management reports to the auditees' senior management and accounting officers, the executive authorities and audit committees. Our opinion on the financial statements, material findings on the performance report and compliance with legislation, as well as significant deficiencies in internal controls form part of our audit reports, which we publish in the auditees' annual reports and are dealt with by the oversight bodies responsible for the auditee.

We are pleased to observe improvements in the use of our reports, such as the use of our audit results in the departments' plans, which was evident in the presentation of the budget votes. Most ministers, in their 2015 budget vote discussions, mentioned and expressed appreciation for the input made by the AG in trying to promote clean administration.

This encourages us to further improve the audit report content and format in upcoming audit cycles to enable even better understanding and use of audit results by our stakeholders and to respond to the changes in the audit reporting standards introduced internationally.

FIGURE 4.4: TIMELINESS OF OUR AUDIT REPORTS FOR THE PERIOD 2010–2016


916
AUDITS COMPLETED
ON TIME

OF THE 952 AUDITS CONDUCTED IN 2015-16, 916 (96%) WERE COMPLETED WITHIN THE LEGISLATIVE TIME FRAMES. THIS IS THE BEST PERFORMANCE SINCE 2011

we defined a multi-year plan for our audit work in the health and education sectors, and identified new focus areas such as water and sanitation, and safety and security.

QUALITY OF OUR GENERAL REPORTS

In addition to improving the audit reports, we persisted in improving the quality of the general reports in response to the feedback received from our stakeholders.

Our 2014-15 PFMA general reports included summaries of the ministerial portfolios' audit outcomes and programmes and projects in the health, education, human settlements and public works sectors. In line with our increased integrated approach to auditing, we improved our information on the outcomes of the various specialised audit lines. The attention to additional insight gained by our integration will be included in the management reports in future.

The 2014-15 MFMA GR marked a watershed in our reporting of the audit cycle results. For the first time we launched a singular consolidated GR in which we included a summary section for each province, providing the users of our reports with deeper audit insight. Thus, we were able to articulate a unique message for each province without the need to launch a separate provincial GR.

The general report also included an assessment of the way that initiatives linked to the medium term strategic framework (MTSF) were implemented. The initiatives/assessments focused on financial and performance management and reporting, which ultimately should lead to improved audit outcomes. Assurance provided by the offices of the premier, treasuries and departments of cooperative governance, and commentary on their role in implementing the MTSF outcomes also formed part of the report.

Although we tabled our reports on the targeted dates, we believe that we can improve the speed of issuing the reports to increase their relevance and maximise their impact. We shall strive to finalise and table the 2015-16 PFMA and MFMA general reports one month ahead of the dates achieved in previous cycles.

AUDITING WHAT MATTERS

Adding value to stakeholders starts with understanding their needs and providing information and services of significance to them at the right cost.

Based on our research into government priorities, and consultation with stakeholders,

We recognise that additional value can be derived from the work that we already perform, so we continually refine our audit focus and strive for efficiencies.

The following topics describe how we derive this added value.

Improvements in our audit methodology

We completed the review, and are in an advanced stage of development, of our audit methodology. We intend aligning it to international audit standards and best practice. This will enable us to apply a consistent risk approach to planning audits; alleviates the practical challenges posed by integrating audit disciplines; allows us to seamlessly provide assurance on financial statements, annual performance reports and compliance with key legislation; and can be applied to special cases such as smaller auditees to improve efficiencies.

The revised methodology and its accompanying processes and working papers were first tested on already completed audits and are currently being piloted in a controlled manner on live audits. Its organisation-wide launch during the 2016-17 audit cycles is eagerly awaited by all our staff.

Deepening our knowledge of our auditees' business

To refine our focus and increase our value-add we consistently search for ways to fully understand the service delivery mandate and processes of our auditees. We have now extended this understanding to the entire value chain, where service delivery stretches across different auditees and spheres of government.

Our study at the national Department of Education used the concept of value chain analysis and demonstrated that this approach to improving our knowledge of auditees results in improved risk analysis, better audit planning and increased efficiencies. Our performance audit team also applied the concept in understanding the delivery of health services, and water and sanitation, specifically analysing the processes involved in implementing projects in these areas. These successful applications of the value chain

concept have assisted us to incorporate it in the improved audit methodology.

Using publicly available information and data analytics

We endeavoured to intensify and institutionalise the use of publicly available information as a tool to drive efficiencies and provide value-adding insights. We maintained a database of relevant auditee information that auditors can readily access through our newly launched information and knowledge sharing platform, iKnow. Additionally, through our focus on data analytics in the form of electronic environmental scanning and data mining we have enhanced the effectiveness and efficiency of our audits, as demonstrated in the section describing the contribution of our Information Systems Audit unit.

Integration of audit lines

To execute our integrated approach to delivering added value, we draw on the

breadth of specialist expertise available to the AGSA in each phase of the audit process. These include information systems, investigations and performance auditors (collectively referred to as specialised audit services).

An integrated audit of an individual client now sees larger quantities of data and insight gained through information systems audit data being further analysed by the investigations team to pinpoint areas of concern while our performance auditing specialists are deployed to generate additional understanding of the auditees' performance in service delivery.

The outcomes of the integration approach are illustrated in figure 4.5.

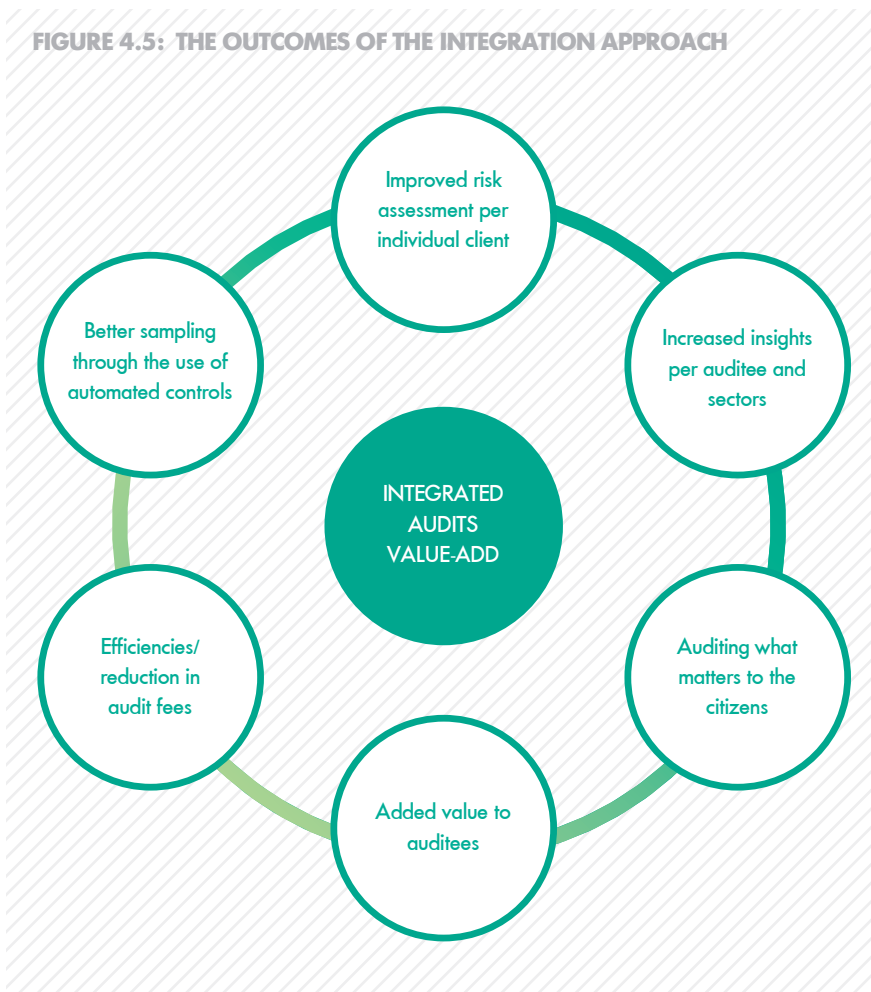
Ultimately, greater integration of our audit services resulted in a holistic and realistic diagnosis of the challenges and shortcomings experienced by the public sector in financial management, compliance and service delivery, and in enriched audit messages to stakeholders.

For the reporting period, fully integrated audits were done in the education, health and infrastructure sectors. Insights from the audits were included in the individual clients' audit reports. We added a section on the education and health sectors' outcomes in the consolidated 2014-15 PFMA general report to ensure that the user obtained a comprehensive view of the specific sector.

Our integrated approach was well-received by our stakeholders. Although satisfied with the progress made in 2015-16, we believe that there is still a host of opportunities for us to add further value to our auditees by making effective use of the specialists within the AGSA. We will continue to treat integration as a strategic priority for another year, after which it should become an institutionalised business approach to auditing.

In addition to the value added to our clients, a lot of internal value was created as a result of integration. Our specialist audit units continued to build the capacity of the regularity audit units by transferring skills on fraud risk detection and analysis, as well as on information systems testing.

FIGURE 4.5: THE OUTCOMES OF THE INTEGRATION APPROACH





INFORMATION SYSTEMS AUDIT

The traditional regularity audits require substantive testing before the auditors arrive at a conclusion, i.e. manual methods and sampling techniques are used to test the control environments.

Last year we increased the use of computer-aided auditing techniques (CAATs) to improve such testing during the 2014-15 MFMA cycle. This resulted in full population coverage and enabled regularity audit to focus their attention on the highest risk areas and to improve audit efficiencies. The approach proved to be effective during the audit of the BRT revenue cycle at the City of Johannesburg and MyCiti buses revenue cycle at the City of Cape Town metropolitan municipalities.

Our information systems auditors also conducted specialised audit procedures at 720 auditees in support of the risk assessment related to the overall management of ICT in the public sector, as well as on the readiness to implement the Municipal Standard Chart of Accounts (mSCOAC) at municipalities.

The value of this approach was also evident during the PFMA audits of Sars, Acsa, PIC, Prasa, SA Tourism and Sanral, where we made extensive use of information systems audit procedures to automate the process of testing and recalculating indicators for predetermined objectives. In some instances, we saved audit fees while in other cases, the auditee became aware for the first time of certain risks highlighted by the audit teams and, as a result, worked on improving their control environment.



INVESTIGATION

Through our Investigation unit we strengthened our audits at a number of municipalities and metros by conducting detailed fraud risk assessments and fraud risks detection analysis at various auditees, and reviewed complex and high value procurement contracts. Specifically, the unit led the review of substantial smart meter contracts signed by a number of high-capacity municipalities.

Other specific themes that were addressed through investigation techniques were:

- » **Support to the National Student Financial Aid Scheme (NSFAS)** in their processes to manage the loan book more efficiently. Processes for recovering loans from various individuals across the country were proposed, which were welcomed by the auditee.
- » A transversal review on the **validity of indigent debtors** was conducted at 24 high-capacity municipalities to identify beneficiaries that received free basic services that they did not qualify for, which enabled the municipalities

to manage this issue. We will assess the outcomes during the 2015-16 MFMA audit cycle.

- » To mitigate the risk of false qualifications, which can erode government's efforts to build capacity and skills to enhance management and oversight in service delivery, we performed independent **verification checks on the qualifications of selected/key employees** at various metropolitan municipalities such as City of Johannesburg, City of Tshwane, City of Cape Town and Ekurhuleni.

Similarly, our forensic auditors increased their involvement and support in the education and health sector audits by deepening the risk assessment processes, and uncovering challenges at a number of auditees. Their involvement spanned 94 entities (70 PFMA and 24 MFMA), focusing on the procurement and distribution of ARVs and mismanagement of textbook delivery as some of the identified risk areas. Our investigators were part of teams that worked on the Kha Ri Gude project review and the accelerated school infrastructure development initiative (ASIDI) contracts.



PERFORMANCE AUDITING

The organisation is proud to report that our Performance Auditing unit now boasts 24 permanently employed experts, including those in the areas of health, education and infrastructure. These experts worked on 212 integrated audits:

- » health specialists were part of nine audits with a high focus on pharmaceuticals and medical equipment at the departments of Health
- » quantity surveyors, engineers and related infrastructure specialists were used at 102 audits at the implementing agents for infrastructure projects at the Department of Public Works
- » the education specialists were included in 32 audits at the department of Education.

While we rely on our supplier data base of experts from organisations with which we have agreements, we will be looking to boost our expertise by recruiting a local government specialist with infrastructure skills to create deeper organisational understanding in this key space.

In addition to the integrated audits, we completed two stand-alone performance audits this year. The report on the provision of learner transport in the Eastern Cape was tabled in March 2016. The results of the audit on physical security at healthcare facilities in the Western

Cape were incorporated into the *2014-15 PFMA WC General Report*. The following stand-alone performance audits were also conducted during the year under review:

- » At the Department of Health on management of pharmaceuticals, which reviewed the entire value chain from need determination to dispensing of medication
- » At the Department of Education on education districts, which focused on curriculum support and monitoring provided by education districts to schools
- » At the Department of Water and Sanitation on water infrastructure provision, which looked at the complete process of water supply to people
- » At the Department of Human Settlements on urban renewal where we inspected the spending of five municipalities in Gauteng on urban renewal programmes and on human settlements in the Eastern Cape that examined the provision of low-cost housing projects.

The reports for these audits are being prepared and will be tabled in the 2016-17 financial year.

The outcomes of the education districts audit will be included in the education sector report.

Interim audits of the annual performance plans

We performed interim reviews of the 2016-17 annual performance plans of 176 departments and entities to enable the accounting officers and the executive to address any weaknesses in the plans before submission to the portfolio committees and to brief the committees on remaining weaknesses.

Increased legal capacity

As expressed earlier in the report, our auditors faced increased contestation of their audit findings based on the interpretation of legislation and other legal instruments. In six cases, the contestations resulted in official complaints against the AGSA and even in formal legal proceedings, such as arbitration and judicial reviews in the courts.

While we successfully defended our audit findings, reputation and independence,

this phenomenon underscored the need for the organisation to adequately deal with these pushbacks. Our audit staff requested stronger legal support to address any disputes immediately. Mindful of the pressing economic climate, we opted not to increase the headcount of our legal team, but worked on improving the access of auditors to legal experts while auditing. As a result our auditors experienced a much quicker turnaround on legal queries. In the next reporting period we will develop a specific curriculum to formally train auditors on legal aspects relevant to the work that they do.

OUR APPROACH TO THE AUDIT PROCESS WHERE WE OPT NOT TO CONDUCT AUDITS

Our observations of the instances where we opted not to perform audits highlighted inconsistencies in the way the appointed audit firms reported matters, the manner in which the

auditees consulted with us on the appointment and discharge of auditors and the different levels of engagement between the auditors of these entities and the AGSA. We used our yearly audit directive to notify all section 4(3) auditees and their auditors about our intention to strengthen our governance over audits we opt not to conduct. We have recognised Eskom, South African Airways, Transnet and the Development Bank of Southern Africa as entities with significant importance. We provide guidance to the auditors of these entities on risk and governance-related matters to ensure consistency, especially when reporting to the National Assembly.

Auditing state-owned entities

State-owned entities (SOE) manage substantial public resources and have the potential to affect the lives of many people. While we are finalising our strategy on the best way to audit these SOEs, we continue to seek opportunities to provide our

staff with relevant corporate experience in the public sector so as to have the necessary skills to audit such entities. The private audit firms remain an invaluable partner in helping us deliver on our mandate on these entities.

MAINTAINING QUALITY CONTROL PROCESSES

The credibility of our reports is directly related to the technical quality of our audit work, which is one of our key performance measures. It is strongly affected by the systems of quality control related to leadership, ethical requirements, acceptance and continuation of client relationships, human resources, engagement performance and compliance with the International Standard on Quality Control (ISQC1).

We ensured adherence to the International Standards on Auditing through a strict monitoring and review process of selected audit engagements. Our annual awareness sessions were aimed at addressing deficiencies in the audit process and elevating the focus on,

and performance management of, audit quality across the audit teams.

Our organisational rating for the quality of audit engagements is based on the reviews of a sample of 66 audit engagements. To ensure the credibility of the review results and consistency of the review process, the Independent Regulatory Board of Auditors (IRBA) re-performed randomly selected reviews.

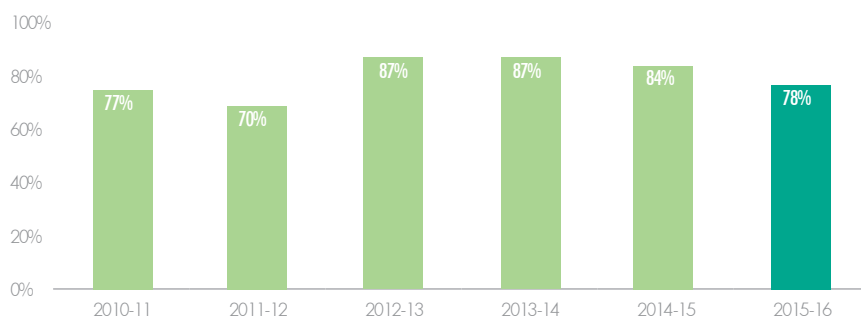
We achieved 78% compliance with standards against a target of 85% as confirmed by our independent QCAC. This represents a decline of 6% compared to the previous performance year. Detailed root cause analysis for the regression has been conducted and strict corrective steps will be taken and monitored to ensure that the root causes are addressed.

The corrective actions are focused on strengthening our pre-issuance review process, enforcing the application of standards on finalising the audit files and strengthening the link between the quality scores and the organisation's reward system.



The credibility of our reports is directly related to the technical quality of our audit work, which is one of our key performance measures

FIGURE 4.6: QUALITY RESULTS FOR THE PERIOD 2010-16



OVERALL STATUS OF PROGRESS ON THE VALUE-ADDING AUDITING STRATEGIC GOAL

The initiatives and the work done to add value to the auditees and stakeholders produced some good results as the integration of audit solutions became a reality in an increasing number of audits. The auditing of automated controls in both MFMA and PFMA cycles, in some cases, resulted in a decrease in audit fees, which is a substantial value-add to the public sector. The concept of value-adding auditing itself, which we introduced in this reporting

period, is being increasingly understood and applied by our audit business units.

We did not achieve our targets on the quality of our audits for the second time in a row. We have, without delay, started addressing this issue rigorously.

RESPONSE AND OUTLOOK FOR FUTURE PERFORMANCE

Given our level of performance and the challenges we experienced, our focus in the short to medium term will be on:

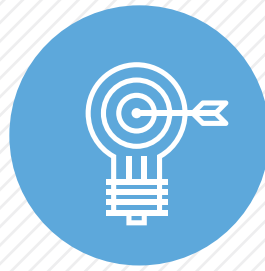
- » Institutionalising the integration of audit services so that we deliver value-added services to our auditees in an efficient manner.
- » Intensifying the use of value chain analysis to identify audit focus areas.
- » Conducting a detailed root cause analysis for the regression in quality of our audit engagements and taking adequate corrective steps to ensure that we reach the desired level of performance.

VISIBILITY FOR IMPACT

Purposeful engagement of stakeholders has become an important instrument to us to encourage and enable action and improvements in public sector administration. Progressively, various categories of stakeholders were

added to our visibility programme, which has been realised through tailored engagements supported by a consistent approach to the planning, execution, tracking and evaluation of the success of those engagements.

Our selection of stakeholders is primarily guided by our mandate enshrined in the Constitution as well as the prescripts of the ISSAs.



