ENHANCED **MANDATE** FOR ENHANCED **ACCOUNTABILITY**

AUDITOR-GENERAL
SOUTH AFRICA

INTEGRATED ANNUAL
REPORT 2018-19

AUDITOR-GENERAL
SOUTH AFRICA

ENHANCED **ACCOUNTABILITY**

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 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.*

LETTER
TO THE SPEAKER

Ms Thandi Ruth Modise
Speaker of Parliament
PO Box 15
Cape Town
8001

26 September 2019

Honourable Speaker Modise

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 integrated annual report, which includes the audited financial statements for the financial year ended 31 March 2019, as required by our governing legislation.

It gives me great pleasure to announce that the audit committee, 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 both our financial results and a review of our performance against predetermined objectives.

I respectfully draw your attention to section 41(5) of the Public Audit Act, which requires that we submit our report within six months of the end of the financial year. I therefore request that this report be tabled in Parliament by 30 September 2019.

Yours sincerely

Thembekile Kimi Makwetu,

Auditor-General

PERFORMANCE BRIEF

VALUE-ADDING AUDITING

1 063 audits completed

85% of audits completed **on time**

55 contestations during **PFMA**

33 contestations during **MFMA**

We acted immediately for our staff's safety after serious intimidation incidents

Value chain approach extended to audits of:

- **water** infrastructure development
- expanded **public works** programme
- **housing** development finance

Completed
3 stand-alone investigations &
1 performance audit

published amended PAA regulations

72% compliance with quality **standards**

completed peer review on the Office of the Auditor-General of Canada

successfully prepared the environment to implement our enhanced mandate

VISIBILITY FOR IMPACT

Continued **focused engagements** with different stakeholders

We provided **continual support to Afrosai-e**

Status-of-records reviews implemented at **666 of 671 AUDITEES** 99%

Due to our insights:

The house chairperson made a number of commitments geared at **improving audit outcomes**

Scopa focused on key reasons for **poor performance**

APAC committed to **tracking and monitoring** the implementation of our recommendations

Engaged the PSACF on developing their guidance and training for public sector internal auditors and audit committees

The use of #AGReport **increased the reach** of our messages

Rolled out campaign #PAAEvolution

AG was interviewed on the PAA by **major media agencies**

Issued a citizens' report, which simplified general report messages

VIABILITY

Audit revenue

R3 464 million

17%
Outsourced audit work
R595 million

Debt owed to us increased by 15% to
R744 million

Local government debt increased by 29% to
R321 million

Other debtors increased to
R172 million

Optimised the TeamMate R11

Recruitment: 862 employees

264 (30,63%) internal appointments

Our TA scheme has produced **1 009 CAs(SA)** since its inception

TA learnership contracts: **1 344** with 53% being **African females**

Recruited 235 (56%) CTA-qualified TAs

VISION AND VALUES DRIVEN

Achieved **level 1 B-BBEE contributor status** for the first time in our history

R595 million spent on outsourced audit work, **83% on B-BBEE level 1 and 2 firms**

ESD firms **created 160 jobs** in 2018-19

Our expenditure increased on
- 51% **black-owned** firms → 56%
- 30% **black women-owned** firms → 18%

Received a **clean audit opinion**

Implemented the internal **whistle-blowing mechanism**

We graduated **6 of 27 beneficiaries** from enterprise development to supplier development

Supported 16 schools including rural, special needs and semi-urban schools

Ethics awareness sessions held more frequently to highlight its importance

Policies impacted by the **amended PAA** revised or developed

The state of our control environment remains relatively healthy - The ICT controls remain an area for improvement

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

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FOCUS ON PRIORITIES

The 17 sustainable development goals (SDGs) were agreed by 193 member states of the United Nations (UN) in September 2015. Their aim is to ensure economic prosperity and an improvement in human well-being. To achieve these goals the government needs to have sound governance structures as a key ingredient of sustainability in development. As a supreme audit institution, the selection of our audit focus areas is guided by the government priorities defined through various strategic documents such as the *National development plan 2030* (NDP) and the Medium Term Strategic Framework (MTSF).

We intend to prioritise engaging with government on reporting the progress towards achieving the SDGs and to audit our country's readiness to report on the realisation of the goals. In the short term, we continue to audit what matters by focusing on the government priorities of education, health, infrastructure (water and sanitation) and human settlements. These auditing priorities also have the greatest impact on the people of South Africa. We have also highlighted our awareness of the SDGs in own reporting, using the SDG icons to demonstrate areas that are influenced by these goals.

SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY

2 ZERO HUNGER

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

5 GENDER EQUALITY

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

10 REDUCED INEQUALITIES

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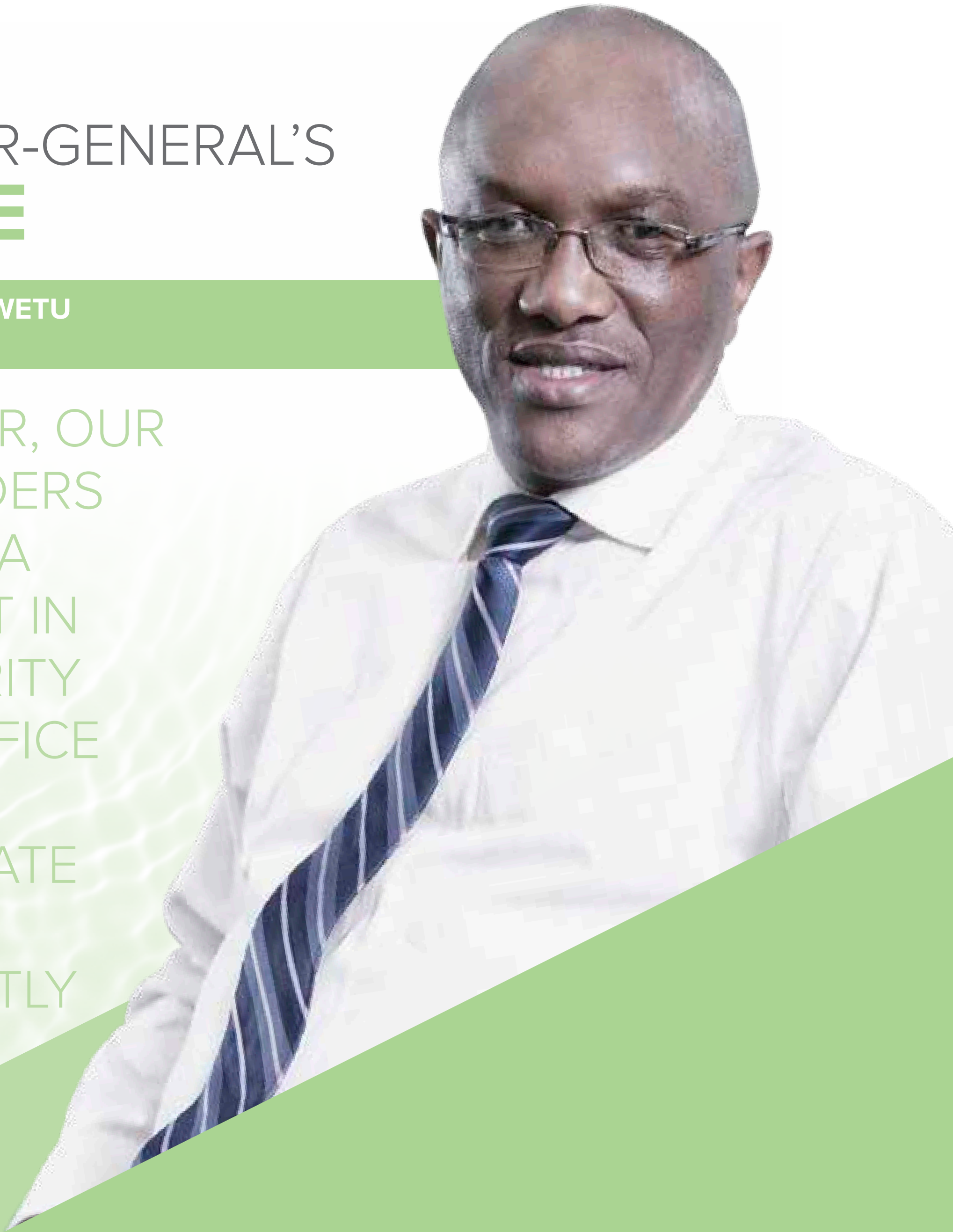
THE AUDITOR-GENERAL'S **MESSAGE**

THEMBEKILE KIMI MAKWETU
AUDITOR-GENERAL



IN THIS YEAR, OUR STAKEHOLDERS DISPLAYED A DEEP TRUST IN THE INTEGRITY OF THIS OFFICE THAT SAW OUR MANDATE CHANGE SIGNIFICANTLY

Age:	53
Qualifications:	CA(SA)
Appointment:	2013
Experience:	Kimi was a director in Deloitte's forensic unit before his appointment as deputy auditor-general. In 2013, Kimi was appointed as the new auditor-general of South Africa for a period of seven years

What a stimulating year we have had! Without doubt, this has been the most exciting year for our mandate since the organisation became fully independent. In this year, our stakeholders displayed a deep trust in the integrity of this office that saw our mandate change significantly.

As I reflect on the events of 2018-19, I am motivated to tell our story, which connects on a fundamental level with the stakeholders to whom we strive to add value. I know that the transparency of our strategy and operations is a driving force for improvement and value creation. This report is no different.

On 18 November 2018, President Ramaphosa assented to the Public Audit Amendment Act, removing any doubt that the government is committed to seeking solutions for the rampant abuse of public resources that we had seen in the last decade. The president reinforced these expectations in his *2019 State of the nation* address:

> The 5th Parliament capacitated your office: It is a good development as it allows us to do things we couldn't do before. Allows us the opportunity to help prevent things from becoming an unsustainable mess. Allows us and the public to gear up so that we understand what happens to the public money as it happens and not 10 years later after it has happened.
>
> (Sona 2019, President Ramaphosa)

This support has given me confidence that we, collectively, can face the challenges posed by the lack of accountability and develop a different mind-set. The president's assent also demonstrates an intent to build the independent, effective and accountable institutions envisaged in the United Nations' sustainable development goal 16. These institutions can enable government to eradicate poverty and advance the achievement of other sustainable development goals.

As the leadership of a responsible organisation, we evaluated our existing resources and chose to use a phased-in approach to implement our enhanced mandate. Within a short time, we developed the requisite regulations to support the amendments to the Public Audit Act, created internal processes and prescripts, rigorously trained our audit teams and mobilised all our support units. The intensive preparation ensured our readiness to implement the selected section of the material irregularity process during the 2018-19 Public Finance Management Act audit cycle. We will publish the material irregularities identified during the audit in our general report after we have finalised the audit cycle.

From the beginning of the journey to amend the Public Audit Act, I believed that with our enhanced mandate, we have the potential to spearhead a critical mass of good financial management in all three spheres of government. However, good financial management will only become standard practice in all our public institutions when it has the backing of everyone in a whole-of-society approach. I therefore call for more cooperation among those that have a stake in the public sector.

These role players include the accounting officers and authorities of public institutions who play a vital role in preventing and detecting non-compliance, fraud, theft and breaches of the fiduciary duty of care. They are also crucial to taking action when material irregularities are detected by the auditors.

The executive authorities are role players who monitor how accounting officers and authorities implement our recommendations, and support referral and remedial processes, including recovery of debt. They must set the tone for accountability and consequence management by investigating and dealing with allegations of financial misconduct and irregularities.

All oversight bodies can contribute to accountability by using the information on material irregularities in our audit reports and insisting on our recommendations being implemented on time. They can also use our future reports on the progress of resolutions for material irregularities to oversee and encourage public bodies to deal promptly with investigations, and executive authorities to recover debt.

Over the next few years, signs of success will be if:

- auditees voluntarily implement our audit recommendations and reduce unauthorised, irregular, fruitless and wasteful expenditure
- accounting officers empower oversight by reporting accurately on financial and performance matters

- all stakeholders in the public service appreciate the benefit of applying consequences for transgressions and poor performance and visibly commit to contributing towards the financial health of the country and an improved social reality for our people.

I trust that this is a shared vision for accountability in the public sector, aimed at complementing our respective roles in managing public resources from administration, to oversight and independent reporting. The promise of this vision is that it addresses the complexity of the governance prescripts in the public sector and emphasises collaboration and completeness, which will ultimately lead to a better South Africa.

Against the background of our enhanced mandate, we continued to successfully execute our long-term strategy of delivering value to stakeholders by facilitating transparency and enabling accountability in the public sector. We selected our audit work based on areas that have the highest impact on the well-being of our people. In auditing what matters, we continue to focus on education, health, water and sanitation, infrastructure, human settlements, and major government programmes.

The number of audits we conduct continued to grow and we increased our footprint in the audit of state-owned entities. We completed 1 063 audits in the 2017-18 audit cycle (2016-17: 1 003), or 23% more audits than a few years ago. The increased volume of audits continued to be absorbed by the audit business units. However, our staff and leadership experienced excessive pressure due to the emerging trend of audit reports being signed off late.

Our Public Finance Management Act general report team was forced to revise the report's cut-off date to ensure that audit results for major departments and state-owned entities were included. Similarly, the 2017-18 Municipal Finance Management Act audit cycle had a high number of audits outstanding by the deadline as auditees contested unfavourable audit outcomes. Regrettably, the 2017-18 audit outcomes for departments, public entities and municipalities regressed. Financial health matters remained a challenge at most of our auditees, specifically for a number of strategic state-owned entities and many municipalities.

For many years, our audit reports have supported and guided auditees to develop good financial and leadership practices by offering insight that is relevant, reliable and transparent. We achieve this by revealing the root causes for failed controls and including recommendations to improve such controls and practices. Given the stringent provisions of the amendment to the Public Audit Act, I believe that our recommendations will be hard to ignore in future and that the responsible officials will move faster to address audit findings.

Recognising the imperative for accounting officers and authorities to support the implementation of the amended Public Audit Act, we made an effort to engage extensively with those role players to develop a common understanding of both our enhanced mandate and how it fits into the overall public sector governance framework. By doing so, I expect to enhance cooperation and minimise challenges to avoid severe consequences, such as referral and remedial action.

We engaged with the public bodies identified for the execution of our enhanced mandate. Such public bodies include the Special Investigating Unit, the National Prosecuting Authority, the National Treasury, the Competition Commission, the Public Protector and the Public Service Commission. Our activities with these stakeholders to develop memoranda of understanding and service level agreements, and assist with their capacity building, will continue in 2019-20.

I appreciate the willingness and support of major media agencies and various radio stations that helped us prepare the broader external environment for the amended Public Audit Act by providing us with platforms for discussion and ample airtime. Our leadership has also engaged with many other stakeholders, professional associations and advocacy groups that were interested in the amendments and made the time to engage with us. I am humbled by the respect we have received and thank these stakeholders for their time and interest.

Capable, engaged people are critical to our organisational success. An engaged workforce that lives our core values supports the delivery of our strategic objectives. The voluntary turnover of critical skills and senior leadership has reduced and stabilised over the last few years. This stability allowed us to plan better, build succession paths and work on improving the workplace culture.

The organisation currently boasts 1 227 audit professionals, almost twice as many as 10 years ago. In 2018-19, we celebrated 1 000 chartered accountants that qualified through our trainee auditor scheme since its inception. These successes are a result of continuous effort and dedication, and permit us to render professional audit services to our stakeholders.

Throughout the demanding Public Audit Act journey, we ensured that our staff walks this journey with us. We deployed numerous internal communication platforms and tools to enhance our staff's understanding of the amendments and their impact on our processes and work. All audit teams identified to implement the material irregularity process underwent intensive technical and soft skills training. A rapid response team of the best audit and legal specialists was brought together to assist the teams with queries.

While our current resources allow us to support our teams in a reactive way, we are building capacity in our quality control, legal, investigations, and audit and research teams that will allow us to provide increased proactive support to implement the amended Public Audit Act faster. In the long run, the most valuable attribute that we seek in our staff is their independence, ethics and their absolute dedication to the cause of shaping a better public service.

Ultimately, in an increasingly difficult and, at times, dangerous environment, we executed our mandate without fear, favour or prejudice to the benefit of our people and democracy. The organisation made a unique contribution to the country's governance framework by formulating Public Audit Act regulations and implementing the amended Public Audit Act.

As a supreme audit institution, we increased our relevance through the credibility, simplicity and clarity of our reports and the holistic, integrated view of the auditees' performance. In this way, we contributed to the drive for good governance and clean administration in the country and enabled our stakeholders to execute their own mandates in turn.

Undoubtedly, in the immediate future, our major priority will be to increase the depth and breadth of implementing our enhanced powers. In the long term, we are looking at consolidating the gains around the strategic choices we made five years ago and at ensuring continuity in our strategic intention to add value to our stakeholders and encourage corrective action through engagements.

I take this opportunity to express my immense appreciation to all 3 556 staff who made a tremendous contribution to building a better South Africa.

I salute the leadership team that stood by me and led from the front in these challenging times.

If you want to discourage corruption, act against it.

Kimi Makwetu,
Auditor-General

OVERVIEW OF PERFORMANCE BY THE DEPUTY AUDITOR-GENERAL

TSAKANI MALULEKE
DEPUTY AUDITOR-GENERAL

OUR MOST IMPORTANT SUCCESS WAS PREPARING THE ENVIRONMENT FOR IMPLEMENTING OUR ENHANCED PUBLIC AUDIT MANDATE

Age:	44
Qualifications:	CA(SA)
Appointment:	2014
Experience:	Tsakani is a qualified chartered account (CA) with more than 20 years of experience in the private and public sectors

The past year has been exciting and challenging for the Auditor-General South Africa (AGSA) and we made significant strides towards achieving our vision 2024.

We worked hard, focusing on delivering our mandate even in the midst of increased threats and intimidation towards our people, as well as pushbacks on our audit opinions. Our most important success was preparing the environment for implementing our enhanced public audit mandate. This was accomplished through the hard work and sleepless nights of our dedicated teams.

During the year, we continued to embed the work done on our 4V strategy. We enhanced our processes to ensure that we realised improvements in the endeavour to add value to our stakeholders and to build a stronger institution.

Value-adding auditing

Our intention has always been to provide value to our stakeholders through our audit work, and we continually searched for ways to increase this value.

We assess the achievement of this goal by the continued relevance of our work and the strength and depth of our audit messages.

Our audits provided insight on the way public funds were managed and how our audit findings and recommendations could assist to improve the public sector's performance for the benefit of South Africans.

During the past financial year, we completed 1 063 audits, 904 (85%) of which were signed-off within the legislated deadlines. Our general reports indicate that audit outcomes for departments, public entities and municipalities had regressed. Irregular expenditure remained high, non-compliance with supply chain management (SCM) legislation continued to increase, and auditees' financial health deteriorated.

Accountability worsened in local government, some departments and public entities, which is a continued cause for concern. This deterioration has a negative effect on delivering key government programmes in education, health and infrastructure, and at municipalities, which all have an impact on citizens.

Resistance from certain auditees to our audit messages and opinions increased: 55 contestations during the audits of national and provincial departments and 33 during the local government audits. As in previous years, this resistance was mainly driven by expectations of a clean audit that did not materialise, regressions in audit outcomes and technical disagreements.

These contestations continued to have an impact on the timely completion of audits. We are determined to work with our auditees and the relevant authorities to resolve these disputes on time and outside of the legal process.

The level of integration in our audit disciplines has matured considerably. Integrated audit teams comprised regularity, information systems, performance and investigation auditors. They continued to work together to deliver deeper insight to stakeholders, manage the increased audit risk and extract efficiencies as envisioned by our integration drive.

Section 4(3) audits

Our earlier strategic choice to increase the oversight of section 4(3)[1] audits' governance was rewarded by the increased appetite (and external pressure) to take over and our increased ability to handle such audits. We have quadrupled the number of state-owned entities (SOEs) that we audit directly over the last five years. Of the 21 schedule 2 Public Finance Management Act (PFMA) institutions, we currently audit 13, with a few more in the pipeline.

1 *Section 4(3) of the Public Audit Act (PAA) states:*
The Auditor-General may audit and report on the accounts, financial statements and financial management of:
a) any public entity listed under the PFMA; and
b) any other entity not mentioned under subsection 1 of section 4 of the PAA which is;
1. funded from a National Revenue Fund or Provincial Revenue Fund or by a municipality
2. authorised by any legislation to receive money for a public purpose.

We maintained a heightened level of oversight on the audits of section 4(3) auditees and continued to oversee SOE audits to ensure consistency and to share knowledge.

After suspending our audit mandate with KPMG and Nkonki last year, we took back an additional five section 4(3) audits. This placed immense pressure on our audit teams during the PFMA cycle. The transition period was particularly challenging, as we had to take over a number of large and complex audits while they were being conducted. Despite the complexities, the audits were duly signed-off for the 2017-18 audit cycle.

To enhance the value of our audit insights on the overall management of the water sector, and in response to the increased audit risk of this sector, we took back the audit of the Trans-Caledon Tunnel Authority for the 2018-19 financial year. To enable a smooth transition of this audit from the private audit firm to us, we seconded staff to work with the previous external auditor during the 2017-18 audit.

This approach helped us to gain an understanding of the auditee, its environment, the audit and key risk focus areas.

We have adopted a similar approach to the audit of Transnet, which we will take back in future, following a request by the previous minister of transport. An arrangement was made between the appointed private audit firm, Transnet and us to facilitate skills and knowledge transfer over a defined period.

As part of the amended Public Audit Act (PAA), we published regulations that specify transparent criteria for deciding on whether to opt in or out of a section 4(3) audit. These criteria will be applied consistently in our decisions on whether an institution should be audited by the AGSA or an external private audit firm.

Quality of audits

In our quest to add value to our stakeholders, we committed to paying constant attention to the quality of our audits.

Despite implementing a series of measures, our compliance with quality standards was 72% against our target of 80%-90%. The disappointing results sharpened our attention on tightening the range of controls supporting audit quality. These include the adequacy of our internal technical support capabilities and support programmes available for audit engagement managers.

We also reflected on a number of external factors that contributed to the quality control results. The increase in the sheer volume of audits and the rapid take back of a number of complex audits put pressure on the skills and capacity needed to perform high quality audits. The continually increasing risk profile of various auditees and the audit contestations further strained our audit teams and had a negative impact on our audit timelines and, consequently, on our audit quality.

Corrective action to address the deficiencies identified in the system of quality control is being actively implemented.

Stakeholder engagements

Constitutional stakeholders

Continual interactions with both our internal and external stakeholders are essential for delivering on our mandate. These interactions ensure that stakeholders understand, buy in and commit to our overarching goal of having a positive impact on the lives of the people of South Africa.

Our interaction with each stakeholder varies depending on the nature of the stakeholder. In this way, we safeguard the sustainability of our relationships by strengthening them and firmly embedding the AGSA in the society in which we operate.

While we engage all our constitutional stakeholders during the audit process, over the last four years we focused on engaging stakeholders interested in committing to corrective measures that improve audit outcomes. We engaged constitutional stakeholders to:

- enable them to act
- empower accounting officers to address recurring risks through the status-of-records and commitments reviews
- explore innovative ways of communicating audit matters
- improve our engagement tools and build capacity for impactful stakeholder interactions.

These stakeholders used our audit insights to facilitate management and oversight cooperation and responsiveness in the interest of clean administration.

In the quest to enable a culture of consequence management, our engagements with portfolio committees focused on creating awareness and understanding of the audit outcomes and securing their commitments to dealing with recurring issues. The Standing Committee on Public Accounts (Scopa) used our messages to elevate key governance issues that we identified at departments and entities.

The conversations with the coordinating ministries centred on our role in assisting them to promote clean audit outcomes and to lead by example.

As a result of our engagements, the Association of Public Accounts Committees (APAC) committed to continue holding capacity-building programmes for public accounts committees (PACs) and portfolio committees.

Status-of-records review

We successfully implemented the status-of-records review (SoRR) at 99% of eligible auditees (666 of 671) by 31 March 2019.

This initiative enhanced relevant and insightful engagements, enabling us to empower accounting officers to improve or sustain their audit outcomes. It served as an early warning mechanism, prompting discussions that could assist auditees to manage issues well before the end of the financial year. We communicated key areas of concern well in advance, to enable and compel them to act.

These engagements also assisted us to address recurring risks, and enabled us to build relationships of mutual trust with various stakeholders. We expect that the initiative will continue to provide depth to the discussions on key controls. Its impact on the audit outcomes will be assessed in the near future.

Citizen engagement

We have noted the growing interest of citizens in the audit outcomes as a result of our work. Considering that the reason for our existence is to strengthen democracy and to build public confidence, we have a responsibility to ensure that our messages reach citizens. We do this by intensifying our engagements and educating citizens, empowering them to hold their elected representatives accountable.

Our national and provincial government (PFMA) and local government Municipal Finance Management Act (MFMA) briefings continued to receive widespread coverage on national and provincial media platforms. This helped to increase the reach of our general report messages. Our approach afforded the media the opportunity to clarify issues relevant to their localities, and helped them to report our audit messages from an informed position.

We used various platforms, including print media, social media and public lectures to educate citizens on our role, mandate and the amended PAA. This allowed us to convey our future self-reflection and the value we seek to provide.

The use of #AGReport on social media platforms allowed us to strategically amplify the number of people receiving our messages. We also developed a citizens' report, which is a simplified summary of the 2017-18 PFMA general report that enables citizens to understand our messages, role and mandate.

Our public #PAAEvolution campaign aimed to give background and context to the laws governing the functions of the AGSA. The campaign was carried on various platforms, including Government Communication and Information System (GCIS) platforms as a result of our strengthened partnership.

PAA engagements

A new focus of engagements with various stakeholders was our enhanced mandate. This effort was managed proactively to ensure that our stakeholder groups understand the changes to the PAA. We also conveyed our responsible approach to implementing the amendments and the roles that accounting officers and authorities, executive authorities and oversight bodies play in advancing good governance and consequence management in the public sector.

The auditor-general took the lead in these engagements, which ranged from ministers to accounting officers, chief financial officers, professional bodies, business, civil society, media and staff. He was ably assisted by the AGSA's executive corps. These engagements will maintain our momentum in driving our messages as we implement our enhanced mandate and deal with the expectations of our stakeholders.

International visibility

Our international visibility continued to be excellent and the International Organisation of Supreme Audit Institutions (Intosai) capacity-building committee (CBC) work streams achieved their targets for the period. We provided continual support to the African Organisation of English-speaking Supreme Audit Institutions (Afrosai-e) and benefitted from this relationship as 23 of our middle and senior managers attended various training initiatives to deepen their knowledge and expertise.

We also supported the IDI's (Intosai Development Initiative) global development programmes by providing a subject matter expert for each of the three IDI programmes. We benefited from this relationship as two of our senior managers completed an extensive young leaders programme with specific change initiatives linked to the programme.

Financial performance

Our financial viability is sustained by sound financial administration, strict cash flow management and good internal controls, systems and processes.

Our actual revenue was R3 464 million (2017-18: R3 247 million), with our success attributed to several factors including:

- a conscious drive to achieve efficiencies by improving staff productivity and pooling staff resources between national and provincial business units, mainly during the MFMA season. This resulted in an additional R101 million in own hours' income and a reduction in the audit hours allocated to private audit firms through our contract work allocation programme.
- the full implementation of the improved audit methodology programme, which brought efficiencies and reduced unbilled hours.

We continued to optimise the cost of doing business (overhead expenditure) using expenditure rationalisation measures. This resulted in total overhead costs of R1 266 million (2017-18: R1 186 million). Included, in the overheads is R4 million to prepare the environment for implementing the amended PAA.

We achieved a surplus of R71 million (2017-18: R67 million) which is 2% of audit income and within the AGSA's funding model target of 1-4%.

Overall, the debt owed to us has increased. The total outstanding debt at 31 March 2019 is R744 million compared to R650 million last year. The main contributor to this increase remains local government debtors, which makes up 43% of the total debt (2017-18: 38%). A worrying trend is the increase in the other entities debtors, which includes public entities, SOEs and agencies, from R153 million in 2017-18 to R172 million.

We continued our ring-fencing and litigation efforts to improve collections. Our ring-fencing agreements collected a cumulative R338 million since January 2015. This initiative is still effective as it allows debtors to settle their old debt while liquidating the current debt. We collected R160 million through litigation in 2018-19. Cumulatively, these efforts allowed us to collect R404 million over the last four years.

Our financial diligence led to a favourable safety margin of 2,7 months (2017-18: 2,14 months) against our target of two to four months.