WE INFLUENCE CHANGES BY

- » Actively engaging our auditees on the specific control deficiencies
- » Conducting follow up visits to monitor and encourage the implementation of our recommendations to improve control environments
- » Rigorously discussing audit outcomes with all players in the public sector that can effect positive changes
- » Regularly engaging and empowering citizens through media briefings
- » Proactively interacting with those that set the standards and lawmakers to establish a common understanding of control environments and mechanisms in the public sector
- » Providing thought leadership on issues of clean administration, better governance and transparent leadership through active participation in various forums and professional bodies
- » Ensuring that we stay abreast of best practice in public sector auditing world-wide

FIGURE 4.7: ACTUAL PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

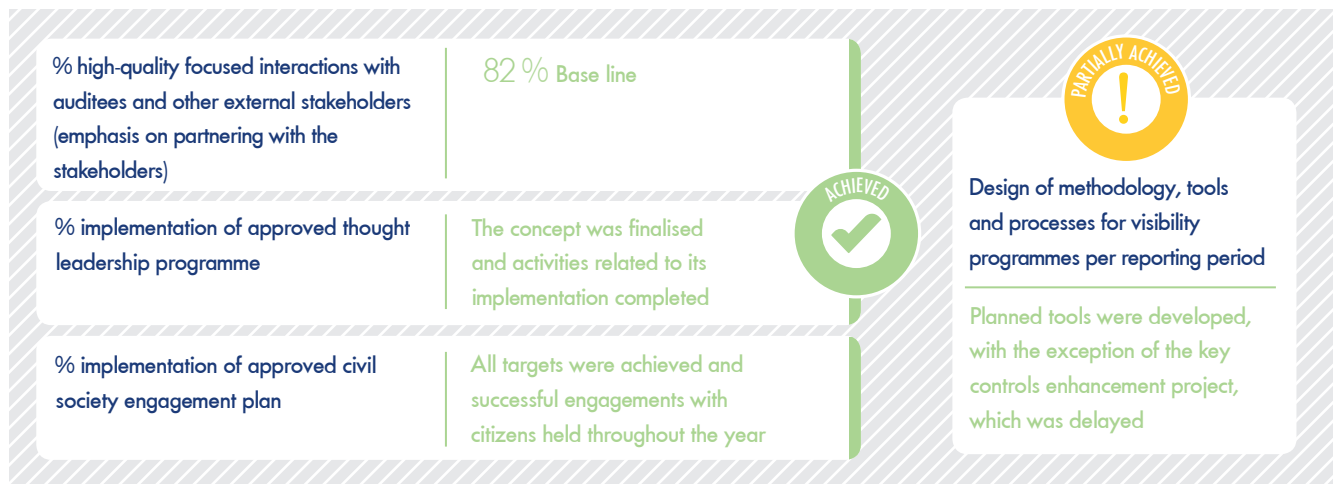


FIGURE 4.8: CONSTITUTIONAL STAKEHOLDERS

MAIN STAKEHOLDER GROUP	SUBGROUP	NATURE OF RELATIONSHIP
Legislative oversight authorities	Cabinet	<p>We share our reports with these stakeholders to enable their oversight. We therefore engage these stakeholders on the mandate and strategic goals of the AGSA, and their expectations of the AGSA, and collaborate with them in the interest of clean administration. In return, these stakeholders commit to taking action based on our recommendations. These engagements foster an integrated approach to governance that is aimed at improving government planning, decision-making and service delivery at national and provincial levels. In 2015-16, the main topics were unauthorised, irregular, fruitless and wasteful expenditure, conflicts of interest and consequence management.</p> <p>We also continued to support capacity building, sharing knowledge on good governance practices.</p>
	Coordinating ministries	
	Provincial engagements	
	National Assembly and National Council of Provinces	
	Portfolio committees	
	Association of Public Accounts Committees	
	Standing Committee on Public Accounts	
Executive authorities	The Presidency	<p>We engage with the executive across the three spheres of government to provide critical assessments of the maturity of the key control environment. We also provide assurance on whether national policies were implemented and the executive function of the state is functioning.</p>
	The National EAs	
	Provincial EAs	
	Municipal EAs	
Auditees/Audited entities	Accounting authorities	<p>We provide these stakeholders with management and audit reports, and audit insight. We also facilitate management cooperation and responsiveness in the interest of clean administration.</p>
Institutions supporting democracy	ISDs listed in chapter 9 of the Constitution, and the Public Service Commission	<p>We partner and cooperate with these institutions on specific issues in the interest of improved public sector accountability and governance.</p>
Enablers and/or standard setters	National Treasury (OAG)	<p>We partner and cooperate with these bodies on specific issues in the interest of improved public sector accountability and governance and improving the profession.</p>
	ASB	
	IRBA	

CONTRACT WORK AUDIT FIRMS

The majority of engagements with the private firms that perform audits on our behalf are focused on resolving specific challenges experienced by the firms. At a strategic level, we hold debriefing sessions after each audit cycle to provide deeper insights and highlight areas for improvement and alignment to the way we conduct audits and report on outcomes. The engagement with the contracted audit firms are discussed in the annual audit directive.

THOUGHT LEADERSHIP ON RECORDS MANAGEMENT

For a number of years, we held workshops aimed at encouraging and demonstrating techniques for proper records management as one of the cornerstones of achieving a clean audit. This year we decided on a more specific approach by hosting smaller provincial sessions. These sessions allowed us to provide immediate, unambiguous and meaningful feedback to each participant, address unique challenges in the respective provinces and, most importantly, to extract commitments and hold the provinces accountable for their commitments.

Our focus included chief financial officers and chief executive officers as these are ultimately accountable for managing their entities. We are considering innovative ways to monitor capacity building initiatives and commitments. The ultimate goal is to support the sector to address, and ultimately eliminate, disclaimed opinions.

INTERACTION WITH THE MEDIA

We have, over time, established sound and mutually beneficial relations with the media. This important relationship was forged with due recognition of the critical role played by the media in disseminating information to the public.

Both the PFMA and the MFMA media briefings received widespread coverage in provincial and national media platforms.

To enable journalists to report on our audit reports in an accurate, balanced and informed manner, we continued to follow an educative approach. In addition to the standard pre-briefing media sessions that our officials have with journalists, under strict embargo

before the release of the MFMA and PFMA audit results, we also embarked on educating provincial and community-based media practitioners about the role and mandate of the AGSA. More than 100 regional journalists in the Free State, Limpopo and Gauteng were trained, in partnership with the Institute for the Advancement of Journalism (IAJ), on how to source developmental news stories from the AGSA's audit reports. Similar sessions are being planned in other provinces.

Looking at our next generation, we held a training session for more than 30 media and BA (Hons) journalism students from the University of Limpopo. This engagement was incorporated into the students' academic curriculum. We will continue with similar sessions in the future.

CITIZEN ENGAGEMENT

The AGSA brand presence on social media advanced in support of our citizenship engagement initiative, the PFMA and MFMA tabling sessions and overall education about the work of the AGSA.

The social platforms were an effective tool for marketing our value proposition to prospective employees and for recruitment of specialists.

INTERNATIONAL COOPERATION

The International Organisation of Supreme Audit Institutions (INTOSAI) operates as an umbrella organisation for the external government audit community and provides an institutionalised framework for SAls to promote development and transfer knowledge, improve government auditing worldwide and enhance the professional capacities, standing and influence of member SAls in their respective countries.

In keeping with INTOSAI's motto, 'Mutual experience benefits all', our organisation continued to participate in international thought leadership programmes through which we provided strategic leadership on key initiatives and engaged in knowledge sharing to further enhance the AGSA's international reputation. This resulted in our inputs being incorporated into INTOSAI guidance documents. We have also participated as



In line with our intention to provide simple and understandable insight to citizens, we issued our first thought leadership magazine, which highlighted the AG's visits to those municipalities that received clean audits in the previous audit cycle





subject matter experts in INTOSAI committees, working groups and task forces.

These engagements and relationships are continuously evaluated to ensure maximum benefit and impact. Our participation has had the added benefit of enabling our business units to remain up to date, growing our knowledge-base, sharing knowledge gleaned in other countries with our national departments, and promoting economical, efficient, and effective working practices.

The AG's personal contribution to these engagements included discussions at various forums on the challenges facing the public sector auditor, the diversity of capabilities that will be required from a public sector auditor and capacity building, the beneficial role of independent and capable SAIs, and the essential role that SAIs played in strengthening national systems of good governance. The AG attended the historic inaugural meeting of the BRICS SAI leaders in Beijing, China on 24 June 2016. The leaders discussed the role of their countries' SAIs in promoting national economic and social development and shared unique and similar experiences around the industry.

The AG has used his role as chairperson of the INTOSAI Capacity Building Committee to spearhead a structured approach to building the requisite auditing skills throughout the international audit community.

The organisation has continued to host the Secretariat of AFROSAI-E (the community of English speaking SAIs in Africa). We have continued to make senior staff available as subject matter experts in support of AFROSAI-E

capacity development programmes. During the year, AFROSAI-E trained 1 700 participants (40% female) through 82 capacity building projects.

We engaged in various thought leadership outreach programmes on the African continent and entered into a number of formal agreements with other SAIs on knowledge sharing and cooperation. We have existing memorandum of understanding relations with

the SAIs of the Bric (Brazil, Russia, India, and China) countries, Ghana and Mexico, and we signed a cooperation agreement with the SAI of Sudan.

In line with our continued commitment to share knowledge and help build capacity in the African region, the AGSA received study visits from delegations in Namibia, Tanzania and Zanzibar. We provided Nigeria and Ghana SAIs with in-country development support.

OVERALL STATUS OF PROGRESS ON THE VISIBILITY FOR IMPACT STRATEGIC GOAL

Our visibility effort is successful with a majority of our stakeholders willing to receive audit insight and to make commitments for improvements in the way public resources are managed. Our tools for engagement have improved. Our only setback is the key controls enabling online tool which, although it is behind schedule, is making fast progress after an executive intervention.

We still experience challenges of "unavailability" and "over promise and non-delivery" mainly by mayors and MPACs. We will engage these stakeholders even more actively in the next reporting period.

RESPONSE AND OUTLOOK FOR FUTURE PERFORMANCE

Given our level of performance and the challenges we experienced, our focus in the short to medium term will be on:

- » Continuing to conduct high quality, practical and cost-effective engagements with all our stakeholders throughout the performance year, but prioritise those engagements that have an impact and according to the responsiveness of the stakeholders.
- » Strengthening our thought leadership programmes to provide unique solutions to the challenges experienced by specific auditees.

WHAT OUR STAKEHOLDERS SAY ABOUT US

AGSA PERCEPTION SURVEY

Recognising the importance of meeting the needs of our stakeholders and to determine whether they found value from our audits and reports, we conducted a perception survey in March 2015. The findings of the survey will feed into the implementation of the AGSA's broader mandate to ensure that all stakeholders fully understand the unique role the AGSA plays in strengthening the country's democracy. The data collected from this survey will form part of the baseline data used to monitor and evaluate future stakeholder perceptions. Internal and two categories of external stakeholders were surveyed.

OUTCOMES OF THE RESEARCH SURVEY

We were pleased to note that our stakeholders do see value in the work we do. The majority saw the timing of the general reports as assisting them to understand past challenges and forecasting future challenges for effective oversight. The survey also confirmed the challenges we have picked up in the environment and highlighted new focus areas for the organisation.

Some stakeholders highlighted that the audit report may at times be biased and therefore reflect the opinions of individuals. Some were of the view that the AGSA was more concerned with compliance than performance.

FIGURE 4.9: TARGETED STAKEHOLDER CATEGORIES

INTERNAL STAKEHOLDERS	EXTERNAL STAKEHOLDERS (CATEGORY A)	EXTERNAL STAKEHOLDERS (CATEGORY B)
All employees of the AGSA	National, provincial and local government departments, municipalities and entities	National and provincial government executive
	Audit firms	National and provincial legislatures
	National and international professional, accounting and regulatory bodies	National Council of Provinces (NCOP)
	Service providers	National and provincial oversight bodies
	Media	Portfolio and oversight committees
	Universities	APAC
	CSI/CSR partners	National Treasury
	Section 4(3) institutions	Accountant General
	Chapter 9, 10 and 13 Institutions	

In the section 4(3) survey on building and maintaining relationships, 17 of 44 respondents stated that they have never had a negative experience with the AGSA. This means that not all the stakeholders have had a positive experience of the AGSA.

Less positive feedback was received where stakeholders felt that the AGSA did not have a proper understanding of their environment.

We have ongoing initiatives to address most of the challenges that were highlighted by

our stakeholders i.e. auditing what matters, increasing our knowledge of our auditees' business, increasing audit efficiencies to make our services more affordable, maintaining the quality of our reports and maintaining a positive relationship with our stakeholders. We created action plans with targets and time frames to address the remainder of the challenges highlighted in the survey. These plans will be tracked quarterly and their outcomes will be communicated in the next integrated annual report.




78% OF AUDITEES FOUND THAT OUR AUDITS ADDED VALUE



50% PERCEIVED THE QUALITY OF OUR REPORTS TO BE EXCELLENT



89% STAKEHOLDERS RATED OUR BRAND AS FAVOURABLE



82% ACHIEVEMENT ON HIGH-QUALITY FOCUSED INTERACTIONS WITH AUDITEES AND OTHER EXTERNAL STAKEHOLDERS

VIABILITY

The AGSA strives to execute its mandate economically, efficiently and effectively and to focus on providing value-for-money audits to the public sector. Over the years, good financial administration and financial discipline embedded in the funding model has enabled the AGSA to be financially stable.

The sustainability of our organisation is enabled by a strong legislative framework and is underpinned by the availability of staff with the required work ethic, knowledge, competencies, skills and professionalism.

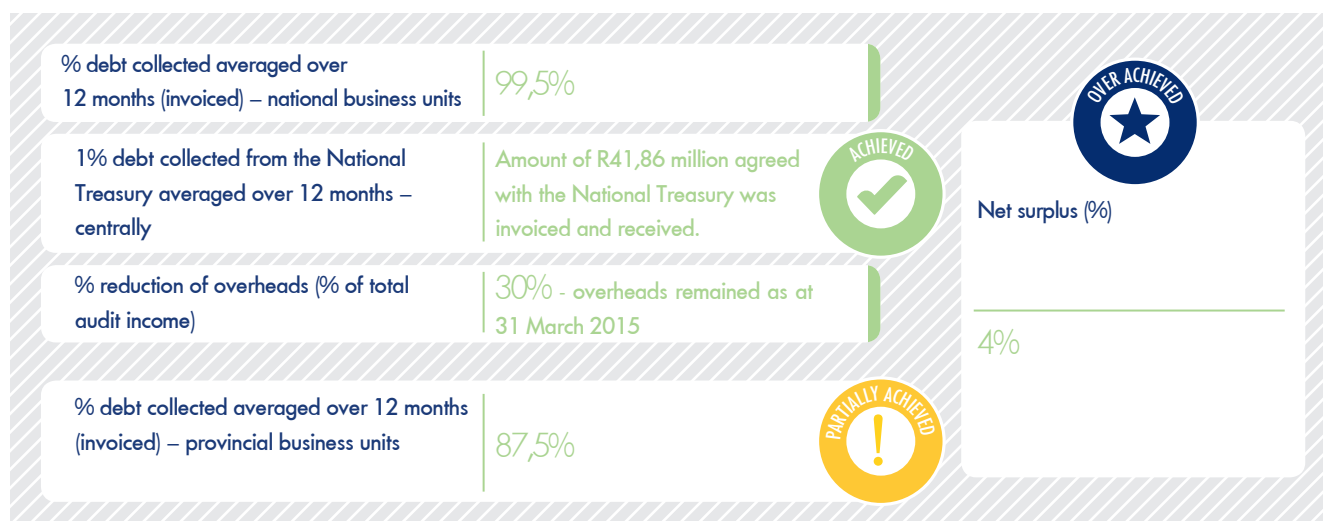


WE PROVIDE VALUE-ADDING AUDITING AND INFLUENCE POSITIVE CHANGE IN THE PUBLIC SECTOR BY

- » Monitoring and influencing legislation that impacts our mandate to safeguard our legislative independence
- » Managing our financial matters properly to maintain our financial independence
- » Ensuring that the organisation has access to the right calibre of staff and required resources
- » Professionalising our staff
- » Enhancing and streamlining our support business processes to remain sustainable
- » Providing an enabling work environment and culture to promote performance excellence
- » Building a learning organisation
- » Creating awareness and focus on the 4V strategy to obtain buy-in and commitment from the organisation

SUSTAINABILITY OF THE AGSA'S FUNDING MODEL

FIGURE 4.10: ACTUAL PERFORMANCE AGAINST PREDETERMINED OBJECTIVES



With good financial administration and financial discipline embedded in our funding model, we have achieved surpluses and become financially stable over the years. Cash flow generation remains robust and our strict management of expenditure ensures that we are financially stable.

We continue to experience low debt collection, which poses a major liquidity risk. It is important to highlight that this year we had a good turnaround, as the local government

debt have stabilised. For the first time our total debt decreased by 4%, mainly because we strictly adhered to collection processes such as ring fencing and litigation. However, given that many of our auditees are in financial distress, the debt collection is likely to deteriorate.

Over the years we have experienced an increase in the number of financially distressed auditees that are unable to settle their debts, including audit fees, from 66 auditees in 2011-12 to 86 auditees in 2014-15.

We have further experienced a consistent underpayment by the National Treasury (NT) in settling the debt of the 1% auditees that require substantial assistance. This partial payment by NT, currently averaging 44%, continues to escalate our financial risk.

FINANCIAL PERFORMANCE

For the year under review, the AGSA produced a good set of results despite stakeholders' demands for reduced audit costs as government is under pressure to lower its expenditure ceiling during this time of limited financial resources. The AGSA managed to deliver cost-efficient audits under immense auditee budgetary constraints. The financial results for the year ended 31 March 2016 are discussed in the paragraphs below.

FIGURE 4.11: NATIONAL TREASURY ALLOCATION OVER THE PAST THREE YEARS

	2015-16	2014-15	2013-14	2012-13
	R MILLION	R MILLION	R MILLION	R MILLION
1% invoiced to NT	120,68	114,60	77,30	87,40
Paid by NT	41,86	61,20	40,80	30,20
Percentage paid	35%	53%	53%	35%

AUDIT INCOME


3%
YEAR ON YEAR GROWTH

OUR ACTUAL REVENUE WAS **R2 835 MILLION** (2014-15: R2 750 MILLION).


This represents a year-on-year increase of 3% which is significantly below the annual inflation of 6% for the period and demonstrates our commitment to affordable fees for our auditees.

The contract work income was 12% less than last year due to our strategy to take back previously outsourced audit work.

OUR TWO MAIN INCOME STREAMS CONSISTED OF



OWN HOURS REVENUE OF
R2 128 MILLION
(2014-15: R1 983 MILLION)



CONTRACT WORK INCOME OF
R577 MILLION,
(2014-15: R656 MILLION)

CONTRACT WORK CONSTITUTED **20%** OF THE TOTAL INCOME

OVERHEAD EXPENDITURE ANALYSIS

We continued to maintain our overhead expenses below budget, partly due to cost optimisation strategies and some underspending/savings in certain overhead expense categories. Investment in information technology platforms support and capacity building was a major driver of overhead

costs, but was offset by our cost optimisation strategies and other austerity measures that resulted in a net saving of R35 million. It is pleasing to note that over the years we have maintained our overhead expenses at around 30% of revenue.

SURPLUS

Our surplus for the year was R105 million or 4% of audit income (2014-15: R138 million).

Part of our surplus was achieved through intentional underspending on overhead employment costs by keeping the headcount growth minimal. Some savings are the result of our cost optimisation drive and on-going austerity measures. It is important to note that this surplus has not translated into cash yet, as it forms part of the outstanding debt of R679 million.

DEBTORS

R679 million: THE TOTAL OUTSTANDING DEBT (INCLUDING ACCRUALS) AS AT 31 MARCH 2016 (2014-15: R709 MILLION)

24%

OF THE TOTAL REVENUE (2014-15: 26%)

LOCAL GOVERNMENT DEBTORS AMOUNTED TO **R343 million** (2014-15: R366 MILLION)

51%

OF TOTAL DEBT

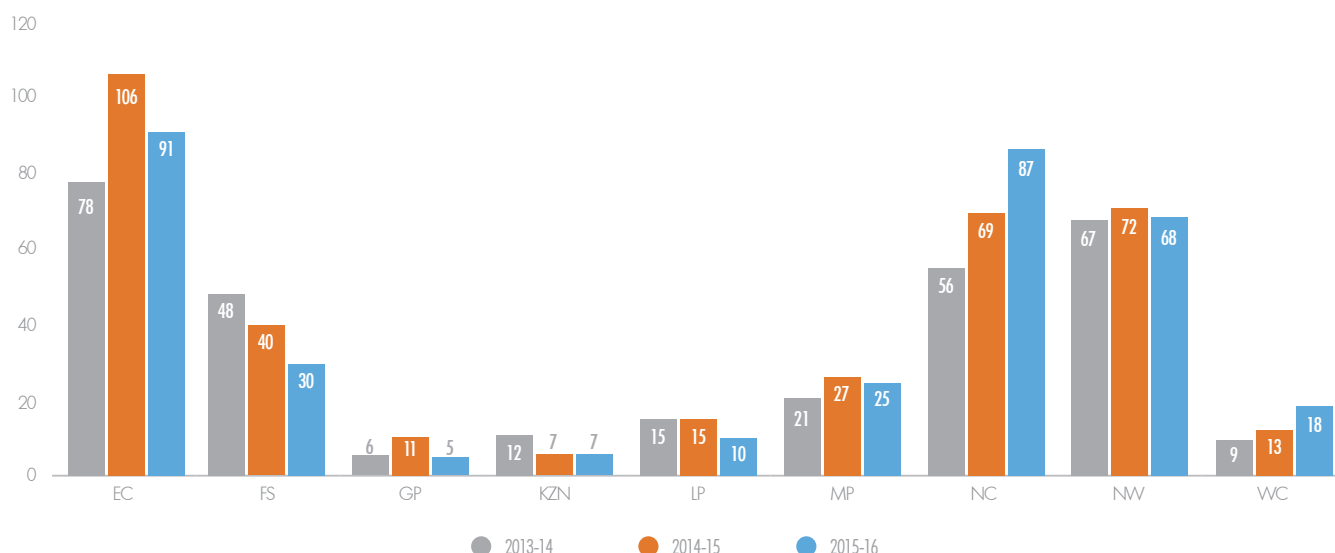
There has been a noticeable decrease in most debtor balances in the different categories; however, "other entities" debt increased from R89 million to R97 million in this performance year. Of this debt, R55 million or 64% is expected to be collected within the target

period of 90 days as the majority of the balance will be paid through ring-fencing agreements that resulted from litigation processes of collection.

Figure 4.12 depicts the distribution of the local government debtors over the last three years.

All our provincial offices have done well in improving their local government collections with the exception of North Cape, where the outstanding debt increased from R69 million to R87 million, or 6%, year-on-year.

FIGURE 4.12: LOCAL GOVERNMENT DEBTORS (R MILLION)


DEBT COLLECTION EFFORTS

The 4% year-on-year reduction in debt is a noteworthy improvement and is attributable to litigation and ring-fencing agreements with auditees.

The process of ring-fencing agreements was re-introduced in March 2013 and, as at 31 March 2016, 58 auditees (2014-15: 27 auditees) have entered into ring-fencing arrangements with a total debt of R179 million (2014-15: R99 million).

Twenty-four auditees settled their debt of R89 million, or 49% (2014-15: R73 million or 74%).

Provision for doubtful debts has decreased from R179 million to R169 million due to the improved collections from debtors. Most of the provision – 66% (2014-15: 54%) – relates to the doubtful debt in the Northern Cape and Eastern Cape regions. We also noted an improvement in North West as provision for bad debt decreased from R40 million to R22 million, which is in line with improvements in their debtors book.



SINCE JANUARY 2015, WE HAVE ISSUED SUMMONSES FOR LONG OUTSTANDING DEBT OF **R201 MILLION** (2014-15: R114 MILLION) FROM **54 AUDITEES** (2014-15: 27 AUDITEES), OF WHICH **R108 MILLION** (2014-15: R3 MILLION) HAS BEEN RECOVERED.

FIGURE 4.13: DEBTORS BALANCE AS AT 31 MARCH 2016

	ACTUAL 2015-16	ACTUAL 2014-15	ACTUAL 2013-14
	R MILLION	R MILLION	R MILLION
National departments	73	74	77
Provincial government	128	142	115
Local government	343	366	322
Statutory entities	38	38	61
Other entities	97	89	32
Total	679	709	607

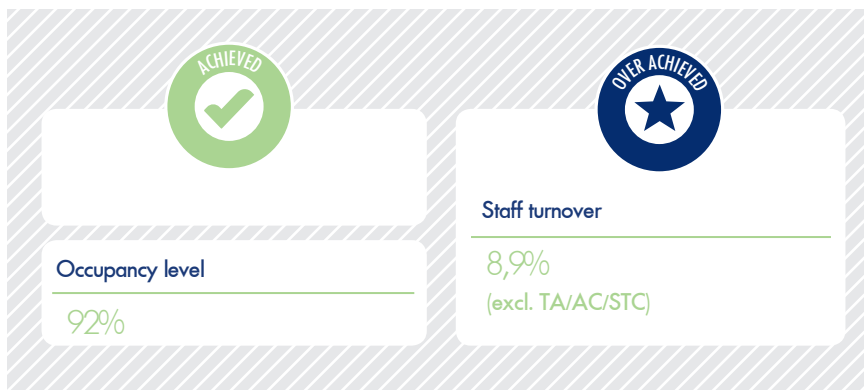
CASH FLOW

The average cash outflow per month for the period under review was R269 million (2014-15: R257 million) which represents a year-on-year increase of only 4,8% in an environment where the inflation rate is +6%.

Our cash balance, including short-term investments, as at 31 March 2016 was R617 million (2014-15: R510 million). The R107 million increase in cash balance is due to the combination of debt collection efforts and underspending/savings in overhead expenses.

WORKFORCE PROFILE

FIGURE 4.14: ACTUAL PERFORMANCE AGAINST PREDETERMINED OBJECTIVES



The full staff complement, including trainee auditors (TAs) and short term contracts, stood at 3 502 at 31 March 2016, compared to 3 435 as at 31 March 2015. This represents a 2% growth, mainly in the audit business units.

The moratorium on the headcount growth in support units remains in place.

There were no significant variations of employment numbers in the period under review.

FIGURE 4.15: WORKFORCE PROFILE BY RACE

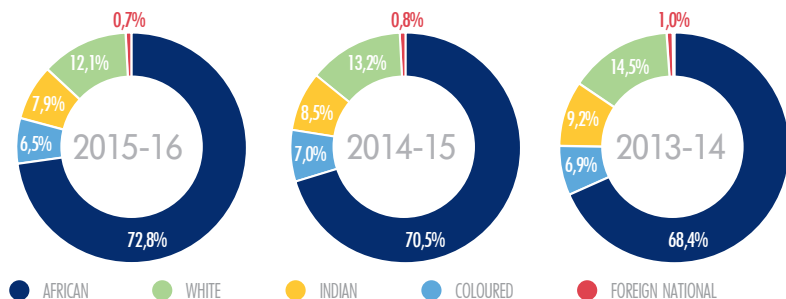


FIGURE 4.16: WORKFORCE PROFILE BY GENDER

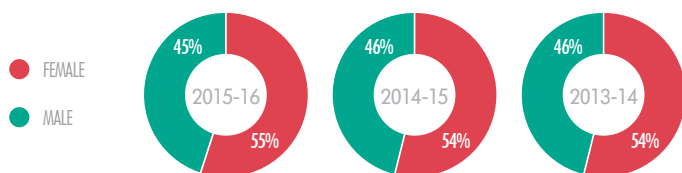
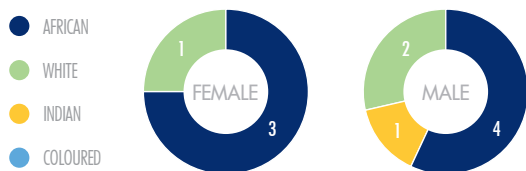


FIGURE 4.17: EXECUTIVE COMMITTEE BY RACE AND GENDER



Overall employees living with disabilities represent 0,5% (2014-15: 0,6%) of the total AGSA workforce while our black employees living with disabilities represent 0,2% (2014-15: 0,2%). This is considerably lower than the 2% target required by the B-BBEE codes of

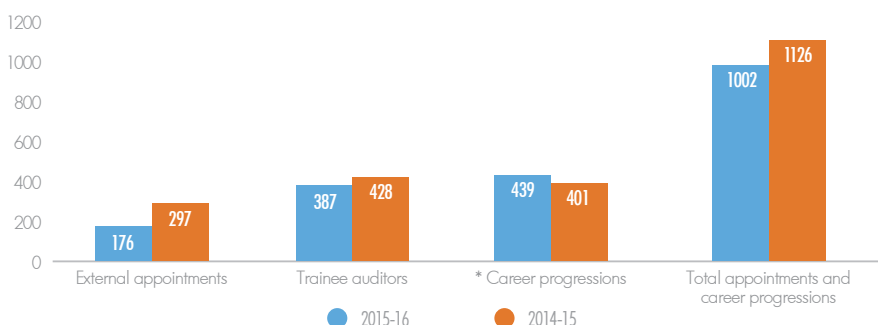
good practice. Our efforts will be dedicated to ensuring that we increase the representation of people with disabilities in our workforce and to creating an environment conducive for training and retaining this category of employee.

IMPROVING JOB OCCUPANCY LEVELS AND EMPLOYEE TURNOVER

The AGSA's occupancy rate has improved and stabilised in the last two years to around 92% (90% in 2014-15).

During the year we recruited 563 employees, including TAs, compared to 725 in 2014-15. Our TA intake was 387 versus 428 in the previous year, in line with our TA scheme strategy. Our career progression movements (internal appointments) amounted to 439 (2014-15: 401).

FIGURE 4.18: AGSA APPOINTMENTS



*Career progressions were previously referred to as internal appointments

The organisation reached its strategic target of keeping turnover below 12% to ensure that the quality of delivery of our mandate is consistent. At the end of March 2016, the overall turnover

was 8,9% (excluding TAs, audit clerks and short-term contracts). The institution's employee turnover is low when compared to the financial service industry norm of 13%.

AGSA'S EMPLOYEE VALUE PROPOSITION

Strengthening the organisation's employee value proposition (EVP) is a key priority for attracting and retaining top talent. The multiple categories of value to employees span remuneration packages, skills and talent development, and a fair and inclusive working environment.

Salary packages

- » Benchmarked, market-related salary packages
- » An opportunity to receive increases based on performance

Variable pay and rewards

- » Performance-linked bonuses
- » Performance-based recognition programmes to drive a high-performance culture

Benefits

- » Group risk benefits
- » Retirement fund

Talent management

- » Competency assessments and development opportunities for all employees, including continuous professional development
- » Leadership and manager development targeted programmes
- » Succession planning and career advancement opportunities

Working environment

- » Environment based on the AGSA values and ethical principles, and actively fostering diversity and inclusion
- » Employee wellness programme offering a wide range of professional and personal opportunities to improve quality of life
- » Daily opportunities, challenges and learning that help employees to grow professionally and personally

FIGURE 4.19: INVESTMENT IN LEARNING AND GROWTH

ASSISTANCE CATEGORIES	2015-16 ACTUAL (R'000)	2014-15 ACTUAL (R'000)	2013-14 ACTUAL (R'000)
Study and skills development support to employees			
Bursaries to employees	17 645	14 712	16 594
Internal training	5 055	4 922	9 536
External training	5 120	3 136	2 705
Subsistence and travel for training	7 511	6 479	12 336
Foundations training	9 344	7 598	7 346
Study support by tuition providers	5 085	4 910	3 756
Innovation and learning development projects	766	1 452	1 742
	50 526	43 209	54 015
Study support for external recipients			
Bursaries and tertiary assistance	13 032	14 394	12 626
Professional memberships			
Professional membership fees	14 023	13 745	11 715
Corporate membership fees	5	614	195
	14 028	14 359	11 910
Total	77 586	71 962	78 551

IMPROVING TALENT MANAGEMENT

Talent management is a continuous process that is championed by the leadership of the organisation. Our emphasis is on developing talent pools and pipelines, and retaining staff by improving benefits, and learning and development opportunities, with specific attention on improving line managers' people and leadership skills. The following paragraphs describe the programmes that manage the talent of various categories of employees.

PROFESSIONAL DEVELOPMENT

AUGMENT THE CAPACITY AND PERFORMANCE OF OUR LEADERS

The success of our strategy is dependent on effective, strategic and diverse leadership. Training was provided to 33 members of the executive team at various levels through the University of Cape Town and dedicated courses offered by AFROSAI-E. Coaching and mentoring continued to gain momentum in the organisation with 20 executive coaching processes initiated during the year.

The effect on the leadership includes enhanced performance, improved self-awareness, self-management and effective interpersonal relations with others and within teams.

FOUNDATIONS WORKSHOPS

Midzi, meaning 'the roots', is an introductory programme aimed at familiarising our newly appointed TAs with the AGSA's auditing methodology, focusing on cementing the basic technical skills required on an audit.

Foundation Midzi was held from January – March 2016 and trained 354 first-year TAs. With the assistance of Deaf SA, we also successfully trained one TA living with a disability. This programme is being aligned to the organisation's new 4V strategy and audit methodology, and has been benchmarked with other industries.

SKILLS ENHANCEMENT

The overall goal of our skills training is to remain relevant and be better equipped to serve the stakeholder. Through training in over 20 technical skills courses we have enhanced the skills and competency base of a total of 4 999 participants.

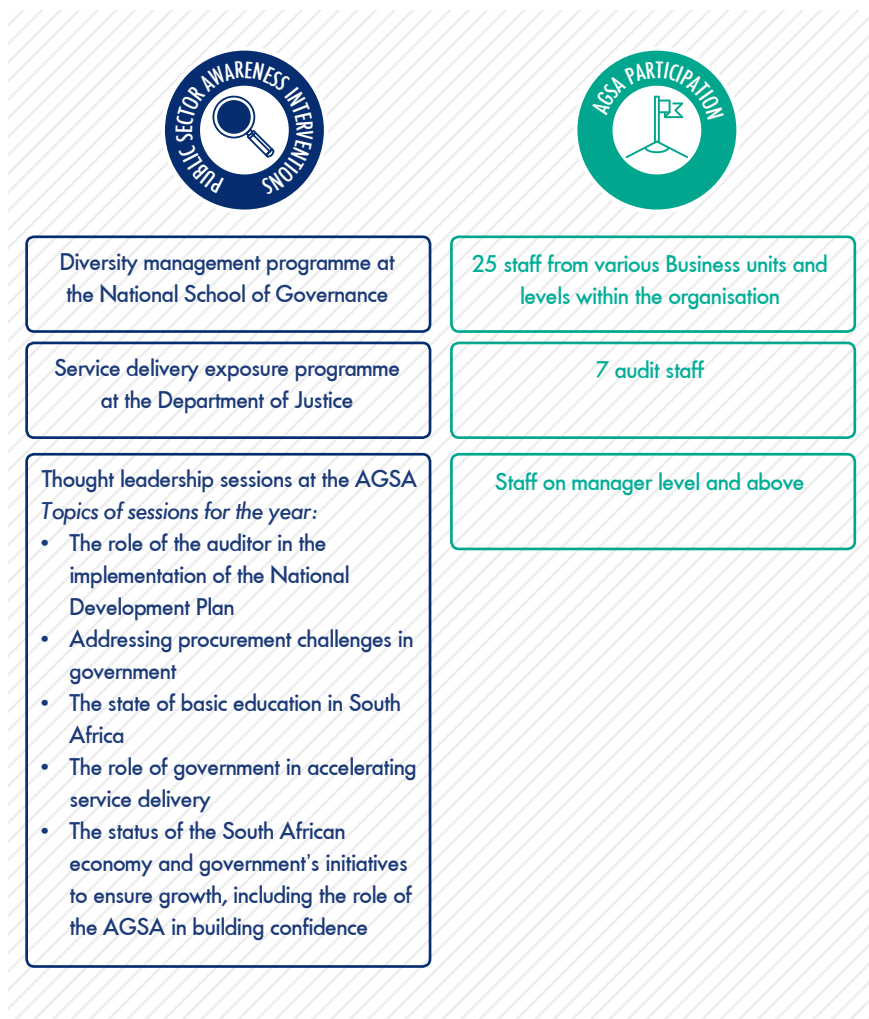
Furthermore, we aligned our soft skills programmes with the reviewed competency framework and prioritised a few soft skills programmes, including building relationships and networking, art of communication, confidence in presentations, and work-life mastery. These were attended by a total of 1 020 participants.

DEEPENED UNDERSTANDING OF THE PUBLIC SECTOR ENVIRONMENT

The success of our strategy is dependent on our superior knowledge of the public sector. Our auditors need to have a holistic skill in understanding the multifaceted public sector environment in order to function confidently in delivering on the mandate of the AGSA.

Figure 4.20 provides an outline of the public sector environment knowledge programmes implemented during this year.

FIGURE 4.20: OUTLINE OF THE PUBLIC SECTOR ENVIRONMENT INTERVENTIONS IMPLEMENTED DURING THE YEAR



PASS RATE FOR FINAL QUALIFYING EXAMS BY NON-TAs

Employees, other than the TAs, are also encouraged to qualify as professional auditors. In 2015, 120 (62 in 2014) non-TAs sat for the APC exam and 92 (46 in 2014) of them were successful, resulting in a 77% pass rate (74% in 2014). This ultimately means that 92 employees are now eligible to register as CAs(SA), which will increase our CAs(SA) total to 640, an increase of 17% from the previous year.

AGSA TA SCHEME

Our TA scheme with its three learnerships - SAICA, SAIGA and ACCA - offers practical training experience for prospective professional members. It is our main feeder to the growing number of professionals in the organisation and the professions. Overall our TA scheme learnerships numbers have stabilised from the previous year, in line with our TA scheme strategy.

The learnerships are the AGSA's effort to redress the imbalances of the past, as 88% of our trainees are from previously disadvantaged groups. This contributes to the long-term transformation of the accounting and auditing professions in South Africa.

GROWING THE NUMBER OF QUALIFIED PROFESSIONALS

The AGSA is proud to confirm that we have 1 004 employees who are registered professionals, more than half of which (548) are CAs(SA) (Chartered Accountants South Africa).

Figure 4.21 depicts the steady growth of our audit professional profile as an organisation.