Developing our human capital

In line with our people strategy, we have attracted, retained and cultivated talented individuals by continually improving talent-sourcing mechanisms, and talent development programmes and measures.

We recruited 862 employees for the 2018-19 financial year. Looking at only non-trainee auditor recruitment, 67% were internal hires. This demonstrates our strong and effective recruitment pipeline and our commitment to growing internal resources as part of the talent management process and succession planning.

Our graduate recruitment efforts resulted in us appointing 235 trainees with a certificate in the theory of accounting (CTA). These trainees started their trainee auditor articles with us in January and February 2019.

The continued growth of brand AGSA on social media platforms such as LinkedIn, Facebook and others, helped us attract talent, especially for positions that are challenging for acquisition. Our exhibitions and engagements at universities led to us being voted the *Most exciting employer to work for* by students at the Wits Accounting Career Fair 2019.

We implemented our new reward philosophy, which de-links staff salary increments and their short-term incentive payments. This major shift in our reward philosophy delivered many benefits, including the change in the performance cycle of trainee auditors, which had been a source of discontent among trainee auditors for a number of years.

In our mission to professionalise our office and the public sector at large by training CAs(SA), we are very proud to have reached a significant milestone of 1 000 CAs(SA) that have come through our training programme. More than 90% of them had come from previously disadvantaged backgrounds. This achievement also confirms our efforts to contribute towards transforming the accounting and auditing profession in the country.

Recognising great talent developed internally, we have retained a high percentage of the professionals who qualified as CAs(SA) this year. We are also proud that professionals produced through our learnership programme are sought by outside employers, both in the private and the public sectors.

Leadership development programme

We continue to advance and embed the objectives of our multistage development framework by implementing essential leadership development programmes at three distinct levels.

- Executive development programme (EDP) in partnership with the Graduate School of Business at the University of Cape Town – targeted at deputy business executives and higher, it provides an important opportunity to learn from other leaders across industries.

- Leadership development programme (LDP) in partnership with Enterprise University of Pretoria – targeted at senior managers and managers, it focuses on personal, team and leadership mastery.

- Audit development programme (ADP) in partnership with the Independent Regulatory Board for Auditors (IRBA) – aimed at developing the skills required for specialisation as registered auditors, it elevates the AGSA's contribution to the transformation of the profession.

These programmes are geared toward ensuring that we continually upskill employees, making them agile and responsive to the changing needs of the business and improving our talent pipeline. They have advanced well to bridge the skills gap and ensure an effective transition from individual contributors to leadership roles. They have also enhanced our employee value proposition (EVP).

Organisational culture and employee engagement initiative

In line with our people strategy commitments, we continue to prioritise our culture as a key enabler for organisational effectiveness. In the previous performance year, we held an organisation-wide diagnostic assessment to gauge the organisation's culture and our employee engagement levels.

Our target for 2018-19 was to develop and implement a culture improvement plan. Meeting with business units, we unpacked the underlying factors that can create an adaptive, enabling and constructive culture. These dialogues were essential, allowing employees to co-create actionable interventions for implementation in 2019-20 at a business unit level.

The executive leadership as a group, engaged in a series of workshops to reflect on and identify the key organisational culture change initiatives. An organisational culture change plan was developed with the executive leadership setting the tone for implementation.

The key themes of the organisational culture plan, as identified by our leaders, will focus on:

- Leadership effectiveness
- Trust, courage and fear
- Leadership alignment/engagement.

We are committed to addressing these key themes over the next three years.

Organisational tools

We implemented a number of enterprise resource planning (ERP) software enhancements with the intention of improving and streamlining business processes through automated controls.

We successfully optimised our audit software while ensuring uninterrupted audits.

Our managed security services project was initiated to address the immediate concerns and requirements of information security within the organisation.

As envisaged in our strategic plan, we continued to implement the information management framework to ensure access to information, identify gaps in protecting sensitive information and properly preserve the corporate memory of the organisation.

Ethics and risk management

A commitment to ethics remains at the centre of all we do. Our policy on ethics was revised to respond to prevalent environmental factors, including ethical threats that may arise from the amended PAA.

The policy principles, together with the adopted ethics codes establish boundaries, guidelines and best practices for acceptable behaviour in our environment. They also provide direction to employees on their ethical obligations.

In our commitment to accountability for our ethical conduct, we provide employees, stakeholders and members of the public with a mechanism for reporting suspected unethical conduct using the complaints process in section 13(1)(c) of the PAA. In 2018-19, of the 37 complaints recorded and processed under the complaints management process, we resolved 33 and continued to work on the remaining four.

We also implemented a whistle-blowing mechanism internally. We believe this step is critical to detecting and appropriately addressing any matters of unethical conduct or complaints regarding the office, its operations and employees. We envisage that the whistle-blowing mechanism will be rolled out to external stakeholders during the course of the 2019-20 performance year.

The state of our control environment remains relatively healthy; we have, however, taken note of the slow response to addressing control gaps that are dependent on information technology (IT), reported by internal and external auditors. Our focus remains on developing and implementing certain technology-related interventions that will enable us to improve the findings closure rate of 78%.

Contribution to transformation

I am overjoyed to announce that for the first time in the organisation's history we achieved level 1 broad-based black economic empowerment (B-BBEE) contributor status. This is a great reward for our hard work on our processes over the last two years. Our B-BBEE score improved from 95% in 2016-17 to 101,48% in 2018-19. This cumulative improvement was driven by our staff's commitment, effective collaborative initiatives among different experts and our strengthened processes and monitoring plans.

We achieved our management control targets at executive, senior, middle and junior management. We also encouraged the recruitment and retention of persons with disabilities. We are aware that some of our facilities may not be conducive to accommodating people with disabilities; however, this has now become a requirement for all future accommodation.

Our allocation of audit work to private firms is a major stimulant to growth and transformation in the accounting profession. In 2018-19, we allocated R595 million worth of audit work to private audit firms. Of this amount, R506 million (85%) was allocated to B-BBEE levels 1 and 2 audit firms that make an important contribution to transformation.

Our audit outsourcing expenditure on 51% black-owned firms over the past three years increased from 36% in 2016-17 to 56% in 2018-19. Our audit outsourcing expenditure on 30% black women-owned firms over the past three years increased from 9% to 18%.

Our enterprise and supplier development (ESD) programme provides financial (allocated budget) and non-financial support to beneficiaries. Of the 27 beneficiaries on our programme, six graduated from enterprise development to supplier development and created 160 jobs. Their growth within the programme also led to four firms opening new branches. It was also encouraging that three ESD beneficiaries later merged with two small firms to form a medium-sized audit firm. Our support included assistance with the South African Institute of Chartered Accountants (Saica) accreditation and audit outsourcing allocations. Aside from our support, ESD beneficiaries are also eligible to receive ad hoc audit outsourcing allocations. For 2018-19, our ESD beneficiaries received a significant 15% of the audit outsourcing work against a target of 10%.

Conclusion

Overall, we gained major traction in our journey towards driving a stronger institution. We built on the solid foundation established over the last few years with the introduction of the 4V strategy, while ensuring that no one was left behind. Our processes were greatly improved and we started to see some of their benefits. This serves as encouragement to continue overcoming our challenges in our quest to realise good governance and clean administration in the public sector for the greater good of our country.

I express my sincere and warm gratitude to the auditor-general for his exemplary leadership in steering the AGSA towards realising vision 2024.

The exceptional dedication, hard work and professionalism of our leadership and employees on this journey is commendable and greatly appreciated.

Maluleke.

Tsakani Maluleke,
Deputy Auditor-General

EXECUTIVE COMMITTEE **OF THE AGSA**

EUGENE ZUNGU

National Leader: Audit services
(resigned Nov 2018)

ALICE MULLER

Corporate Executive: Audit (acting national leader from February 2019)

SOLOMON SEGOOA

Corporate Executive: Audit

MABATHO SEDIKELA

Corporate Executive: Audit

VANUJA MAHARAJ

Corporate Executive: Audit

SIBONGILE LUBAMBO

Corporate Executive: Audit

SIPHO NDABA

Corporate Executive:
Specialised Audit Services
(from July 2018)

BARRY WHEELER

Corporate Executive:
Specialised Audit Services
(retired August 2018)

MLUNGISI MABASO

Chief People Officer

SIBONGISENI NGOMA

Chief Financial Officer

JAN VAN SCHALKWYK

Corporate Executive in the office of the auditor-general

SECTION

TWO

FOCUS ON PRIORITIES

3 GOOD HEALTH AND WELL-BEING

The health value chain ultimately begins and ends with the patient. To ensure that the patient receives quality care and treatment, the entire value chain has to work in harmony. Given its importance to the citizens of South Africa and the impact that it has on achieving all the other human and social centred goals, health is a priority of government and strategic documents such as the MTSF and the NDP, to ensure that the country reaches SDG 3: health and well-being.

HEALTH VALUE CHAIN

Patient

Primary healthcare

4 Streams

- Ward-based primary healthcare outreach teams
- Integrated school health programme
- District clinical specialist teams
- Contracting private healthcare

Hospitals and specialised services

Referrals by

Levels of hospitals

- District
- Regional
- Tertiary
- Central
- Specialised

Certified by Office of the Health Standards Compliance

National Health Laboratory services

Fundamental components

- Defining essential test
- Clinical Governance rules
- Capitation based reimbursement model

Pharmaceutical services

Distribution channels

- Centralised chronic medicines dispensing and distribution
- Pick-up points

WHO WE ARE

Organisational mandate, nature of ownership and legal form

The AGSA is the country's supreme audit institution (SAI). Our mandate stems from chapter 9 of the Constitution of the Republic of South Africa, 1996, making us one of the state institutions that support constitutional democracy. The Constitution entrenches the AGSA's independence as subject only to the Constitution and the law. The Constitution requires us to be impartial, and to exercise our powers and perform our functions without fear, favour or prejudice.

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

Accountability and reporting

We account to the National Assembly by tabling our annual report, financial statements and the audit report on those financial statements in Parliament [required by sub-section 10(1) of the PAA].

Organisational functions, beneficiaries and products

Our functions 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 PAA.

By law, we audit and report on how the government is spending the South African taxpayers' money. Every year, we conduct mandatory audits of national and provincial government departments, certain public entities, municipalities and municipal entities. We also conduct discretionary and special audits, such as performance audits and investigations.

We not only audit and report on financial management in the public sector, we also do so in a manner that will enable the legislature to call the executive to account for the management of public funds.

Our annual audit reports on our auditees are included in their respective annual reports, which they table in their relevant legislature (Parliament and provincial legislatures). The reports are also made available to 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 we consider it in the public interest to do so.

In addition to these audit-specific reports, we publish general reports in which we analyse the outcomes of the respective audits at national, provincial and municipal levels.

Amending the Public Audit Act

Accountability failures in the public sector impair the financial health of auditees and result in a lack of essential service delivery and infrastructure maintenance. When auditees do not achieve their performance objectives, it negatively affects the well-being of the South African people. In 2016, troubled by the growing extent of irregular, unauthorised, fruitless and wasteful expenditure across the three spheres of government, the Standing Committee on the Auditor-General (Scoag) initiated a process to expand our mandate beyond auditing and reporting.

Scoag, fully backed by the National Assembly, the National Council of Provinces (NCoP) and the president, believed that expanding our mandate would further support other legislation aimed at ensuring good governance and clean administration in the public sector.

The Public Audit Amendment Act, 2018 (Act no. 5 of 2018) (amendment act), was unanimously passed by the National Assembly and concurred by the NCoP. In November 2018, President Ramaphosa signed the amendments into law.

The amendments address long-standing concerns about the failure to address the AGSA's findings, specifically on fruitless, wasteful and irregular expenditure. The amended PAA extends the mandate of the AGSA, allowing the auditor-general to take binding remedial action for mismanaging public resources. The auditor-general is also able to refer specific instances for investigation by public bodies and law enforcement agencies.

Journey towards amending the Public Audit Act

1911

THE EXCHEQUER AND AUDIT ACT

It laid out regulations and processes to guide auditors in the provinces of the Cape of Good Hope, Natal, Transvaal and Orange Free State.

1916

THE EXCHEQUER AND AUDIT AMENDMENT ACT

This Act amended a number of provisions contained in the 1911 Act.

1956

2ND AMENDMENT TO THE EXCHEQUER AND AUDIT ACT

Confirmed that the auditor-general must audit all those to whom state funds were entrusted.

The auditor-general reported on findings to the minister of Finance.

1975

THE EXCHEQUER ACT

Replaced the previous acts, consolidating and modernising regulations including provisions to conduct performance audits.

1989

THE AUDITOR-GENERAL ACT

This Act made provision for the auditor-general to operate under a separate act while the executive retained the final say on crucial administrative issues.

It brought the organisation a step closer to full independence.

1992

THE AUDITOR-GENERAL AMENDMENT ACT

Increased the auditor-general's level of authority and independence.

1993

THE AUDIT ARRANGEMENT ACT

Transferred overall supervision of the Office of the Auditor-General to a newly created Audit Commission (now Scoag) and a Staff Management Board.

1995

THE AUDIT MATTERS RATIONALISATION AND AMENDMENT ACT

Provided for the rationalisation of the Office of the Auditor-General and the abolition of the audit offices of the former Republics of Transkei, Bophuthatswana, Venda and Ciskei.

1996

THE CONSTITUTION OF RSA

The auditor-general's office gained its full independence, enshrined in the Constitution.

2004

THE PUBLIC AUDIT ACT (PAA)

This act confirmed the independence of the SA SAI and strengthened and grew its mandate, while also promoting the transparency and accountability of the SAI's operations.

2018 - THE PUBLIC AUDIT AMENDMENT ACT

Sought to amend the PAA to provide for the auditor-general to take binding remedial action for mismanagement of public resources and to refer suspected material irregularities to public bodies for investigation.

2018 PAA Amendment roadmap

1. **4 Nov 2016** Scoag instructs the auditor-general to propose changes to the PAA
2. **17 Mar 2017** AG submits to Scoag the 1st proposal for changes to the PAA
3. **9 Jun 2017** Scoag undertakes to introduce the PAA bill
4. **23 Nov 2017** The National Assembly grants Scoag rule 273 permission to amend the PAA
5. **19 Jan 2018** Parliament publishes the PAA Bill in Government Gazette for public commentary
6. **6, 7, 9 Mar 2018** Scoag holds public hearings on the PAA Bill
7. **29 May 2018** The National Assembly adopts the PAA Bill
8. **28 Jun 2018** NCoP concurs with the adoption of the PAA Bill
9. **18 Nov 2018** President Ramaphosa assents to the PAA Bill
10. **19 Mar 2019** President Ramaphosa proclaimed **1 APRIL 2019** as the effective date

Summary of important amendments

KEY AMENDMENTS

- Included right to refer MIs for **investigation** to a public body
- Included right to take **binding remedial action** and issue **certificate of debt**
- Revisited **relevance** and **completeness** of definitions
- Clarified our mandate to conduct **international** and **stand-alone** performance audits
- Committed to **reporting on exercise and outcome** of our additional powers
- Increased **discretion** on scope of our audits
- Expanded the mandate to **developing regulations**
- Developed **criteria** for **discretionary regularity** audits [section 4(3)]
- Enhanced our **corporate governance**
- Mandated the **recovery of excess audit fees** as a direct charge against the National Revenue Fund
- Updated **reference** to our **financial reporting framework**

Material irregularity

Material irregularity is one of the amendments that directly relate to the AGSA's extended mandate. Material irregularity encompasses financial mismanagement, maladministration and serious breaches of duties that could result in a significant loss or misuse of financial or public resources, or harm to the public or a public institution.

Referral for investigation

Section 5A(1)of the amended PAA now grants the auditor-general the discretion to refer material irregularities to relevant public bodies for further investigation. These public bodies have to keep the auditor-general informed of their progress and the final outcome of their investigation. Criteria for these referrals were published as part of the regulations to the amended PAA, as discussed in section 4 of this report. The auditor-general must account to the National Assembly on all matters referred to public bodies for investigation.

Remedial action

The auditor-general is now able to take appropriate remedial action to address the failure of accounting officers and authorities to implement audit recommendations. Failure to implement such remedial action will lead to the auditor-general issuing a certificate of debt in the personal capacity of the relevant accounting officer or members of the accounting authority, where a financial loss has been suffered.

Several mechanisms have been built into the process to ensure that it is fair and just, and to limit our risk of judicial review. The auditor-general must also account to the National Assembly for the remedial action, certificates of debt and amounts recovered.

Detailed regulations specifying the process for remedial action and issuing the certificate of debt have been published to ensure transparency and fairness in the process.

Discretionary audits

Discretionary audits are conducted at auditees defined in section 4(3) of the amended PAA. The AGSA can opt to audit these entities itself, or guide the auditee to select and appoint a suitable external auditor.

The amendments require the auditor-general to define the criteria that will be used to opt in or out of discretionary audits. These criteria have been published in the form of regulations. They provide a framework for transparency and consistency in the way the auditor-general uses this discretion.

Performance audits

Section 5(1) of the amended PAA now includes a clear mandate to conduct stand-alone performance audits in the public sector.

International audits

Section 5 of the amended PAA includes a clearly articulated mandate to perform international audits, provided that the international audits:

- will not put undue strain on our resources
- will not detract from our constitutional functions
- are properly disclosed to the National Assembly through our accountability reports.

Audit report content

It is important to note the enhancement of section 20 of the amended PAA, allowing for limited assurance and review engagements. The enhancement allows us the freedom to select the most suitable type of audit engagement for the size and the risk profile of our auditees.

1% audit fees

Section 23 of the PAA made the National Treasury liable for a portion of the audit fee of financially distressed auditees. These auditees are mostly in the local government sphere. However, the National Treasury had been unable to pay some of these audit fees as it has several other pressures on its purse.

Section 23 of the amended PAA provides for these excess audit fees to be funded directly from the National Revenue Fund.

The amendment will only commence on the date of commencement of the Public Audit Excess Fee Act, 2019, a statute that is owned and facilitated by the National Treasury. Its commencement date is 1 April 2020

AGSA's financial reporting framework

Section 41(2) of the PAA provided that the AGSA's financial statements must be prepared in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP) or any other international best practice approved by the oversight mechanism. GAAP ceased to exist a number of years ago and we currently prepare our financial statements in accordance with the International Financial Reporting Standards (IFRS).

Section 14 of the amendment act deleted the reference to GAAP and the requirement for Scoag to approve our financial reporting framework. The amended PAA therefore requires us to prepare the financial statements in accordance with international best practice. The IFRS is widely accepted as a financial reporting framework that meets international best practice.

Remuneration and audit committees

While most changes in the amended PAA relate to our audit work, the amendments also looked at improving our governance. A provision to establish a remuneration committee, with its composition and membership requirements, gives a solid legal basis for the work of this committee. Section 40(1) of the amended PAA now provides for the auditor-general to appoint the members of the audit committee.

AGSA accountability reports

The amended PAA also ensures that the auditor-general reports to Parliament on the enhanced mandate. Our future accountability reports will cover our performance and international audits, as well as information on the matters that we referred for investigation, details of the remedial action taken and certificates of debt issued during the course of the reporting cycle.

Regulations

The amended PAA mandates the auditor-general to develop a series of regulations related to the enhanced mandate. These include regulations for:

- opting in and out of discretionary audits
- determining the nature and categories of matters for which an investigation or special audit may be carried out
- specifying the criteria for referring a material irregularity for further investigation
- the process and time frames for written and oral representations when issuing a certificate of debt
- the form and content of a certificate of debt.

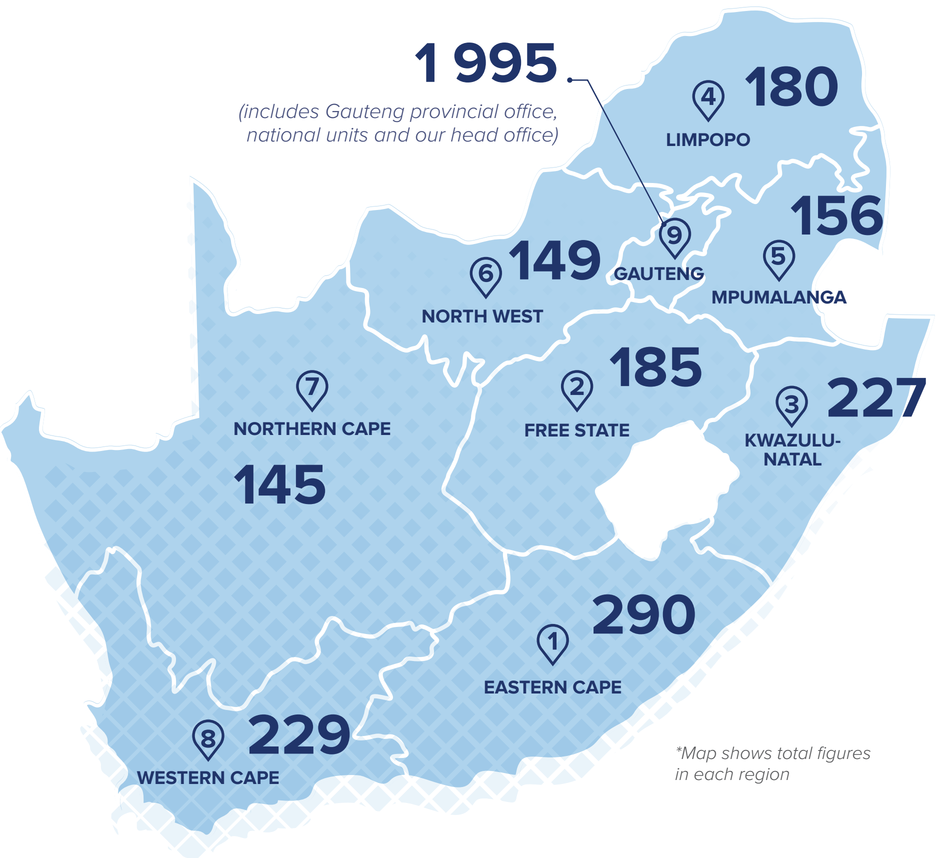
The regulations were issued to assist with formalising the mechanisms for implementing the material irregularity process. The auditor-general may also develop regulations to give effect to any provision in law and ensure that the amendments are fully implemented.

Our audit approach

We recognise and appreciate the immense responsibility that comes with enhancing our mandate. We undertake to use these responsibly and for the betterment of our country and the lives of her people. For decades, our institution has been part of a national drive towards wholesale good governance in the public sector. These amendments are therefore not meant to be punitive, but to augment this critical developmental journey. We are buoyed by the majority of South Africans being fully behind us on this drive to bolster our democracy through clean governance.

SCALE OF THE **ORGANISATION**

At the end of the reporting period, the AGSA employed 3 556 people including trainee auditors and those on short-term contracts. The organisation's gross surplus was R1 274 million earned through 1 063 audits. Our net surplus was R71 million.



**Map shows total figures in each region*

TOTAL EMPLOYEES
3 556*

MALE
1 587

FEMALE
1 969

1	157	133
2	84	101
3	136	91
4	96	84
5	80	76
6	86	63
7	74	71
8	100	129
9	1 156	839

While we are based in South Africa and deliver services that benefits local interests, the business operations of some of our auditees require that we audit elsewhere in the world.

Our head office is in Pretoria. We have offices in each of the nine provinces of South Africa to ensure that we are accessible to our clients and deliver our services in the most cost-effective manner.

The organisation comprises 15 regularity audit business units – nine operating in each of South Africa's provinces and six at national level – three specialised audit services units, and 14 support business units (see management structure). A shared services model exists for all enterprise resources, which include financial and human capital, information and communication technology services, communication, technical services and quality control

DEFINITIONS

Regularity audit

is a statutory examination and reporting on the auditee's financial statements. Within the scope of regularity audit, we also examine the auditees' compliance with relevant legislation and their reporting on performance.

Regularity audit business unit

is a division of the AGSA responsible for conducting regularity audits at all auditees within a specific province or a portfolio of departments.

Specialised Audit Services business units

is a division of the AGSA that nurtures and provides specialised skills and techniques to conduct in-depth audits based on the risk profile of the auditee. These audits can be stand-alone or integrated with regularity audits. The three specialised audit services units in the AGSA are: Investigations, Information Systems Audit and Performance Auditing.

MANAGEMENT STRUCTURE **OF THE AGSA**

AUDITOR-GENERAL
Kimi Makwetu

EXECUTIVE IN THE OFFICE OF THE AUDITOR-GENERAL
Jan van Schalkwyk

DEPUTY AUDITOR-GENERAL
Tsakani Maluleke

- Strategy and Transformation – Tsvetana Mateva
- Risk and Ethics – Tumi Ramoganyaka
- Institutional Cooperation – Fezeka Baliso
- Corporate Secretariat & Support – Adiel Kamedien

NATIONAL LEADER: AUDIT SERVICES
Eugene Zungu (resigned Nov. 2018)
Alice Muller* (acting)

- Audit Research & Development – Linda le Roux
- Quality Control – Gerhard Joubert

CORPORATE EXECUTIVES - AUDIT

AUDIT – Odwa Duda* (acting)
- National D – Andries Sekgetho
- Limpopo – Nthanyiseni Dhumazi
- Free State – Luthando Mbandazayo* (acting)

AUDIT – Solomon Segooa
- National B – Polani Sokombela
- Western Cape – Sharonne Adams
- Northern Cape – Charles Baloyi

AUDIT – Mabatho Sedikela
- National A – Corne Myburgh
- North West – Success Marota
- Gauteng – Dumisani Cebekhulu

AUDIT – Vanuja Maharaj
- National C – Lourens van Vuuren
- Eastern Cape – Shereen Noble
- KwaZulu-Natal – Ntombifuthi Mhlongo

AUDIT – Sibongile Lubambo
- National E – Zolisa Zwakala
- National F – Kgabo Komape
- Mpumalanga – Bomkazi Bhobho

SPECIALISED AUDIT SERVICES & TECHNOLOGY – Barry Wheeler (retired Aug. 2018), Sipho Ndaba (from July 2018)
- Performance Auditing – Kevish Lachman
- Information Systems Audit – Oupa Mokgoantle
- Investigations – Aletta van Tromp
- Information & Communication Technology – John Karageorgiou

CORPORATE EXECUTIVES

Chief People Officer – Mlungisi Mabaso
- People and Organisation Effectiveness – Ben-Johan Weideman
- Business Support and Operations – Wendy Mahuma

Chief Financial Officer – Sibongiseni Ngoma
- Corporate Legal and Provisioning Services – Marissa Bezuidenhout
- Finance – Newman Madanhi
- Strategic Audit Projects – Bongani Habile
- Information Knowledge Management – Vacant

Communications – Vacant
- Communication – Mandla Radebe

IN FEBRARY 2019:

Alice Muller, corporate executive: audit, became acting national leader: audit services

Odwa Duda, business executive: Free State, became acting corporate executive: audit

Luthando Mbandazayo, deputy business executive: Free State became acting business executive, Free State

2018-19 Value-added statement

	%	R million
Revenue		**3 464**
Paid to suppliers		(1 138)
Value added by operation		2 326
Interest income		59
Total value added		**2 385**
Applied as follows		
Paid on internal and external empowerment	**1,09**	**26**
- Corporate social investment	0,04	1
- Corporate social responsibility	0,04	1
- Bursaries external	1,01	24
Paid on employees and internal empowerment	**94,30**	**2 249**
- Salaries, wages and benefits	92,75	2 212
- Employee wellness	0,08	2
- Study assistance	0,50	12
- Training	0,97	23
To pay providers of capital	**0,21**	**5**
- Finance cost	0,21	5
Reinvested in the business	**4,40**	**105**
- Depreciation	1,42	34
- Retained surplus	2,98	71
Total value added	**100,00**	**2 385**

Organisation's supply chain

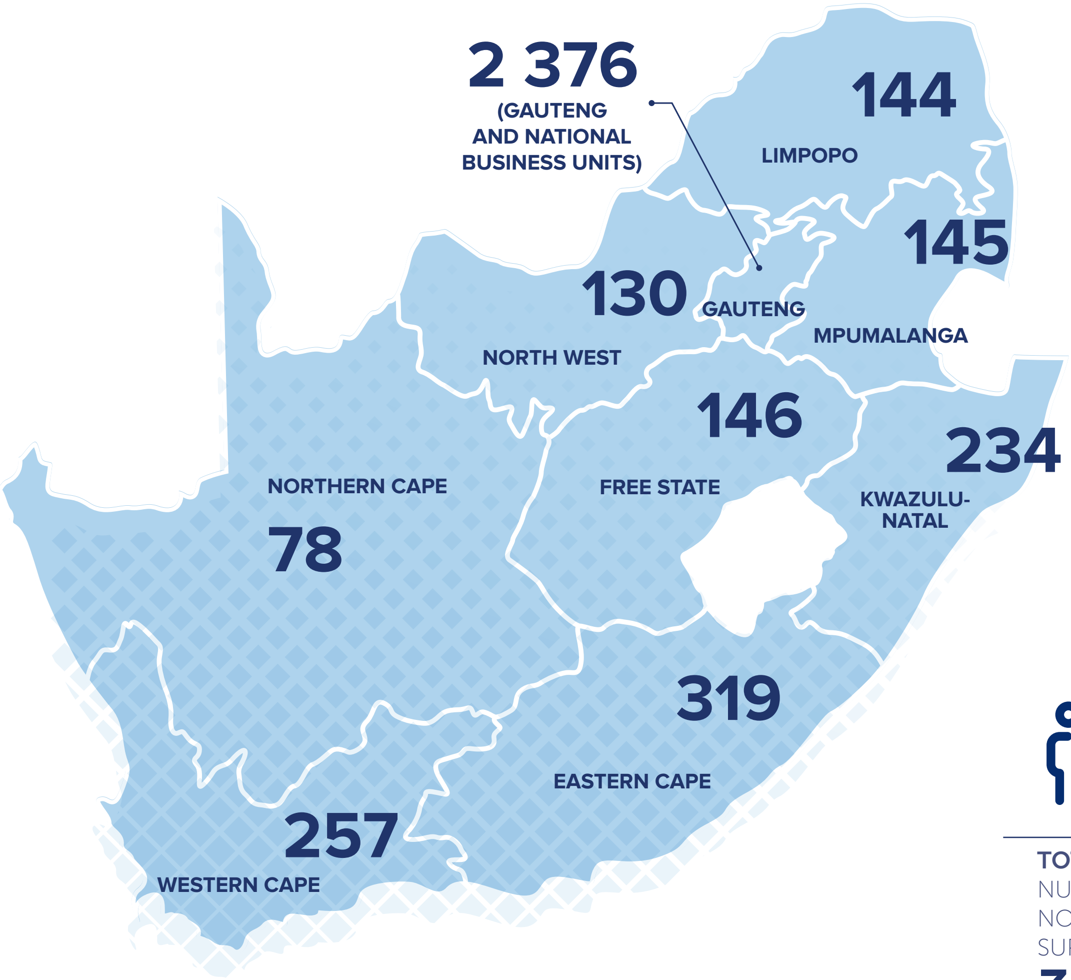
In line with the principles prescribed in the Constitution, we maintain a procurement and provisioning system that is fair, equitable, transparent, competitive and cost-effective.