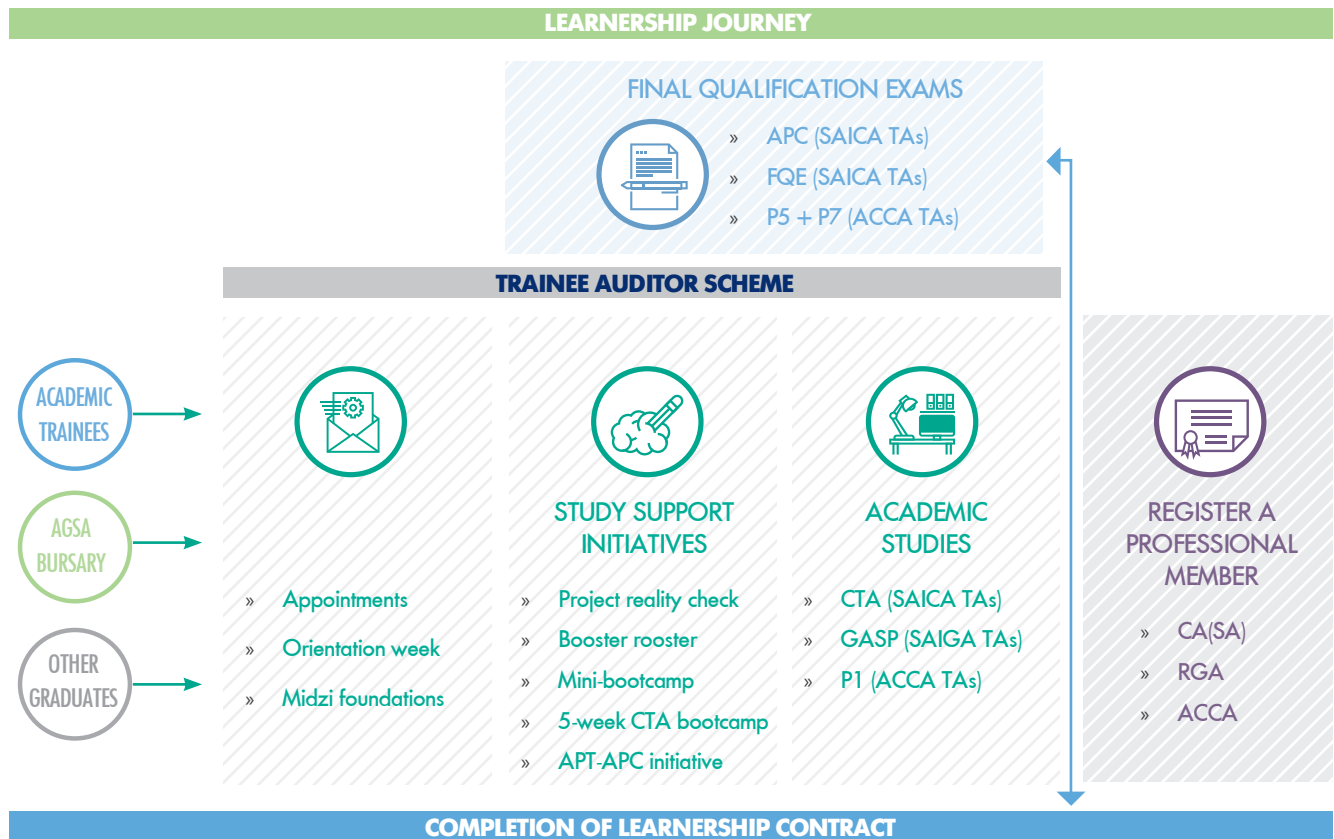
FIGURE 4.21: PROFESSIONAL BODY MEMBERSHIP SINCE 2010

YEAR	CA(SA)	RGA	ACCA	CISA
2010	343	345	16	35
2011	375	339	16	43
2012	360	325	18	44
2013	370	329	19	50
2014	397	368	23	55
2015	547	345	27	61
2016	548	358	34	64

FIGURE 4.22: LEARNERSHIP PROFILE



FIGURE 4.23: TRAINEE AUDITOR'S STUDY SUPPORT



In supporting our trainee auditors in their academic progress, the AGSA has designed a vast number of in-house study support programmes, including bursary and loans, and grants ample study leave. The success of these programmes is largely due to our great stakeholder relationships with UNISA and other lecturers.

FIGURE 4.24: SAICA LEARNERSHIP STUDY INITIATIVES

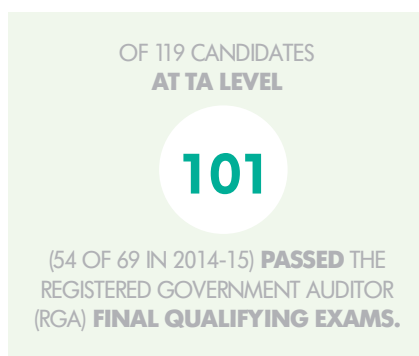
STUDY	STUDY SUPPORT INITIATIVE	PROGRAMME PASS RATES AND NUMBER OF ATTENDEES	AGSA OVERALL PASS RATES
CTA readiness	Project reality check Introduced in the 2013-14 financial year. It assesses the embedded knowledge base of TAs and gives them an indication of what effort would be required by them during their studies to pass their CTA exams	2015-16: 605 attendees	
CTA 1	Booster rooster Introduced in the 2013-14 financial year. It is aimed at preparing the top 30 CTA level 1 TAs for their UNISA tests and consists of three contact sessions of five days each, with various experienced CTA lecturers	2015-16: 54% (30 of 56 attendees) 2014-15: 59% (47 of 79 attendees)	2015-16: 33% (136 of 415) 2014-15: 17% (80 of 480)
CTA 2	Boot camp Introduced in the 2012-13 financial year. It is aimed at recognising and motivating our 25 top-achieving CTA 2 students with a six-week intensive study programme. All their needs are taken care of to allow them to remain focused on achieving their CTA	2015-16: 100% (25 of 25 attendees) 2014-15: 80% (20 of 25 attendees)	2015-16: 35% (81 of 229) 2014-15: 27% (72 of 264)
ITC			2015-16: 66% (79 of 120) 2014-15: 68% (78 of 114) (Figures include the June and January exams)
APC	In an effort to assist our students, in 2015 we introduced the additional study support initiative, the "APT-APC initiative". APT lectures consisted of a two-day face-to-face session, at all our regional and national offices. Being engaged in the public sector environment, this initiative was specifically tailored for us.	2015-16: 276 attendees, including TAs and non-TAs	2015-16: 70% (32 of 46) 2014-15: 63% (30 of 48)

The pass rates for all the SAICA learnership levels increased in 2015-16. The pass rate for CTA 1 almost doubled while the pass rate for CTA 2 increased by 8%. These increases in CTA pass rates shows the positive influence of our study support initiatives. The ITC pass rate remained constant while the APC pass rate increased by 7%.

FIGURE 4.25: SAIGA LEARNERSHIP

STUDY	AGSA OVERALL PASS RATES
E-GASP	2015-16: 100% (106 of 106) 2014-15: 100% (72 of 72)
SAIGA FQE	2015-16: 85% (101 of 119) 2014-15: 78% (54 of 69)

Our SAIGA trainee auditors maintained their 100% record in E-GASP exams and their final qualifying exams pass rate increased by 7%.



TRAINING OFFICE RISK RATINGS

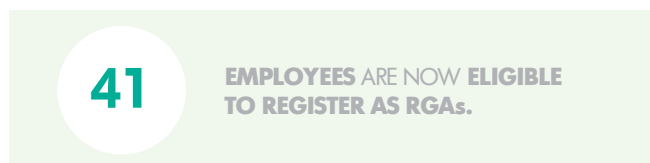
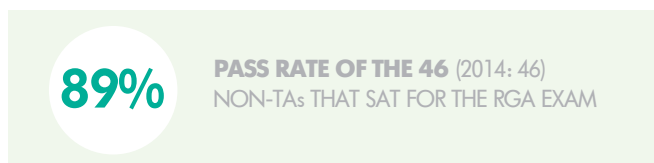
The SAICA accreditation risk ratings indicated the quality of the training environment. This year, one of our offices was rated very highly, while some offices improved their rating. The unfavourable findings mostly relate to the quality of the assessment process such as submission of all required documentation to SAICA, detailed training information per competency, fine-tuning developmental plans, etc. We have developed a number of interventions to assist the affected units, which include participation in SAICA refresher workshops and individual discussions

FIGURE 4.26: TRAINING OFFICE RISK RATINGS

RISK	TARGET RATING	ACTUAL RATING
Low risk	3	4
Medium risk	10	6
High risk	3	4
Very high	0	1

with the training officers. We are confident that we will be able to display improved results in the coming year.

PASS RATE FOR FINAL QUALIFYING EXAMS BY NON-TAs



FURTHER STRENGTHENING OUR PIPELINE THROUGH EXTERNAL BURSARIES AND PARTNERING WITH STAKEHOLDERS IN THE AUDITING INDUSTRY

EXTERNAL BURSARIES

The AGSA has a successful external bursary scheme that has been running since 2002. Each

year our all-inclusive full time bursaries are awarded to top candidates who intend studying towards the chartered accountant qualification at a SAICA-accredited university. The candidates

range from matriculants to current university students. In the 2015 academic year we spent R10 million in support of the 131 students in our external bursary scheme.

FIGURE 4.27: AGSA EXTERNAL BURSARY STATUS

QUALIFICATION LEVELS	1ST YEAR	2ND YEAR	3RD YEAR	CTA	CTA 2	TOTALS
Active	14	21	37	8	26	106
Suspended*	-	5	7	6	7	25
Total	14	26	44	14	33	131

*The AGSA will suspend a bursary due to poor academic results. Although funding is suspended the student is not excluded from other opportunities like vacation work. Repayment of funds provided is only required for bursaries that are terminated.

This number is expected to grow as the bursary scheme is a vital part of our TA intake and is an important transformation initiative for the accounting profession.

In comparison to the two previous years, academic performance in the external bursary scheme improved in the 2015 academic year. Our CTA students achieved an outstanding 70%

(23 of 33) pass rate. The improved CTA pass rates can be attributed to our additional individual support, a stronger focus on our relationship with universities and the hard work of our candidates.

FIGURE 4.28: AGSA EXTERNAL BURSARY PASS RATES

EXTERNAL BURSARIES	2015			2014			2013		
	ATTEMPTED	PASSED	%	ATTEMPTED	PASSED	%	ATTEMPTED	PASSED	%
1st Year	14	14	100	12	11	92	42	30	71
2nd Year	25	16	64	40	33	83	28	24	86
3rd Year	45	30	67	36	30	83	21	14	67
BCTA	14	10	71	8	4	50	9	4	44
CTA	33	23	70	24	7	29	18	7	39
Total	131	93	71	120	85	71	118	79	67

ACADEMIC TRAINEES

Our bursary scheme aims to attract top calibre students, especially at CTA level, to an academic traineeship in which they will acquire their first year of technical and professional competence at an academic institution.

The AGSA had five academic trainees in the 2015 academic year and secured four academic trainees in 2016 through the

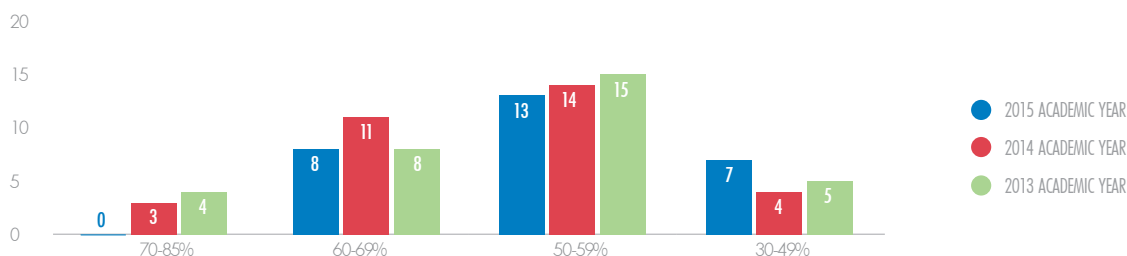
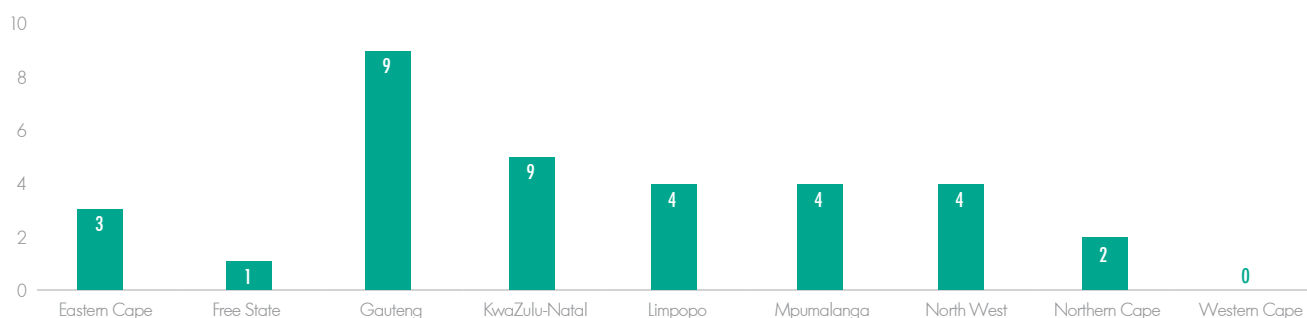
Thuthuka bursary programme and one through the AGSA external bursary scheme. Two of the best performing bursary holders currently doing their CTA have been identified as potential academic trainees for the 2017 academic year.

CENTENARY SCHOLARSHIP

In 2015-16 we invested R1 931 759 in the centenary scholarship programme and R8 122 832 since inception. Nine of the eleven

students awarded scholarships completed their degrees in 2015 (11 have completed their degrees since inception). Six of these students are currently registered for their Honours degrees while three are registered for the bridging programme into an Honours degree.

We are glad to report that our Limpopo business unit became the first business unit to sign a trainee auditor contract with one of our scholarship students.

FIGURE 4.29: PASS RATE OF THE CENTENARY BURSARY RECIPIENTS

FIGURE 4.30: AWARDS GRANTED PER PROVINCE


THUTHUKA BURSARY FUND (SAICA PROJECT)

The Thuthuka ('to develop' in Zulu) bursary fund is available exclusively to African and Coloured students who aspire to become chartered accountants but do not have the means to study. Every year, between 250 and 300 Thuthuka bursaries are awarded to undergraduate students from disadvantaged communities. We donated R2 299 200 to the Thuthuka bursary fund.

Each year since the start of the programme, the AGSA has sponsored 40 students who have

passed the CTA and are ready to attempt the ITC. Due to their good pass rate (72% of the Thuthuka CTA class) in the 2015 academic year, the AGSA was allocated an additional 14 students at the beginning of 2016.

We are currently reviewing our model for supporting the programme to optimise the benefit to individual students and to the AGSA professional pipeline.

SPONSORSHIPS

For the 2015-16 financial year the AGSA sponsored the following projects:

- » Academic excellence awards at different universities to the value of R54 000
- » Maintaining the SAICA accreditation of the University of the Western Cape with an amount of R250 000
- » Topping up academic salaries of R9 821 913 over three years at the University of Fort Hare.

This support will also allow us to maintain a steady recruitment of trainee accountants; around 20 people annually.

INCREASED EFFICIENCIES IN THE ORGANISATION

FIGURE 4.31: ACTUAL PERFORMANCE AGAINST PREDETERMINED OBJECTIVES



HUMAN CAPITAL SERVICE DELIVERY MODEL

The Human Capital business unit implemented an improved service delivery arrangement on 1 February 2016. This new model introduces multi-disciplinary and cross functional service delivery teams, led by a senior manager, to meet the changing business needs for efficient and effective support. We focused on joint problem-solving in and between teams, and developing fit-for-purpose solutions to effectively respond to changing stakeholder dynamics and needs.

IT APPLICATIONS AND TECHNOLOGY

We completed the development and implementation of the resource management tool, which will assist the BUs to plan audit resources more efficiently.

The finance MIS tool was developed and made available to the audit business units to manage audit efficiencies while the Finance business unit monitors staff recoveries more closely.

We followed a rigorous procurement and assessment process for our envisaged new audit software; however, the acquisition, further development and implementation of the audit software would be unaffordable to the AGSA. We therefore cancelled the tender and resolved to continue to upgrade the TeamMate software that is currently in use.

IKNOW

The insights we take to our auditees and those we gain from our work define the success of our audits. Being able to share insights effectively across the organisation is critical to our continued success. We created the iKnow database in line with our strategy to enable employees to connect and easily find and share valuable information in a cost effective manner. It reduces filing, duplication and retrieval cost of offsite storage, and allows 24/7 access to documents from any audit site or office.

ORGANISATIONAL CULTURE

The AGSA's leadership (IAG, DAG, exco) prioritised their visibility in the organisation to

drive improved alignment to our strategy, our mandate and our values. This approach was spearheaded by the DAG who continued her personal visits to various business units. Regular strategic discussions were held at all executive levels throughout the year.

EMPLOYEE RELATIONS

The AGSA does not belong to a bargaining council and is not covered by a collective agreement. The institution endeavours to promote orderly and constructive relationships between the employer and employees that reflect best people management practices. All labour-related disputes are referred to the Commission for Conciliation, Mediation and Arbitration (CCMA).

Sixteen (2014-15: 9) cases were referred to the CCMA during the year. Of these, six were decided in favour of the employer, seven were settled and three cases are pending arbitration. The majority of disputes related to dismissal due to incapacity and misconduct.

EMPLOYEE WELLNESS PROGRAMME

We continued to provide employees with diverse opportunities and services aimed at fostering work-life balance and well-being.

During this reporting period the initiatives and services focused on promoting wellness, healthy lifestyle and work/life balance:

735 EMPLOYEES
(21,7% OF THE AGSA WORKFORCE) USED EMPLOYEE ASSISTANCE SERVICES

26 DEPENDANTS WERE SUPPORTED

1 326 CASES WERE ACCEPTED TO SUPPORT THE INDIVIDUAL

91 SENIOR MANAGERS AND LEADERS ATTENDED THE EXEC CARE PROGRAMME

OCCUPATIONAL HEALTH AND SAFETY

Although the number of work injuries has decreased significantly, awareness about reporting these injuries improved.

FIGURE 4.32: ACCIDENT AND INCIDENT STATISTICS

	2015-16	2014-15	2013-14	2012-13	2011-12
Total number of injuries	6	11	10	9	7
No. of Compensation claims	4	8	4	4	5
Total no. of employees	3502	3435	3258	3083	2912

During the performance year, 15 staff attended level 1 first aid training and 35 were trained at level 2.

The evacuation reports compiled after holding evacuation drills demonstrated a significant improvement in the evacuation time, despite the drills being conducted with a maximum number of staff on the premises at the time.

EMBEDDING THE CONCEPT OF SUSTAINABILITY

FIGURE 4.33: ACTUAL PERFORMANCE AGAINST PREDETERMINED OBJECTIVES



In 2015-16 we completed the development of a comprehensive organisational sustainability strategy. The strategy describes the rationale, importance and objectives for sustainability at the AGSA and outlines the long-term sustainability goals for the organisation. Our sustainability model is presented in Figure 4.34.

FIGURE 4.34: AGSA SUSTAINABILITY MODEL



As reported earlier, we have managed our financial and human capital, and specifically our social and relationships capital, rigorously. The immediate focus of our sustainability strategy is, therefore, to define and prioritise managing our intellectual capital while quantifying and minimising the use of natural resources.

The strategy will be implemented in the following year, using internal media platforms to raise awareness on sustainability and using our environmental management and accounting system (Emas) to establish a baseline for our carbon footprint. One of the most critical functions of the Emas will be to generate reports on predetermined sets of information for internal decision-making.

MINIMISING THE ORGANISATION'S DEPENDENCE ON PAPER

This initiative aims at improve business continuity in case of a disaster, increase efficiencies in information access and retrieval (remote access), improve information security and limit risks associated with information management.

FIGURE 4.35: IMPACT OF THE 4V STRATEGY ON OUR SIX CAPITALS

4V STRATEGY		SIX CAPITALS					
STRATEGIC GOALS	STRATEGIC OBJECTIVE	FINANCIAL	INTELLECTUAL	HUMAN	MANUFACTURED	SOCIAL & RELATIONAL	NATURAL
Value-add	Demonstrate value-add auditing	▲	▲	▲	▼	▲	▼
	Ensure high quality audits	▲	▲	▲	▼	▲	▼
Viability	Achieve impact through visibility programmes	▼	▲	▲	▼	▲	▼
	Engage citizens to enable active citizenry	▼	▲	▲	▼	▲	▼
Visibility for impact	Maintain financial and legal and independence	▲	◌	▲	◌	▲	▼
	Align internal competencies capabilities	▼	▲	▲	▲	▲	▼
	Increase operational efficiency	▲	▲	▲	▲	▲	▼
	Embed the concept of sustainability	▲	▲	▲	▲	▲	▲
	Increase internal visibility	▼	▲	▲	◌	▲	▼
Vision and values driven	Continue to be a transformational organisation	▲	▲	▲	◌	▲	▼
	Ensure our own clean administration	▲	▲	▲	◌	◌	▼
	Increase AGSA's brand presence	▼	▲	▲	◌	▲	▼

Legend: ▲ Increased ▼ Decreased ◌ No impact

We also aligned the process with the provisions of the Protection of Personal Information Act of 2013 and minimum information security standards. We have begun digitising vital records, which also contributes to operational efficiency, compliance and cost savings of storage space

During the year, we used 2 123 boxes of paper across the organisation (R425 000) and recycled 9 830 kilograms of paper.