Supplier database management

Categorising databases

As part of our drive toward transformation, we updated our supplier database at all nine regional offices so that companies' B-BBEE information and service categories were included. This made it easier to identify the exempted micro enterprises (EME) and qualifying small enterprises (QSE) that form part of our transformation strategy when procuring goods or services.

Estimated number of suppliers in the supply chain database



TOTAL NUMBER OF NON-AUDIT SUPPLIERS
3 829

Our non-audit supplier database increased from 1 616 in 2017-18 to 3 829 suppliers in 2018-19. The increase in B-BBEE-compliant suppliers provided greater opportunities for us to maximise our contribution to the country's transformation objectives.

Contracts awarded

As part of our business model, we outsource some of our audit work. The firms that audit on our behalf are appointed through a transparent selection process that considers the firms' size, location, expertise and quality of audit work. The appointment process incorporates the principles of transformation to develop, grow and advance black chartered accountants.

During 2018-19, R595 million was spent on core audit work by private firms. Of this, R333 million was allocated to black-owned firms, while R107 million was allocated to black women-owned firms.

- 104 firms (6 large, 17 medium and 81 small)[2]
- 1 374 contracts were awarded to those firms
- outsourced work included pre-issuance reviews, regularity audits, information systems audits and performance audits.

Further information on our support to transformation is provided in the vision and values driven chapter from pages 121 to 133.

Significant changes during the reporting period

In 2018-19, we saw a great deal of support for the AGSA from both constitutional and non-constitutional stakeholders. All were willing to see our mandate and functions strengthen significantly to initiate consequences for financial mismanagement, maladministration and serious breaches in duties.

The most significant change in our mandate is the introduction of the concept of material irregularities and the mandate to refer them to public bodies for investigation or to take remedial action where our audit recommendations have been ignored. The mandate to issue a certificate of debt in those cases where remedial action has been ignored further equips the auditor-general to ensure that there is accountability for the manner in which public resources are used. We envisage phasing in this new mandate over the next few audit cycles. Our reporting on implementing the amendments and their outcomes will be done regularly.

2. Large firm – turnover of more than R50 million
Medium firm – turnover between R10 million – R50 million
Small firm – turnover between R0 million – R10 million

CORPORATE GOVERNANCE **FRAMEWORK**

Our governance framework is defined by the Constitution and the PAA. We are reviewing our alignment to the King IV code on governance and anticipate complete implementation of the King IV code in the near future.

We conducted a gap analysis and identified amendments to the governance structure that are in the process of being institutionalised to enable the implementation of the King IV code.

SCOAG

- Provides oversight
- Ensures the AGSA's independence and impartiality
- Appoints external auditors to audit AGSA
- Recommends auditor-general's conditions of employment

REMUNERATION COMMITTEE

- Provides specialised advice to the auditor-general on remuneration and related issues. The final decision making power rests with the auditor-general
- Provides advice on the latest industry development in the remuneration framework

AUDITOR-GENERAL

AUDIT COMMITTEE

Assists the deputy auditor-general in discharging the following duties:

- Maintaining effective, efficient and transparent systems of management and control
- Maintaining an effective internal audit function

DEPUTY AUDITOR-GENERAL

QUALITY CONTROL ASSESSMENT COMMITTEE

- Oversight body that assists the auditor-general and deputy auditor-general to implement a system of quality control
- Reviewings quality control at both institutional and engagement level

EXECUTIVE COMMITTEE

- Established to assist the deputy auditor-general to manage the business and aairs of the organisation
- Chaired by the deputy auditor-general and consists of the national leader and corporate executives
- Focuses on reviewing and directing the implementation of the AGSA's business and strategic plans throughout the year. It has the power to establish subcommittees to assist it

The National Assembly established Scoag as an oversight mechanism, aligned to the provisions of section 55(2)(b)(ii) of the Constitution and section 10(3) of the PAA. Scoag's legislative mandate is to fulfil the following roles:

- Assist and protect the auditor-general to ensure their independence, impartiality, dignity and effectiveness, and to advise the National Assembly accordingly.
- Recommend to the president the conditions of employment of the auditor-general.
- Provide general oversight as required by section 55(2)(b)(ii) of the Constitution.
- Annually appoint an independent firm of external auditors.

The AGSA had a number of engagements with Scoag from 1 April 2018 to 31 March 2019. At these meetings, Scoag considered, provided guidance and reported on the AGSA's draft strategic plan and budget, and integrated annual report.

The committee held a special meeting to discuss the intensified threats to our audit teams. Strategic partners, such as the national police commissioner, were invited and committed to support us in executing our mandate.

The committee also considered the important matter of our decision to terminate our contracts with major private firms that audited on the AGSA's behalf to ensure our independence and the integrity of the audit work signed by the auditor-general.

The committee was the driving force behind the process of amending the PAA, having read numerous reports about the lack of consequences for financial misconduct and non-adherence to the PFMA and MFMA that resulted in billions in public money being wasted.

From the process initiation to holding public hearings and considering the regulations to the PAA, Scoag was instrumental in ensuring the independence and the dignity of the auditor-general.

The committee comprised the following members from various political parties:

ANC	DA	EFF	IFP	COPE
Ms NP Khunou (acting chairperson)	Mr AR McLoughlin	Ms NV Mente-Nqweniso	Mr N Singh	Ms D Carter
Ms ZS Dlamini-Dubazana	Mr B Topham (discharged 12 October 2018)			
Mr RC Adams	Mr M Shackleton (appointed 12 October 2018)			
Mr MLD Ntombela				
Ms P Bhengu-Kombe				
Mr VG Smith				
Mr TS Mpanza				

STANDING COMMITTEE ON THE AUDITOR-GENERAL (Scoag)

Section 40(1) of the PAA mandates the deputy auditor-general to establish an audit committee and appoint its members*. The audit committee does not have managerial responsibility, but gives input to the deputy auditor-general to assist her in discharging the following duties:

- Maintain effective, efficient and transparent systems of financial management, risk management and internal control
- Maintain an effective internal audit function.

The committee consists of four independent, non-executive members. The skills and competencies of committee members are aligned to their duties so that they adequately cover business, financial and risk management matters.

The audit committee met three times during the year to discuss:

- the status of internal controls and risk management at the AGSA
- the integrated annual report and financial statements
- sustainability and performance information
- the work of the internal audit function
- the appointment, independence and functioning of the external auditor, recommending the appointed external auditor to Scoag.

The audit committee's full report is presented on page 137.

** The amended PAA takes effect on 1 April 2019 and requires the auditor-general to establish the audit committee, in keeping with governance best practise.*

Knowledge, skills and competencies of the audit committee members

100%

Mr John Biesman-Simons

Rank: Chairperson

Age: 64

Qualifications: B Com, CA(SA)

Date of appointment: 2005

Experience: Mr Biesman-Simons understands auditing, having been a partner at Deloitte & Touche for 13 years. He has served in executive positions at various companies. He also serves as a non-executive director of a JSE-listed company and chairs its audit committee, and is chairperson of other private companies.

100%

Ms Carol Roskruge-Cele

Rank: Member

Age: 45

Qualifications: BSc Hons Molecular Eng; MSc Biochemical Science; MBL Governance & Leadership

Date of appointment: 2016

Experience: Ms Roskruge-Cele is a senior executive with many years of supply and value chain experience. Her leadership competence is complemented by her role as non-executive director of various companies.

100%

Ms Grathel Motau

Rank: Member

Age: 44

Qualifications: CA(SA); MPhil BCompt. Honours

Date of appointment: 2017

Experience: Ms Motau has more than 22 years of business experience in both the public and private sectors. She serves as a non-executive director, and audit committee and investment committee member of various companies.

100%*

Mr Cedrick Mampuru

Rank: Member

Age: 43

Qualifications: BCompt Hons, H Dip Taxation Law, CA(SA)

Date of appointment: 2018

Experience: Mr Mampuru is a senior executive with over 20 years' experience in debt and equity structuring, risk and financial management. He serves on a number of boards as a director, audit and investment committee member.

NB

- **Mr Mampuru** was appointed on 13 December 2018

AUDIT COMMITTEE

The quality control assessment committee (QCAC) is an oversight body that assists the auditor-general and the deputy auditor-general to fulfil their responsibilities to implement a system of quality control at the AGSA. The QCAC consists of the auditor-general, the deputy auditor-general, an external audit committee member and an external member co-opted by the auditor-general annually.

The QCAC is required to monitor the elements of the quality control system by providing reasonable assurance that the AGSA and its personnel adhere to professional standards and regulatory and legal requirements, and that the reports issued under our umbrella are in line with accepted international standards of quality.

At its meeting on 13 May 2019, the QCAC decided on the final assessment results of the audit engagements that were subject to quality control reviews in the 2018-19 performance year. Details of the results and the outcome of the monitoring on an engagement level are reported in the performance information on the system of quality control on page 80.

Knowledge, skills and competencies of the quality control assessment committee members

100%

Mr Kimi Makwetu

Rank: Chairperson

Age: 53

Qualifications: CA(SA)

Date of appointment: 2013

Experience: Kimi was a director in Deloitte's forensic unit before his appointment as deputy auditor-general. In 2013 Kimi was appointed as the current auditor-general of South Africa for a period of seven years.

100%

Ms Tsakani Maluleke

Rank: Member

Age: 44

Qualifications: CA(SA)

Date of appointment: 2014

Experience: Tsakani is a qualified chartered account (CA) with more than 20 years of experience in the private and public sectors.

100%

Mr John Biesman-Simons

Rank: Member

Age: 64

Qualifications: BCom CA(SA)

Date of appointment: 2005

Experience: Mr Biesman-Simons understands auditing well, having been a partner at Deloitte & Touche for 13 years. He has served in executive positions at various companies. He also serves as a non-executive director of a JSE-listed company and chairs its audit committee and is chairperson of other private companies.

100%

Ms Linda de Beer

Rank: Member

Age: 45

Qualifications: CA(SA), Chartered Director (SA)

Date of appointment: 2015

Experience: Ms de Beer serves on the board of a number of listed companies and their audit committees. She has extensive experience in accounting and setting auditing standards at a local and international level. She also serves on a number of financial and standard-setting committees locally and internationally.

The auditor-general 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. The remuneration committee (Remco) is established to provide specialised advice to the auditor-general on remuneration and related issues, while the final decision-making rests with the auditor-general.

During the year, the committee met twice and made recommendations to the auditor-general on the annual employee increases. It also advised our leadership on the latest industry developments regarding remuneration frameworks. An independence review is conducted annually on the remuneration and audit committees.

Knowledge, skills and competencies of the Remco members

100%

Dr Mark Bussin

Rank: Chairperson

Age: 56

Qualifications: D Com; Master Reward Specialist

Date of appointment: 2007

Experience: Dr Bussin serves on several boards, HR/remuneration and audit committees. He held global executive positions for three multinationals and was a professor at various universities.

50%

Mr Bernard Nkomo

Rank: Member

Age: 57

Qualifications: B Com

Date of appointment: 2008

Experience: Mr Nkomo has over 18 years' senior management experience in finance and HR reward management at various companies.

100%

Ms Mpuseng Tlhabane

Rank: Member

Age: 57

Qualifications: MDP, MyPDA, FLA Coach, NLP, Master HR Practitioner

Date of appointment: 2008

Experience: Ms Tlhabane has served 27 years as an HR practitioner, 15 at executive level and 4 years at her own consulting company.

50%

Ms Nazlie Samodien

Rank: Member

Age: 49

Qualifications: PDM, MDip (HR), GRP, Master Reward Specialist

Date of appointment: 2009

Experience: Ms Samodien has 10 years of generalist HR experience and over 15 years in specialist remuneration. The last 10 years have been at senior management and executive levels. She was also the president of the South African Reward Association.

The PAA gives both the auditor-general and the deputy auditor-general the authority to delegate a power or duty assigned to them to any member of staff. The executive committee (Exco) was established to assist the deputy auditor-general to manage the business and affairs of the organisation in line with the delegation of authority set out in the AGSA management approval framework (MAF).

The Exco, chaired by the deputy auditor-general, consists of the national leader for audit services and corporate executives. It meets regularly during the year and, when required, holds special meetings. The Exco focuses on reviewing and directing the implementation of our strategic plans throughout the year. It has the power to establish subcommittees to assist it.

The Exco met 14 times during the 2018-19 financial year. It dealt with implementing strategic initiatives, approved various policies and strategic documents, considered the management reports of internal and external auditors, and monitored management information for issues and trends.

Biography of the executive committee

86%

Ms Tsakani Maluleke

Rank: Chairperson

Age: 44

Qualifications: CA(SA)

Date of appointment: 2014

Experience: Tsakani is a qualified chartered account (CA) with more than 20 years of experience in the private and public sectors.

93%

Ms Alice Muller

Rank: Member

Age: 51

Qualifications: CA(SA)

Date of appointment: 2008

Experience: Alice joined the AGSA as an audit manager and moved up the ladder to corporate executive: audit, a position she has occupied since 2008.

100%

Mr Eugene Zungu*

Rank: Member

Age: 51

Qualifications: CA(SA)

Date of appointment: 2009

Experience: Eugene worked in several different industries, mainly in finance positions before joining the AGSA in February 2009 as a corporate executive. He was promoted to national leader in 2015.

100%

Ms Sibongiseni Ngoma

Rank: Member

Age: 42

Qualifications: CA(SA)

Date of appointment: 2012

Experience: Bongi served as a senior account manager and head of internal audit before joining the AGSA in 2012. She continues to serve in the role of chief financial officer.

NB

- **Mr Eugene Zungu** resigned in November 2018
- **Ms Alice Muller** was appointed as acting national leader in February 2019

EXECUTIVE COMMITTEE

Biography of the executive committee

93%

Mr Solomon Segooa

Rank: Member

Age: 43

Qualifications: CA(SA)

Date of appointment: 2014

Experience: Solomon served as an audit manager and chief financial officer prior to joining the AGSA as a corporate executive in 2014.

86%

Ms Mabatho Sedikela

Rank: Member

Age: 39

Qualifications: CA(SA); Master of Commerce Taxation

Date of appointment: 2016

Experience: Mabatho joined the AGSA as a deputy business executive. She was appointed business executive in 2011 and promoted to corporate executive in January 2016.

86%

Mr Mlungisi Mabaso

Rank: Member

Age: 50

Qualifications: Honours degree, Masters Diploma

Date of appointment: 2016

Experience: Mlungisi has 26 years of experience as a human capital professional, of which 13 have been in senior leadership roles. He joined the AGSA as chief people officer in 2016.

71%

Ms Vanuja Maharaj

Rank: Member

Age: 42

Qualifications: CA(SA)

Date of appointment: 2017

Experience: Vanuja joined the AGSA as a senior manager at the KwaZulu-Natal business unit. She has risen over the past 12 years and is now a corporate executive.

93%

Ms Sibongile Lubambo

Rank: Member

Age: 39

Qualifications: CA(SA)

Date of appointment: 2017

Experience: Sibongile joined the AGSA as a senior manager in 2009. She has moved up the AGSA leadership ladder to her current role of corporate executive.

100%

Mr Sipho Ndaba

Rank: Member

Age: 48

Qualifications: MSc

Date of appointment: 2018

Experience: Sipho has over 25 years of experience in consulting, IT and project assurance. He was the head of IT advisory and a member of KPMG advisory exco before joining AGSA as a corporate executive

100%

Mr Barry Roy Wheeler

Rank: Member

Age: 65

Qualifications: BCom, Nat Dip: State Accounts and Finance, Post-graduate: Public Administration, RGA

Date of appointment: 2008

Experience: Barry has been with the AGSA from 1 November 1973 and has served in several leadership and strategic positions. He has served on the Exco since March 2008 and headed the Specialised Audit Portfolio as corporate executive.

NB

- **Mr Barry Wheeler** retired at the end of August 2018
- **Mr Sipho Ndaba** joined the organisation in July 2018
- **Odwa Duda** has been appointed as acting corporate executive since February 2019.

EXECUTIVE COMMITTEE

Biography of the corporate executive in the auditor-general's office

Mr Jan van Schalkwyk

Age: 51

Qualifications: CA(SA)

Date of appointment: 2015

Experience: Jan joined the AGSA in 1997 and was tasked with entrenching the new trainee auditor scheme. In 2010, he became a corporate executive and in 2015 was appointed corporate executive in the auditor-general's office. He is also involved in the Intosai community and their capacity-building committee.

Corporate executive in the auditor-general's office

External charters, principles and initiatives that we subscribe to or endorse

The AGSA is an active member of Intosai and participates in several of its working groups. We host the secretariat of Afrosai-e, the regional chapter of Intosai.

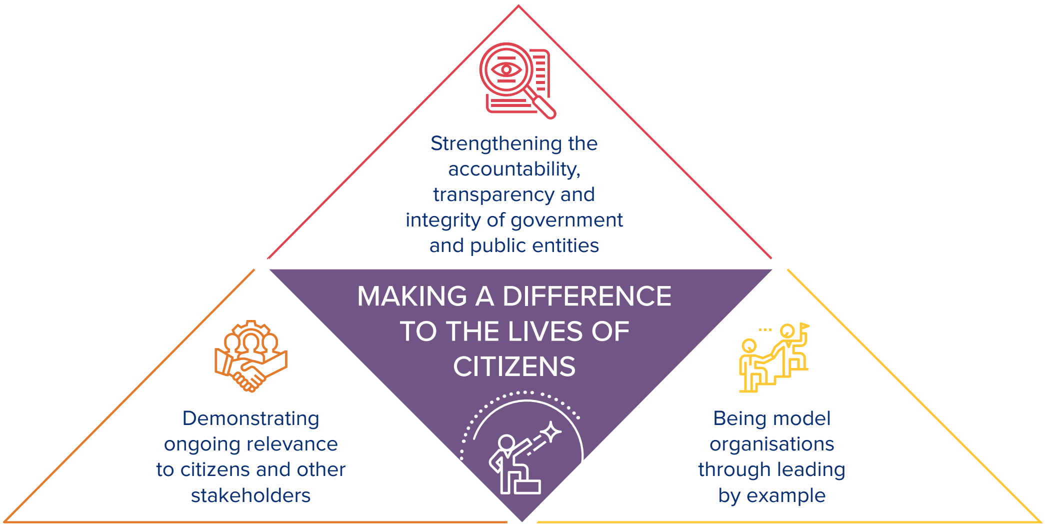
We subscribe to the following standards and principles:

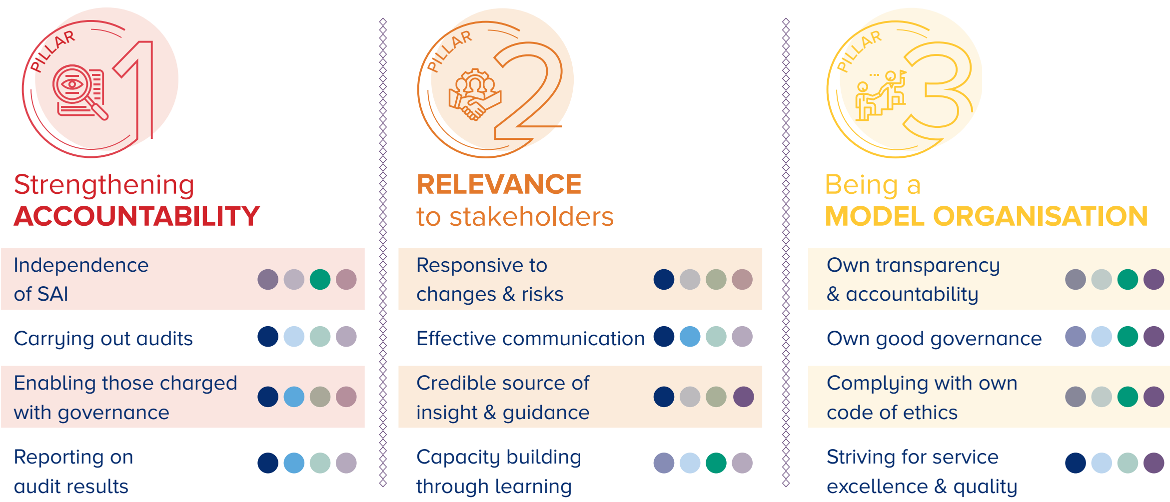
- The International Standard on Quality Control (ISQC 1)
- The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (Standards)
- The International Ethics Standards Board for Accountants (IESBA) *Code of ethics for professional accountants*
- The Intosai *Code of ethics.*

Value and benefits of supreme audit institutions

As a member of Intosai, we subscribe to the principles entrenched in the International Standards of Supreme Audit Institutions (ISSAI) 12. These standards describe how supreme audit institutions demonstrate their value and benefits to the public sector.

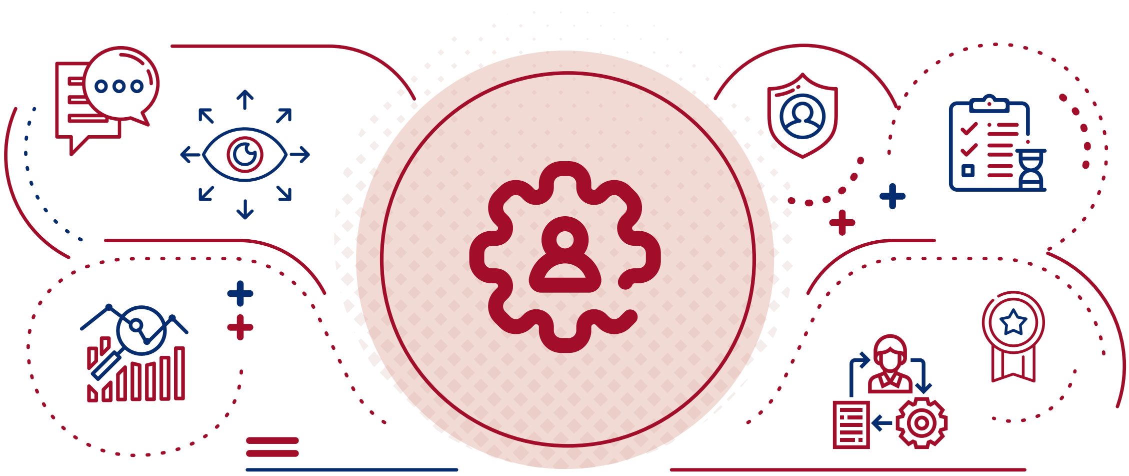
The goal of supreme audit institutions is to make a difference in the lives of ordinary citizens in their respective countries.





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

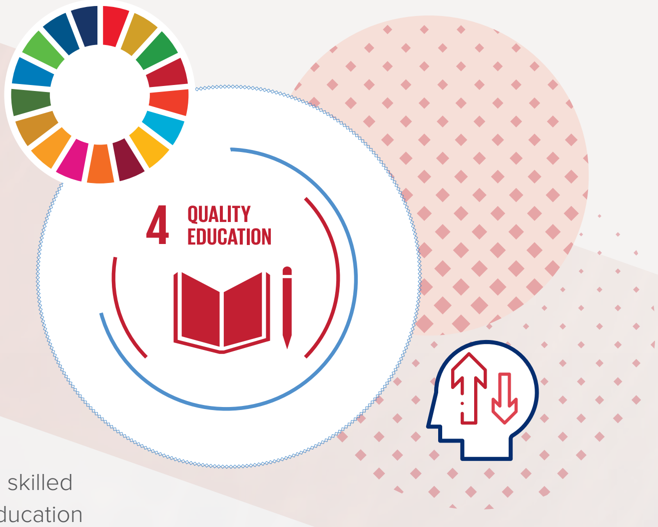
Notes



SECTION

THREE

FOCUS ON PRIORITIES



Quality education is goal 4 of the SDGs, but also helps to address the challenges of high unemployment, poverty and inequality. The NDP and MTSF also recognise that high-quality education and training will enable South Africa to build a skilled and capable workforce. This makes a well-functioning education value chain an imperative for learners and for South Africa.

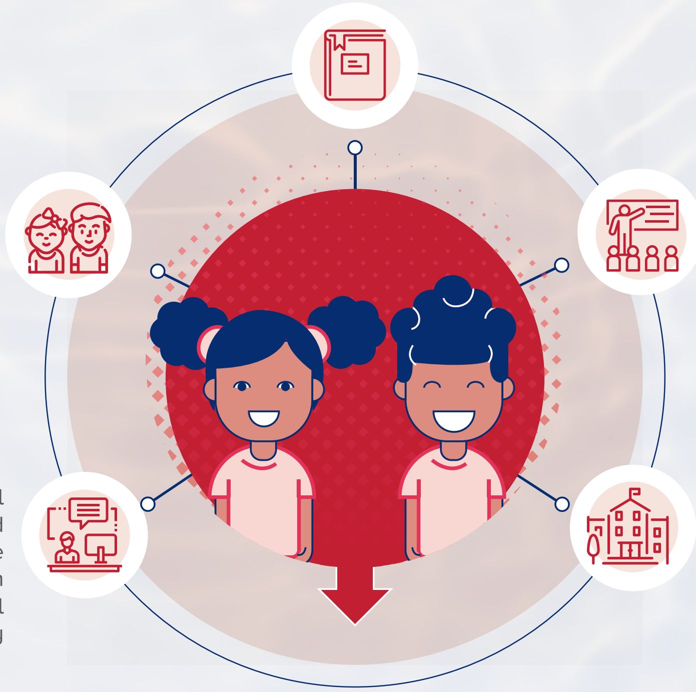
EDUCATION

VALUE CHAIN

Deficiencies in textbook retention and retrieval cause learners to share textbooks and increases the annual expenditure on textbooks unnecessarily

InIndequate Grade R provisioning does not equip learners with the prerequisite knowledge necessary for Grade 1

The content gap due to curriculum not covered places pressure on teaching and learning in subsequent grades



Inactive school management and governance processes which impacts on school functionality

Facility deficiencies results in unequal provisioning of learning and teaching and decreased funding for education provisioning

Full service schools (FSS) formal learner assessment at

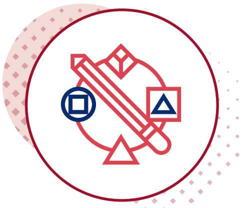
87 FSS | **21** education districts | **9** provincial education departments

Department of Basic Education

INTEGRATED ANNUAL REPORT **PROFILE**

Reporting cycle

Every year we produce an integrated annual report to account to Parliament for our performance during the previous financial year. Our reporting period is from 1 April to 31 March. The last annual report was tabled in Parliament on 28 September 2018.