ENERGY SAVING INITIATIVES

The AGSA initiated an energy saving programme at the Head office which resulted in an average monthly savings of R40 000. Energy saving initiatives will be rolled out to the regions in the 2016-17 financial year.

DIESEL AND WATER CONSUMPTION

From 2016-17, all resource consumption will be captured on the Emas to allow us to automatically calculate our carbon footprint.

OVERALL STATUS OF THE VIABILITY STRATEGIC GOAL

The three pillars of independence, legislative, financial and administrative, were well looked after. Our invigorated effort at debt collection has brought good results, but our cash margin of safety of 2,3 months (2015: 2,0 months) remains slim compared to our target of 6 months.

The tough economic climate has resulted in some key initiatives, e.g. the audit software and the innovation centre, and the headcount, being reviewed and contained. Management of talent, skills development and staff engagement remained a priority.

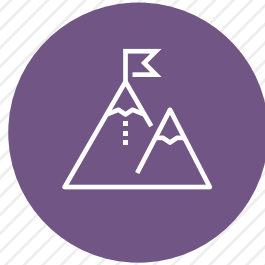
There is room for improvement at our learnership offices, especially our SAICA training offices.

RESPONSE AND OUTLOOK FOR FUTURE PERFORMANCE

We will continue improving our debt collection efforts to improve our cash safety margins and will introduce initiatives aimed at assisting our small auditees. Special attention will be paid to improving and maintaining the risk ratings of our SAICA training offices.

The employee value proposition will be reviewed to ensure relevance and to include non-monetary reward and recognition elements.

VISION AND VALUES DRIVEN



WE EARN OUR INDEPENDENCE AND CONTINUALLY RENEW OUR 'LICENCE TO EXIST' BY

- » Ensuring we run clean administration
- » Preserving our ethics and integrity
- » Employing strict risk management processes and internal controls
- » Executing a transformation strategy that supports the endeavours of the country and the accounting and auditing professions
- » Building our brand as a reputable Chapter 9 institution in South Africa

A TRANSFORMATIONAL ORGANISATION

FIGURE 4.36: ACTUAL PERFORMANCE AGAINST PREDETERMINED OBJECTIVES



Our transformation strategy

The AGSA plays an important role within the auditing and accounting profession. We influence the industry by setting standards, providing guidance, distributing audit work and collaborating with all key players. In doing so, we remain committed to supporting transformation within the country and growing black professionals in the auditing, accounting and other financial disciplines. Our transformation strategy is guided by the efforts of the Chartered Accountancy Council and the Broad-Based Black Economic Empowerment (B-BBEE) codes of good practice.

B-BBEE review outcome

We aim to maintain our level 2 B-BBEE status, which we have achieved for the second year in a row.

We have met our B-BBEE targets except at the middle management level. At exco level, we are doing very well.

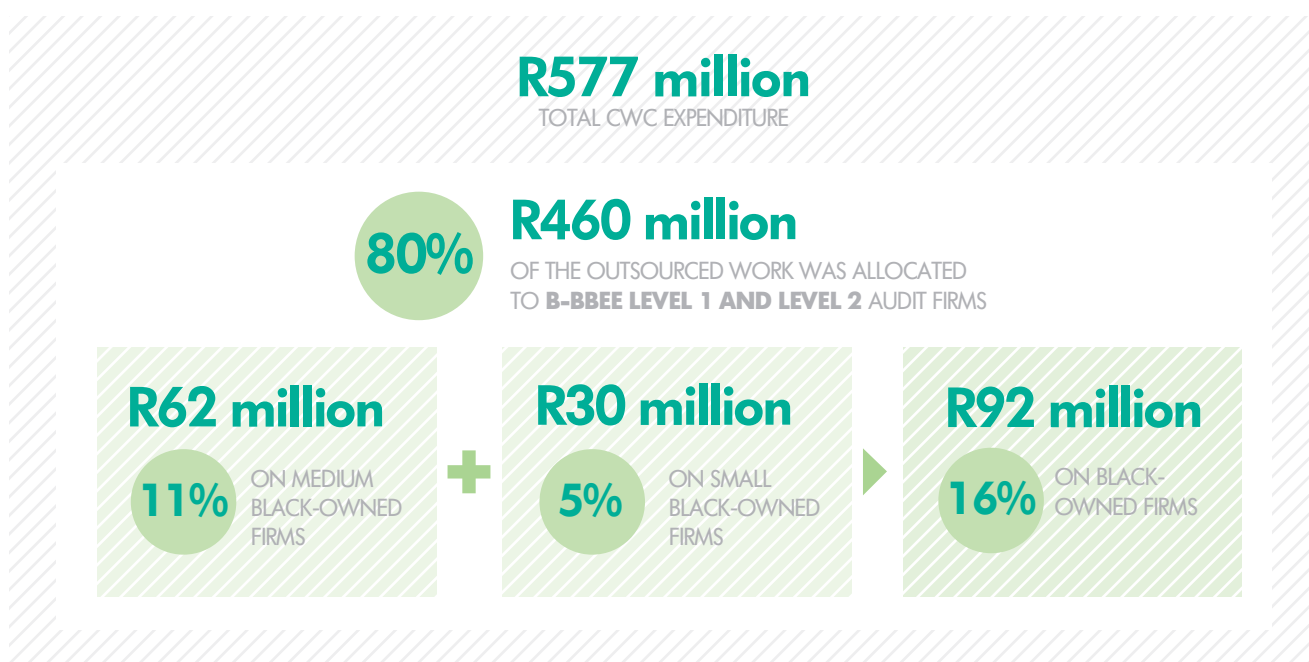
We need to employ substantially more black people living with disabilities. The inclusion of people with disabilities in training programmes will be a major focus area in 2016-17.

Our TA scheme and our principles in distributing audit work to private firms have contributed significantly to the increase in the number of black chartered accountants.

To demonstrate our commitment to small businesses, we have improved our procurement practices by introducing fast payment to qualifying small enterprises (QSE) and emerging micro enterprises (EME).



FIGURE 4.37: CWC EXPENDITURE



Enterprise and supplier development programme

Our enterprise and supplier development (ESD) programme also supports small black-owned audit business to contribute to transforming the profession.

The programme included three audit firms based in the Eastern Cape, Limpopo and North West. Our support and assistance focused on training and addressing the SAICA and IRBA

requirements for the firms to maintain their membership. We provided work experience to their trainees by including them in some of the AGSA's audit assignments.

CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Our community initiatives have successfully supported the organisation's strategic direction and elevated its reputation. However, we plan to intensify support to schools that cater for children

living with disabilities in the new financial year.

Each province was allocated an amount of R50 000 towards their corporate social responsibility (CSR) work. The programme primarily focused on early childhood development (education and skills development), health care and the upliftment of vulnerable groups (women and children).

FIGURE 4.38: CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

BUSINESS UNIT	FOCUS	BENEFICIARY
Eastern Cape	Health care	The Haven Wellness Centre home-based care which supports people living with HIV/Aids
Free State	Education and skills development Upliftment of vulnerable groups	Serei and Kaalspruit primary schools Thusano Child (Orphanage) Youth Care Centre
Gauteng	Upliftment of vulnerable groups	Rays of hope
Limpopo	Education and skills development	Mashilo preschool
Mpumalanga	Health care	Ekurhuleni Disabled Centre
KwaZulu-Natal	Early childhood development	Masibumbane Early Childhood Development Centre
Northern Cape	Education and skills development	Maths and Science Leadership Academy (MSLA)
Western Cape	Upliftment of vulnerable groups Education and skills development Health care	Street Smart SA Rotary Club of Bellville & Salesian Life Choice Noah Neighbouring Old Age Home
North West	Education and skills development	Ditiro, Ikageng and Tshimologo Preschools and the ABASA North West initiative
Head office (specialised audit services)	Upliftment of vulnerable groups	Ikhaya Lami Lethemba Project

CORPORATE SOCIAL INVESTMENT INITIATIVES

The AGSA budgeted R833 000 for the CSI programme during the 2015-16 financial year. The programme focused on the following initiatives:

FIGURE 4.39: CORPORATE SOCIAL INVESTMENT (CSI) INITIATIVES



Supported 124 schools across nine provinces



Grade 11 and 12 boy and girl learners from rural schools invited to the AGSA offices to learn more about the organisation



Each BU is allocated R10 000 to support worthy causes



The 2015 matric Maths, Accounting and Science camp was a pilot project and took place in October 2015 in East London and KZN (Pietermaritzburg). The provinces were selected based on the previous year's poor matric results. Learners were identified from the 124 rural schools.

ENSURE OUR OWN CLEAN ADMINISTRATION

Passage to risk “enabled”

Over the year, we have demonstrated a progressive maturity level to managing risk within the organisation. Based on the outcome of an assessment by our independent internal auditors, our risk maturity level was deemed to be repeatable; which is equivalent to *defined* on our maturity model. We aim to be at the level of *managed* by March 2017.

FIGURE 4.40: AGSA’S ADAPTED RISK MANAGEMENT CAPABILITY MATURITY MODEL



The organisation’s strategic objectives are sustained by a robust strategic risk profile and the associated risk appetite levels. This allows functional units to implement business processes that create value and are efficient. Through our risk management efforts, we have assisted our business units and functions to identify risks against their business objectives, which support our strategic objectives.

Combined assurance

We continue to enhance the relevance and alignment of the different assurance providers within the organisation. We reviewed our combined assurance model to ensure that it remains relevant and in line with leading industry practices to optimise management’s

assurance capabilities, where previously emphasis was on independent assurance providers.

Sustained health of the internal control environment

At the business and functional levels, we continue to assess internal control processes by reviewing our policies and procedures. During the current reporting period 24 policies and frameworks were reviewed.

The organisation’s ethical principles, standards and norms

To drive the desired ethical culture within the organisation, we align the fundamental principles of the IESBA Code of ethics for professional

accountants (the code), the INTOSAI code of ethics and the organisation’s core values.

Ethical and independence requirements

Our risk and ethics function monitors declarations of interests made by our employees via an electronic register and highlights those considered to be risks by reporting them to management. For the reported year, 97% (99% in 2014-15) of employees submitted annual declarations, with the outstanding 3% sufficiently explained and addressed by the respective business units.

Awareness and communication on all ethics policies and procedures is an ongoing process and targets all employees.

Addressing concerns about unethical conduct and integrity matters

Mechanisms for reporting unethical conduct and integrity matters remain the same for both internal and external stakeholders. According to section 13(1)(c) of the PAA, the organisation must investigate and resolve such matters. Our policy on complaints against the AGSA, supported by the appropriate procedures, ensures that complaints are handled in a fair, transparent and objective manner.

Where individuals seek advice on ethical and lawful behaviour, they may elect to directly contact our Risk and Ethics business unit or email the unit at ethics@agsa.co.za.

There were 15 ethics complaints recorded in the complaints register for the 2015-16 performance year and were categorised as follows:

FIGURE 4.41: CATEGORIES ON THE COMPLAINTS REGISTER

COMPLAINT CATEGORY	DESCRIPTION	NUMBER OF COMPLAINTS LODGED	NUMBER OF COMPLAINTS RESOLVED
1	Matters do not fall within the scope of the subject matter of complaints referred to in the policy	3	3
2	Operational matters dealt with during the course of an audit referred to in the PAA	5	2
2 and 3	A combination of operational matters dealt with during the course of an audit referred to in the PAA and misconduct of the personnel and administration of the AGSA	3	1
3	Misconduct of the personnel and administration of the AGSA	4	3
4	Any actions of the AG in his personal capacity	0	0
	Total	15	9

Nine complaints were finalised during this period, with the rest still under investigation.

Constitutional stakeholder scanning

We have scanned the environment to identify opportunities and threats that may influence our current operations and future plans. Through this process we have gained a better understanding of stakeholder needs and expectations and have improved our responses.

Our leadership continued to monitor potential risks and opportunities that may influence our audit message. Scanning the environment enables them to make informed decisions with broader knowledge and insight on current developments and the environment in which public sector audit applies.

AGSA brand management

We received a score of 89% against the targeted percentage of 60% for favourable experience of the AGSA's brand by our stakeholders in our perception survey.

We increased our followers and likes on social media, trended second on Twitter in South Africa for the first time on 25 November 2015 during the tabling of the PFMA general report and attracted more quality feedback from the general public during this financial year.

Quality and timeliness of our corporate reports

We endeavour to stay abreast of, and comply with, the industry standards and benchmarks when developing products. Two of our publications, the integrated annual report for 2013-14 and the 100-yearbook on the history of the organisation achieved finalist status in the SA Publication Forum competition.



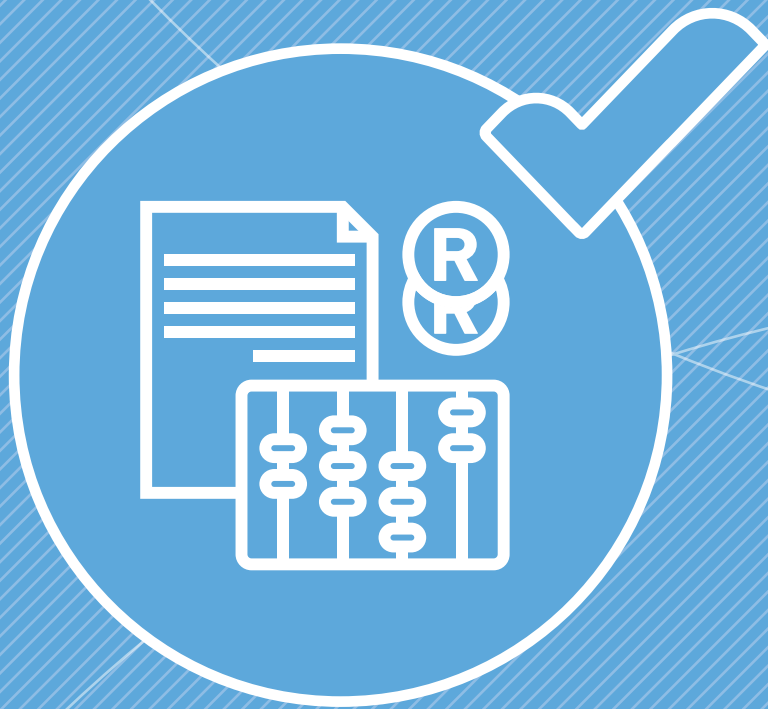
OVERALL STATUS OF PROGRESS ON THE VISION AND VALUES DRIVEN STRATEGIC GOAL

Our two major areas of focus under the strategic goal, contribution to transformation and risk management, were very well executed. We achieved our target of a level 2 B-BBEE contributor rating against the amended specialised generic codes, which required even more onerous targets than in previous years. During the year we crafted and consulted extensively on our transformation strategy. Our risk management function remains robust.

RESPONSE AND OUTLOOK FOR FUTURE PERFORMANCE

In 2016-17, we plan to engage with all our business units. The aim of these sessions will be to gain staff insight on matters that hinder or support transformation.

Exco defined our ultimate target of risk maturity at the level of “managed” by March 2017, which will define the scope of our activities. By successfully implementing a governance risk and compliance tool we foresee an integrated risk management approach across the organisation, particularly a closer alignment between enterprise and information technology risk management. We are confident that the planned areas of priority for the 2016-17 financial year will help us achieve the exco-defined target.



FIVE

AUDITING WHAT MATTERS

SECTION CONTENTS

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REPORT OF THE AUDIT COMMITTEE



MTHANDAZO PETER MOYO
CHAIRPERSON OF THE AUDIT COMMITTEE

The Audit Committee (the committee) sets out its report in respect of the 2015-16 financial year to SCoAG and other AGSA stakeholders.

The report is prepared according to section 40(4)(a) of the Public Audit Act 25 of 2004 (PAA), and the adopted King III code of corporate governance principles for South Africa 2009 (King III code).

The committee is pleased to report that it has fulfilled all its duties as required by the relevant provisions of the PAA as well as the adopted Audit Committee charter. The committee performed its affairs in compliance with this charter, and has discharged all of its responsibilities contained therein.

COMMITTEE MEMBERSHIP AND ATTENDANCE

The committee membership and attendance to meetings are reported in section two.

OVERVIEW OF ACTIVITIES

Over the period under consideration, the committee received and interrogated information from management and other relevant organisational structures, in line with its functions. This information, together with that provided by the independent assurance providers, affords us the confidence that the organisation's:

- » resources and financial expertise are adequate and effective
- » systems of internal controls over financial reporting are adequate and can be relied upon
- » risk management processes are adequate and operating effectively.

The committee's primary work during the 2015-16 financial period is outlined in subsequent sections of this report.

EFFECTIVENESS OF INTERNAL CONTROLS

As part of its activities, the committee is responsible for ensuring that there is adequate oversight of the system of internal controls and risk management. Consequently, in the period under review, the committee performed the following:

- » Considered the effectiveness of the systems of internal control and the supporting governance processes, particularly as they relate to:
 - » financial management and internal controls over financial reporting
 - » risk management and compliance processes
 - » information technology risks relating to financial reporting
 - » the effectiveness of the organisation's compliance with legislative and other legal requirements
- » Assessed the organisation's performance against the approved 2015-16 risk appetite statement
- » Reviewed and approved the 2016-17 risk appetite statement
- » Reviewed performance against the risk management implementation plan
- » Reviewed and approved the organisation's strategic risk profile for the financial year 2015-16
- » Considered the written assessment issued by the internal auditors on the adequacy and effectiveness of the organisation's system of internal controls and risk management
- » Reviewed the results of the combined assurance matrix on the organisation's risks
- » Reviewed and approved the 2016-17 combined assurance model and matrix

- » Received and considered reports from management and the organisation's independent assurance providers on the functioning of the internal controls as assessed by them.

The committee is therefore able to conclude that the systems of internal controls of the organisation can be relied upon for the integrity and reliability of the financial statements; the safeguarding, verification and maintenance of the organisation's assets and the detection of fraud and compliance with laws and regulations.

EVALUATION OF THE FINANCIAL STATEMENTS

Having regard to elements and risks that may have an influence on the integrity of the financial statements, the committee performed the following:

- » Considered whether the financial statements fairly present the financial position, the results of operations and cash flows of the organisation in all material respects with the appropriate requirements of the PAA and the IFRS
- » Reviewed the accounting policies and practices of the organisation, satisfying itself that they are appropriate, adequate and comply with the appropriate requirements of the IFRS
- » Reviewed the external auditor's audit report
- » Reviewed the management representation letter relating to the financial statements signed by the Deputy Auditor-General
- » Considered the accounting treatments, significant unusual transactions, the summary of uncorrected misstatements and accounting judgements
- » Considered and reviewed the performance and expertise of the chief financial officer and the finance function and satisfied itself that the resources and expertise within the finance function are adequate

- » Met separately with management and the independent assurance providers prior to every Audit Committee meeting and considered any representations.

The committee also noted management's confirmation of going concern for the 2016-17 financial year. Except for external factors; which management has assured the committee that they are employing appropriate risk mitigation strategies to manage, the committee is satisfied that the AGSA will maintain the ability to trade as a going concern for the foreseeable future.

The committee thus recommended to the Deputy Auditor-General that she may sign the annual financial statements and to the Auditor-General that he may sign the integrated annual report.

INTERNAL AUDITORS

The internal audit function is mandated to independently apprise the committee of the existence, adequacy and effectiveness of the organisation's risk management, internal controls and governance processes as directed in its approved charter.

Accordingly, the committee performed the following:

- » Reviewed and approved the internal audit charter
- » Reviewed and approved the annual internal audit plans as well as the audit fees. The committee satisfied itself that the internal audit coverage plans made provision for effectively addressing the risk areas of the organisation
- » Evaluated the independence, effectiveness and performance of the internal audit function and that it has fulfilled its obligations in line with the approved charter
- » Considered the reports of the internal auditors on the systems of internal controls, business risk management and maintenance of effective internal control systems

- » Reviewed observations by internal audit and the adequacy of corrective actions taken by management in response.