Reporting approach

This integrated annual report provides a concise and balanced story of our performance from 1 April 2018 to 31 March 2019. The reporting is done against the commitments outlined in the *2018-21 Strategic plan and budget*. It also includes the financial statements and the reports of the remuneration and the audit committees.

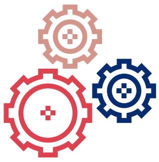
Our integrated approach to reporting is a result of the integrated thinking applied by our leadership and the executive teams to defining the imperatives for long-term, sustainable value creation for our stakeholders.

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

Reporting principles, policies and practice

The content and format of this report was informed by both the guidelines for sustainable reporting of the Global Reporting Initiative (GRI) standards 'general disclosures' version and the International Integrated Reporting <IR> framework. Therefore, this report meets the information and reporting requirements of both the IR and the GRI standards 'core' version.

The report also reflects the requirements of our governing legislation, the PAA, and the recommendations of the King IV code on corporate governance and reporting. The financial statements are prepared according to the IFRS and the PAA.



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, which have an impact on the sustainability of the organisation and the country and relate to our financial and performance management, are significant to us. We also consider our risks and opportunities to be important since they provide scenarios that the organisation may face in the future.

These material topics are defined by the Exco in the strategic commitments made to Parliament, based on our long-term strategy, which is outlined in detail in the AGSA's *2018-21 Strategic plan and budget.* The material topics were further confirmed through consultations with the corporate executives responsible for leading the various strategic goals at the end of the reporting period. No new material topics were identified in the year-end consultations.

The 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 integrated annual reports.

EXTERNAL ASSURANCE ON THIS REPORT

Organisation's policy and practice on seeking external assurance

We adhere to the principles of good governance as outlined in the King IV code. Our combined assurance model defines the various role players that provide assurance to the organisation, which includes management, internal specialists, actuaries, internal audit, the audit committee and external audit.

An independent external auditor audits our financial statements, financial management and performance information, and assures the information on the selected sustainability performance indicators as approved by the audit committee.

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 external auditor's report is on page 144 of this report.

Relationship between the organisation and the assurance providers

The external auditor is completely independent of the organisation. The firm 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 15% 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 five years (renewable once) and their appointment is reviewed every year.

The audit committee facilitates contracting the external auditor in a process that is fair, equitable, transparent, cost-effective and in line with our transformation agenda on behalf of Scoag.

The audit committee further examines the auditor's capacity and competence to provide assurance on the sustainability information, which they report on as part of the annual report to Scoag. 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 auditor-general, deputy auditor-general and the audit committee before it is published for external use.

Auditor-general and deputy auditor-general's approval

The auditor-general and the deputy auditor-general have applied themselves to ensure the integrity of the *2018-19 Integrated annual report.* They have considered the completeness of the material aspects addressed in the report, and the reliability of the reported performance information presented, based on the combined assurance process followed. Accordingly, the auditor-general and deputy auditor-general are satisfied that the *2018-19 Integrated annual report* provides a fair and balanced account of the AGSA's performance on those material matters that have been assessed as having a bearing on the AGSA's capacity to create value.

This report reflects the requirements of our governing legislation, the PAA, and has been prepared according to the GRI standards 'general disclosures' version and the IR framework. It also reflects the recommendations of the King IV code on corporate governance and reporting. The report, including the financial statements for the year ended 31 March 2019, have been approved by the auditor-general and deputy auditor-general.

Signed:

Signed:

AGSA STRATEGY

Our daily work provides value to South Africans and their elected representatives in all spheres of government. Our existence is concisely defined by our vision, mission and values.

OUR ASPIRATIONS

We want to see a South African public service that is characterised by:

- strong financial and performance management systems
- oversight and accountability
- commitment and ethical behaviour by all
- a value-adding assurance provider in the form of the AGSA.

OUR VISION

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

OUR MISSION

We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

OUR VALUES

- We value, respect and recognise all 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.

OUR FOUR STRATEGIC GOALS

Our commitments to Parliament are structured around four strategic goals.

Value-adding auditing (V1)

is aimed at providing audit-derived valuable insights to our stakeholders on the status of their internal control and performance environment, accompanied by actionable recommendations. If implemented, our recommendations will lead to visible improvements in public sector administration.

Visibility for impact (V2)

structures our stakeholder engagement programmes to effectively encourage and enable the required improvements in the public sector.

Viability (V3)

an internally focused perspective of our work ensures that we have the necessary resources: an enabling legal framework, independent financial resources, and the required skills, competencies and culture to execute our mandate economically, efficiently and effectively.

Vision and values driven (V4)

through our work and behaviour, we aim to lead by example and continually demonstrate that clean administration and transformation are achievable.

CONDITIONS UNDER WHICH WE OPERATE

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

Sluggish economic growth

For the past few years, South Africa has been persistently characterised by slow economic growth and ratings downgrades, which resulted in fiscal constraints to delivering government programmes and to revenue generation, especially at local government level. This exerted continued pressure on audit fees and in turn, we enhanced the use of resources and contained overheads in the quest to create a lean and efficient organisation. This trend and approach is expected to persist in the near to medium term.

Debt owed to the AGSA

Collecting outstanding debt predominantly from local government and SOEs remains a challenge. We envisage that this trend may increase, given the number of bailouts across the spectrum of critical service providers.

Changes in government

Changes in the country's political landscape often have an impact on the continuity and implementation of commitments made by auditees to address the root causes of poor audit outcomes. They also have an impact on stakeholder relationships built with auditees, legislatures and the executive over the years. To counter the potential to reverse the gains we have made over the years, and to remain relevant to our stakeholders, we will continue our engagement programmes and orientation for new members of leadership.

Encouraged by public statements in favour of good governance and administration made by the president, we expect that the 6th administration will take a firm stance against the misuse of public resources.

Ethical conduct in the auditing profession

The auditing profession continues to be in the spotlight following instances of unprofessional conduct by auditors in the private sector that were reported in the media. These have brought scepticism and mistrust to the auditing profession, which has reaffirmed the reputational risks faced by audit institutions and motivated us to guard our reputation zealously.

We are committed to playing our unique role on the long road to restoring the image of the profession.

The anticipated increase in the level of audit contestations resulting from our enhanced mandate may pose a risk to the behaviour of our staff. We will continue our ethics conversations using our various internal platforms and will provide strong support to our staff to maintain their ethical conduct and make the right choices.

Amendments to the Public Audit Act

We have worked tirelessly to prepare our environment for implementing our enhanced mandate. Implementing the amendments will constitute our major effort for the next few years, particularly those relating to our responsibility to identify and report on material irregularities and follow the prescribed line of action to initiate consequences for such irregularities

Complex auditing environments

The growth of our SOE audit portfolio has increased the complexity of auditing environments drastically. This exerted pressure on our resources, necessitating intensive training and learning, and improved risk management.

As we expect to take over additional schedule 2 SOE audits in the future, we are proactively and vigorously preparing for such a shift.

Increased risk of cyber-attacks and inability to protect information in such events

Cyber-attacks are on the increase globally and firms face growing threats from data breaches. These potential threats have led us to take steps to protect our information from cyber-attack.

We will intensify our information management and security measures in the next financial year.

Disruptive technologies

The emergence of new technologies such as block chains, cloud computing, cryptocurrency, propriety data audit packages, robotic process automation and machine learning has the potential to change the auditing landscape. These technologies present opportunities for the government and the AGSA.

We continue to analyse the environment for these new technologies to ensure that we are ready for them and to minimise disruption.

STRATEGIC RISKS

In fully participating in integrated risk management, our leadership has identified, measured and managed all significant risks to which the AGSA may be exposed. To mitigate these risks, they developed an all-encompassing risk profile made up of strategic, technological, operational and financial risks, among others. These efforts led to the present and future focus of our risk management.

At present, we apply a disciplined focus to managing risks based on the value of leading by example, and deploying expertise to reduce the risks to acceptable levels.

Our strategic initiatives for this performance period focused on improving and enhancing our current business activities and processes to enhance efficiencies and effectiveness and to mitigate the identified risks. Senior leaders were assigned as champions for the various initiatives to ensure a high level of ownership and accountability.

The strategic risks for the 2018-19 performance period and our response to them are as follows.

PROGRAMME 1

FINANCIAL

Risk description	Risk rationale	Key responses / mitigating activities
Negative impact on the financial viability of the AGSA as a result of pressure on revenue collected; internal as well as external costs/ factors	Macro and micro-economic factors impacting the organisation's ability to be financially viable	• Intensify and execute cost-optimisation measures • Effective debt collection efforts. Positive gains from these efforts were demonstrated by the financial indicators tracked during the year. Savings were noted from long-term contract renegotiations and applying strategic sourcing principles. Debt collections were improved by applying and implementing ring-fencing agreements and pursuing litigation against defaulting auditees. We considered the potential impact of implementing the amended PAA and will ensure that we implement the amendments in a responsible manner based on our resources.

PROGRAMME 2

CULTURE AND BEHAVIOUR

Risk description	Risk rationale	Key responses / mitigating activities
Failure to lead by example through effective ethical leadership	Ethical behaviour is a cornerstone of our reputation. We therefore intend to empower our people to behave, and be seen to be behaving, in an ethical manner	• Demonstrate an ethical posture that is appropriate to our vision and values • Be well-trained and resourced to respond to the demands of the work • Contribute towards an organisational culture that enables optimal performance. We made significant strides towards ensuring that the organisation is, and remains, an employer of choice and a model institution. Most of our initiatives to address the associated risk exposure have been implemented, with the exception of a fraud prevention management framework. A whistle-blowing mechanism was implemented on 14 June 2019 and the fraud prevention framework will be implemented by the end of the 2019-20 performance period. The organisation has strong complaints and investigation processes. Fraud, whistle-blowing and complaints are attended to when reported or identified.
Loss of credibility due to the character of the environment we operate in		
Failure to maintain key skills and personnel to enable delivering on the 4V strategy	To remain technically astute, the organisation needs to continuously provide its employees with an environment that will enable them to flourish for their own and the organisation's benefit	
Failure to embed the right organisational culture to support achieving Vision 2024		

PROGRAMME 3

AUDIT AND STAKEHOLDER

<table>
<tr><th>Risk description</th><th>Risk rationale</th><th>Key responses / mitigating activities</th></tr>
<tr><td>Audit process failure</td><td>Audit outcomes are communicated to different stakeholders. The methods assumed to arrive at the audit outcomes should be beyond reproach. This is why the organisation is meticulous about how it ensures the quality of the audit work performed</td><td rowspan="3">Audit quality remains the foundation on which our reputation is built and the trust in our audit opinions is anchored. We therefore continuously seek opportunities to improve our methods and ensure that the audit outcomes are a true reflection of the audit work undertaken.

During this performance period, a lot of work was done to give effect to the AGSA's enhanced mandate. The benefits of this work will likely be derived in future years. Since we revised the audit methodology a few years ago, our focus over the past year was on embedding the disciplines anticipated when the methodology was revised. These include auditing what matters, seamless integrated audit work by the different teams, and enhanced and proactive quality control assessments.

Although embedding the methodology may be a journey, visible benefits have been derived based on the feedback received across the organisation, particularly relating to:

• improved and deeper understanding of auditees' mandates, objectives, and financial and performance management processes
• improved use of fraud experts
• enhanced data analysis and use of computer-assisted audit techniques (CAATs), among others.

In the upcoming performance period, we will continue to implement processes aimed at preserving the quality of our audits. Some initiatives that have commenced include developing and implementing audit quality indicators, and enhanced audit tracking according to milestones. The objective is to enhance audit project management and, consequently, audit quality.</td></tr>
<tr><td>Failure to have a positive impact; be relevant to our stakeholders (misalignment between stakeholder expectation and our mandate)</td><td rowspan="2">We recognise that we have a diverse number of stakeholders with different needs. The objective of the risk is to ensure that each key stakeholder derives benefit from our interactions with them. Inversely, we achieve our objectives during those engagements</td></tr>
<tr><td>Loss of credibility due to the character of the environment we operate in</td></tr>
</table>

PROGRAMME 4

IT PROJECTS AND OPERATIONS

Risk description	Risk rationale	Key responses / mitigating activities
Inadequate IT capability to support successful delivery of the Vision 2024 strategy (infrastructure, management information and audit and process software)	Information technology is a significant enabler of effective and efficient business processes; additionally, most of the output from work undertaken across the organisation is stored in organisational databases. As a result, when framing the two risks, it was generally acknowledged that the capacity and capability of the organisation to support organisational objectives and protect its data needed to be evaluated and mitigated	In the second half of this reporting period, we gained momentum in implementing our commitments. Significantly, key vacancies at a senior manager level that were a hindrance to improving information technology processes, were filled. An information security framework is being implemented. An information technology strategy was initiated and is in the approval stages. However, some of the elements of the strategy, such as the review and redesign of the information and communication technology (ICT) operating model, are already being implemented and will be ongoing. Our ability to recover in the event of a disaster was tested and found to be sound. Additional work is required to deliver technology solutions that will enable efficiencies across the organisation.

We acknowledge that there is still work to be done to bring the organisation's risk to acceptable levels. Consequently, most risks identified for the 2018-19 performance period have been retained into the 2019-20 performance period – albeit streamlined to reflect changes in our operating environment.

For the future, we will employ a project-based risk management approach and anticipate that our risk management efforts will be directed at implementing the amended PAA and managing the associated risks. Some of these risks are focused on the following:

- The need to secure additional funding to implement our enhanced mandate. We believe that more audit work will have to be done to identify and assess material irregularities.
- The concerns about our capacity to implement our enhanced mandate. Additional resources may be needed along with legal and investigative skills to ensure that the objectives of the amendment act are realised.
- The concerns that our enhanced mandate is likely to lead to an increase in the number of contestations from auditees and increased security threats of intimidation against the auditors.

We also anticipate that some risk will endure beyond the project implementation phase. These concerns and the implications of the amended PAA have been assessed and incorporated into the 2019-20 strategic risk profile.

We are confident that our responses to known risks are appropriate. Our ability to identify and manage emerging risks hinges on the strength of our risk management capabilities, which have been assessed by independent assurance providers as adequate and effective.

Forward-looking statements

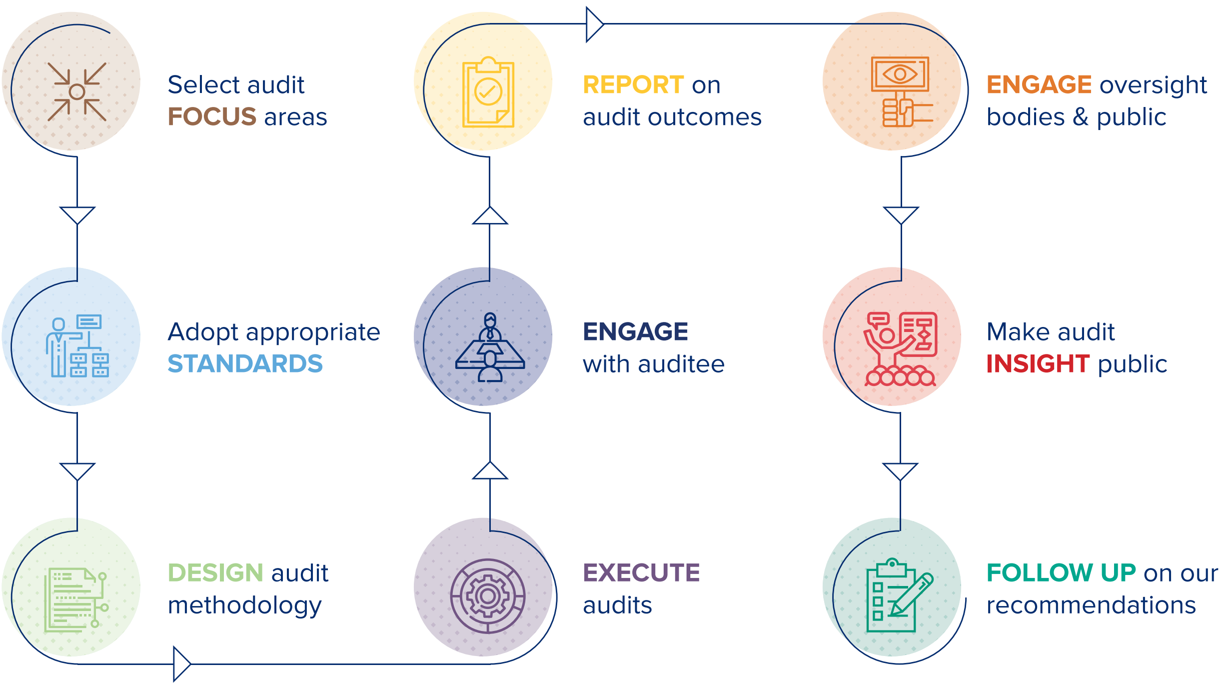
The report contains certain forward-looking statements on our financial condition, performance results and operations. They are based on our current beliefs and expectations of future events. These forecasts involve risk and uncertainty as they relate to events and depend on circumstances that occur in the future, many of which are beyond our control. There are various factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.

Feedback on our report

We welcome feedback on our integrated reporting to ensure that we continue to disclose information that is pertinent to all our stakeholders. Should you wish to provide written feedback, kindly use our email address agsa@agsa.co.za or our twitter account @AuditorGen_SA

VALUE CREATION

Value creation process



Value creation

How we add value to stakeholders

We add value to:

The people of South Africa by

- listening to the conversations in the public sector, acting in the public interest and selecting areas of audit that have a direct impact on peoples' well-being
- making public the results of our audit work, which enables people to hold their elected representatives and the custodians of public resources accountable
- being a model organisation and demonstrating that clean administration and transformation are achievable
- executing our audits in the most cost-effective, efficient and economical manner

The legislatures by

- being a credible source of relevant, independent and objective insight based on independent, professional judgement and sound analysis
- identifying themes, common findings, trends and root causes; providing audit recommendations and discussing these with relevant stakeholders who oversee and support beneficial changes in the public sector

The executive (auditees) by

- identifying instances of mismanagement and their root causes, and recommending improvements tailored to the business of the auditee
- Equipping them with value-adding understanding about the status of their financial and performance management systems.

The auditing and accounting professions by

- allocating contract audit work
- building skilled and qualified professionals
- creating a pipeline of black chartered accountants (CAs) to transform the profession and economically empower black audit firms

Our employees by

- creating meaningful employment and career development opportunities
- providing fair, transparent, market-related and equitable remuneration and benefits

OUR BUSINESS CAPITALS

Financial - The funds we collect from our audits

As a non-profit organisation we generate a small sustainability margin to sustain our operations and remain independent. Our financial capital will not increase as we strive to reduce costs for our auditees. We continue to improve our financial capital through the limit on headcount growth and other cost containment and reduction measures. The main threat to our financial viability remains the increasing debt by local government auditees.

Intellectual - Our knowledge and experience

Our intellectual capital is the basis of our value proposition. We improve it continually to increase the value that we deliver to auditees in the form of insights and recommendations for improvement. We also continue improving this capital with the aim of deriving audit efficiencies and reducing audit hours where possible.

Manufactured - Human-created, production orientated equipment and tools

Our manufactured capital is minimal so that we do the most with the least use of public funds. It covers our needs for office accommodation, tools of trade and transportation.

Human - Our staff's skills, knowledge, capabilities and experience and our culture

We develop our human capital and have the largest trainee auditor scheme in the country. We focus on professionalism and qualifying black CAs to support transformation. People development and performance management contribute to us achieving our strategic goals. We also support selected universities and the Thuthuka bursary fund, which feed into our trainee auditor scheme.

Social - Our relationships with: auditees, oversight bodies

While our knowledge, experience and quality of audits are the basis of insights and recommendations for improvement, our engagements with auditees and various stakeholders allow us to communicate our messages and encourage actions for improvement. Our engagements are focused on influencing change and obtaining the best return on investment in the form of timely and effective corrective actions by auditees.

Environmental - Our impact on natural systems including land, air and water

Due to the nature of our work, our everyday impact on the environment is limited to the use of natural resources for our daily human needs. Our travel to and from auditees and other stakeholder engagements can increase our carbon footprint as we burn fossil fuels for transportation. Measures such as video conferencing, carpooling, prioritising engagements and using existing engagement platforms in the public sector are used to reduce the carbon emissions linked to our work.

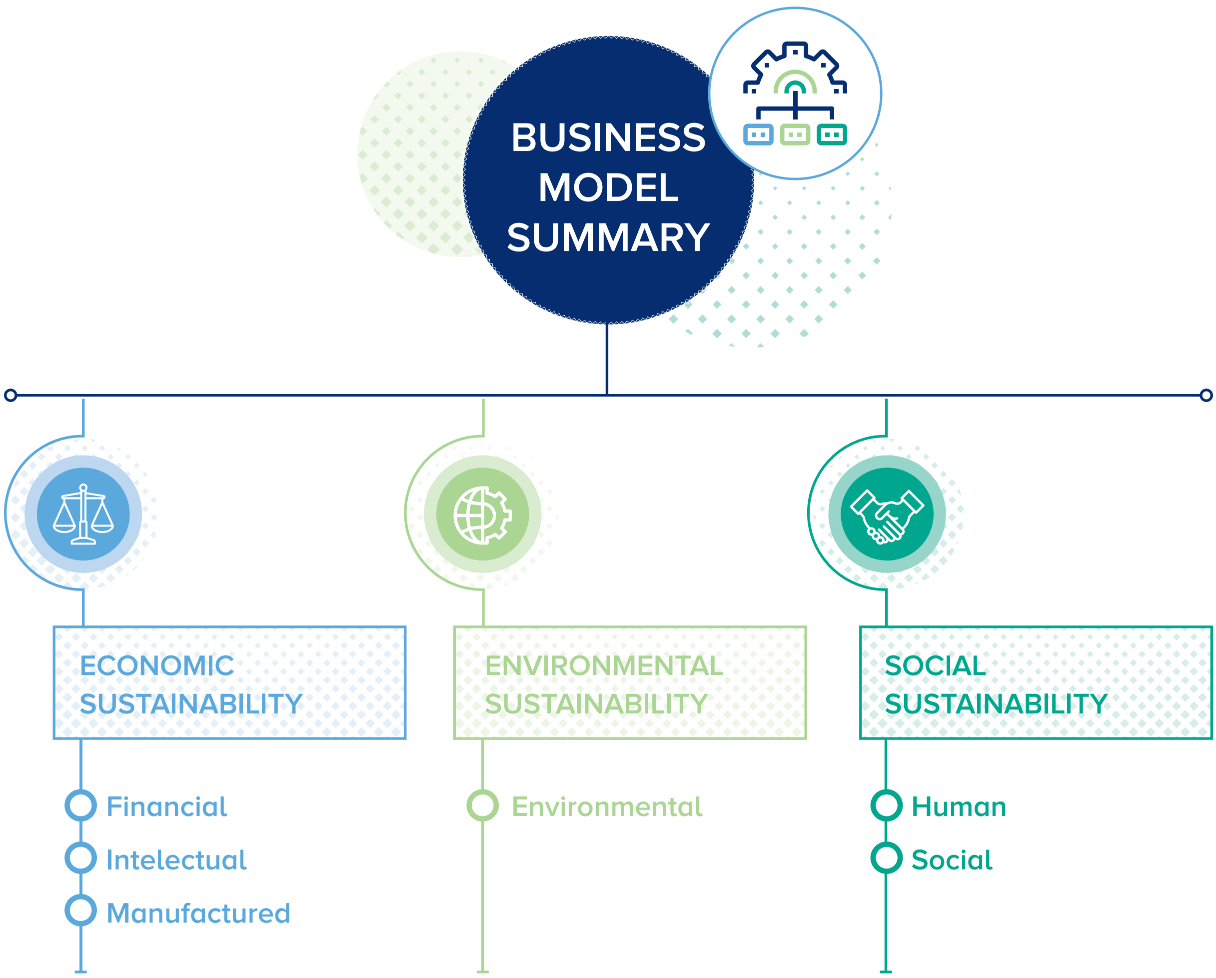
BUSINESS MODEL

We generate revenue by charging our auditees for the work required to complete an audit, based on a publicly available, transparent, annually revised structure of audit fees. A defined percentage of profit, or our sustainability margin, is used to maintain our operations.

Section 38(4) of the PAA authorises the AGSA to retain the surplus, or a portion of it, following consultation with the National Treasury and after approval by Scoag. The surplus is used to ensure the sustainability of the organisation; i.e. when approved we use this surplus to fund our infrastructure (capital) expenditure and for working capital requirements. Any portion of the surplus not approved for retention by Scoag is paid into the National Revenue Fund.

Our business model is geared towards generating value. We use inputs in the form of capitals and transform them, through business processes and activities, to produce outputs and outcomes that, over the short, medium and long term, create value for the organisation, its stakeholders, society and the environment.

The term 'capital' used in the integrated reporting framework refers broadly to any store of value that we use in delivering our mandate. We depend on the various forms of capital for our success. Their availability, quality and affordability can affect our long-term viability and, therefore, our ability to create value. They must be maintained if we are to continue creating value in the future.