The committee notes that the internal audit plan was successfully executed for the year under review. The recommendations and corrective actions reported to management, if implemented, will further enhance the internal control environment.

EXTERNAL AUDITOR'S APPOINTMENT AND INDEPENDENCE

In line with section 39(2) of the PAA, the committee is satisfied that the external auditor appointed by SCoAG, KwinanaEquifin Incorporated, was independent of the AGSA and was not conflicted as required in section 39(2)(c) of the PAA. In arriving at this determination, the committee reviewed and took the following into consideration:

- » Representations made by the external auditors to the committee, on their independence. Assessed the external auditor against the criteria on objectivity and independence as specified by IRBA and considered the external auditor's previous appointments as external auditors to the AGSA
- » The quantum of other work undertaken by the external auditor for the AGSA. The external auditor did not, except as external auditor or in rendering permitted non-audit services, receive any remuneration or other benefit from the organisation
- » Reviewed and approved the external audit plan, the budgeted external audit fee for the reporting period and the terms of engagement of the external auditors – including pre-approving all non-audit services that the external auditor provided

- » The external auditor and the quality of the external audit process, and found it to be satisfactory.

Based on the outcome of the above activities, the committee can conclude that the external auditor's independence was not impaired, prejudiced nor influenced during their dealings with the AGSA.

CONSIDERATION OF SUSTAINABILITY CONTROLS, PERFORMANCE AND INFORMATION

With respect to sustainability controls, performance and information, the committee considered that the responsibility to ensure that processes are in place for sustainability initiatives and reporting rests with the leadership of the organisation.

The committee considered and approved audit plans relating to the review of performance and sustainability information by the internal auditors; as well as the provision of limited assurance for selected sustainability indicators by external auditors. The committee further considered the observations made by both auditors in their reports and received the necessary assurances that material disclosures were reliable and did not conflict with the financial information.

APPRECIATION

The committee confirms that it was able to carry out its work to fulfil its legislative mandate in unrestricted conditions. For this, the committee would like to thank the leadership of the AGSA and all its structures, particularly those that enable the work of the committee.



MTHANDAZO PETER MOYO

CHAIRPERSON OF THE AUDIT COMMITTEE

INDEPENDENT ASSURANCE REPORT ON SELECTED KEY SUSTAINABILITY PERFORMANCE INDICATORS

TO THE AUDITOR-GENERAL

We have undertaken a limited assurance engagement on selected key sustainability performance indicators, as described below, and presented in the 2015-16 Integrated annual report of the Auditor-General of South Africa for the year ended 31 March 2016 (the report).

SUBJECT MATTER

We are required to provide limited assurance on the following key sustainability performance indicators, prepared in accordance with the Global Reporting Initiative (GRI) G4 guidelines.

Category	Key sustainability performance indicators	Boundary
Economic	Application of the funding model Amounts and initiatives in respect of:- TA scheme Preferential procurement Corporate social investment	Republic of South Africa
Social	Amounts and initiatives in respect of:- Bursaries and scholarships rural schools programme Local community corporate Enterprise development	Republic of South Africa
Cultural	Disclosures in respect of:- Employee profile Staff turnover Ethics Training initiatives Application of the occupational health and safety policy Employee wellness programme Employee relations	Auditor-General of South Africa
Stakeholder engagements	Disclosures in respect of:- Employees Cabinet Auditees Constitutional stakeholders Regulatory and professional bodies Contract firms Media	Republic of South Africa

DEPUTY AUDITOR-GENERAL'S RESPONSIBILITIES

The Deputy Auditor-General is responsible for the selection, preparation and presentation of the key performance indicators in accordance with the GRI G4 guidelines. This responsibility includes the identification of stakeholders and stakeholder requirements, material issues, commitments for sustainability performance and for the design, implementation and maintenance of internal control relevant to the preparation of the report that is free from material misstatement, whether due to fraud or error.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the Code of ethics for professional accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with the International Standard on Quality Control 1, KwinanaEquifin Incorporated maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

OUR RESPONSIBILITY

Our responsibility is to express a limited assurance conclusion on the selected key performance indicators based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance

engagement in accordance with the ISAE 3000: *Assurance engagements other than audits or reviews of historical financial information*, issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform our engagement to obtain limited assurance about whether the selected key sustainability performance indicators are free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3000 involves assessing the suitability in the circumstances of the AG's use of GRI G4 guidelines as the basis of preparation for the selected key sustainability performance indicators, assessing the risks of material misstatement of the selected key sustainability performance indicators whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the selected key sustainability performance indicators. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. The procedures we performed were based on our professional judgement and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:

- » interviewed management and senior executives to obtain an understanding

of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process

- » inspected documentation to corroborate the statements of management and senior executives in our interviews
- » reviewed the process that the Auditor-General of South Africa has in place for determining material selected key sustainability performance indicators to be included in the report
- » inspected supporting documentation on a sample basis and performed analytical procedures to evaluate the data generation and reporting processes against the reporting criteria
- » evaluated whether the selected key sustainability performance indicators presented in the report are consistent with our overall knowledge and experience of sustainability management and performance at the Auditor-General of South Africa.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than, a reasonable assurance engagement. As a result the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether the Auditor-General of South Africa selected key performance indicators have been prepared, in all material respects, in accordance with GRI G4 guidelines.

LIMITED ASSURANCE CONCLUSION

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the selected key performance indicators as set out in the subject matter paragraph for the year ended 31 March 2016 are not prepared, in all material respects, in accordance with GRI G4 guidelines.

RESTRICTION OF LIABILITY

Our work has been undertaken to enable us to express a limited assurance conclusion on the selected sustainability information to the Auditor-General of South Africa in accordance with the terms of our engagement, and for no other purpose. We do not accept or assume liability to any party other than the Auditor-General of South Africa, for our work, for this report, or for the conclusion we have reached.

KwimanaEquifin Inc

KWINANAEQUIFIN INCORPORATED
REGISTERED AUDITORS AND ACCOUNTANTS

Tendai Mapenda
Audit Partner
31 July 2016
Alenti Office Park, Block A
457 Witherite Street
The Willows Ext 82
Pretoria

REPORT BY THE DEPUTY AUDITOR-GENERAL

DEPUTY AUDITOR-GENERAL'S RESPONSIBILITIES AND APPROVAL

As the Deputy Auditor-General I am required by the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) to maintain adequate accounting records and am responsible for the content and integrity of the financial statements and related financial information included in this report. It is my responsibility to ensure that the financial statements fairly present the financial position of the Auditor-General of South Africa (AGSA) as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with the International Financial Reporting Standards (IFRS) and the PAA. External auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with IFRS and the PAA and are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

I acknowledge that I am ultimately responsible for the system of internal financial control established by the AGSA and place considerable importance on maintaining a strong control environment. To enable me to meet these responsibilities, the AGSA, after

consultation with the parliamentary oversight committee, sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the AGSA and all employees are required to maintain the highest ethical standards in ensuring the AGSA's business is conducted in a manner that, in all reasonable circumstances, is above reproach.

The focus of risk management at the AGSA is on identifying, assessing, managing and monitoring all known forms of risk across the organisation. While operational risk cannot be fully eliminated, the AGSA endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

I am of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial

records may be relied on for the preparation of the financial statements. However, any system of internal control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

I have reviewed the AGSA's cash flow forecast for the year to 31 March 2017 and, in the light of this review and the current financial position, I am satisfied that the AGSA has, or has access to, adequate resources to continue operating as a going concern for the foreseeable future.

I am not aware of any matter or circumstance arising since the end of the financial year that will materially affect these financial statements.

The financial statements set out on pages 80 to 112, which have been prepared on the going concern basis, were approved and signed by me in September 2016 on behalf of the AGSA.



TSAKANI RATSELA
DEPUTY AUDITOR-GENERAL

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT

REPORT ON THE FINANCIAL STATEMENTS

INTRODUCTION

We have audited the financial statements of the Auditor-General of South Africa set out on pages 80 to 112, which comprise the statement of financial position as at 31 March 2016, the statement of comprehensive income, statement of changes in reserves and the statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

DEPUTY AUDITOR-GENERAL'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Deputy Auditor-General is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards and the requirements of section 41(1)(a) of the Public Audit Act, 2004 (Act No. 25 of 2004), and for such internal control as the Deputy Auditor-General determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Auditor-General of South Africa as at 31 March 2016, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards and the requirements of the Public Audit Act, 2004 (Act No. 25 of 2004).

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

REPORT ON PREDETERMINED OBJECTIVES

INTRODUCTION

We have audited the report on performance against predetermined objectives of the Auditor-General of South Africa for the year ended 31 March 2016, as set out on pages 36 to 69 of the integrated annual report.

THE DEPUTY AUDITOR- GENERAL'S RESPONSIBILITIES

The Deputy Auditor-General is responsible for the preparation and fair presentation of the report on performance against predetermined objectives as required by section 41(1)(a) of the Public Audit Act, 2004 (Act No. 25 of 2004), and for such internal control as determined necessary to enable the preparation of the report on performance against predetermined objectives that is useful and reliable.

AUDITOR'S RESPONSIBILITY

As required by section 41(1)(b) of the Public Audit Act, 2004 (Act No. 25 of 2004), our responsibility is to express an audit conclusion on the report on performance against predetermined objectives.

ASSURANCE WORK PERFORMED

We conducted our audit in accordance with the International Standards on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical financial information*.

We report on whether we have received all the information and explanations required to conduct the engagement, or if we became aware of additional information, the omission of which may result in the report on performance against predetermined objectives being materially misstated or misleading.

We provide reasonable assurance with respect to the usefulness of the information contained in the annual performance report.

We further provide reasonable assurance with respect to the reliability of the following selected material objectives as set out in the annual performance report:

- » Value-adding auditing
- » Visibility for impact
- » Viability
- » Vision and values driven

The criteria used as a basis for the audit conclusion are as follows:

Usefulness of information:

Presentation: Performance against predetermined objectives is reported using the relevant principles from the National Treasury guidelines.

Consistency: Objectives, indicators and targets are consistent between planning and reporting documents as required by the National Treasury Regulations.

Measurability: Indicators are well defined and verifiable, and targets are specific, measurable and time bound, as required by the

National Treasury Framework for Managing Programme Performance Information.

Relevance: The indicators relate logically and directly to an aspect of the Auditor-General of South Africa's mandate and the realisation of strategic goals and objectives, as required by the National Treasury Framework for Managing Programme Performance Information.

Reliability of information:

Validity: Reported performance has occurred and relates to the Auditor-General of South Africa.

Accuracy: Amounts, numbers and other data relating to reported performance have been recorded and reported correctly.

Completeness: All actual performance that should have been recorded has been included in the report on performance against predetermined objectives.

The audit involves performing procedures to obtain audit evidence about the usefulness of the annual performance report and reliability of the objectives as set out in the annual performance report. The procedures selected depend on the auditor's judgement, including our assessment of the risks of material misstatement of the annual performance report. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some, even material, misstatements may not be detected, even though the audit is properly planned and performed in accordance with the ISAE 3000. The procedures performed include the following:

- » Understanding and testing the internal policies, procedures and controls relating to the management of and reporting on performance information.
- » Evaluating and testing processes, systems, controls and review of documentation in place at a detail level to support the generation, collation, aggregation,

monitoring and reporting of the performance indicators and targets.

- » Evaluating, testing and confirmation of the existence and consistency of planned and reported performance information as well as the presentation and disclosure thereof in accordance with applicable requirements and guidance.
- » Conducting detailed audit testing and obtaining sufficient appropriate audit evidence to verify the validity, accuracy and completeness of reported indicators and targets.

We believe that the evidence obtained from the work performed provides an appropriate basis for the reasonable assurance conclusions expressed below.

CONCLUSION

On the basis of our procedures described in this report, we conclude that in our opinion the report on performance against predetermined objectives is fairly stated, in all material respects, in accordance with the predetermined criteria.

KwimanaEquijin Inc

KWINANAEQUIFIN INCORPORATED
REGISTERED AUDITORS AND
ACCOUNTANTS

Tendai Mapenda
Audit Partner
31 July 2016
Alenti Office Park, Block A
457 Witherite Street
The Willows Ext 82
Pretoria

STATEMENT OF FINANCIAL POSITION

	Notes	2016 R'000	2015 R'000
ASSETS			
Non-current assets			
		105 731	95 364
Property, plant and equipment	2	84 960	87 972
Intangible assets	3	20 771	7 392
Current assets			
		1 176 134	1 101 898
Trade and other receivables	4	558 706	592 072
Cash and cash equivalents	5	617 428	509 826
Total assets		1 281 865	1 197 262
RESERVES AND LIABILITIES			
Reserves			
		800 628	695 897
General reserve	6	690 933	552 930
Special audit services reserve	7	4 964	4 964
Accumulated surplus	8	104 731	138 003
Liabilities			
Non-current liabilities			
		68 327	69 861
Retirement benefit obligations	9	68 327	69 861
Current liabilities			
		412 910	431 504
Trade and other payables	10	412 910	431 504
Total reserves and liabilities		1 281 865	1 197 262

STATEMENT OF SURPLUS OR DEFICIT AND OTHER COMPREHENSIVE INCOME

	Notes	2016 R'000	2015 R'000
Revenue	11	2 835 248	2 750 220
Local services rendered		2 835 241	2 749 637
International services rendered		7	583
Direct audit cost		(1 929 095)	(1 840 034)
Recoverable staff cost	12	(1 224 049)	(1 077 854)
Contract work	13	(569 979)	(646 722)
Subsistence and travel		(135 067)	(115 458)
Gross surplus		906 153	910 186
Other income	14	6 311	4 237
Foreign exchange gain	21.4	211	100
Contribution to overheads		912 675	914 523
Non-recoverable staff cost	12	(554 746)	(518 090)
Depreciation expense	2	(32 907)	(32 233)
Amortisation expense	3	(4 737)	16 720)
Other operational expenditure	15	(264 981)	(256 036)
Retirement benefit obligations - current service costs	9	(1 071)	(1 149)
Operating surplus before finance charges		54 233	100 295
Interest income	16	61 107	51 314
Interest expense	16	(16 685)	(18 119)
Surplus for the year		98 655	133 490
Other comprehensive income			
Items that will not be reclassified to surplus or deficit			
Actuarial gains - retirement benefit obligations	9	6 076	4 513
Total comprehensive surplus for the year		104 731	138 003

STATEMENT OF CHANGES IN RESERVES

	General reserve R'000	Special audit services reserve R'000	Accumulated surplus R'000	Total R'000
Balance at 1 April 2014	103 897	4 964	449 033	557 894
Transfer of accumulated surplus to reserves	449 033	-	(449 033)	-
Total comprehensive surplus			138 003	138 003
Surplus for the year	-	-	133 490	133 490
Other comprehensive income				
- Actuarial gains	-	-	4 513	4 513
Balance at 31 March 2015	552 930	4 964	138 003	695 897
Transfer of accumulated surplus to reserves	138 003	-	(138 003)	-
Total comprehensive surplus			104 731	104 731
Surplus for the year	-	-	98 655	98 655
Other comprehensive income				
- Actuarial gains	-	-	6 076	6 076
Balance at 31 March 2016	690 933	4 964	104 731	800 628
Notes	6	7	8	

STATEMENT OF CASH FLOWS

	Notes	2016 R'000	2015 R'000
Cash flow from operating activities			
Cash receipts from auditees	21.1	2 870 164	2 652 033
Total direct audit cost payments	21.2	(1 949 738)	(1 890 298)
Operational expenditure payments	21.3	(823 503)	(753 406)
Interest received	16	55 983	47 224
Interest paid	16	(10)	(171)
Realised foreign exchange gains/(losses)	21.4	211	(98)
Net cash inflow from operating activities		153 107	55 284
Cash flow from investing activities			
Additions to property, plant and equipment	2	(31 881)	(34 125)
Additions to intangible assets	3	(18 116)	(8 666)
Proceeds from sale of property, plant and equipment	2	4 492	935
Net cash outflow from investing activities		(45 505)	(41 856)
Net increase in cash and cash equivalents		107 602	13 428
Cash and cash equivalents at beginning of the year		509 826	496 200
Effect of exchange rate changes on the balance of cash held in foreign currency	21.4	-	198
Cash and cash equivalents at end of the year	5	617 428	509 826

ACCOUNTING POLICIES

1. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA). The financial statements are presented in South African rand, which is the AGSA's functional currency. All financial information has been rounded to the nearest thousand unless stated otherwise. The financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value, or amortised cost, and incorporate the principal accounting policies set out below. These accounting policies are consistent with the previous year.

Standards, amendments and interpretations relevant to the operations of the AGSA not yet effective but adopted early:

Standard/Interpretation	Effective	Details	Impact
International Accounting Standards (IAS) 1 - Presentation of financial statements	01/01/2016	Disclosure initiative: Amendments designed to encourage entities to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that entities should use professional judgement in determining where and in what order information is presented in the financial disclosures.	No impact on the financial statements of the AGSA.
IAS 7 - Statement of cash flows	01/01/2017	Disclosure initiative: Amendments requiring entities to disclose information about changes in their financing liabilities. The additional disclosures will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses).	No impact on the financial statements of the AGSA.
IAS 16 - Property, plant and equipment	01/01/2016	Amendments to IAS 16 to clarify the basis for the calculation of depreciation, as being the expected pattern of consumption of the future economic benefits of an asset. The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. Amendments to IAS 16 and IAS 41, which define bearer plants and includes bearer plants in the scope of IAS 16: <i>Property, plant and equipment</i> rather than IAS 41, allowing such assets to be accounted for after initial recognition, in accordance with IAS 16.	No impact on the financial statements of the AGSA.
IAS 19 - Employee benefits	01/01/2016	Annual improvements 2012-2014 cycle: Clarification of the requirements to determine the discount rate in a regional market sharing the same currency (for example, the Eurozone).	No impact on the financial statements of the AGSA.
IAS 38 - Intangible assets	01/01/2016	Amendments to IAS 38 to clarify the basis for the calculation of amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The amendments explicitly state that revenue-based methods of amortisation cannot be used for intangible assets.	No impact on the financial statements of the AGSA.

Standards, amendments and interpretations relevant to the operations of the AGSA not yet effective but adopted early (continued):

Standard/Interpretation	Effective	Details	Impact
IFRS 7 – Financial instruments: Disclosures	01/01/2016	<p>Annual improvements 2012-2014 cycle: Amendment clarifying under what circumstances an entity will have continuing involvement in a transferred financial asset as a result of servicing contracts.</p> <p>Annual improvements 2012-2014 cycle: Amendment clarifying the applicability of previous amendments to IFRS 7 issued in December 2011 with regard to offsetting financial assets and liabilities in relation to interim financial statements prepared under IAS 34.</p>	No impact on the financial statements of the AGSA.

Standards, amendments and interpretations relevant to the operations of the AGSA not yet effective and not early adopted:

Standard/Interpretation	Effective	Details	Impact
IFRS 9 – Financial instruments	01/01/2018	<p>A finalised version of IFRS 9 has been issued, which replaces earlier versions of IFRS 9 and IAS 39: <i>Financial instruments: recognition and measurement</i>. The completed standard comprises guidance on classification and measurement, impairment hedge accounting and derecognition:</p> <ul style="list-style-type: none"> » IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow characteristics. A new business model was introduced that does allow certain financial assets to be categorised as 'fair value through other comprehensive income' in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. » The new model introduces a single impairment model being applied to all financial instruments, as well as an 'expected credit loss' model for the measurement of financial assets. » IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, in addition enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements. » IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39. 	The impact on the financial statements of the AGSA is yet to be determined.
IFRS 15 - Revenue from contracts from customers	01/01/2018	<p>New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five step methodology that is required to be applied to all contracts with customers.</p> <p>The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.</p>	The impact on the financial statements of the AGSA is yet to be determined.

Standards, amendments and interpretations relevant to the operations of the AGSA not yet effective and not early adopted (continued):

Standard/Interpretation	Effective	Details	Impact
IFRS 15 - Revenue from contracts from customers (continued)	01/01/2018	<p>The new standard supersedes:</p> <ul style="list-style-type: none"> (a) IAS 11: <i>Construction contracts</i> (b) IAS 18: <i>Revenue</i> (c) IFRIC 13: <i>Customer loyalty programmes</i> (d) IFRIC 15: <i>Agreements for the construction of real estate</i> (e) IFRIC 18: <i>Transfers of assets from customers</i> (f) SIC-31: <i>Revenue-barter transactions involving advertising services.</i> 	<p>The impact on the financial statements of the AGSA is yet to be determined.</p>
IFRS 16 - Leases	01/01/2019	<p>New standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying <i>IAS 7: Statement of cash flows</i>.</p> <p>IFRS 16 contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee.</p> <p>IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.</p> <p>IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.</p> <p>IFRS 16 supersedes the following standards and interpretations:</p> <ul style="list-style-type: none"> (a) IAS 17: <i>Leases</i> (b) IFRIC 4: <i>Determining whether an arrangement contains a lease</i> (c) SIC-15: <i>Operating leases - incentives</i> (d) SIC-27: <i>Evaluating the substance of transactions involving the legal form of a lease</i> 	<p>The impact on the financial statements of the AGSA is yet to be determined.</p>

1.1 Significant judgements and accounting estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. In addition, management is required to exercise its judgement in the process of applying the AGSA's accounting policies. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates, which may be material to the financial statements. Significant judgements include:

Post-employment medical care benefits

The costs and liabilities of the post-employment medical care benefits are determined using methods relying on actuarial estimates and assumptions. Advice is taken from the independent actuaries relating to the appropriateness of the assumptions. Changes in the assumptions used may have a significant effect on the statement of surplus or deficit and other comprehensive income and statement of financial position.

Allowance for impairment of receivables

An allowance for impairment of trade receivables is established when there is objective evidence that the AGSA will not be able to collect all amounts due according to the original terms of receivables. The calculation of the amount to be allowed for impairment of receivables requires the use of estimates and judgements.

Annual evaluation of property, plant and equipment and intangibles

In order to review property, plant and equipment and intangibles for possible impairment, changes in useful life and changes in residual values at the end of each financial year, reference is made to historical information and the intended use of assets.

1.2 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and adjustment for any impairments. Costs include costs incurred initially to acquire an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it if it is probable that future economic benefits associated with the replacement will flow to the AGSA and the cost can be measured reliably. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. Estimates are mainly based on historical information relating to the use of the asset. Depreciation is calculated on the straight-line method to write off the cost, less residual value, of each asset over their estimated useful lives as follows:

Item	Useful life
Computer equipment	3 to 6 years
Notebooks	3 years
Motor vehicles	5 years
Furniture and fittings	6 to 15 years
Office equipment	3 years
Leasehold improvements	Over the period of the lease

The depreciation charge for each period is recognised in surplus or deficit.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. The effects of any changes to residual values, useful lives and depreciation methods are accounted for on a prospective basis.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.3 Intangible assets

Computer software

Acquired computer software licences are carried at cost less any accumulated amortisation and any impairment losses. Estimates relating to useful life are mainly based on historical information relating to the use of the asset and all residual values are nil. Amortisation on these costs is provided to write down the intangible assets, on a straight-line basis, over their useful lives as follows:

	Useful life
Enterprise resource management system - PeopleSoft	14 years
Other software	3 years

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the AGSA, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Other development expenditures are recognised as an expense as incurred.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each reporting date. The effects of any changes to residual values, useful lives and amortisation methods are accounted for on a prospective basis.

The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

1.4 Impairment of non-financial assets

Assets are assessed at the end of each reporting period for any indication that they may be impaired. If indications exist, the recoverable amount of the asset is estimated. An impairment loss is recognised, in surplus or deficit, for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The AGSA assesses at each reporting date whether there is any indication that an impairment loss recognised in previous periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

1.5 Financial instruments

Financial instruments are recognised when the AGSA becomes party to the contractual provisions of the instrument. Financial instruments carried in the statement of financial position include cash and bank balances, trade and other receivables and trade and other payables. These instruments (excluding cash and bank) are carried at their amortised cost.

Financial assets

The AGSA classifies its financial assets into one of the categories discussed below, depending on the business model assessment which centres on whether financial assets are held to collect contractual cash flows. The AGSA has not classified any of its financial assets as fair value through profit and loss. The accounting policy for each category is as follows:

Receivables measured at amortised cost

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest method, less allowance for impairment.

Impairment allowances are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the AGSA will be unable to collect all of the amounts due under the terms receivable, the amount of such an allowance being the difference between the net carrying amount and the present value of the future expected cash flows discounted at the original effective interest rate associated with the impaired receivable. For trade receivables, which are reported net, such amounts are recorded in a separate allowance account with the loss being recognised within operational expenditure in surplus or deficit. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated allowance. The loans and receivables comprise trade and other receivables at reporting date.

Financial liabilities

Trade payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Derecognition

Gains or losses arising from changes in financial assets or financial liabilities carried at amortised cost are recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

1.6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand and deposits held at call.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership to the lessee.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease liability. This liability is not discounted. Any contingent rents are expensed in the period in which they are incurred.

1.8 Employee benefits

Pension plan – Defined contribution plan

Contributions to a pension plan, of the employee's choice, in respect of service in a particular period are included in the employees' total cost of employment and are charged to surplus or deficit in the year to which they relate as part of the cost of employment. Certain employees on the Staff rules terms and conditions, who transitioned under the Audit Arrangements Act, 1992 (Act No. 122 of 1992) chose to retain membership of the Government Employees Pension Fund (GEPF). The AGSA has no legal or constructive obligation in respect of normal retirements to pay further contributions if the GEPF does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and previous periods. In respect of early retirements, the AGSA is required to incur the cost of early retirement penalties.

Post-employment medical care benefits – Defined benefit plan

The AGSA provides post-retirement medical care benefits to certain employees and their legally recognised spouse (and/or dependants) at time of death. The entitlement to post-retirement medical benefits is based on the employee being on the Staff rules terms and conditions, remaining in service up to retirement age of 65 (or when reaching 50 in the case of early retirement) and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using the projected unit credit method. Actuarial gains and losses arising from experience adjustments are charged or credited to other comprehensive income in the statement of surplus or deficit and other comprehensive income in the period in which they occur. Interest cost and service cost are charged or credited to surplus or deficit in the period in which they occur. The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation. Valuations of these obligations are carried out annually by independent qualified actuaries.

Leave liability

The AGSA calculates the value of leave not taken at year-end based on the guaranteed package or basic salary. The value of leave is recognised in the statement of financial position as a short-term employee benefit.

1.9 Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue arising from rendering of audit services consists of the invoiced value charged net of value-added tax.

1.10 Interest income

Interest is recognised based on the effective interest rate, which takes into account the effective yield on the asset over the period it is expected to be held.

1.11 Foreign currencies

Transactions in foreign currencies are accounted for at the rates of exchange ruling on the date of the transactions. Gains and losses arising from the settlement of such transactions are recognised in surplus or deficit

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the reporting date.

1.12 Irregular or fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of the PAA. Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised. All irregular, fruitless and wasteful expenditure is charged against surplus or deficit in the period it was incurred.

1.13 Losses through criminal conduct

Losses through criminal conduct, and any amounts recovered, are disclosed separately.

1.14 Related parties

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the AGSA. All individuals from the executive management are regarded as key management per the definition of IFRS.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or be influenced by, key management individuals in their dealings with the AGSA.

Other related party transactions are also disclosed in terms of the requirements of IFRS. Qualitative and quantitative materiality is considered in the disclosure of these transactions.

NOTES TO THE FINANCIAL STATEMENTS

2 PROPERTY, PLANT AND EQUIPMENT

2016	Cost R'000	Accumulated depreciation R'000	Carrying amount R'000
Computer equipment	126 917	(90 928)	35 989
Motor vehicles	7 891	(4 198)	3 693
Office equipment	2 907	(2 476)	431
Furniture and fittings	62 208	(36 096)	26 112
Leasehold improvements	41 755	(23 020)	18 735
	241 678	(156 718)	84 960

The carrying amounts are reconciled as follows:	Opening carrying amount R'000	Additions R'000	Disposals R'000	Depreciation charge R'000	Closing carrying amount R'000
Computer equipment	37 621	17 550	(1 252)	(17 930)	35 989
Motor vehicles	4 909	194	(70)	(1 340)	3 693
Office equipment	361	340	4	(274)	431
Furniture and fittings	25 858	7 581	(379)	(6 948)	26 112
Leasehold improvements	19 223	6 216	(289)	(6 415)	18 735
	87 972	31 881	(1 986)	(32 907)	84 960

	2016 R'000
Proceeds on disposal of property, plant and equipment	4 492

2 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2015	Cost R'000	Accumulated depreciation R'000	Carrying amount R'000
Computer equipment	126 356	(88 735)	37 621
Motor vehicles	8 741	(3 832)	4 909
Office equipment	2 777	(2 416)	361
Furniture and fittings	57 281	(31 423)	25 858
Leasehold improvements	37 599	(18 376)	19 223
	232 754	(144 782)	87 972

The carrying amounts are reconciled as follows:	Opening carrying amount R'000	Additions R'000	Disposals R'000	Depreciation charge R'000	Closing carrying amount R'000
Computer equipment	36 878	20 005	(502)	(18 760)	37 621
Motor vehicles	2 209	3 537	-	(837)	4 909
Office equipment	312	303	(1)	(253)	361
Furniture and fittings	26 125	6 515	(17)	(6 765)	25 858
Leasehold improvements	21 076	3 765	-	(5 618)	19 223
	86 600	34 125	(520)	(32 233)	87 972

2015
R'000

Proceeds on disposal of property, plant and equipment

935

The 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 (refer to note 18).

3 INTANGIBLE ASSETS

2016	Cost R'000	Accumulated amortisation R'000	Carrying amount R'000
Computer software - purchased			
Enterprise resource management system - PeopleSoft	18 950	(18 427)	523
Other software	51 767	(31 519)	20 248
	70 717	(49 946)	20 771

The carrying amounts are reconciled as follows:	Opening carrying amount R'000	Additions R'000	Disposals R'000	Amortisation charge R'000	Closing carrying amount R'000
Enterprise resource management system - PeopleSoft	719	-	-	(196)	523
Other software	6 673	18 116	-	(4 541)	20 248
	7 392	18 116	-	(4 737)	20 771

2015	Cost R'000	Accumulated amortisation R'000	Carrying amount R'000
Computer software - purchased			
Enterprise resource management system - PeopleSoft	18 950	(18 231)	719
Other software	33 650	(26 977)	6 673
	52 600	(45 208)	7 392

The carrying amounts are reconciled as follows:	Opening carrying amount R'000	Additions R'000	Disposals R'000	Amortisation charge R'000	Closing carrying amount R'000
Enterprise resource management system - PeopleSoft	915	-	-	(196)	719
Other software	4 531	8 666	-	(6 524)	6 673
	5 446	8 666	-	(6 720)	7 392

4 TRADE AND OTHER RECEIVABLES

	2016 R'000	2015 R'000
Trade receivables (refer to note 20.2)	679 269	709 061
Allowance for impairment of receivables [1]	(169 295)	(178 501)
Net trade receivables	509 974	530 560
Staff debtors	13 548	17 844
Prepayments	34 988	43 476
Other debtors	196	192
	558 706	592 072
[1] Allowance for impairment of receivables		
Balance at the beginning of the year	(178 501)	(145 600)
Used during the year	1 909	147
Adjustment of allowance for impairment of receivables (refer to notes 15 and 21.3)	7 297	(33 048)
Balance at the end of the year (refer to note 20.2)	(169 295)	(178 501)

5 CASH AND CASH EQUIVALENTS

Call account at Public Investment Corporation	131 482	124 977
Investment reserved for specific liabilities [2]	110 028	104 602
Investment to fund working capital requirements	21 454	20 375
Overnight call account	31 582	29 859
Notice deposit	175 820	165 284
Current bank account	278 544	188 173
Foreign bank account (USD) (refer to note 20.1.1)	-	1 533
	617 428	509 826

[2] Investment reserved for specific liabilities

The liabilities covered by this investment include the following:

Post-retirement benefits: medical care contributions (refer to note 9) [3]	68 327	69 861
13th cheque accrual (refer to note 10)	8 784	8 155
Leave pay accrual (refer to note 10) [4]	100 671	85 698
The National Treasury for salary over-payments in the former TBVC states	201	244
Advances from the National Treasury for assistance with the local authority debtors (refer to note 10)	-	6 363
Payments made by staff in terms of the AGSA's notebook ownership policy	39	74
	178 022	170 395

5 CASH AND CASH EQUIVALENTS (CONTINUED)

- [3] The future service liability for post-retirement benefit: medical care contributions totalling R8 023 000 (2015: R9 320 000) is not included in the investment reserved for specific liabilities. Future service costs are recognised when the services are delivered by the employees during the employment terms.
- [4] Only R70 799 000 (2015: R55 122 000) of the leave pay accrual is ringfenced through the investment reserved for specific liabilities. The balance of R29 872 000 is covered through the current account as this can be encashed within the current year.

6 GENERAL RESERVE

	2016 R'000	2015 R'000
Balance at the beginning of the year	552 930	103 897
Transfer of accumulated surplus to reserves (refer to note 8)	138 003	449 033
Balance at the end of the year	690 933	552 930

Accumulated surplus that was recommended by the Standing Committee on the Auditor-General and approved by Parliament (in terms of section 38(4) of the PAA) to be retained for working capital and general reserve requirements of the AGSA.

7 SPECIAL AUDIT SERVICES RESERVE

Balance at the beginning and end of the year	4 964	4 964
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A fund set aside to finance special investigations or audits for which the AGSA may not be able to recover the cost from a specific auditee. The former Audit Commission instructed that the reserve should not be increased before further guidance is provided by the Standing Committee on the Auditor-General established in terms of section 55(2)(b)(iii) of the Constitution.

8. ACCUMULATED SURPLUS

Balance at the beginning of the year	138 003	449 033
Transfer of accumulated surplus to general reserve (refer to note 6)	(138 003)	(449 033)
Total comprehensive surplus for the year	104 731	138 003
Balance at the end of the year	104 731	138 003

Accumulated surplus is available to fund the AGSA's on-going activities after consultation with the National Treasury and by agreement with the Standing Committee on the Auditor-General (in terms of section 38(4) of the PAA).

9 RETIREMENT BENEFIT OBLIGATIONS

	2016 R'000	2015 R'000
Post-retirement benefits: medical care contribution	68 327	69 861
The liability is reconciled as follows:		
Balance at the beginning of the year	69 861	69 273
Current year provision	884	2 944
Current service cost	1 071	1 149
Actuarial gain	(6 076)	(4 513)
Interest adjustment (refer to note 16)	5 889	6 308
Less: Payments made	(2 418)	(2 356)
Balance at the end of the year (refer to note 5)	68 327	69 861

The obligation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was performed as at 31 March 2016 by Alexander Forbes using the projected unit credit method.

The valuation is based on the following principal actuarial assumptions:

The discount rate reflects the timing of benefit payments and is based on market bond yields.	9,9%	8,7%
Subsidy increase rate (based on the inflation rate)	7,5%	6,4%
Expected retirement age	63	63
Number of continuation members	202	195
Average age of continuation members	68,1	67,4
Percentage continuation members married	77%	76%
Number of in-service members	167	181
Average age of in-service members	52,7	52,0
Average years of past service of in-service members	27,3	26,7

Sensitivity analysis

The value of the liability could be overstated or understated, depending on the extent to which actual experience differs from the assumptions adopted.

Below is the recalculated liability showing the effect of:

- A one percentage point decrease or increase in the discount rate
- No increase in the subsidy increase rate
- A one-year decrease or increase in the expected retirement age

9 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	2016		
	Discount rate		
	Assumption 9,90%	-1%	+1%
Accrued liability 31 March 2016 (R'000)	68 327	79 309	59 563
% change	-	16,1%	-12,8%

	Subsidy increase rate	
	Assumption 7,50%	0%
Accrued liability 31 March 2016 (R'000)	68 327	29 022
% change	-	-57,5%

	Expected retirement age		
	Assumption 63 years	1 year younger	1 year older
Accrued liability 31 March 2016 (R'000)	68 327	69 925	66 735
% change	-	2,3%	-2,3%

	2015		
	Discount rate		
	Assumption 8,70%	-1%	+1%
Accrued liability 31 March 2015 (R'000)	69 861	81 649	60 525
% change	-	16,9%	-13,4%

	Subsidy increase rate	
	Assumption 6,40%	0%
Accrued liability 31 March 2015 (R'000)	69 861	31 827
% change	-	-54,4%

	Expected retirement age		
	Assumption 63 years	1 year younger	1 year older
Accrued liability 31 March 2015 (R'000)	69 861	71 674	68 119
% change	-	2,6%	-2,5%

10 TRADE AND OTHER PAYABLES

	2016 R'000	2015 R'000
Trade payables	45 465	43 243
Straightlining of leases	48 273	54 344
Net trade payables	93 738	97 587
Accruals	64 464	45 667
13th cheque accrual (refer to note 5)	8 784	8 155
Accrued leave pay (refer to note 5)	100 671	85 698
Performance bonus accrual	116 387	122 147
Staff creditors	6 925	8 329
Value-added tax and PAYE	21 941	57 558
Advance on local authority debtors (refer to note 5)	-	6 363
	412 910	431 504

Ageing of trade payables	Total R'000	Current R'000	30-60 R'000	60-90 R'000	90-120 R'000	120+ R'000
2016						
Trade payables	45 465	5 136	36 416	2 916	311	686
2015						
Trade payables	43 228	5 608	34 578	1 883	439	720

11 REVENUE

	2016 R'000	2015 R'000
Local services rendered	2 835 241	2 749 637
Own hours	2 127 944	1 982 747
Contract work (refer to note 13)	577 361	655 637
Subsistence and travel	135 060	115 343
Present value of revenue adjustment (refer to note 16)	(5 124)	(4 090)
International services rendered	7	583
Own hours	7	468
Subsistence and travel	-	115
	2 835 248	2 750 220

12 STAFF COST

	2016 R'000	2015 R'000
Management salaries (refer to note 19.1)	36 351	36 738
Other non-recoverable staff cost	253 907	225 325
Other staff expenditure	140 050	138 709
Performance bonus	113 661	117 373
Group life scheme	16 689	13 544
Other employer contributions	9 700	7 792
Course fees and study assistance	92 972	88 675
Accrued leave pay accrual	31 466	28 643
Total non-recoverable staff cost	554 746	518 090
Recoverable staff cost (part of direct audit cost)	1 224 049	1 077 854
Total staff cost	1 778 795	1 595 944
Average number of staff	3 474	3 342

13 CONTRACT WORK

Contract work recoverable (refer to note 11)	577 361	655 637
Present value of contract work recoverable adjustment (refer to note 16)	(7 382)	(8 915)
	569 979	646 722

This represents work done by external audit firms on behalf of the AGSA. Work is allocated to audit firms based on a tender process. No mark-up is applied to contract work.

14 OTHER INCOME

Sundry income [5]	3 704	3 668
Telephone charges recovered	101	154
Profit on sale of property, plant and equipment (refer to note 21.3)	2 506	415
	6 311	4 237

[5] Sundry income consist mainly of income from AFROSAI-E, APAC, the AGSA's gift shop, tenders sold and salaries recovered for academic trainees.