BUSINESS MODEL

FINANCIAL

- Surplus R67 million
- Prior investments to the value of R853 million (reserves) and interest accrued on the Investments
- Debt owed to the AGSA of R650 million
- Received R196 million from the National treasury in lieu of long-outstanding debts of financially distressed municipalities.
- Cumulative collections from ring-fencing agreements – R274 million (cumulatively since inception)
- Cumulative collections from litigation – R244 million (cumulatively since inception)
- R355 million - balance in the current account
- Net savings of R12 million (attributed to strategic sourcing (e.g. ICT contracts and lease renegotiations); a moratorium on headcount and the decrease in outsourced services)
- Cash balance of R664 million translating into a safety margin of 2,14 months

- Surplus R71 million
- R101 million in own hours' income from pooling of resources
- Investments to the value of R908 million
- Increase in debtors. Total debtors worth R744 million
- Received R98 million from the National treasury in lieu of long-outstanding debts of financially distressed municipalities.
- Cumulative Collections from ring-fencing agreements increased – R338 million (cumulatively since inception)
- Cumulative collections from litigation increased – R404 million (cumulatively since inception)
- Current account balance. R233 million in the current account
- Cost control and expenditure rationalisation resulted in the net savings of R40 million
- Increased cash balance of R723 million translating into a better safety margin of 2,7 months

- Maintained financial viability and independence
- Increased own hours revenue

INTELECTUAL

- Audit methodologies, include working papers on all types of audit
- Audit process
- System of quality control
- Audit technical guidance material
- Funding model specifically designed for the AGSA
- Technical expertise:
  - knowledge of the public sector
  - CAATS scripts
  - ISA, Investigations and Performance audit skills
  - stakeholder relationships management process
  - ethics registers, processes, complaints process

- Audit methodologies, incl. working paperson all types of audit, including the MIs
- Audit process which includes the identification of MIs
- PAA Regulations
- MI policy and MI manual
- MI technical training curriculum
- 1 063 audit reports issued
- Two general reports issued
- Audit technical guidance including that on the MI process
- Audit technical guidance material
- Technical expertise:
  - increase in technical expertise and knowledge of the public sector, standards and laws
  - MI engagements content
  - improved CAATs scripts
  - improved ISA, Investigations and Performance audit skills
  - improved trend analyses and insight
  - safeguards on ethical breaches
- Resource pooling process and procedures
- Whistle blowing mechanism

- Increased understanding of the auditee environment and increased ability to provide better recommendations for improvements to auditees and better insights to oversight structures
- Audit efficiencies and reduced unbilled hours
- Commitment to addressing our findings and actionable recommendations highlighted in our reports

MANUFACTURED

- Leased offices in all nine provinces and our head office in Pretoria
- Property, plant and equipment of R109 million
- Stabilised our audit computer software - TeamMate version R11.0
- Implemented various ERP enhancements as per the organisation's priorities

- All our offices have remained unchanged
- Property, plant and equipment of R103 million
- Optimised TeamMate R11.0
- Implemented various ERP enhancements as per the organisation's priorities

- Effective and efficient management of our operations
- Improved and streamlined business processes and strengthened the protection of information

FINANCIAL SUSTAINABILITY ENVIRONMENTAL SUSTAINABILITY SOCIAL SUSTAINABILITY

ENVIRONMENTAL

- Our use of natural resources - land, air, water, trees (paper), energy
- Total carbon emissions - 44 296,6 CO_2e

- Reduced carbon emissions - to 14 456,25CO_2e

- Knowledge of our carbon footprint and a conscious effort to increase staff awareness of our impact on the environment

HUMAN

- **Diverse, skilled, capacitated** and **motivated workforce** of 3 459
- **High absorption rate** of qualified CAs(SA) from our TA scheme
- A pipeline of **1 251 trainee auditors**
- **150 students passed** APC exams
- **Registered audit professionals:** CA(SA) – 622, RGA – 436, CISA – 81, ACCA – 45
- **HR policies,** frameworks and processes
- **Staff engagement** survey results
- **Accountable** and **ethical leaders**
- **Suppliers:** 102 contract work firms and 1 616 general suppliers
- **130 academic** and **75 Thuthuka bursary holders**
- **Recruited** 217 trainees with CTA

- **Diverse, skilled, capacitated** and **motivated workforce** of 3 556
- **High absorption rate** of qualified CAs(SA) from our TA scheme
- A pipeline of **1 344 trainee auditors**
- **111 students passed** APC exams
- **Increased number of registered audit professionals:** CA(SA) – 633, RGA – 467, CISA – 85, ACCA – 42
- **Accountable** and **ethical leaders** (Introduced the leadership development programmes such as LDP and EDP)
- **Increased suppliers:** 104 contract work firms and 3 829 general suppliers
- **131 academic** and **230 Thuthuka bursary holders**
- **Recruited** 235 trainees with CTA

- **Retained and developed** a competent and ethical workforce that enabled the effective execution of our mandate
- **Increased our contribution** to the accounting and auditing profession 1 009 CAs(SA) have qualified through our training programme
- **Maintained leadership** and trainee auditor pipelines to ensure organisational continuity
- **Sustainable suppliers** database

SOCIAL

- **Brand reputation**
- **Respect** for our work
- **Maintained our position** within the top 20 (#13) most attractive employers in the Universum employer of choice survey (2017-18 survey results)
- **Relationships** with stakeholders
- **Level 2 B-BBEE** contributor status

- **Increased our brand reputation** with our dissemination drive for general report messages and introducing the PAA
- **Respect** for our work
- **Maintained our position** within the top 20 (#16) most attractive employers in the Universum employer of choice survey (2018-19 survey results)
- **Voted the Most exciting employer** to work for by students at the Wits Accounting Career Fair 2019
- **Improved and evolved** relationships with stakeholders
- **Achieved level 1 B-BBEE** contributor status

- **Enabled** our **stakeholders** to better execute their mandates
- **Assisted parliament committees** in their oversight roles
- Increased **citizens' understanding** of our mandate
- Increased our **stakeholders' understanding** of the PAA amendments and the value we seek to provide
- **Maintained the attractiveness** of the brand to ensure access to desired resources
- **Increased contribution** to the **transformation agenda** of the country

BUSINESS INPUTS

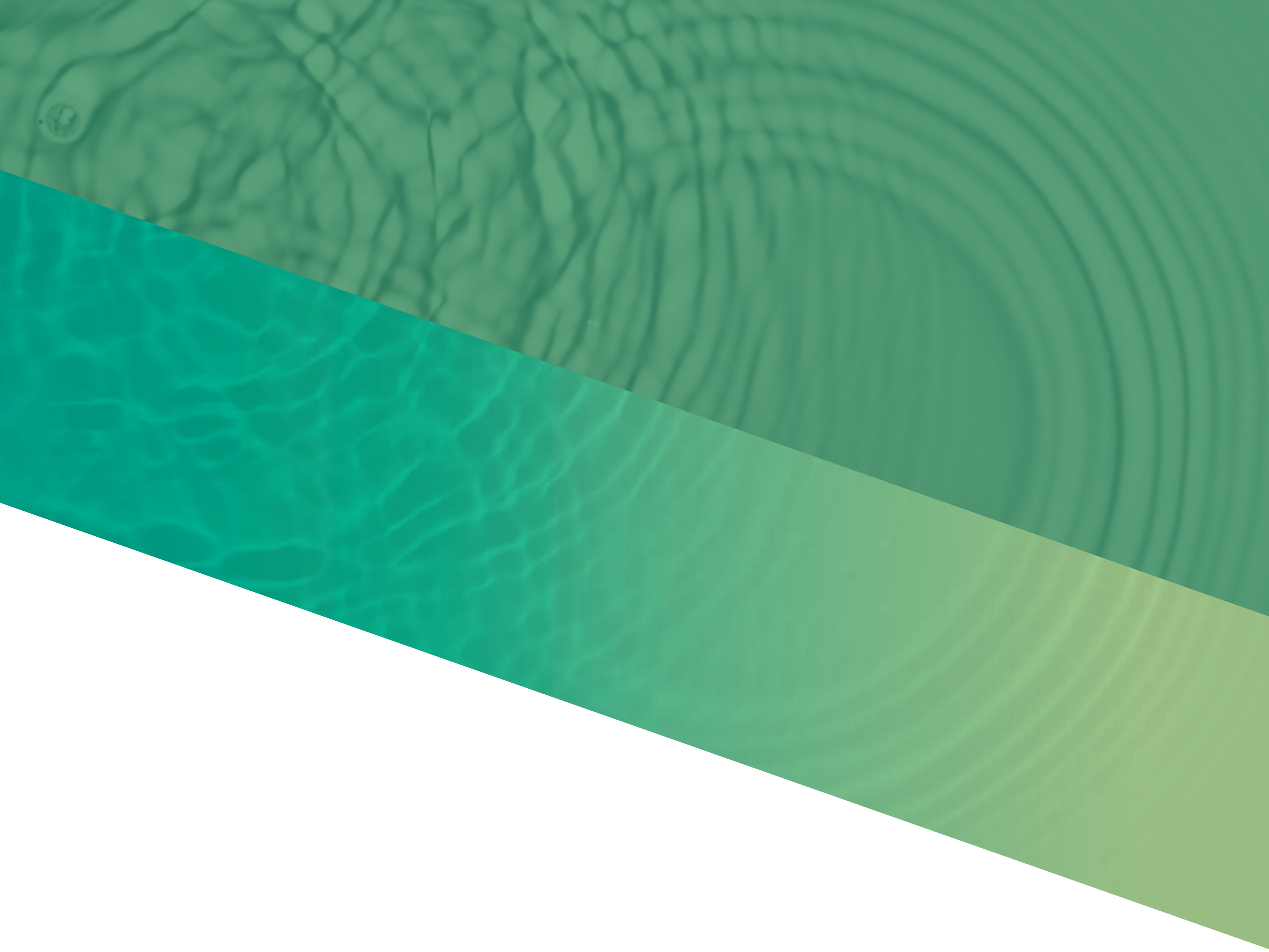
BUSINESS OUTPUTS

BUSINESS OUTCOME

INPUT	PROCESSES	OUTPUT
is the status of a capital at the beginning of the financial year	are the methods that we use to ensure that the input of each capital yields the desired output	is the status of that capital at the end of the financial year
PRIMARY PROCESSES	SECONDARY PROCESSES	MANAGEMENT CONTROL
• Auditing organisations and entities funded by public money using the following tools: - audit methodology - audit planning - audit execution - audit reporting - quality control over audit processes and products • Training of professional auditors	• Communication with stakeholders • Stakeholders relations management • Human resource management • Legal • Information technology management • Information and records management	• Strategy management • Risk management • Governance • Ethics management • Policy management • Transformation management

Carbon footprint

Environmental indicator	Dimension	Carbon factor	Resource usage	GHG emissions (Metric tonnes C02-e) add totals
Water usage				
Energy used for water purification and supply	MWh electricity per Ml	0,64		
GHG emissions per Ml water supplied	metric tonne CO2-e	0,631798	25 228,70	159,39
Electricity usage				
GHG emissions per MWh electricity used	metric tonne CO2-e	0,987185	6 942,24	68,53
Paper usage				
GHG emissions per metric tonne paper produced	metric tonne CO2-e	1,854410	176,96	3,28
Road travel				
GHG emissions per litre diesel used	metric tonne CO2-e	0,002669144	37 084 940,00	989,85
GHG emissions per litre petrol used	metric tonne CO2-e	0,002299903	193 215 456,00	4 443,77
Estimated average fuel use (diesel)	km/l	12,0		
Estimated average fuel use (petrol)	km/l	12,0		
GHG emissions per litre diesel produced	metric tonne CO2-e	0,0005785		
GHG emissions per litre petrol produced	metric tonne CO2-e	0,0004504		
Flights				
GHG emissions per km of short haul/ domestic passengers flight (<425 km)	kg CO2-e	0,29316	348 225,64	1 020,86
GHG emissions per km of medium haul/regional passengers flight (425-1 600 km)	kg CO2-e	0,16625	4 212 685,69	7 003,59
GHG emissions per km of long haul/ international passengers flight (>1 600 km)	kg CO2-e	0,21022	364 844,77	766,98
Total CO2-e				**14 456,25**



SECTION

FOUR

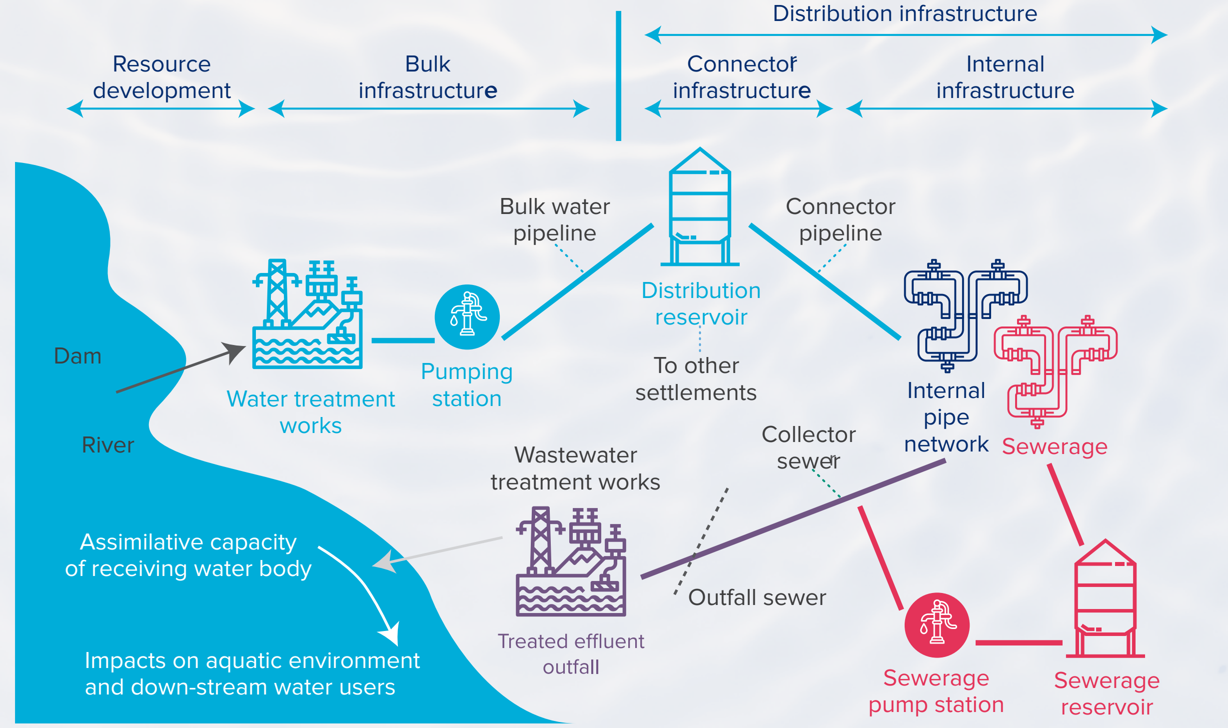
Performance against predetermined objectives

FOCUS ON PRIORITIES

Section 27 of the Constitution of the Republic of South Africa, 1996 states that everyone has the right to water. To provide water to all the households in South Africa the value chain relies on numerous role players, on different levels of government, to fulfil their responsibilities. These responsibilities include planning, implementing, operating, maintaining and decommissioning or refurbishing infrastructure.

Effective coordination between the various role players in the infrastructure delivery process is very important. The key functions are resource development, bulk infrastructure delivery, connector infrastructure delivery and internal reticulation. In order to complete the value chain, the internal reticulation to the bulk sewer infrastructure delivery system, and back to the source is also very important.

WATER & SANITATION VALUE CHAIN



PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

VALUE-ADDING AUDITING (V1)

Financial and performance management in the public sector

Our principal legislation requires us to annually audit and report on the quality of our auditees' financial statements, performance reports and compliance with key legislation.

Our interventions go beyond the basics of auditing and the reporting role of the auditor. Through our management, audit and general reports, we report on weaknesses in internal controls and identify risks that need the attention of our auditees.

We provide the root causes of the audit findings and make recommendations to address them. To ensure that our messages are heard, we highlight them in engagements with senior officials, accounting officers and authorities, the executives and premiers as well as portfolio and public accounts committees.

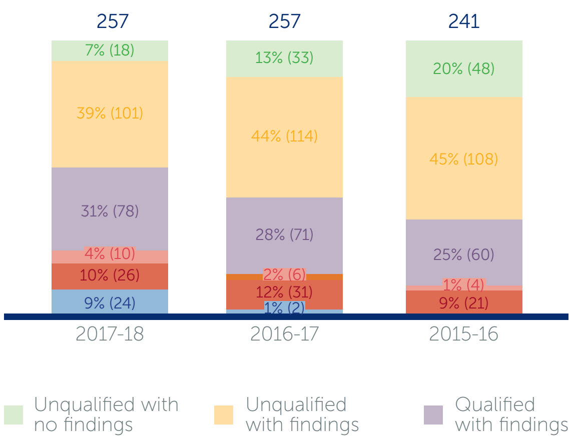
For the second year, we have also engaged with accounting officers through our SoRR initiative to increase their accountability and empower them to correct areas of concern prior to the audit process, where possible.

Overall, the audit outcomes have regressed and various role players have been slow to implement our recommendations. This resulted in a continuous state of public resource mismanagement. A number of risks have been highlighted through the years.

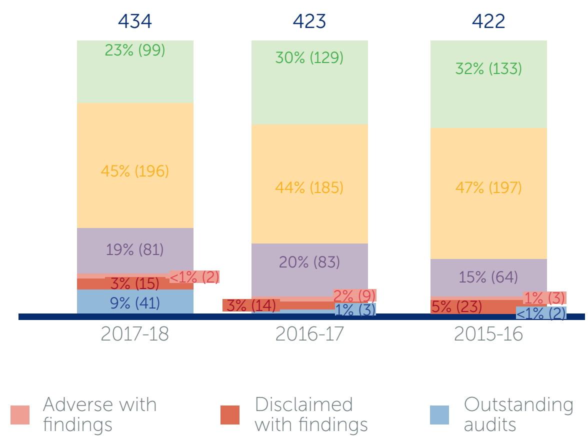
2017-18 audit outcomes

For the 2017-18 audit cycle, departments, public entities and municipalities regressed in their audit outcomes, as illustrated in the graphs below. Irregular expenditure remained high, non-compliance with SCM legislation continued to increase, and auditees' financial health deteriorated overall.

The general reports for 2017-18 provided insight to these audit outcomes. We are concerned that accountability continued to deteriorate in local government, some departments and public entities. The deterioration had a negative effect on delivering key government programmes in education, health and infrastructure, and at municipalities, which all have an impact on citizens.



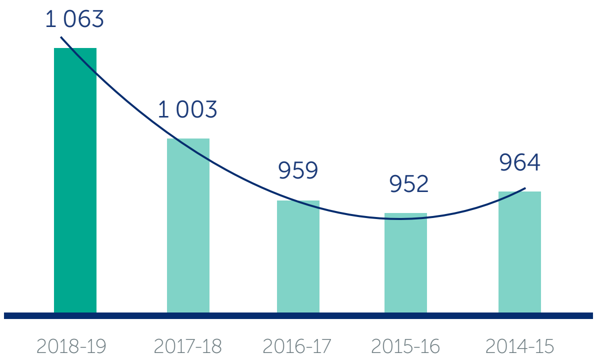
Local government audit outcomes (MFMA)



National and provincial government audit outcomes (PFMA)

Timeliness of our audits

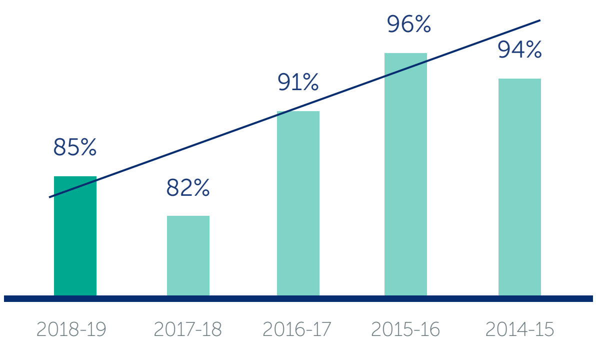
Our audit portfolio continued to grow during the past cycle. We undertook 1 063 audits, which included those that we took back after suspending our audit mandate with Nkonki and KPMG.



Increase in the number of audits

We rely on our auditees submitting their financial statements by their legislated deadline to complete our audits within the legislated timelines. Where we received the approved financial statements on time, we completed 91% of our audits within the legislative timelines, in line with our targets.

However, where the financial statements were submitted late, the pressure on the audit process and the ripple effect on other milestones had the impact of reducing our overall rate of completion to 85% within the legislated time frame.



Timeliness of audits

The late sign-off of audit reports has become a trend in PFMA cycles over the past two years. In 2017 and 2018, the general report team was forced to move its cut-off date from 15 August to 31 August for major departments, and to 30 September 2018 for major SOEs, to ensure that we were still able to report on them.

A high number of audits were outstanding by our deadlines for the 2017-18 MFMA audit cycle. Reasons for the delays included contestations of unfavourable audit outcomes and service delivery protests that interrupted our audit process.

Audits that were not finalised on time placed excessive pressure on our staff and required significant overtime.

While we deal with these external challenges to finalising our audit reports on time, we also have to address the internal challenges that hinder our punctuality. The focus for 2018-19 was on enhancing our project management processes and centrally tracking our audits against a new set of audit milestones. We expect that our initiatives to control the timeliness of audits will also have a positive impact on our audit quality.

Audit contestations

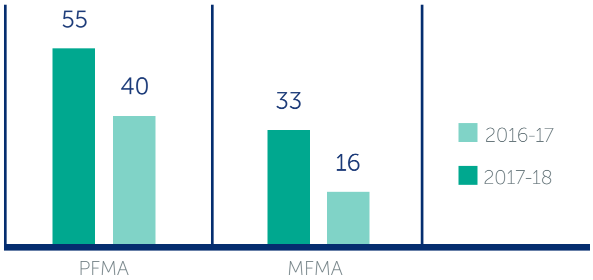
Across the provincial, national and local government (PFMA and MFMA) cycles, the data indicates a trend of increasing audit contestations that can be intimidatory and have an impact on the efficiency of the audit process.

The 55 contestations during the 2017 18 PFMA audit cycle and 33 contestations in the 2017-18 MFMA audit cycle, mainly related to the:

- potential regression of audit outcomes (particularly in the event of losing the 'clean audit' status)
- disagreements or rejections of audit findings or technical consultations
- expectations of a clean audit not materialising (where the auditee has implemented mechanisms to reach a clean audit status, but still does not achieve one)
- recurrence of the previous year's qualifications.

Some officials tried to intimidate the audit teams into changing their audit findings.

Our proactive approach, consisting of reporting potential contestations early and an escalation protocol for dealing with contestations against the audit outcomes, assisted our audit teams to proceed with the audit wok despite the adverse conditions.



Increased level of audit contestation

Two matters stemming from contestations developed into challenges before the court. We will continue to monitor these developments to ascertain whether we develop a trend of auditees interfering with our mandate, especially considering our enhanced mandate.

Threats and intimidation facing our staff

Our people are the heart of all our operations and we take a firm stand against any form of threat and intimidation directed at any of our employees.

Serious incidents during the year ranged from death threats against our staff at the eThekwini Metro, the hostage incident at the Tshwane Metro and an auditor being shot at during the Emfuleni Local Municipality audit, although in the last case the matter is still under investigation to determine whether the shooting was connected to the audit.

In all instances, we acted immediately to ensure the safety of our staff. Our leadership escalated these incidents to the leadership of the national law enforcement agencies and Parliament. Where we assessed it to be necessary, we withdrew our audit teams from those environments while we engaged with law enforcement agencies at national and provincial levels. These conditions had an impact on our ability to finalise certain audits on time.

Although not directed at us, a number of audit teams found themselves in the midst of protest actions, especially during the MFMA audit cycle, which disrupted the finalisation of some audits.

We have put together a task team and a comprehensive action plan to ensure that all possible precautionary measures are in place to safeguard our staff.

Major value-adding initiatives and their outcomes

We believe that we mainly add value to our stakeholders by auditing and reporting on what matters. As in previous years, we selected the health and education sectors as vital to the wellbeing of the South African people. We audited various service delivery programmes in addition to the mandatory audits. For each of these focus areas, we provided insight to some of the primary root causes for the deficiencies, demonstrated the impact of the identified weaknesses and provided recommendations for improvements to all stakeholders. Most of our stakeholders appreciated our recommendations and included some of them in their action plans.

The insight and recommendations from the 2017-18 sector audits will be published in the health and education sector reports.

We continued to apply our value chain approach, which provides a view of the performance of an auditee from the inception to implementation of a programme or project. The success of the approach used for health, education and water infrastructure (at metros) in the previous year, encouraged us to further refine and apply it in the 2017-18 audits of the following key government programmes:

- Water infrastructure development by the Department of Water and Sanitation
- Expanded public works programme coordinated by the Department of Public Works
- Housing development finance by the Department of Human Settlements.

Our findings showed that all three programmes performed inadequately, which had a negative impact on service delivery.

The inadequate performance was caused by four basic failures:

- poor project planning
- poor project and financial management
- poor monitoring of projects and grants
- a lack of corrective action to address project failures and SCM irregularities.

The detailed findings on managing and delivering these key programmes were included in our 2017-18 PFMA consolidated general report on national and provincial audit outcomes.

Integrated audits

Improving the integration of the various audit disciplines within the organisation has been a focal point for a number of years. During the 2017-18 PFMA and MFMA audit cycles, we continued to increase our levels of integration maturity with integrated audit teams comprising regularity auditors and SAS. SAS comprises specialists from Information Systems Auditing (ISA), Investigations (IBU) and Performance Auditing (PABU). Our teams have collaborated holistically to audit more efficiently and provide improved value to our auditees.

In some instances, the increased work by SAS was a result of assessments of increased risk at the auditee. At low-risk auditees, integration resulted in a transfer of skills to regularity auditors.

Some of the key highlights of successful SAS integration are detailed below:

Our **IBU** team provided an overall understanding of our auditee's spending in line with their mandate, and an analysis of payment and other data that identified potential areas of fraud risks. This contributed to efficient auditing as it streamlined the audit sample selection to focus on high-risk expenditure and SCM processes.

IBU worked on 289 audits and supported regularity auditors with:

- 61 fraud risk engagements
- 159 fraud risk detection analysis
- 69 reviews of high-risk SCM contracts.

IBU	PFMA		MFMA	
	2017 - 18	2016 - 17	2017 - 18	2016 - 17
Fraud risk detection analysis	90	79	69	52
High-risk SCM contracts	44	28	25	20
Fraud risk engagements	41	51	20	29

Our ISA teams provided assurance on the security, reliability and availability of IT systems and data to allow the regularity auditors to rely on IT controls. The use of CAATs extended the size of our audit samples in many relevant audits, which strengthened the quality of our audit opinion.

ISA contributed with:

- general control reviews, specifically those that evaluated the internal controls at entity level
- business process reviews
- specialised CAATs
- network security reviews on auditees with levels 2 and 3 risk.

Our ISA team also executed 112 data migration assignments. These assisted regularity auditors to determine the completeness and accuracy of the opening balances of the financial statements at the time of migration.

The outcome of some assignments positively influenced the audit approach on the transversal system environment.

ISA	PFMA		MFMA	
	2017 - 18	2016 - 17	2017 - 18	2016 - 17
General control reviews	231	238	83	84
Network security audits	64	58	12	9
Business process reviews	72	73	7	6
CAATs	487	503	226	302

Performance Auditing specialists allow us to develop a deeper level of understanding of the challenges affecting service delivery.

They were involved:

- at 85 auditees (during PFMA 2017-18)
- in 243 projects at 78 municipalities (during MFMA 2017-18).

Their focus areas were in line with our five-year performance audit plan, which is aligned to our strategic plan, the sustainable development goals (SDGs), the estimates of national expenditure and topics covered in the 2018 State of the nation address. The PFMA focus was on:

- health (record keeping and storage of pharmaceuticals, emergency medical services, and managing and maintaining infrastructure)
- education (school management, early childhood and skills development)
- infrastructure (water and sanitation, human settlements, health and education)
- safety and security (integrated justice system).

During the MFMA audit cycle, PABU was involved in the water, sanitation and roads infrastructure, recreational and sport facilities, bus transport, and electricity audits.

The insight gained through our specialists' participation was reflected in the respective management and audit reports to enable improvements to be tracked. Building adequate capacity in SAS to derive the maximum benefits from integration is a focus area for our leadership. This is especially important considering the increased demand for SAS insight and the take back of more complex schedule 2 SOE audits. Structured recruitment and training processes are in place to alleviate capacity constraints.

PABU	2017 - 18	2016 - 17
Health	10	10
Education	11	11
Infrastructure	22	30
Other	32	18
MFMA	83	94
Total	**158**	**163**

Stand-alone audits

Investigations
During 2018-19, three stand-alone investigations were conducted into:

- mismanagement of, or irregularities in, incentive schemes at the **Department of Small Business Development**
- payment and tender irregularities at the **Community Services Ombud Scheme**
- procurement irregularities in the Ramkraal project at the **Free State Legislature.**

The draft management report was issued for the Ramkraal project. Outstanding management responses delayed the publication of the report.

The management reports for the Community Services Ombud Scheme and the Department of Small Business Development were finalised. The public reports will be tabled in Parliament during the 2019-20 reporting period.

Performance Auditing
Immigration in South Africa, as in the rest of the world, remains a key issue. Undocumented immigrants entering and residing in the country have a direct impact on the country's resources, including health, education and employment.

We followed up on a 2007 performance audit of the **immigration process** at the **Department of Home Affairs** focusing on whether the previous findings still exist. The audit was conducted using a value chain approach and highlighted a number of critical areas that affected economical procurement and efficient and effective service delivery.

We held constructive dialogues with the department's management, the executive authority and relevant independent bodies including the Standing Committee for Refugee Affairs[3] and the Refugee Appeal Board[4].

This led the department's management to commit to addressing our findings and implementing recommendations. The public report will be tabled during the 2019-20 performance year.

Value adding auditing objective 1: Demonstrate value-adding auditing

Performance measure

% implementation of actions to improve our stakeholders' perception on our added value

2018-19 Target	2018-19 Actual
80% - 100% of the actions for the financial year	100%

Close gaps identified in the 2017-18 stakeholder feedback

We implemented all the planned actions aimed at closing the gaps identified by the oversight portfolio committees at the legislatures and the national coordinating ministries.

At a national level, we used the 2018 budget review and recommendations reports (BRRR) sessions to address the gaps previously identified at this platform. Teams took the opportunity to improve their presentation skills, simplify our messages and provide the requested detailed information.

Our provincial business units used existing platforms such as the annual report hearings in the provinces, audit committee meetings, engagement platforms and quarterly discussions with identified stakeholders to close the identified gaps.

As part of our endeavour to add value to our stakeholders we continue to solicit their feedback, whether through formal surveys or via existing feedback processes.

3 The Standing Committee for Refugee Affairs adjudicates asylum applications for certification. In addition, in most cases, before deciding on an application, the committee requests the initial asylum file from the Department of Home Affairs.
4 The Refugee Appeal Board determines appeals lodged against decisions rejecting claims for refugee status.

Develop deep knowledge of auditees and add value to stakeholders

Continually refine our audit methodology

We continued to monitor the impact of our revised audit methodology, which was implemented in all audits for the 2017-18 audit cycle. During the year, we closed the gaps by implementing and monitoring action plans for each audit unit and providing specific training interventions. We specifically monitored embedding major changes to the methodology and improved the audit guidance based on feedback from the audit teams. During the period, our teams noted the following improvements:

- Enhanced knowledge of the auditee, to identify and respond to risks and to focus on what matters.
- Applied risk assessments and response options/ processes, to optimise audit hours and resources.
- Integrated planning, execution and reporting of the financial audit, audit of predetermined objectives (AoPO) and compliance audit.

Intensifying the use CAATs

We continued to identify ways of fully embedding CAATs in every audit engagement. In most instances, the result was increased operational efficiencies and reduced audit risk with a higher quality audit.

The transversal standardised data downloads for the Munsoft system used by a majority of municipalities allowed us to use CAATs more effectively for the 2018-19 MFMA audit cycle.

- At Postbank we saved 40% in the audit fee for the same work.

- At Denel, for the newly taken back audit, we designed substantive analytics to assure assets valuation, specifically the fully automated costing of stock.

- On high-risk audits such as Sanral and SAA, the high volume of transactions and automated computer environment meant that sampling would not suffice for revenue recognition. This enabled us to test the total audit population for completeness and accuracy.

- For SCM, re-evaluating controversial exceptions and adapting tests to reduce false positives.

- For prominent supplier analysis, which formed the cornerstone of determining the transversal fraud indicators for planning the 2018-19 PFMA audit cycle.

Audit analytics is more effective when delivered by an integrated team that co-develops the audit objectives, scope, risks and approaches for regularity audits, and jointly participates in walk-throughs. We are making substantial progress in achieving buy-in from our teams.

Reporting on the achievement of sustainable development goals

To understand government's readiness to report on the SDGs better, we established contact and commenced engagements with the Department of Planning, Monitoring and Evaluation, which is responsible for coordinating the reporting on South Africa's progress in implementing the SDGs.

We also established a project team of specialists to take this project forward in the new financial year.

Annual review and taking back audits

We adjust our audit portfolio as and when it becomes necessary. Suspending our audit mandate with KPMG and Nkonki led to an increase in the number of audits that we conducted directly.

To enhance consistency and the support provided to the overall management of the water sector, including responding to the increased risk of this sector, we took back the Trans-Caledon Tunnel Authority. To enable a smooth transition of this audit from the private audit firm to us, we seconded staff to work with the previous external auditor during the 2017-18 audit. We will audit the Trans-Caledon Tunnel Authority directly in the 2018-19 audit cycle. In the same period, we will take back the Casidra SOC Limited audit.

Following the previous minister's request that we immediately be involved in the Transnet audit, a similar approach was adopted. An arrangement was made between the appointed private audit firm, Transnet and us to facilitate skills and knowledge transfer over a period. This enables us to take back the audit in the future.

Strict oversight of governance in section 4(3) audits

A few years' ago we made a strategic choice to enhance the oversight of the governance of section 4(3) audits. We increased our ability to handle such audits, and created an appetite for them. The amended PAA provides us with the tools, in the form of regulations, to enhance this function.

The regulations allow us to:

- attend critical audit committee and planning meetings
- subject the audit file to regular quality control and pre-issuance reviews
- compel private firms to apply our methodology in areas such as AoPO and SCM.
- assign staff to these private auditors to focus on areas such as AoPO and SCM, if required.

We developed and piloted a standard set of criteria for opting in or out of a section 4(3) audit. The criteria will provide consistency and certainty to our future decision making.

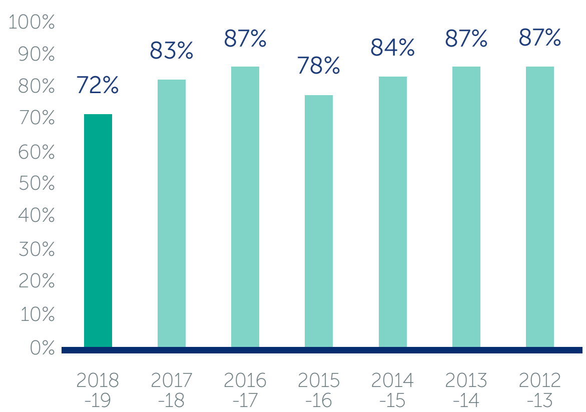
Value adding auditing objective 2: Ensure high quality of our audits

Performance measure

% adherence to quality standards: audit engagements

2018-19 Target	2018-19 Actual
80% - 90% (C1, C1#, C2 and C3 rating)	72% (C1, C1#, C2 and C3 rating)

Continuously improve the quality of our audits



Adherence to quality standard audit engagements

We have established policies and procedures to provide reasonable assurance that the system of quality control is relevant, adequate, operating effectively, and followed. The QCAC, which is chaired by the auditor-general, assesses the audit quality of the AGSA. The Quality Control business unit performs mandatory post-issuance quality reviews in each cycle on a sample of completed audit files. The quality of the review process is annually overseen by the IRBA.

This year we experienced a setback in our audit quality results with 72% of the files passing the quality control review against our target of 80%-90%. The disappointing results sharpened our attention on tightening the range of controls supporting audit quality. These include the adequacy of our internal technical support capabilities and support programmes available for audit engagement managers.

We also reflected on a number of external factors that contributed to the audit quality results, including the following:

- The increase in the sheer volume of audits had an impact on our staff's ability to manage the audit risk adequately.
- The take back of a number of complex audits at short notice put pressure on the skills and capacity needed to perform high-quality audits.
- The continually increased risk profile of various auditees further strained our audit teams.
- The increased pushbacks from our auditees had a negative impact on our audit timelines and, consequently, on our audit quality.

- Delays, specifically at the start of new audits were caused by the high number of audits not signed off on time.

While corrective actions to address the deficiencies identified in the system of quality control have already been implemented, we conducted an extensive root-cause analysis to understand the internal challenges facing us. The analysis informed a comprehensive plan to improve the system of quality control holistically.

The analysis indicated that the available capacity in our support units (Quality Control and Audit Research and Development) was only adequate for a reactive response to the needs of the audit business units. The need to proactively support audit business units has been addressed by establishing a new centre in Quality Control and increasing capacity in Audit Research and Development.

Benchmark audit practices internationally

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

In recognition of the leading role that we play in the international community of supreme audit institutions, the Office of the Auditor General of Canada (OAG) selected us to lead an international team of SAIs to complete a peer review of their institution on their compliance with legislation and their internal systems of operations.

The peer review was successful, with a general acceptance of the work we had done. Our participation in this review gave us an opportunity to benchmark against best practice.

CONCLUSION ON THE PERFORMANCE OF THE VALUE-ADDING AUDITING STRATEGIC GOAL

We continued to add value to our auditees by auditing and reporting on what matters.

Our audit integration efforts have continued to mature. We endeavoured to increase our specialist capacity to support the regularity business units in delivering deeper insight on the state of financial management and service delivery at auditees.

We implemented various initiatives to enhance our knowledge of the auditees' environment including the use of value chain analyses, analytical and investigative techniques and CAATs, contributed to increased efficiencies and the quality of our audit opinion.

Despite our interventions and support, the public sector's overall audit outcomes continued to regress. High levels of non-compliance with SCM legislation, and unauthorised, irregular, fruitless and wasteful expenditure continued. The financial health of public sector institutions, particularly public entities, continued to be a concern.

Challenges

The growing number of contestations, intimidation and late submissions continued to put immense pressure on our staff and the audit environment in general. Complex audits taken back during the year, such as Denel and DBSA, placed additional demands on our skills and capacity. This led to noticeable challenges to audit reporting timelines and the quality of audits.

Future outlook

We were able to withstand the mounting pressure and continued to evolve into a stronger institution. The way forward will focus on various interventions to mitigate the persistent and emerging risks. These interventions include:

- continuing to review our audit portfolio for relevance (also factoring in the results of the opt in/out exercise)
- enhancing the technical and leadership skills of our auditors
- building capacity in the business units that directly support the audit teams.

Our SAS portfolio will continue to improve the support they provide to regularity business units by identifying relevant audit risks, improving audit quality and efficiencies, and providing relevant insight to transversal risks.

As our portfolio of auditees becomes more technically complex, we need to invest in intensive training for our auditors, increase our understanding of auditees and build capacity. This will be done in the new financial year. In our next audit cycle, we will also focus on enhancing how we report on-going concerns and financial health in the public sector.

The audit milestone tracker will become a real-time tool to proactively manage delays in our audits and improve consistency in project management. This will enable us to manage audit contestations better.

The remedial actions to address deficiencies in the quality control process will be implemented and monitored frequently.

PREPARING the environment for implementing the amended PAA (project overview)

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

On 19 January 2018, Scoag published the Public Audit Amendment Bill, 2018 for public comment. The final version of the Bill provided mechanisms that allow the AGSA to follow up on implementing its audit recommendations through remedial action and a referral process.

Realising that the Bill had a high probability of being adopted by Parliament in a short space of time, our leadership conducted a thorough assessment of our existing internal processes, competencies and structures, as well as the cultural readiness to implement all the provisions of the Bill should it be signed into law.

The enormity of the task to prepare the environment for implementing the proposed enhanced mandate became evident immediately. Within two months of the PAA Bill being published for public comment, Exco approved the PAA project aimed at crafting the necessary practical tools, such as regulations, policies, procedures and structures. This would assist us to efficiently and effectively implement the Bill, and ensure that all relevant internal and external stakeholders were adequately prepared to apply these provisions when the Bill came into effect.

We established a central project management office (PMO) to coordinate the effort and manage the crafting of the required legal prescripts, training and audit content, as well as the engagements with various interested stakeholders.

The following was the output of the project team's tireless work:

Drafting, consulting and publishing the PAA regulations

4 No. 42368 GOVERNMENT GAZETTE, 1 APRIL 2019

GOVERNMENT NOTICES • GOEWERMENTSKENNISGEWEINGS

No. 525 **AUDITOR-GENERAL OF SOUTH AFRICA** 1 April 2019

Public Audit Act, 2004 (Act No. 25 of 2004): Investigations and Special Audits Regulations

I, Thembekile Makwetu, Auditor-General of South Africa, in terms of section 52(1) of the Public Audit Act, 2004 (Act No. 25 of 2004), read together with sections 4, 5, 29 of the Act, do hereby make the regulations set out in the schedule hereto.

Creating the required audit and material irregularity process content, including policies, procedures, guidelines and working papers.

5 Policies approved

Internal capacity, knowledge and skills created in audit, legal and training

Creating training content and training audit teams to implement the material irregularity process

436 Audit and support team members trained

17 Pre-issuance reviewers and CWC staff trained

Both internal and external stakeholders were aligned to the spirit and letter of the amendments

4 CE/BE & **65** BU

engagement sessions took place

32

Participation of **425** staff members from TA to SM level in readiness and impact assessments

115 Media clippings

Online: 45 Print: 43 Broadcast: 2753

3 International Engagements

Advancing the implementation of all non-audit-related amendments

Numerous external stakeholders engaged

SIU | NPA | FOSAD | ACCOUNTING OFFICERS

MFMA ROADSHOWS | MEDIA | NPOS | BANKS

Exercising our extended mandate in a responsible way and outlining a phased-in implementation approach based on strict and consistent criteria.

25 letters issued to AO or AA

Phased implementation approach

2018-19 audit cycle

16 PFMA and

9 MFMA auditees

As a result of the hard work and the extensive effort by the people working on the PAA project, we were able to begin implementing the amended PAA on 1 April 2019. Our phased-in approach ensured a fine balance between responding to the expectations of multiple stakeholders and the limited resources of the organisation.

Going forward, we will continue to use a project-based approach, which will deliver the expected progress and minimise the risk associated with implementing our enhanced mandate. The focus will be on increasing the breadth and depth of implementing the material irregularity definition.

VISIBILITY FOR IMPACT (V2)

Our mission is to strengthen the country's democracy by enabling oversight, accountability and governance in the public sector through auditing. To achieve this, effective engagement and professional relationships with our stakeholders are essential. With these engagements, we influence our stakeholders to build strong financial and performance management systems.

Our contribution to improving the public sector's financial and performance management systems, and securing our stakeholders' interest, is at the centre of our relevance.

AGSA's key stakeholder groups

Our approach to stakeholder management

We manage our stakeholder interactions through a stakeholder plan that identifies stakeholders with the authority to influence outcomes and give our engagements the maximum impact.

Identify and categorise key stakeholders	AGSA at an organisational level has two broad categories of stakeholders; i.e. constitional and non-constitutional stakeholders
Analyse stakeholder relationships	Stakeholders are prioritised based on the nature of the relationship between the AGSA and the stakeholder
Plan engagements per stakeholder category	Nurture relationships with the stakeholder and identify agreed engagement channels Develop action-specific stakeholder plans
Engage and monitor desired objectives	Monitor and evaluate stakeholder management outputs against plans Establish indicators of impact Collect, record and analyse data

Stakeholder identification and prioritisation

Predominantly, engagement managers are responsible for managing our constitutional stakeholders and are supported by the executive leadership for selected engagements.

While we engage all our constitutional stakeholders during the audit process, over the last four years we have concentrated on engaging stakeholders interested in committing to corrective measures that improve audit outcomes.

Constitutional stakeholders

Legislative oversight authorities

Sub-group	Nature of relationship
• NA and NCoP • Provincial legislatures • Municipal councils • APAC (non-statutory)	We use every possible opportunity to share our reports, which include audit outcomes, to enable oversight. These engagements foster an integrated approach to governance aimed at improving government planning, decision-making and service delivery at national and provincial levels Where practical, we provide support to APAC's capacity building and share knowledge on good governance practices

Executive authorities

Sub-group	Nature of relationship
• The Presidency • National executive authorities • Provincial executive authorities • Municipal executive authorities	We engage with the executive authorities across the three spheres of government to provide critical assessments of the maturity of the control environment in their respective domains

Auditees/audited entities

Sub-group	Nature of relationship
• Accounting authorities • Accounting officers • Audit committees	Our audit teams engage extensively with our auditees to discuss the audit insight. We also facilitate management cooperation and responsiveness in the interest of clean administration Substantial time was dedicated to our auditees with a focus on the SoRR outcomes, which serve as on early warning system for the accounting officers

Institutions supporting democracy (ISD)

Sub-group	Nature of relationship
• ISDs listed in chapters 9 & 10 of the Constitution	We partner and cooperate on specific issues aimed at improving public sector accountability and governance

Enablers and/or standard setters

Sub-group	Nature of relationship
• National Treasury • Accounting Standards Board	The main focus of the partnership with this group of stakeholders is on the application of accounting standards and improving the profession

Constitutional stakeholder map

AGSA's stakeholder influence grid

Delivering value through stakeholder engagement depends on trust, collaboration and a high-quality relationship. These are given impetus by the appetite of those charged with governance for our pro-active engagement and their willingness to apply corrective measures to improve or strengthen internal controls. The aim of using this method is to compel those charged with governance to take decisive actions to improve public administration.

Visibility for impact objective 1: Achieve impact through visibility programmes

Performance measure

% implementation of actions to improve our stakeholders' perception on our visibility programmes

2018-19 Target	2018-19 Actual
80% – 100% of the actions for the financial year	100% actions completed

What we did to achieve our objectives for visibility for impact:

Cabinet

Points of discussion

The auditor-general engages cabinet after each audit cycle. However, we did not meet with Cabinet during the year due to other urgent matters after President Ramaphosa took office, but we were able to meet with the members of the executive

National Council of Provinces (NCoP)

Points of discussion

We maintained constant interaction with the house chairperson responsible for committees The house chairperson made the following commitments:

- the select committees on Finance and the Department of Cooperative Governance and Traditional Affairs (Cogta) would intensify oversight on issues raised in the *2016-17 MFMA general report*
- various initiatives would be undertaken to fast track capacity building at municipalities
- the NCoP would support the establishment and functioning of Municipal Public Accounts Committees (MPACs)

Standing Committee on Public Accounts (Scopa)

Points of discussion

Scopa is mandated to oversee the expenditure of public funds. Our reports assisted the committee to discharge its oversight responsibilities
The committee:

- elevated all key governance issues within departments and entities with financial management challenges. During their hearings the committee focused on key reasons for poor performance
- conducted oversight visits to various state institutions to verify claims made by officials during hearings
- helped to bring key governance failures in the public sector to the attention of the public
- had hearings with departments whose projects had expansions and deviations
- continued to elevate consequence management by facilitating update briefings from the anti-corruption task team

However, the committee is still unable to pass resolutions, which inhibited the opportunity for it to have its reports debated in the House

Association of Public Accounts Committees (APAC)

Points of discussion

We engaged the APAC Council of Delegates (CoD) on MFMA and PFMA audit outcomes and used this opportunity to co-create solutions to the challenges facing the public sector

Executive authorities

Points of discussion

The conversations were aimed at empowering executive authorities to strengthen their oversight of their portfolios /departments. The engagements focused on:

- escalating audit matters, and tracking internal controls and audit action plans
- sharing audit outcomes and SoRR insight
- entrenching a culture of consequence management with departments and portfolios
- introducing the PAA amendments

Provincial executive authorities

Points of discussion

Aside from provincial coordinating ministries, executive engagements at the provincial level focused on the following:

- Improvement in internal controls, accountability and consequence management
- Prevention of non-compliance with key legislations
- Accuracy and completeness of asset registers/schedules
- Action plans that address all qualification areas
- Creating an understanding of all audit-related matters, findings and the audit outcomes
- Influencing the reduction of irregular expenditure

Portfolio committees

Points of discussion

The quarterly engagement with the committees, and the annual performance plan assessments and BRRR sessions were all focused on building capacity to deal with audit messages and to use the messages in their oversight roles

Coordinating ministries

- National Treasury
- DPME
- Cogta
- DPSA
- Provincial treasuries
- Provincial Cogtas

Points of discussion

The conversations were largely about the AGSA's role in:

- supporting the ministries in their coordinating functions to promote clean audit outcomes and lead by example
- influencing improvements in audit outcomes and sound internal controls by departments and entities
- empowering departments and entities with effective technical guidance to curb the increasing trend of fruitless and wasteful expenditure
- improving support to local government towards clean audit outcomes and service delivery
- encouraging a culture of consequence management across departments and entities

2018-19 constitutional stakeholder interactions

Visibility for impact objective 1: Achieve impact through visibility programmes

Performance measure

% Rollout of status-of-records reviews

2018-19 Target	2018-19 Actual
80% – 100% of the planned reviews for the financial year	99% planned rollouts implemented

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Status-of-records review

SoRR is an enhanced stakeholder engagement initiative. Its main objective is to assist accounting officers to improve or sustain good audit outcomes by communicating key areas of concern, well in advance, to enable and compel them to act.

While the reviews empower the executive leadership's oversight and allow them to encourage those who are unresponsive to participate, they provide us with in-depth knowledge and understanding of the auditees risk profile and allow us to appropriately respond to audit risks. The SoRR also serves as an early warning system for accounting officers and prompts discussions on contentious issues that could assist in managing auditee contestation. The impact of this initiative is continuously being assessed.

We implemented the reviews at 666 of 671 eligible auditees by 31 March 2019.

Achievements	Challenges	Mitigation
Increased accounting officers'/authorities' accountability and empowered, influenced and enable them to act	Timing of SoRR does not afford auditees time to make corrections	Ensure adequate timing between performing the review and time required for corrective action
Increased engagement levels	Soliciting written commitments from accounting officers/ authorities	Proactively engage auditee on commitments
Promoted enhanced, relevant and insightful engagements	Auditees who have clean audits not seeing value in the programme	Continuous engagement to demonstrate value in safeguarding against vulnerable areas of risk
Served its purpose as early warning indicator/mechanism	Availability of accounting officers	Use other methods to communicate and escalate results

Achievements and challenges experienced with SoRR

Non-constitutional stakeholders

The thought leadership programme allows us to use every engagement opportunity to share our knowledge and experience with stakeholders that are able to influence change in the way public funds are managed and on various topics of public sector accounting, auditing, governance and accountability. Our executives, led by the auditor-general, were welcomed as speakers throughout the country and abroad.

The following external events demonstrate the breadth of our engagements:

Academic institution

Points of discussion

- The Saica/ Wits discussion on ethics in the accounting industry
- UCT Master class on governance and accountability in the public sector

Professional association/bodies

Points of discussion

- Reporting SA Annual Integrated Reporting Conference (IRC) 2018 presentation on integrated reporting in the public sector
- African Women Chartered Accountants (Awca): Woman of Substance Conference keynote address on global competitiveness and sustainable development goals
- 13th Annual Audit, Risk & Governance Africa Conference panel participation on what makes a world class supreme audit institution?

Banking association

Points of discussion

- RMB breakfast session on overcoming 2016-17 MFMA challenges
- RMB Morgan Stanley Investor Conference, keynote address on building investor confidence
- Banking Association of South Africa Summit, keynote address on the impact of the crisis in auditing confidence

Human rights associations

Points of discussion

- The Dullah Omar Institute for Constitutional Law, Governance and Human Rights participation, keynote address and panel discussion on compliance with & enforcement of audit standards, as well as building a culture of professional, ethical public service
- The Launch of Ibrahim Index of African Governance 2018: Reflections on governance performance on the African continent and in South Africa. Panellist participation on governance performance in South Africa and how it can be improved
- Institute of Justice and Reconciliation Awards, keynote address focusing on accountability and good governance

Publications

Points of discussion

- An opinion piece that addressed ethical challenges in the accounting profession in the Awca Passion magazine, Saica Accountancy SA, Southern African Institute of Government Auditors (Saiga) online newsletter and journal, and the Association of Chartered Certified Accountants (Acca) publication

Thought leadership on internal controls with accounting officers and chief financial officers

Points of discussion

- Sharing knowledge and insight on internal controls through the *Audit thought leader* magazine
- Used the following publications to share internal control matters:
  - Public Sector Manager (PSM) magazine
  - Cigfaro journal
  - Salga's Accountability magazine
- Started face-to-face round-table discussions to share and equip chief financial officers and accounting officers with relevant knowledge on internal controls. Met with municipal managers of the following provinces:
  - Northern Cape
  - Limpopo
  - Western Cape

Deputy auditor-general

Points of discussion

- Chartered Secretaries Southern Africa (CSSA) Corporate Governance Conference on the guardians of public sector governance
- Salga Performance Management Seminar to keep municipal political leadership, senior management and practitioners abreast of important developments and to share best practices

Gauteng business unit deputy business executive

GP

Points of discussion

- Association for the Advancement of Black Accountants of SA (Abasa) panel discussion on creating a truly inclusive South Africa

Western Cape business unit business executive

WC

Points of discussion

- Good Governance Learning Network on the 2016-17 MFMA audit outcome

Acting National Leader

Points of discussion

- Institute of Internal Auditors South Africa (IIASA) Public Sector Forum discussion on the amended PAA

External thought leadership programme

The following external events demonstrate the breadth of our engagements:

Business executives facilitated round-table discussions to share relevant knowledge on internal controls with chief financial officers and accounting officers.

These conferences provided our leadership with networking opportunities that resulted in partnerships with relevant institutions for future AGSA engagements.

Regulators and standard-setters

We continued to strengthen our partnerships and cooperation with the institutions responsible for reporting frameworks and supporting legislation to improve the quality of these reports. Our interactions included:

- The Office of the Accountant-General at the National Treasury and the Accounting Standards Board – we provided input, based on our audit insight, to developing new accounting standards, resolving interpretations of the existing accounting standards and discussing revisions of the standards. An example is the interpretation many of our auditees had on the application of the Modified Cash Standard. A mutual understanding was reached with the National Treasury, which issued guidance to all PFMA auditees.

- The Office of the Chief Procurement Officer – to identify procurement risks, deal with audit contestations and resolve matters arising from audits. An example is the risks and contestations we had on the procurement of goods and services under contracts secured by other organs of state. Through engagements, we were able to resolve the contestations.

- The IRBA on implementing our audit methodology, revising the guide on public sector auditing, providing public sector audit perspectives for revising the South African audit practice statement on illustrative reports, and dealing with emerging audit matters in the public sector.

- Public Sector Audit Committee Forum and internal auditors as key enablers of accountability in the public sector. We engaged them to encourage and support their development of guidance, training and support to public sector internal auditors and audit committees.

Our citizen engagement strategy

Deepening engagements with professional associations and industry organisations

We engaged with professional associations and industry organisations to ensure a clear understanding of the 2017-18 MFMA and PFMA audit outcomes.

These included:

- South African Institute of Chartered Accountants (Saica)
- Government communicators for public servants
- Public lectures at business schools and schools of governance
- Academic institutions

We continue to organise joint public lectures to engage more professionals from various schools of governance and business schools for in-depth discussions on audit outcomes and the PAA.

Enhancing community reach

We sought strategic partnerships to educate citizens on the role and mandate of the AGSA. Our partnership with the GCIS assisted us to widen our community reach through external channels such as:

- the Vukuzenzele newspaper, distributed to ± 800 000 members of the public
- our electronic toolkit (included infographics and electronic posters), distributed to various government departments to share with public servants
- the Salga national communicators' forum, where we participated in a panel discussion on the impact of audit outcomes
- the Commission for the promotion and protection of the rights of Cultural Religious and Linguistic communities (CRL rights commission), where we participated in a conference.

We have also participated in the following platforms to increase our profile using exhibitions:

- Finance Indaba
- Chartered Institute of Government Finance Audit and Risk Offices (Cigfaro) annual conference
- Salga National Members Assembly.

These opportunities increased our visibility and promoted our brand among the various communities from all provinces.

We developed a simplified citizens' report, which is a summary of the 2017-18 PFMA general report. The report was distributed to 40 GCIS distribution points and enables citizens to understand our messages, role and mandate.

The report also was shared via the AGSA website, through Abasa members and at various business schools and with the CRL Commission stakeholders.

Interactions with the media

Social media

Our social media objective is to grow the reach, and foster an understanding, of the AGSA and its messages about accountability, governance and oversight. Our social media platforms have helped bring our messages to a larger segment of the population, with messaging on Facebook targeting 299 343 people and Twitter targeting 78 300 people.

By 31 March 2019, our social media community increased from 35 700 (2017-18) to 48 200 (2018-19) indicating a growth of 34,8%. The increase is attributed to more people being exposed to our messages of accountability, governance and oversight.

We continued to use #AGReport to strategically increase the number of people seeing or receiving our general report messages during the MFMA and PFMA tabling. Media briefings were broadcast live on social media (Facebook Live) to ensure that our messages reached a larger audience regardless of live TV broadcasting.

We also used social media platforms to extend our visibility and reach by creating awareness of our leadership's participation in industry discussions during conferences or when addressing industry bodies and professional associations.

Our public education efforts have mainly been around the PAA. Social media platforms were used to keep the public abreast of the process, from passing through National Assembly to the President's assent into law.

Our #PAAEvolution campaign aimed to give the public the context of the laws governing our functions. The campaign was also carried on GCIS platforms as a result of the strengthened partnership.

Traditional media

We used the following approaches to improve responsible media reporting:

- Provincial media briefings – provincial business executives briefed regional/local/community journalists on the audit outcomes. This approach afforded the media the opportunity to clarify issues relevant to their localities, and helped them to report our audit messages from an informed position. Independent media analysis shows that this approach helped to keep the AGSA's messages in the public discourse much longer and generated increased, positive unpaid-for (free) media coverage.

- Meeting and educating senior editors about our role and the meaning of the PAA amendments – as part of a comprehensive communication strategy to educate the media, and by extension the public, about the rationale behind the new PAA amendments. These engagements resulted in the editors offering free space to publish AGSA-written articles. Articles were published in the City Press, Sunday Independent and Business Day to educate their respective readers on the PAA.

- Media interviews to spread AGSA messages on audit outcomes and the meaning of the PAA – to spread our key messages on key topical issues our leadership held a series of media interviews with targeted large media agencies, both audio and visual.

The AGSA's independent media analysis indicates that the organisation continued to generate high advertising value equivalents (i.e. free/unpaid-for media coverage) of R534 million.

International thought leadership

The 2018-19 CBC strategy (strategic goal 2 of the 2017-2022 Intosai strategy) was successfully implemented – all except one of the eight CBC work streams achieved their targets for the period (the work stream that did not achieve its targets was delayed by a hand-over of leadership from SAI UK to SAI Kenya).