15 OTHER OPERATIONAL EXPENDITURE

	2016 R'000	2015 R'000
Auditors' remuneration		
Statutory audit services	3 139	3 699
Outsourced services	23 367	16 245
Governance costs	666	509
ICT services	42 794	26 292
Internal audit fees	4 215	2 898
Legal costs	4 056	1 388
Other operational expenses (excluding staff cost)	17 364	14 268
Operating leases - land and buildings	92 903	78 737
Operating leases - equipment	6 028	2 513
Allowance for impairment of receivables (refer to notes 4 and 21.3)	(7 297)	33 048
Receivables written off as uncollectable	69	19
Recruitment costs	16 862	19 515
Stakeholder relations	21 201	20 212
Stationery and printing	9 726	9 575
Subsistence and travelling	24 525	21 702
Telephone and postage	8 767	8 141
Present value of expenditure adjustment (refer to note 16)	(3 404)	(2 725)
	264 981	256 036

16 NET INTEREST COST

Interest income

Interest income on bank and investments	31 625	26 365
Interest on overdue debtors accounts	24 358	20 859
Present value of revenue adjustment (refer to note 11)	5 124	4 090
	61 107	51 314

Interest expense

Interest on repayment of salary over-payments in the former TBVC states	(10)	(171)
Present value of expenditure adjustment	(10 786)	(11 640)
Present value of contract work recoverable adjustment (refer to note 13)	(7 382)	(8 915)
Present value of other expenditure adjustment (refer to notes 15)	(3 404)	(2 725)
Interest adjustment on retirement benefit obligations (refer to note 9)	(5 889)	(6 308)
	(16 685)	(18 119)

17 NOTEBOOK LOSSES

	2016 R'000	2015 R'000
90 (2015: 75) notebook computers stolen and written off at the carrying amount	296	384

The AGSA policy is to self-insure notebook computers as this has proven to be more economically effective.

18 COMMITMENTS

Operating lease commitments

The future minimum commitments are as follows:

Due within one year	68 527	77 818
Land and buildings	63 120	72 792
Office equipment	5 407	5 026
Between one and five years	157 619	236 817
Land and buildings	153 369	228 048
Office equipment	4 250	8 769
	226 146	314 635

The office premises are leased for periods between two and thirteen years. The average lease payments are R6 069 210 (2015: R5 364 687) per month. The leases payments escalate between 6,5% and 10% annually. The lease agreements are renewable for periods between one month and ten years at the end of the lease term and the AGSA does not have the option to acquire the buildings.

Certain items of office equipment are leased for a period of three years. The average lease payments are R450 600 (2015: R418 825) per month. The lease agreements are renewable at the end of the lease term and the AGSA does not have the option to acquire the office equipment.

Other commitments

Thuthuka

The AGSA has committed to fund 40 undergraduate students for a period of 3 years while completing their studies, at a rate per student that is determined every year by the Thuthuka Bursary Fund Trustees and on condition that the AGSA can stop its financial contribution by written notice. Due to the fact that the rate per student is determined yearly, the commitment cannot be quantified; however, the yearly commitment at current rates amounts to R2 299 200 (40 students x R52 254 per student).

Scholarship fund

The AGSA launched the Centenary Scholarship Fund during the centenary celebrations in November 2011. This once-off initiative enables 32 young students to pursue careers in the financial management or accounting streams at SAICA-accredited universities. The AGSA funds students for undergraduate and postgraduate studies if they progress academically. The maximum years of studies will be for a duration of five years. The funds provided to the sponsored student include tuition, accommodation, books and living allowance. The students are required to work for the AGSA for the duration equivalent to the years funded. Due to the uncertainties around the varying costs of studies across the universities and the pass rate, the amount cannot be quantified; however, the yearly commitment at current rates is estimated at R3 087 000.

18 COMMITMENTS (CONTINUED)

	2016 R'000	2015 R'000
External bursaries		
<p>External bursaries are awarded annually to full-time students to undertake under and postgraduate studies until completion of the qualification and on condition that all subjects must be passed. Failed subjects are repeated at the student's own expense. If a student fails repeatedly, the bursary agreement is terminated and the amounts advanced must be repaid to the AGSA, or in certain instances redeemed through employment in the AGSA. Due to the uncertainties around the varying costs of studies across the universities and the pass rate, the amount cannot be quantified, but will be managed within the budgeted amount of R9 012 896 for approximately 125 students for the 2016-17 financial year.</p>		
Capital commitments		
Approved and contracted for [6]	11 500	2 500
Approved but not yet contracted for	67 180	93 999
Total approved [7]	78 680	96 499
Source of funding		
Internal financing	78 680	96 499
	78 680	96 499

[6] Approved and contracted for in 2015-16 but for financial year 2016-17.

[7] This relates to property, plant and equipment approved during 2015-16 for the 2016-17 budget.

19 RELATED PARTIES

19.1 KEY MANAGEMENT PERSONNEL COMPENSATION

Total short-term, long-term and termination benefits paid to management.

Management				2016		
Position	Name	Appointment date	Termination date	Gross remuneration R'000	Performance bonus R'000	Total remuneration R'000
Auditor-General [8]	T Makwetu	1 Dec 2013		5 573	-	5 573
Deputy Auditor-General	T Ratsela	1 Apr 2014		3 333	384	3 717
National Leader	EM Zungu	1 Jul 2014		2 719	312	3 031
National Leader	B Maggott	1 Aug 2014	28 Feb 2016	2 466	-	2 466
Corporate Executive	AH Muller	1 Mar 2008		2 255	259	2 514
Corporate Executive	BR Wheeler	1 Mar 2008		2 255	259	2 514
Corporate Executive	JH v Schalkwyk	1 Nov 2010		2 280	262	2 542
Chief Financial Officer	SS Ngoma	1 Nov 2012		2 016	236	2 252
Corporate Executive	SN Ngobese	1 Jan 2013		1 877	214	2 091
Corporate Executive	S Badat	1 Mar 2014		2 373	-	2 373
Corporate Executive	VT Msibi	1 May 2013		2 191	256	2 447
Corporate Executive	MS Segooa	1 Aug 2014		2 027	233	2 260
Corporate Executive	TP Zondi	1 Aug 2014	29 Feb 2016	1 855	-	1 855
Corporate Executive	MM Sedikela	1 Jan 2016		518	198	716
				33 738	2 613	36 351

[9]

19.1 KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

Management				2015		
Position	Name	Appointment date	Termination date	Gross remuneration R'000	Performance bonus R'000	Total remuneration R'000
Auditor-General [8]	T Makwetu	1 Dec 2013		5 780	-	5 780
Deputy Auditor-General	T Ratsela	1 Apr 2014		3 116	793	3 909
National Leader	EM Zungu	1 Jul 2014		1 978	521	2 499
National Leader	I Vanker	1 Oct 2012	30 Apr 2014	193	-	193
National Leader	B Maggott	1 Aug 2014		1 722	344	2 066
Corporate Executive	AH Muller	1 Mar 2008		2 115	432	2 547
Corporate Executive	BR Wheeler	1 Mar 2008		2 115	540	2 655
Corporate Executive (appointed National Leader on 1 July 2014)	EM Zungu	1 Feb 2009		505	-	505
Corporate Executive	JH v Schalkwyk	1 Nov 2010		2 131	437	2 568
Corporate Executive	NE Seedat	1 Jul 2012	19 Sep 2014	918	-	918
Corporate Executive	SS Ngoma	1 Nov 2012		1 806	462	2 268
Corporate Executive	SN Ngobese	1 Jan 2013		1 782	-	1 782
Corporate Executive	M Nkai (Acting)	1 Feb 2014	31 Jul 2014	617	-	617
Corporate Executive	S Badat	1 Mar 2014		2 233	455	2 688
Corporate Executive	VT Msibi	1 May 2013		1 994	511	2 505
Corporate Executive	MS Segooa	1 Aug 2014		1 295	259	1 554
Corporate Executive	TP Zondi	1 Aug 2014		1 295	389	1 684
				31 595	5 143	36 738

[9]

[8] Included in the AG's salary is deferred compensation of R1 286 086 (2015: R1 613 682) and back pay of R204 141 (2015: R194 420).

2016 R'000	2015 R'000
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[9] This includes all remuneration paid to management.

Compensation to management is summarised as follows:

Short-term employee benefits	35 065	35 124
Long-term employee benefits - termination	1 286	1 614
	36 351	36 738

19.2 OTHER RELATED PARTIES

	2016 R'000	2015 R'000
<p>The executive secretariat of AFROSAI-E is hosted by the AGSA. It is headed by a chief executive officer appointed by the AFROSAI-E Governing Board while the AGSA performs an oversight role.</p> <p>As documented in a memorandum of understanding (MOU) between the AGSA and AFROSAI-E, the AGSA provides or finances a budget for the chief executive officer, premises and other necessary resources for the functioning of the executive secretariat. The budget compilation and financial reporting is done in accordance with the AGSA's budget and financial reporting prescripts. The costs are recovered at a mutually agreed monthly rate as specified in the MOU.</p>		
Related party balances		
Trade receivables	363	599
Related party transactions		
Revenue	893	1 478
Expenses	4 481	4 380

Transactions with related parties are on an arm's length basis at market-related prices.

20 FINANCIAL INSTRUMENTS

The carrying amount of financial assets and liabilities reasonably approximate their fair value due to the short-term nature of the financial instruments.

20.1 MARKET RISK

20.1.1 INTEREST RATE RISK MANAGEMENT

The exposure to changes in interest rates relates primarily to the AGSA's current and call accounts.

Interest rate sensitivity

Below are the recalculated financial assets and liabilities showing the effect of:

A one percentage point decrease or increase in the current account interest rate

A one percentage point decrease or increase in the call account interest rate

20.1.1 INTEREST RATE RISK MANAGEMENT (CONTINUED)

2016	Current & call account interest rate		
	Current balance	+1%	-1%
Net surplus (R'000)	104 731	111 116	98 380
% change	-	6,1%	-6,1%
Current bank and call account balances (R'000)	617 428	624 214	611 478
% change	-	1,1%	-1,0%

2015	Current & call account interest rate		
	Current balance	+1%	-1%
Net surplus (R'000)	138 003	143 443	132 592
% change	-	3,9%	-3,9%
Current bank and call account balances (R'000)	508 293	513 734	502 883
% change	-	1,1%	-1,1%

20.2 CREDIT RISK

Financial assets which potentially subject the AGSA to concentrations of credit risk consist principally of cash and short-term deposits which are placed with a financial institution with a short-term bank deposit credit rating by Fitch of F1+ (2015: F1+) (Moody's - P1, Standard and Poor - A2) as well as with the Public Investment Corporation (PIC). The PIC is wholly owned by the South African Government and invests funds on behalf of public sector entities based on investment mandates set by each client and approved by the Financial Services Board. Trade receivables are presented net of the allowance for doubtful receivables. Credit risk with respect to trade receivables is limited to some degree due to the constitutionally enshrined audit mandate of the AGSA. However, the AGSA has a significant concentration of credit risk with local government debtors.

All financial assets are unsecured. The carrying amount of financial assets included in the statement of financial position represents the AGSA's exposure to credit risk in relation to these assets.

An analysis of the ageing of trade receivables that are 30 days and over is as follows:

R369 762 000 (2015: R337 498 000) of receivables, comprising 54,5% (2015: 47,6%) of total debtors, are in arrears. Local government debtors arrears comprise R303 274 000 (2015: R286 893 000) or 82,0% (2015: 85,0%) of total arrears which represents 44,7% (2015: 40,5%) of the 54,5% (2015: 47,6%) receivables that are in arrears.

20.2 CREDIT RISK (CONTINUED)

A breakdown of the ageing and concentration of credit risk that arises from the AGSA's receivables in relation to the type of auditees is as follows:

	Total R'000	Current R'000	30 - 120 R'000	120+ R'000
2016				
Debtor type				
National	72 828	72 266	562	-
Provincial	127 969	119 069	6 685	2 215
Local	343 071	39 797	100 408	202 866
Statutory	38 425	21 629	1 300	15 496
Other [10]	96 976	56 746	7 360	32 870
	679 269	309 507	116 315	253 447
2015				
Debtor type				
National	74 095	73 824	60	211
Provincial	141 949	126 560	7 570	7 819
Local	365 874	78 981	114 705	172 188
Statutory	37 820	23 571	945	13 304
	89 323	68 627	4 915	15 781
	709 061	371 563	128 195	209 303

20.2 CREDIT RISK (CONTINUED)

Financial assets subject to credit risk

	Total R'000	Fully performing R'000	Past due but not impaired R'000	Impaired R'000
2016				
Debtor type				
National	72 828	72 147	672	9
Provincial	127 969	119 069	8 416	484
Local	343 071	39 797	152 727	150 547
Statutory	38 425	21 629	14 191	2 605
Other [10]	96 976	56 746	24 580	15 650
	679 269	309 388	200 586	169 295
2015				
Debtor type				
National	74 095	73 705	388	2
Provincial	141 949	126 560	15 064	325
Local	365 874	78 981	130 386	156 507
Statutory	37 820	23 571	4 962	9 287
Other [10]	89 323	68 627	8 316	12 380
	709 061	371 444	159 116	178 501

[10] Other receivables include unlisted public entities, ex-staff debtors, municipal entities, utility agency corporations and certain auditees that are defined as '1% auditees' and funded as such by the National Treasury.

20.3 LIQUIDITY RISK

Liquidity risk is the risk that the AGSA will not be able to meet its financial obligations as they fall due.

The AGSA has adequate cash balances at its disposal and minimum long-term debt which limits liquidity risk. Nevertheless, budgets are prepared on an annual basis to ensure liquidity risks are monitored and controlled.

Maturity profile of financial instruments

31 March 2016	1 year or less R'000	1 to 5 years R'000	Total R'000
Assets			
Trade and other receivables	523 718	-	523 718
Total trade and other receivables	558 706	-	558 706
Prepayments	(34 988)	-	(34 988)
Cash			
Local			
Current account	278 544	-	278 544
Overnight call account	31 582	-	31 582
Notice deposit	175 820	-	175 820
Call account - PIC	131 482	-	131 482
Foreign	-	-	-
Total financial assets	1 141 146	-	1 141 146
Liabilities			
Trade and other payables	364 637	-	364 637
Total trade and other payables	412 910	-	412 910
Straightlining of leases	(48 273)	-	(48 273)
Total financial liabilities	364 637	-	364 637
Net financial assets	776 509	-	776 509

20.3 LIQUIDITY RISK (CONTINUED)

31 March 2015	1 year or less R'000	1 to 5 years R'000	Total R'000
Assets			
Trade and other receivables	548 596	-	548 596
Total trade and other receivables	592 072	-	592 072
Prepayments	(43 476)	-	(43 476)
Cash			
Local			
Current account	188 173	-	188 173
Overnight call account	29 859	-	29 859
Notice deposit	165 284	-	165 284
Call account - PIC	124 977	-	124 977
Foreign	1 533	-	1 533
Total financial assets	1 058 422	-	1 058 422
Liabilities			
Trade and other payables	377 160	-	377 160
Total trade and other payables	431 504	-	431 504
Straightlining of leases	(54 344)	-	(54 344)
Total financial liabilities	377 160	-	377 160
Net financial assets	681 262	-	681 262



21 NOTES TO THE CASH FLOW STATEMENT

21.1 CASH RECEIPTS FROM AUDITEES

	2016 R'000	2015 R'000
Revenue	2 840 372	2 754 310
Net decrease/(increase) in trade receivables	29 792	(102 277)
	2 870 164	2 652 033

21.2 TOTAL DIRECT AUDIT COST PAYMENTS

Direct audit cost	(1 936 477)	(1 848 949)
Net decrease in trade payables	(13 261)	(41 349)
	(1 949 738)	(1 890 298)

21.3 OPERATIONAL EXPENDITURE PAYMENTS

Operational expenditure	(810 715)	(772 183)
Adjusted for:		
Straightlining of leases	(6 071)	(1 911)
Interest income	(61 107)	(51 314)
Interest expense	16 685	18 119
Foreign exchange gains (refer to note 21.4)	(211)	(100)
Depreciation	32 907	32 233
Amortisation	4 737	6 720
(Decrease)/increase in allowance for impairment of receivables (refer to notes 4 and 15)	(7 297)	33 048
(Decrease)/increase in liability for post-retirement medical aid benefits	(1 534)	588
Profit on the disposal of property, plant and equipment and intangible assets (refer to note 14)	(2 506)	(415)
	(835 112)	(735 215)
Other working capital changes	11 609	(18 191)
Decrease/(increase) in other receivables	10 871	(38 096)
Increase in other payables	738	19 905
	(823 503)	(753 406)

21 NOTES TO THE CASH FLOW STATEMENT (CONTINUED)**21.4 FOREIGN EXCHANGE GAINS**

	2016 R'000	2015 R'000
Realised foreign exchange gains/(losses)	211	(98)
Unrealised foreign exchange differences in the foreign bank balance [11]	-	198
Foreign exchange gains (refer to note 21.3)	211	100

[11] The difference between the closing and opening exchange rate applied to the foreign bank balance and international debtor balance at year-end

22 TAXATION

No provision is made for income tax as the AGSA is exempt in terms of section 10(1)(c)(ii) of the Income Tax Act, 1962 (Act No. 58 of 1962).

23 PROFESSIONAL INDEMNITY INSURANCE

It is not the policy of the AGSA to take professional indemnity insurance cover.

24 EVENTS AFTER THE REPORTING PERIOD

No matters or circumstances arose after the end of the financial year that will materially affect these financial statements.

GLOSSARY OF TERMS

ABASA	Association of Black Accountants in South Africa
ABU	Audit business unit
AC	Audit Committee
ACCA	Association of Chartered Certified Accountants
AFROSAI	African Organisation of Supreme Audit Institutions
AFS	Annual financial statements
AG	Auditor-General
AGSA	Auditor-General of South Africa
APC	Assessment of professional competence
APAC	Association of Public Accounts Committees
ARD	Audit research and development
ASB	Accounting Standards Board
B-BBEE	Broad-based black economic empowerment
BU	Business unit
CA	Chartered accountant
CCMA	Commission for Conciliation, Mediation and Arbitration
CE	Corporate executive
CFO	Chief financial officer
CISA	Certified information systems auditor
CoGTA	Department of Cooperative Governance and Traditional Affairs
CPD	Continuing professional development
CSI	Corporate social investment
CSR	Corporate social responsibility
CTA	Certificate in the Theory of Accounting
CWC	Contract work creditors
DAG	Deputy Auditor-General
DHET	Department of Higher Education and Training
DPSA	Department of Public Service and Administration
EAP	Employee assistance programme
EE	Employment equity
ERP	Enterprise resource planning
EXCO	Executive committee
FET	Further education and training
FTC	Fixed-term contract
GHG	Greenhouse gas
GRAP	Generally Recognised Accounting Practice
GRI	Global Reporting Initiative
IBU	Investigations business unit
ICT	Information and communications technology
IFAC	International Federation of Accountants

IFRS	International Financial Reporting Standards
INTOSAI	International Organisation of Supreme Audit Institutions
IRBA	Independent Regulatory Board for Auditors
ISA	International Standards on Auditing
ISA	Information Systems Auditing
ISQC1	International Standard on Quality Control
ISSAIs	International Standards of Supreme Audit Institutions
ITC	Initial test of competence
MECs	Members of executive council
MFMA	Local government: Municipal Finance Management Act
MIS	Management information system
MPAC	Municipal public accounts committee
NA	National Assembly
NCOP	National Council of Provinces
NT	National Treasury
OHS	Occupational health and safety
PAA	Public Audit Act
PAC	Public accounts committee
PC	Portfolio committee
PCF	Premiers' Coordinating Forum
PDO	Predetermined objectives
PFMA	Public Finance Management Act
PPE	Public professional examination
QC	Quality control
QCAC	Quality control assessment committee
REMCO	Remuneration committee
RGA	Registered government auditor
SADCOPAC	South African Development Community Organisation of Public Accounts Committees
SAI	Supreme audit institution
SAICA	South African Institute of Chartered Accountants
SAIGA	Southern African Institute of Government Auditors
SALGA	South African Local Government Association
SOC	State-owned company
SCoAG	Standing Committee on the Auditor-General
SCoPA	Standing Committee on Public Accounts
SMW	Senior management workshop
TA	Trainee auditor

GRI G4 'IN ACCORDANCE' AND GRI CONTENT INDEX

The Guidelines for sustainable reporting of the Global Reporting Initiative (GRI) G4 informed the content and format of the report and it meets the information and reporting requirements in accordance with the 'Core' version.

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