In addition, the CBC successfully contributed to Intosai's five crosscutting priorities, together with the other three strategic goal committees and the IDI.

Our strategic leadership role, and enhanced reputation, was demonstrated by our contributions to:

- the global roll-out of the SAI Performance Measurement Framework (SAI PMF), where the CBC continued its role as strategic lead on behalf of Intosai, with operational support by the IDI. SAI PMF reports increased to 49 in 2018-19 (from 38 the previous year) with 27 SAI PMF assessments in progress
- leading the Task Force on Intosai Auditor Professionalisation in developing the first professional pronouncements/standards on competencies for SAI auditors, as well as the Guide on professionalisation pathways that can be used by all types of SAIs worldwide
- initiating, with governing board approval, an Intosai-regions coordination platform (June 2018). This addresses the gaps in tactical and operational coordination among Intosai bodies and regional organisations to better integrate the various role players' contributions to the Intosai value chain
- overseeing the Forum for Intosai Professional Pronouncements jointly with the Professional Standards and the Knowledge Sharing committees
- continuing to fulfil our various Intosai leadership roles as a key member of:
  - the Intosai Governing Board
  - the Policy Finance and Administration Committee
  - the IDI Governing Board
  - the Afrosai Governing Board
- Presenter at the 2019 UN-Intosai seminar on SAIs' support for global SDG implementation.

We actively contributed our expertise and knowledge to the work of nine such groups.
From these groups, the AGSA also ensured it obtained valuable insight on the latest professional developments in public sector auditing to help improve our approaches and audit methodology.[5]

Afrosai-e support and collaboration

We continued to strategically oversee, and provide financial and human resource support to the executive secretariat of Afrosai-e. The support included eight seconded staff, plus eight short-term subject matter experts who co-facilitated various development workshops.

5 The nine groups are: PSC Steering Committee; Financial Audit & Accounting Subcommittee; Performance Audit Subcommittee; Compliance Audit Subcommittee; Working Groups on IT Audit; Environmental Auditing; Auditing of Key National Indicators; Audit of Extractive Industries; and Value & Benefits of SAIs.

This enabled Afrosai-e to continue to function as one of the most effective regional organisations in Intosai,[6] strengthening the capacity and performance of its 26 member SAIs by implementing six broad development programmes. The programmes resulted in 242 capacity building events reaching 2 286 SAI staff, and included support for Afrosai-e's strategically important independent quality control support programme.[7]

We also benefitted from this relationship with Afrosai-e by deepening the knowledge and expertise of 23 of our middle and senior managers, who attended various training and development interventions offered by Afrosai-e at no additional cost.

Collaboration with African SAIs and African capacity development programmes

Direct capacity development and knowledge sharing with African SAIs and bodies consisted of support to:

- the SAI of Namibia (establishing its own information systems auditing function)
- the final phase of the Women Leadership Academy (offered by SAI Cameroon as the Afrosai secretariat)
- the Pan African Federation of Accountants, advising about our successful professionalisation journey, and the successes and lessons we have learned in communicating our audit messages and effectively disseminating our findings through our visibility for impact initiatives.

We also hosted delegations from Uganda, Namibia, Rwanda, Malawi, Kenya and China to name a few, to share our knowledge and experience on various topics.

Global development support

We supported the IDI's global development programmes by providing a subject matter expert for each of the three IDI programmes.

We benefitted from our relationship with IDI when two of our senior managers completed an extensive young leaders' programme, with specific change initiatives linked to the programme.

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6 The latest SAI Global Stocktaking Report indicates that of the eight regions surveyed, Afrosai-e (together with OLECEFS) led the SAI community in strategic planning; in "Strength of audit cycle" on the PEFA framework PI-26 Scope, nature and follow-up of external audit, Afrosai-e was rated third of eight.

7 Afrosai-e carried out nine SAI's independent quality assurance reviews as part of its rolling programme over three years.

CONCLUSION ON THE PERFORMANCE OF THE VISIBILITY FOR IMPACT STRATEGIC GOAL

This goal continues to make good progress. Engaging stakeholders to enable and compel them to act are essential elements in achieving our mandate. We continued to explore better and innovative ways of communicating audit matters to our stakeholders using available cost-effective platforms.

To make an impact, we continued to concentrate our interactions on stakeholders that had a keen interest in our audit recommendations and were willing to act by monitoring and overseeing their implementation.

Our rigorous approach to addressing recurring risks in the form of well-structured SoRRs has already begun to build relationships of mutual trust with our various stakeholders. We expect the programme to continue providing depth to the discussions on key controls. The impact of this initiative on the audit outcomes will be assessed in the future.

We continued to provide thought leadership on matters relating to internal controls, risk management and service delivery, and invited discussions that aimed at co-creating solutions for improvements in the public sector. Profiling our leadership also allowed the organisation to address key concerns facing the profession, such as ethical conduct. Engagements relating to the PAA amendments allowed us to convey our future self-reflection and the value we seek to provide.

Educating citizens and empowering them to hold their elected representatives accountable remains a major commitment. We have noted the growing interest of citizens in the audit outcomes as a result of our work.

The citizen's report as a mechanism to clearly and simply bring awareness to our messages, role and mandate, is a crucial step in our endeavour to reach ordinary citizens. We also used various platforms, including print media, social media and public lectures to educate citizens on our role, mandate and the PAA amendments.

We continued our leading role in Intosai's capacity-development efforts, which are widely recognised. As the organisation that currently chairs the Intosai CBC, we perform a vital integrating role by ensuring that the capacity-development effort complements previous and ongoing work. This initiative has enabled us to contribute significantly to advancing the professionalisation of auditors worldwide, and specifically on the African continent.

Key challenges

We have noted the following challenges with the roll out of the SoRR programme:

- Availability of accounting officers
- Auditees with clean audit outcomes not seeing value in the programme
- Challenges when soliciting commitments
- The timing of the SoRR.

However, we responded promptly by identifying and implementing actions to mitigate these challenges in the future.

Future outlook

Our stakeholders expect us to increase our levels of engagement about our findings in individual audits, and want forewarning about the status of the system of public administration as a whole. We continue to strive to exceed this expectation and to promote consequences where taxpayer's money has not been used for the intended purposes.

Our partnerships and cooperation with the institutions responsible for the reporting frameworks and supporting legislation will be strengthened to improve the quality of these reports.

Educate the media/public about the role and mandate of the organisation is an on-going endeavour, which includes a thorough explanation of the amended PAA.

We will continue to nurture our collaboration with Afrosai-e for our mutual benefit, and to provide our specialists with opportunities to enhance their capability and grow their capacity. The relationship will also promote best practices among English-speaking SAIs on the African continent.

VIABILITY (V3)

The AGSA has a strong legislative framework and viable business and funding model, underpinned by the availability of staff with the required work ethic, knowledge, competencies, skills and professionalism. We execute our mandate economically, efficiently and effectively, and focus on providing value-for-money audits to the public sector.

Viability objective 1: Maintain financial viability and legal independence

Performance measure

Net surplus (sustainability margin) as % of audit income

2018-19 Target	2018-19 Actual
1 - 4%	2%

Performance measure

Margin of safety

2018-19 Target	2018-19 Actual
2 - 4 months	2,7 months

Our financial viability is sustained by sound financial administration, strict cash flow management and good internal controls, systems and processes. The funding model allows us to remain solvent and have sufficient capacity to meet our operational and capital expenditure, including technological requirements.

Financial performance

Audit income

Our revenue was R3 464 million compared to R3 247 million in 2018. This represents a year-on-year increase of 6,7%, which is above with the average inflation rate for the period. These results were achieved through the proactive continuous measures implemented by leadership, which include the following:

- A conscious drive to achieve efficiencies through staff pooling between national and provincial business units mainly during the MFMA season, resulting in an additional R101 million in own hours' income.
- Full implementation of the audit methodology programme, which brought efficiencies and reduced unbilled hours.
- Commitment by audit teams to achieve better productivity rates (own hours' revenue).
- TeamMate optimisation as part of the broader audit software initiative improvements. This solution enables management to track and report on the progress of each audit project including efficiencies and recoveries.
- The benefits derived from the initiatives discussed above created opportunities for using internal resources and consequently led to a reduction of audit work allocated to private audit firms. The outsourced work revenue as a percentage of audit income reduced from a high of 26% in 2013 14 to 17% of audit income for the 2018-19 year.

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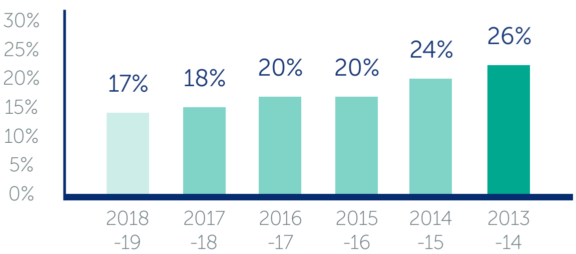
8 DECENT WORK AND ECONOMIC GROWTH



Outsourced work revenue (CWC) as a percentage of audit income

Overhead expenditure

We continued to reduce the cost of doing business (overhead expenditure) through cost control and expenditure rationalisation measures. As a result, the total overheads of R1 266 million (2018: R1 186 million) grew by 6,8% compared to the revenue growth of 6,7% year-on-year. Included, in the overheads is R4 million to support and coordinate the enhanced functions and mandate brought by the amended PAA.

In addition, the cost-conscious culture embedded in our employees over the years continues to yield savings for the AGSA. These savings are evident in various areas such as employment costs due to the ongoing headcount moratorium and the reprioritisation of the planned training to accommodate the PAA training.

Surplus

Emerging from a financial year marked by significant economic challenges and a tough trading environment, the organisation remains financially viable. We achieved a healthy surplus of R71 million which is 2% of audit income and within the AGSA funding model target of 1 - 4%.

Debtors

The total outstanding debt as at 31 March 2019 is R744 million compared to R650 million of last year (the figure below shows the debtors balance by category). The main contributor to this increase remains the local government debtors, which makes up 43% of the total debt (2017-18: 38%). The other entities debtors, which includes SOEs, public entities and agencies have also increased from R153 million in 2017-18 to R172 million (see figure below). Of this debt, R35 million is being collected using the litigation and ring-fencing mechanism, and 80% is being collected through our normal collection process.

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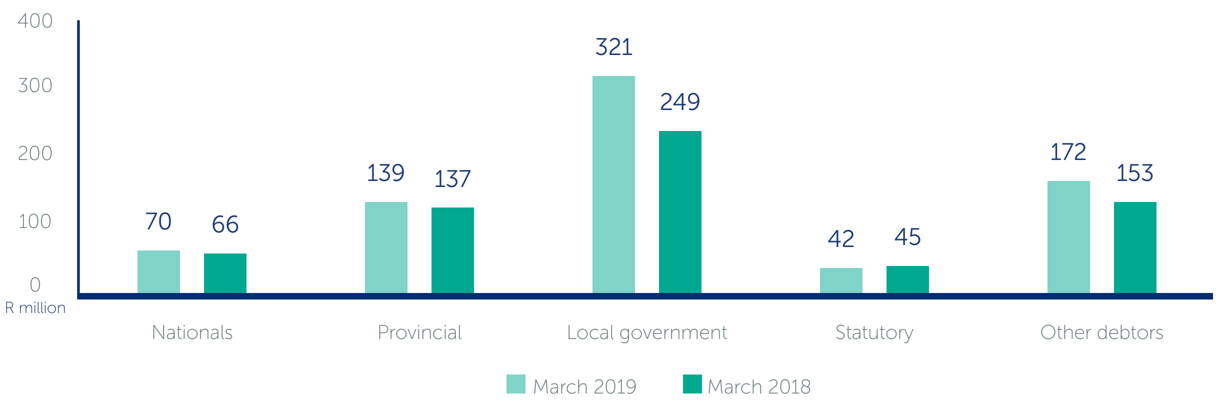

Debtors balance as at 31 March 2019 by category

During the year, we maintained our collection measures such as ring-fencing agreements and litigation. Ring-fencing affords auditees the opportunity to catch up on their long-outstanding debt. Litigation is used as a last resort against auditees that continue to default. These collection methods are in line with the PAA.

Since the inception of ring-fencing, R338 million or 94% of the ring-fenced debt (R358 million) has been collected. Of this amount, R64 million was collected in 2018-19, reducing some of the long-outstanding debt.

Accumulated process of the ring-fencing agreement since implementation			
Year	No. of auditees entered into ring-fencing agreements	Ring-fenced amount	Amount collected
2018-19	114	R358 million	R338 million
2017-18	96	R329 million	R274 million

The approach to enforcing debt payments through litigation also contributed positively to the recovery of long-outstanding debt. We collected R160 million compared to R73 million in the same period last year. It is important to note that since we began litigation, we spent just under R4 million (2018: R2 million) on external legal fees. We managed to contain our legal costs as most of this work was done by our internal legal team.

Accumulated process of the litigation since implementation			
Year	No. of auditees	Litigated amount	Amount collected
2018-19	93	R436 million	R404 million
2017-18	82	R366 million	R244 million

We also made notable progress during the financial year that are attributable to strategies that include the following:

- Our relationship with the National Treasury, which continues to yield positive results. During the year we were able to negotiate a R50 million debt settlement over and above the appropriation of R48 million to liquidate the old debt for financially distressed and 1% debtors.
- Heightened collection discussions between our leadership and various provincial accountant generals, resulted in R36 million being collected.
- The long-awaited Public Audit Excess Fee Act, 2019 was signed by the president in May 2019. This legislation will assist us to collect audit fees owing by 1% debtors.

Provision for doubtful debt

Following the implementation of IFRS 9 and IFRS 15 in this performance period, the provision for doubtful debt increased from R87 million in 2018 to R138 million for 2019, driven mainly by the conservative nature of the IFRS 9 approach. The three business units contributing the most to this provision are North West, Northern Cape and Free State.

Cash flow

Our financial performance resulted in a year-end cash balance, including short-term investments, of R723 million (2018: R664 million. This translates into a margin of safety of 2,7 months, against a target of three months.

Our working capital shows a positive financial health position, with the acid test ratio of 1,37:1 (2018: 1,39:1), which is above the norm of 1:1. This means that we have

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one rand and thirty-seven cents to cover every one rand owed to creditors payable within the next 12 months.

People viability

AGSA workforce

Our staff complement was 3 556 on 31 March 2019 (2017-18: 3 459), including trainee auditors and short-term contract employees. This is an increase of 97 (2,8%) employees. The slight growth from the previous year can be attributed to our focus on project-related and strategic staffing at various levels.

Positions were reclassified to accommodate:

- the staff taken over from Nkonki
- nine new deputy business executives
- the positions required by our increased audit volumes as we took in the audits of a number of SOEs
- the positions required for our PAA deliverables.

At 31 March 2019, our job occupancy level was 93,68%, 3,68% above the acceptable occupancy rate of 90%.

	2018-19	2017-18	2016-17
Number of positions	3 796	3 796	3 827
Number of employees	3 556	3 459	3 483
Job occupancy rate	93,68%	91,12%	91,01%
Vacancies	240	337	344

AGSA workforce profile

The implementation of our EE plan and recruitment drive enabled us to progress in our efforts to attain a workforce profile that is reflective of the demographics of the country.

We have maintained overall female representation at 55% and continue to actively promote gender equality in the workplace.

Age	Race										Total		%
	A	A	C	C	I	I	W	W	F	F	♂	♀	
<25	178	231	10	11	6	11	7	4	0	0	201	257	12,88
25-35	789	1 028	57	56	60	55	25	28	1	2	932	1 169	59,08
36-55	209	266	29	50	39	43	104	120	9	6	390	485	24,61
>55	23	25	2	4	5	1	33	27	1	1	64	58	3,43
Total	**1 199**	**1 550**	**98**	**121**	**110**	**110**	**169**	**179**	**11**	**9**	**1 587**	**1 969**	**100,00**
%	**33,72**	**43,59**	**2,76**	**3,40**	**3,09**	**3,09**	**4,75**	**5,04**	**0,31**	**0,25**	**44,6**	**55,4**	

Workforce distribution by age, gender and race

A = African C = Coloured I = Indian W = White F = Foreign

Creating a magnetic brand

While we are making good progress on the representation of persons with disabilities at 1,55% of the total workforce, we have not yet achieved our 2% target. We are using all existing opportunities to address this under representation.

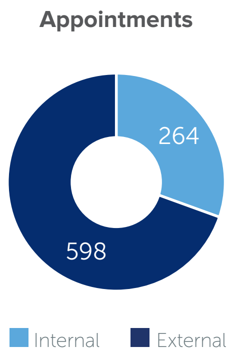
During 2018-19, we recruited 862 employees. Of these, 264 (30,63%) were career progressions / internal movements and 598 (69,37%) were external hires. Of those hired externally, 419 (70,1%) were trainee auditors.

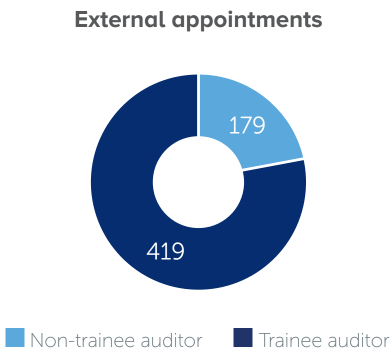
Our new reward philosophy, which de-links staff salary increments and their performance bonus, was implemented in the reviewed total reward policy. We introduced the cost-of-living-adjustment (Cola) principle, where staff are awarded a flat rate increment regardless of their work performance.

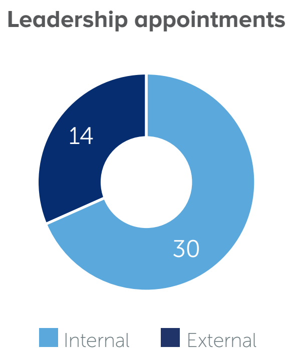
This was a major shift in our reward philosophy. We derived many benefits from this shift including changing the trainee auditors' performance cycle, which had been a source of discontent among trainee auditors for years.

The continued growth of brand AGSA on social media platforms such as LinkedIn, Facebook and others, has helped us attract talent in the recent past. The consistent use of the social media platforms also helped us gain traction for positions that are challenging for talent acquisition.

Our exhibitions and engagements at universities led to us being voted the *Most exciting employer to work for* by students at the Wits Accounting Career Fair 2019.







AGSA recruitment

Job occupancy level and staff turnover

Viability objective 2: Attract, develop and retain great talent

Performance measure

% voluntary turnover of high potential individuals, executives and senior managers

2018-19 Target	2018-19 Actual
8% – 10%	7,97%

We tracked the turnover of staff with critical skills (senior managers, executives, and those identified as high potential individuals).

Of our staff with these critical skills, 35 (7,97%) exited the organisation over the financial year, which is lower than our target and the previous industry norm (14,929%) used to benchmark, set and measure this objective.

	2018-19	2017-18	2016-17
Occupancy rate	92%	91%	91%
Staff turnover	6,38%	8,5%	8,1%

Occupancy rate and critical skills staff turnover

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10 REDUCED INEQUALITIES

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Talent management

We continued to strengthen and embed talent management – an ongoing process of analysing, developing and effectively using our talent to meet business needs. Gaps are filled using development strategies to maximise our human capital.

We prioritise talent management as a key enabler of our ability to attract, engage and retain employees. Efforts to build leadership capabilities have been intensified to enable our leaders to be fully equipped to respond to ever-changing business challenges. This is reflected in a stable, strong and effective AGSA pipeline that has grown over the years.

Investment in training

Our staff have been provided with learning and development programmes to enhance both their technical skills and the behavioural competencies necessary to respond to our current and future environment.

On average, each employee has spent 31 hours in training, compared to 8,31 hours in the previous year. Time spent on programmes geared towards improving behavioural competencies increased significantly. Professional skills were also enhanced to prepare staff for current and future changes in our environment.

Employee band	Total no. of employees	Total training hours	Average training hours
B	22	672	31
C	231	6 954	30
D	598	14 317	24
E	833	19 327	23
F	4	82	21
G	1 325	53 259	40
Total	**3 013**	**94 611**	**31**

Time invested in training

	2018-2019	2017-18
External bursary	R5 756 585	R11 208 564
Thuthuka bursary fund for 230 students	R15 996 500	R13 277 670
Bursaries	R21 753 085	R24 486 234

Expenditure on bursaries

Growing the number of qualified professionals

Over the years we have grown the number of qualified audit professionals in the organisation, increasing from 1 227 in 2018 to 1 241 in 2019 due to the retention of newly qualified trainee auditors. The tables reflect the different professional categories, gender and racial demographics in the audit functions.

Recognising great talent developed internally, we have retained a significant number of the professionals who qualified as CA(SA) over the years. We are also proud that professionals produced through our Saica learnership programme are sought by outside employers, both in the private and the public sectors.

Race	Total		Saica		Saiga		Acca		CISA	
African	385	414	201	206	169	142	10	13	34	24
Coloured	49	36	24	30	10	16	1	1	1	2
Indian	9	5	3	5			2	3		1
White	69	43	28	38	11	24	3	2	1	5
Foreign	128	89	51	47	28	67	5	2	5	12
Grand Total	640	587	307	326	218	249	21	21	41	44
Total	1 227		633		467		42		85	

Organisational profile of professionals

Year	CA(SA)	RGA	Acca	CISA	Total
2016	548	358	34	64	1 004
2017	619	464	39	76	1 198
2018	622	436	45	81	1 184
2019	**633**	**467**	**42**	**85**	**1 227**

Professionals qualifications at the AGSA over the past four years

Viability objective 2: Attract, develop and retain great talent

Performance measure

% improvement of CA(SA) board exam

2018-19 Target	2018-19 Actual
20% vs 2017-18 pass rate	27% Decrease vs 2017-18 pass rate

Trainee auditor scheme

Our trainee auditor scheme is our main feeder for growing the number of audit professionals in the organisation and the profession. It is a significant segment of our organisation and central to our business model, which makes it crucial to our long-term sustainability and continued success.

Our 4V strategy does, to a large extent, hinge on the scheme's effectiveness. It is structured to provide an invaluable business perspective that opens up countless opportunities for personal and professional growth to young audit professionals.

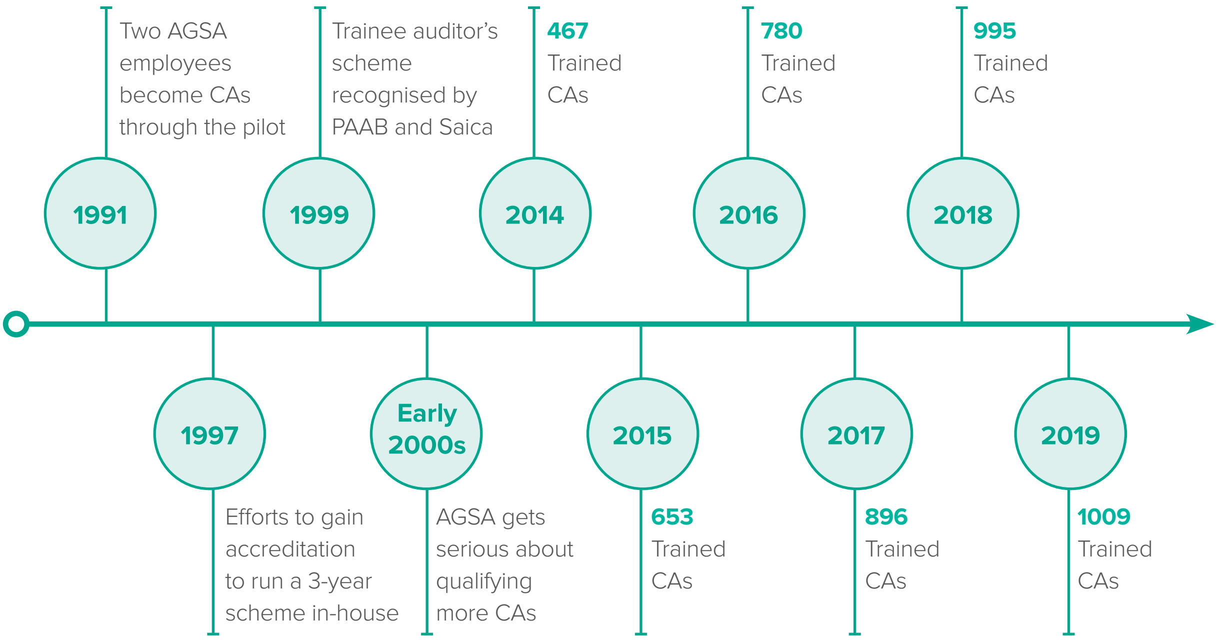
In our mission to professionalise the AGSA and the public sector at large by training CAs(SA), we are very proud to have reached a significant milestone of 1 009 CAs(SA) that have come through our training programme. More than 90% of them had come from previously disadvantaged backgrounds. This achievement also confirms our contribution to transforming the accounting and auditing profession in the country.

CTA recruitment

Our graduate recruitment efforts resulted in us appointing 235 trainees with a CTA. These trainees began their trainee auditor articles with us in January and February 2019.

	2019	2018	2017
CTA	235 (56%)	217 (59%)	107 (29%)
Non-CTA	184	154	259

CTA recruitment as a percentage of overall intake



Trainee auditor journey in numbers

Race	Total		Acca		Saiga		CISA		Saica	
African	514	702		1	7	10	6	27	501	664
Coloured	25	27				1	1	2	24	24
Indian	24	30							24	30
White	10	12							10	12
Foreign	0	0								
Grand Total	573	771	0	1	7	11	7	29	559	730
Total	**1 344**		**1**		**18**		**36**		**1 289**	

Trainee auditor profile

AGSA learnership journey

- Saica/ Thuthuka bursary
- Academic trainees
- AGSA bursary
- Adopted schools
- Other graduates

Trainee auditor scheme

- Appointments
- Orientation week
- Midzi foundations

Study support initiatives

- CTA classes
- 5-week CTA bootcamp
- ITC board course
- In-house APT initiative

Academic studies

- CTA (Saica TAs)
- GASP (Saiga TAs)
- P1-P3 (Acca TAs)
- ITC (Saica TAs)

Final qualification exams

Final professional exams

- APC (Saica TAs)
- FQE (Saiga TAs)
- P5+P7 (Acca TAs)

Completion of learnership contract

Register a professional member

- CA (SA)
- RGA
- Acca

Study	Study support initiative	Initiative pass rate	Overall AGSA pass rate
CTA 1			**2018-19:** 13% (1 of 8) **2017-18:** 21% (3 of 14)
CTA2	**Boot camp** • One of our flagship support programmes, that has over the years continued to be a success story. The aim of the programme is to assist trainees to gain base knowledge of the CTA2 material, which would assist them with exam techniques • 2019 milestone reflects a return on investment and is testament to the quality of the boot camp programme and hard work by these top performing students. While the overall pass rate is still low, the outcome reflects a significant increase compared to 2018 • The decrease in the number of AGSA trainees who wrote CTA2 in 2018 was a result of the increased intake of trainees with CTA2 in 2017 and 2018 • We continue to seek innovative ways to address the overall low CTA2 pass rate	**2018-19:** 97% (34 of 35 attendees passed) **2017-18:** 100% (35 of 35 attendees passed)	**2018-19:** 36% (134 of 369 passed) **2017-18:** 15% (121 of 782 passed)
Initial Test of Competence (ITC)	This decline in the pass rate is noted with concern and concerted effort has already been made to identify the contributing factors. Engagements with identified universities will take place within the first quarter of the following year	N/A	**2018-19:** 48,5% (193 of 398 passed) **2017-18:** 62,9% (214 of 340 passed)

Study	Study support initiative	Initiative pass rate	Overall AGSA pass rate

Assessment of Professional Competence (APC)	• From the analysis of the results, it was evident that the African candidates did not perform well in this exam. The national pass rate for the African candidates who wrote this exam was 48% while the overall pass rate for all candidates was 68%
	• We are engaging with Saica and other relevant stakeholders to find collective, sustainable solutions and action plans, with specific support in the short term for the exam that will be written in November 2019. The following initiatives have been identified to assist the candidates in the short term:
	  • A 5-day simulation of the APC exam in November 2019 will be done by the APT team for AGSA candidates, which will focus specifically on key root causes such as taking a case study and working through the case study to do research, identify triggers and answer the tasks
	  • An e-writing workshop will be provided by the APT team for AGSA candidates to provide guidance on how to be efficient in writing the APC using a laptop. The AGSA, together with other large audit firms, will provide cases studies that can be used by future APC candidates in preparation for the APC exams, with the focus on fast tracking the candidates' understanding of different industries, identification of the impact on different business environments and creation of a strategic awareness thought process
		2018-19:
		281
		attended
		
		2017-18:
		217
		attended
			2018-19:
			41%
			pass rate
			(111 of 273)
			
			2017-18:
			67%
			pass rate
			(150 of 224)

Study support initiatives

Category	CTA 1 Pass rates %				CTA 2 Pass rates %				Initial Test of Competence (ITC) Pass rates %				APC Pass rates %			
	18-19	17-18	16-17	15-16	18-19	17-18	16-17	15-16	18-19	17-18	16-17	15-16	18-19	17-18	16-17	15-16
Trainee auditor	13	21	13	33	36	15	15	35	48	63	54	66	43	74	73	76
Non-trainee auditor	These results are not monitored by the organisation								32	60	38	45	38	60	78	77
Overall pass rate									49	63	51	61	41	67	76	77

Trainee auditor pass rates over the past four years

Saica learnership

We achieved pass rates of 41% in the APC and 48,5% in the ITC examinations. This performance is disappointing considering the progress we have made in developing our trainees. The high failure rate of African candidates in these board exams is a national phenomenon, but has a great impact on the AGSA and is a setback in our journey.

A large percentage of graduates who sit for these exams are from the AGSA. We are working with Saica, Awca, Abasa, APT and others in the profession to diagnose the problem and find a sustainable solution.

We received the public sector award from Abasa for the training office that qualified the largest number of CAs. In addition, of the 581 African candidates who passed the Saica APC written in November 2018, 76 came from the AGSA.

At the final qualifying exam (FQE) gala dinner, Abasa presented the AGSA with its award and honoured the achievement of the APC candidates, while celebrating transformation in the auditing profession.

Saiga learnership

We have reduced our intake of Saiga learnerships over the past four years, but remain committed to providing support to all participants in the scheme.

The Saiga learnership FQE was written in November 2018 by 13 Saiga trainee auditors and 10 non-trainee auditors. Of these, four (31%) trainee auditors were successful and three (30%) non- trainee auditors were successful. Overall seven (30%) of our candidates were successful in the 2018 RGA-QE.

Acca learnership

We have not recruited additional trainee auditors to the Acca learnership scheme in the past two years, leading to a significant reduction in this learnership. Currently, the Acca learnership has only one trainee auditor who needs to complete their professional examinations to register as a professional member. This trainee auditor is projected to complete their required practical experience before the end of the next financial year.

Academic trainees

We annually identify a pool of academic trainees who we second to universities during their first year of study. After successfully completing their first year, they are placed in audit business units on the trainee scheme. This model assists us to build a sustainable talent pipeline while contributing to, and supporting, academic institutions.

As a training office with the largest number of academic trainees, we seconded 20 trainee auditors to various universities during the 2018 academic year. This was an increase of 13 academic trainees from 2017.

Our contingent was made up of 60% (12) Black African female candidates and, overall, 95% (19) black African candidates, which contributed to transformation in the profile of prospective academics in auditing and accounting.

Our secondment is aligned to Saica's strategy to offer identified trainees the opportunity to develop others within the education realm.

Currently, these trainees are serving their second year of articles at the AGSA and obtaining the necessary experience within their different audits.

UNIVERSITY	NUMBER
University of Western Cape	4
University of North West	4
University of Pretoria	2
Witwatersrand University	3
University of Fort Hare	3
Rhodes University	4

Training offices

Our Saica accreditation as a training office can be likened to a license to trade for our CA(SA) learnership programme. We remain focused on ensuring that the training office environment complies with the regulations prescribed by Saica.

RISK	Target 2018-19	Actual outcomes 2018-19	Actual outcomes 2017-18
Low	6-8	4	4
Medium	7-9	9	10
High	0	0	0
Very high	0	*1	0

Saica risk ratings for the training offices

* The training office with a very high-risk rating had compliance matters highlighted.

The risk ratings exclude one training office, where the risk rating outcome had not yet been finalised by the end of both financial years. We have already implemented corrective measures to ensure that we address outstanding matters in preparation for the next assessment for compliance.

Our internal assessment suggests an improvement in the risk rating outcomes, as two offices achieved a low risk rating and 13 achieved a medium risk rating.

External bursary

The AGSA provides external bursaries to potential AGSA employees who are keen to pursue a career in the accounting and auditing professions. For this period, we awarded 13 bursaries, including three to students with disabilities. We also took over the Nkonki Inc. bursary students who met the requirements of the AGSA bursary guidelines, following the liquidation of that firm. A total of six students were accepted into the bursary scheme.

An additional 13 students at the CTA level were awarded bursaries by audit business units. By the end of the 2018 academic year, the bursary scheme had 58 students. The CTA class of the 2017 academic year yielded a 69% (35 of 51) pass rate, compared to the 50% (29 of 58) pass rate for the 2018 academic year. Despite the uninspiring academic pass rate, 31 bursary students were appointed to our trainee auditor scheme in 2019.

Academic level	Total	% Passed	% Failed
Undergraduate	73	65,75	34,25
CTA	58	50,00	50,00
Total	131	58,78	41,22

Year-end performance

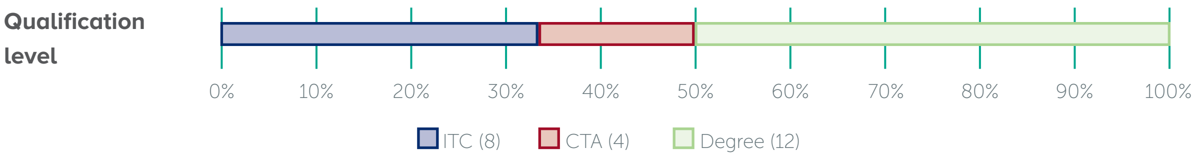
Centenary Scholarship Fund

The AGSA, as a responsible corporate citizen values, respects and recognises all South Africans, irrespective of their socio-economic background. In 2011, we established the Centenary Scholarship Fund to commemorate our 100th year. The bursary recipients were sponsored tuition fees, books, accommodation and a living allowance. The fund gave previously disadvantaged South Africans an opportunity to study accounting at higher learning institutions in South Africa.

We awarded the scholarship to 32 deserving students who were in matric in that year. These beneficiaries were drawn from each of the nine provinces, with a specific focus on rural areas. Of the 32, 18 students have completed their post-graduate qualification and entered our trainee auditor scheme; they are currently serving their learnerships in different business units and are close to qualifying as CAs(SA).

Six of the students are still pursuing their degrees through the external bursary programme and two students have been released from their contractual obligation with the organisation.

The centenary scholarship fund is now part of the overarching AGSA external bursary programme. The AGSA hosted a gala dinner for the scholarship beneficiaries to celebrate this important milestone.



Qualification level of 24 centenary scholarship fund beneficiaries

Thuthuka bursary fund

The AGSA is a funder and beneficiary of the Saica Thuthuka Bursary Fund (TBF) for university students studying to qualify as CA(SA). On completion of their tertiary studies, they join the AGSA as trainee auditors, which provides a healthy talent pipeline for our future professionals. Funding to the TBF for the 2019 academic year is R15 996 500 for 230 students. The benefit for the AGSA translated into an allocation of 64 trainee auditors with a CTA, who commenced their articles with us in January 2019.

Trainee auditors elevate AGSA prominence at Thuthuka donor breakfast

The AGSA's long-term investment in the trainee auditor scheme is motivated by the organisation's commitment to sustain and grow the profession and develop diverse leaders for the accounting and auditing industry.

A long-standing donor to the TBF, the AGSA's investment was acknowledged at the Thuthuka donor appreciation breakfast. The event prominently featured two of our trainee auditors, chosen over candidates from prominent audit firms and banks involved with the TBF.

Phuthi Tshepo Moloto, an AGSA academic trainee currently placed at the University of the Witwatersrand, made the organisation very proud when he was selected as the programme director for the breakfast. Phuthi used his debut as programme director to confirm that the AGSA produces future leaders who have diverse talents. The experience was good for my personal growth and exposure. It has contributed to my confidence levels. Now, I believe I can face a group of intimidating people and leaders in the corporate world, he said.

Lebohang Kopung, a trainee from National B, is another AGSA bright star that proudly represented the AGSA positively when she was selected as one of the key speakers at the breakfast. She urges the AGSA to continue changing people's lives through the TBF. Lebohang reminds all of us, Take heart in giving back and helping someone else.

Their selection confirms the organisation's investment in transforming and diversifying future leaders for the accounting and auditing industry. It also cements the AGSA's position as an employer of choice that develops quality professionals.

Sponsorships

We continued to contribute to the development of the profession by providing support to identified universities.

University	Sponsorship	Sponsorship amount
University of Fort Hare	Salary subvention	R4 042 747
University of Pretoria	Top performing students	R10 000
University of Cape Town	Top performing students	R28 000
Nelson Mandela University	Top Performing students	R16 000
University of the Western Cape	Top performing student	R4 000

Professional development

Viability objective 2: Attract, develop and retain great talent

Performance measure

% implementation of staff engagement initiatives / plan

2018-19 Target	2018-19 Actual
80% – 100% of actions planned for the year	100% of actions planned for the year

Improving performance and developing world-class talent requires strategic alignment and foresight. We continue to grow talent by upskilling our staff with the right skills and core competencies. To this end, we provide learning solutions that are relevant in today's business environment and are linked to our strategic objectives and the sectors in which we operate. As a learning organisation, developing people and sharing knowledge is core to how we do business. We believe it is pivotal to fulfilling our constitutional mandate as a supreme audit institution.

Leadership and management assessment development centres (LADC & MADC)

Our MADC and LADC programmes aim to provide our managers and leaders with an opportunity to benchmark their current performance and future potential against peers. Their personal development plan allows them to take control of their career by mapping their skills, competencies and aspirations. They are exposed to a range of activities tailored to their leadership experiences and objectives. The activities incorporate a variety of assessment and evaluation tools, including simulation activities, role-play, a 360-degree tool and a range of psychometrics, tests and results.

All executives in the organisation, except for those recently appointed, participated in our LADC programme, which informed their personal development plans (PDP).

We endeavour to align our assessment centres with the competencies, position requirements and culture of the organisation. Managers and employees who have been classified as high potential were exposed to the MADC, where their competencies were assessed to enable targeted interventions.

Leadership development

Developing our leaders continues to be a major focus area, with a few programmes launched during the year as part of our journey to create an enabling culture and leadership to drive strategy execution. Our cutting-edge programmes focus on strategy, values-based leadership, change, and innovative thinking. They take a novel approach to learning and unlearning. Delegates update their knowledge, absorb new skills and gain an appreciation of the dynamics of the increasingly complex environment in which we operate.

The launch of the following programmes was a highlight in our leadership development journey:

- Executive development programme (EDP) in partnership with UCT School of Business – targeted at deputy business executives and above, provides an important opportunity to learn from other leaders across industries.
- Leadership development programme (LDP) in partnership with Enterprise University of Pretoria – targeted at senior managers and managers, focuses on personal, team and leadership mastery.
- Audit development programme (ADP) in partnership with the IRBA – aimed at developing the skills required for specialisation as registered auditors and elevates our contribution to the transformation of the registered auditor profession.

These programmes have greatly enhanced our employee value proposition (EVP).

Organisational development

Viability objective 3: Create an enabling culture and leadership to drive strategy execution

Performance measure

Develop and implement a culture improvement plan

2018-19 Target	2018-19 Actual
Define the desired culture, establish a baseline and develop a plan for action	Desired culture defined, baseline established and plan for action developed

3 GOOD HEALTH AND WELL-BEING

10 REDUCED INEQUALITIES

8 DECENT WORK AND ECONOMIC GROWTH

AGSA culture plan

We strive to be a vision and values-driven organisation, recognising that culture and living our values are key building blocks. The first phase of our culture journey began in January 2018, to build an enabling culture and leadership to drive our 4V strategy and to increase staff motivation and engagement levels.

We held an organisation-wide diagnostic assessment to gauge the organisation's culture and our employee engagement levels. The target for 2018-19 was to develop and implement a culture improvement plan for the organisation.

Meeting with business units, we unpacked the underlying factors that can create an adaptive, enabling and constructive culture. These dialogues were essential, allowing employees to co-create actionable interventions for implementation in 2019-20 at a business unit level.

The executive leadership engaged in a series of workshops to reflect on and identify our key organisational culture change initiatives. They developed and adopted an organisational culture change plan by, setting the tone for implementation.

The organisational culture plan's key themes, as identified by our leaders, will focus on:

- Leadership effectiveness
- Trust, courage and fear
- Leadership alignment/engagement.

As an organisation, we are committed to addressing the identified key themes over the next three years. As we geared up to implement the amended PAA, various change management initiatives were implemented to support the delivery of this significant milestone

Employee wellness programme

Our employees are an invaluable asset and we strive to ensure their excellent mental and physical health. We are convinced that the health and wellness of our employees has a direct effect on the productivity and the financial viability of our organisation.

Our employee wellness programme (EWP) is positioned as a work-based advisory, counselling and support programme. It provides life, health, performance and wellness management services to employees and their immediate households as part of their employee benefits.

We are encouraged by the increased rate of use of the EWP and group trauma interventions (GTI). Our staff appreciated the integrated support during recent instances of threats and intimidation to our audit teams. The rate of use for these services was 29,6% while the industry benchmark was 16%. This suggests that our EWP awareness campaign has gained good traction among our staff.

Employee relations

The AGSA does not belong to a bargaining council and is not a party to any collective agreement. We hold continued social dialogue with our employees to ensure that their behaviour is guided by the code of business conduct and to create a work environment that privileges quality of life and stimulates behaviour that reconciles their economic, professional and personal interests.

We value diversity as central to our strategic goals and as a driver of excellence in our working environment. Our employment equity plan seeks to promote equal opportunity and fair treatment in employment.

The plan anchors our strategic positioning in the 21st century by creating and sustaining an environment of inclusivity, transformation, innovation and diversity, and maintaining excellence with a focus on the future.

Commission for Conciliation, Mediation and Arbitration (CCMA) disputes by outcome

	2018-19		2017-18		2016-17	
	Total	% of Total	Total	% of Total	Total	% of Total
Favourable decision	4	40	1	14,3	1	25
Unfavourable decision	1	10	0	0	0	0
Settled	2	20	3	42,9	2	50
Withdrawal by applicant	1	10	1	14,3	0	0
Ongoing	2	20	2	28,6	1	25
Total	**10**	**100**	**7**	**100**	**4**	**100**

CCMA disputes by outcomes

Of the disputes referred to the Commission for Conciliation, Mediation and Arbitration (CCMA), 20% (2) were not finalised. It should be noted that in one matter, conciliation has taken place and we had not received any referral for arbitration by 31 March 2019.

Our focus was to empower line managers with knowledge to manage employment relations matters appropriately.

AGSA occupational health and safety

During the year, we implemented the following initiatives:

- Continued to develop and implement policy and procedures for dealing with threats and intimidation of AGSA staff working at the client's premises.
- Continually provided AGSA staff with support and guidance on safety and security awareness while working at the auditee's premises.
- Performed emergency exercise drills at the Pretoria campus and all regional offices.
- Investigated the ceiling collapse at Mpumalanga business unit (Nelspruit) on 5 February 2019. There were no injuries.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

8 DECENT WORK AND ECONOMIC GROWTH

	2018 -19	2017 -18	2016 -17	2015 -16	2014 -15	2013 -14	2012-13	2011 -12
Accident and incidents reported	6	15	13	15	10	10	6	
Slip, trip and falls	1	7	2	4	5	6	1	0
Other / injury	3	3	4	7	0	3	3	0
Motor vehicle accidents	2	5	3	4	5	1	1	0
Motor vehicle accidents (fatality)	0	0	1	0	0	0	1	0
Compensation claims submitted	4	6	9	8	4	7	1	0
Total no. of employees	**±3 556**	**±3 490**	**±3 350**	**±3 320**	**±3 235**	**±3 258**	**±3 082**	**±2 912**

Accident and incident report 2011 - 2019 (all AGSA offices)

Systems and tools

Objective 4: Increase operational efficiencies

Performance measure

Optimisation of business processes

2018-19 Target	2018-19 Actual
80% - 100% of actions planned for the financial year	80% of planed actions were completed

IT solutions and organisational processes

Enterprise resource planning

Various ERP enhancements were implemented according to the priorities of the organisation and were initiated accordingly. The intention of these enhancements was to improve and streamline business processes through automated controls, which will ultimately strengthen the protection of information generated by these processes.

All enhancements, except two, were successfully implemented. The two exceptions were planned for completion over two performance years and were added to the 2019-20 priority projects. These projects were not executed due to the evolution of business requirements and resource constraints. We are currently comparing our business requirements to the available ERP systems for compatibility.

Teammate optimisation

The TeamMate optimisation initiatives were part of the broader audit software roadmap. A few initiatives were developed and planned for piloting as part of the TeamMate optimisation programme, including the following:

- Audit milestones dashboard and TeamCentral
- integration of the audit methodology into the TeamMate audit templates
- TeamRisk – evaluation
- TeamMate Analytics – evaluation pilot.

Information security framework and plan

The organisation embarked on initiatives to address information security concerns.

The managed security services project was initiated to address the immediate concerns and requirements of information and ICT security within the organisation. This project consists of four components:

- the security information and M (SIEM) service
- threats intelligence
- managed vulnerability scanning (MVS)
- cyber incident response (CIR) service.

Information management framework and solutions

As a way to ensure access to information, identify gaps in protecting sensitive information and properly preserve our corporate memory, the information management framework was implemented as envisaged in the strategic plan. We visited 14 auditees:

- The Presidency
- Department of Planning, Monitoring & Evaluation
- Department of Women
- Deeds Office
- Rural Development
- Agricultural Land Holdings
- W & R Seta
- Department of Social Development
- Armscor

- Special Defence Account
- National Development Agency
- Freedom Park
- Correctional Services
- Department of Science & Technology.

The spot checks were conducted to improve information management, including sensitive information handled by auditors during the audit process.

CONCLUSION ON THE PERFORMANCE OF THE VIABILITY STRATEGIC GOAL

We recorded an impressive set of financial results for the year ended 31 March 2019. We achieved these results by using our resources efficiently, using cost optimisation measures and strictly managing our working capital. Furthermore, these assertions are supported by management's appetite to continuously implement strategies that are geared towards safeguarding our margin of safety at an acceptable level.

An overall culture improvement plan for the organisation was developed and the initiatives are being rolled out. We continued to identify and proactively plan for the critical skills required to meet our objectives and future challenges. We built capacity in specialised skills and in leadership roles, demonstrated by the strong talent bench that enabled most of our recruitment to be internal hires.

Our human capital business model provides greater levels of innovation and expertise as a driver of strategic talent and business outcomes. In view of our current and future business challenges, we identified three strategic imperatives:

- Create an enabling culture and leadership to drive strategy execution
- Attract, nurture and retain great talent
- Improve operational efficiencies.

The ICT strategy was developed through wide consultation with the relevant AGSA stakeholders. It will be presented to Exco for approval in the new financial year.

The solutions that have been implemented under the ERP continuous improvement programme, the Asmis enhancements for the PFMA and MFMA cycles, and continued TeamMate optimisation efforts contributed to the improvement in business processes.

The challenges

While the trainee auditor scheme has been successful in delivering 1 009 CAs(SA) in the last twenty years, the overall outcomes for Saica ITC and APC exams fell short of the targeted improvement. This area is currently receiving focused leadership attention to improve the results.

Two business cases specific to identifying the future roadmaps for the AGSA ERP platform and application systems integration (including data integration) strategy were not finalised. We anticipate that filling critical positions in ICT will contribute positively towards our capability to mitigate the strategic risk to safeguarding and protecting our information.

Additionally, to address the scarcity of information and cyber security skills in ICT, significant focus was placed on developing these key capabilities within ICT. This was achieved by augmenting the current ICT skills with necessary expertise and services.

Introducing these new capabilities will contribute positively towards our strategic imperatives as they relate to safeguarding and protecting information.

Future outlook

We will maintain the strategies and initiatives currently in place to ensure our financial sustainability. The importance of tightening expenditure cannot be overemphasised. Managing cash flow strictly and diligently will be imperative, especially as we are moving into the uncharted territory of the amended PAA. This may bring other unforeseen costs arising from the enhanced functions and mandate.

We will continue to create platforms that enable us to attract and retain skilled and motivated employees. Our focus for next year will be to continue implementing our three-year culture change plan and improving our Saica exam results.

We will begin implementing the new ICT strategy, particularly the initiatives identified for the first year. Among these key initiatives are information management and information security to protect our information and the auditees' information assets in our custody.

We will also pursue strategic partnerships with cloud providers to leverage cloud-based security technologies to protect information assets across the organisation.

The evaluation of the next two releases of TeamMate (R12 and TeamMate+) is scheduled for 2019-20.

VISION and values driven (V4)

We are committed to continuing to demonstrate that clean administration and societal transformation is not only achievable, but is also a desirable state for all our stakeholders. We see running an exemplary administration and practising good governance as our licence to engage and recommend actions for improvement to our auditees. This is a necessary condition for the success of our audit work in the public sector.

AGSA transformation programme

Vision and values driven objective 1: Drive the AGSA's transformation programme

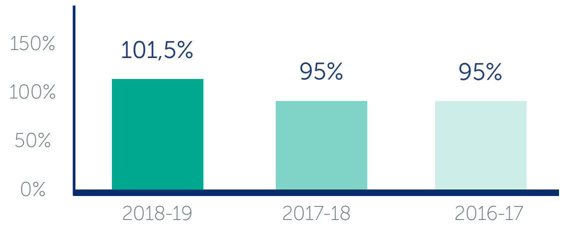
Performance measure

B-BBEE Level

2018-19 Target	2018-19 Actual
Level 2	Level 1

We use B-BBEE to drive our effort on transformation. In 2018-19, we continued to strengthen our contribution to the transformation objectives of the country. Our milestone of achieving B-BBEE level 1 status for the first time in our history is a demonstration of this contribution. We have worked hard on our processes over the last two years, building up to this achievement. Over this period, our score also improved from 95% in 2016-17 to 101,50% in 2018-19.

The cumulative improvement was driven by our staff's commitment, effective collaborative initiatives among different experts and our strengthened processes and monitoring plans. We embraced the transformation spirit in our procurement practices by actively promoting inclusive economic growth, skills development programmes that identify the potential in people, employment practices that promote inclusivity and community initiatives that make a difference to the lives of the communities.

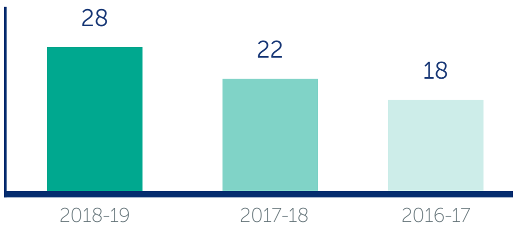


B-BBEE performance over the past three years

Our staff's support of, and buy-in to, the transformation agenda has greatly improved our business units' B BBEE scorecard performance.

Year	Overachieved - level 1 (100%)	Achieved - level 2 (95% - 99,99%)	Partially achieved - level 3 (90% - 94,99%)	Not achieved - level 4 (75% - 89,99%)
2018-19	6 BUs	22 BUs	3 BUs	0 BUs
2017-18	6 BUs	16 BUs	7 BUs	2 BUS
2016-17	0 BUs	18 BUs	4 BUS	9 BUs

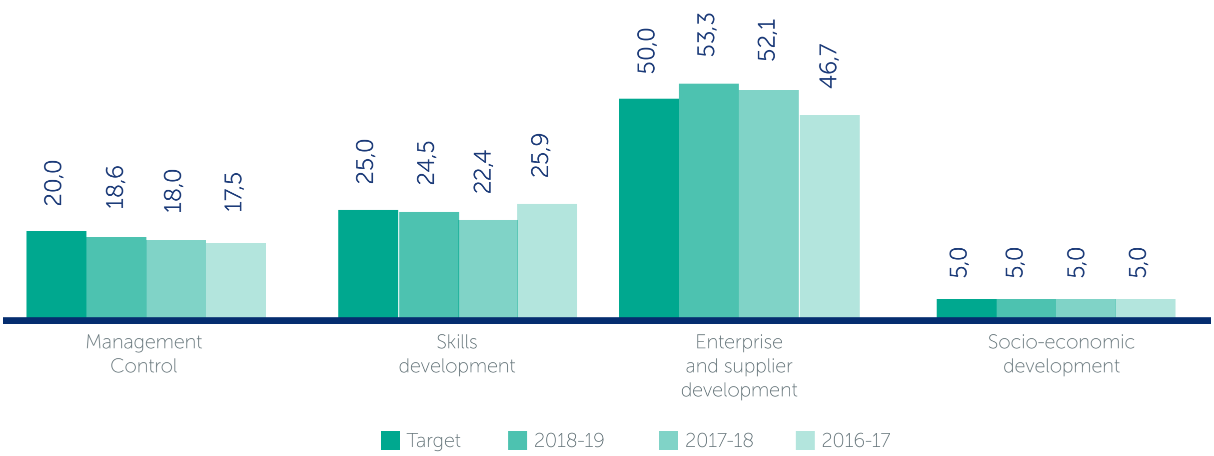
Business unit B-BBEE scores



Number of business units with level 1 and 2

B-BBEE scorecard performance per element

The graph below shows the significant improvement against the B-BBEE scorecard targets for each B-BBEE element over the past three years.

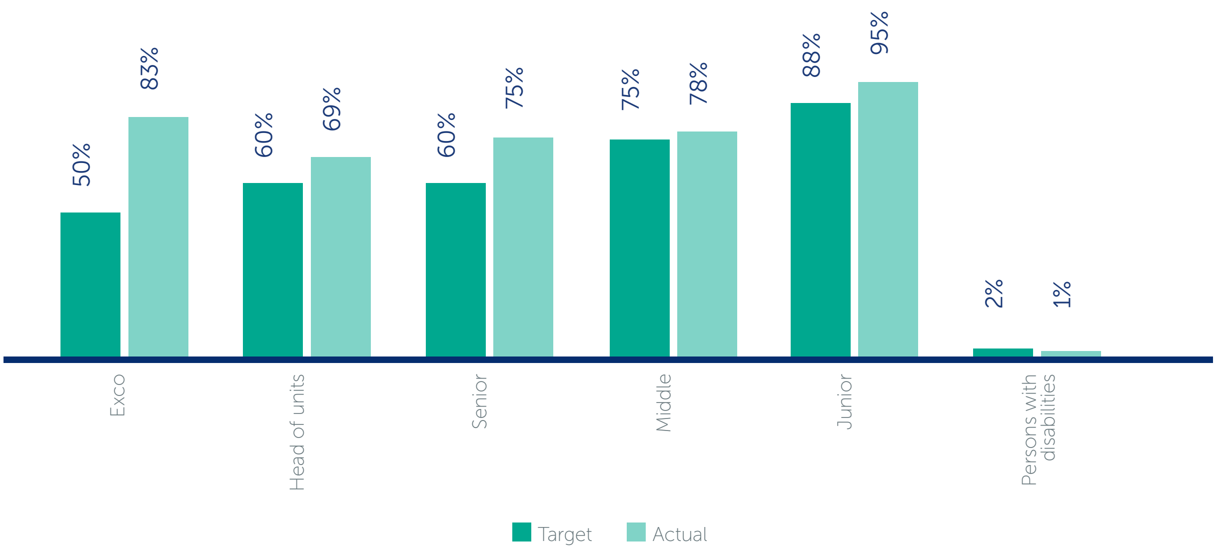


B-BBEE three-year performance for each scorecard element (target is for 2018-19)

Management control

Leading by example, we continue to drive equity. We achieved our management control targets at executive, senior, middle and junior management. We also encouraged recruitment and retention of persons with disabilities.

We achieved a gradual improvement in our endeavour to attract and retain black people with disabilities in the last three years. Our score improved from 0,90% (2017-18) to 1,24% in 2018-19, with a 2% target. The organisation is aware that some of our facilities may not be conducive to people with disabilities; however, this has now become requirement for all further accommodation. Four of our eleven buildings are wheelchair friendly.



Management control year-end results

Skills development

Our contribution to alleviating the country's skills shortage continues, particularly in the chartered accountancy profession. A total of 1 211 trainee auditors participated in our learnership and internship programmes. This exceeded the 2,5% of black people participating in learnerships listed in the generic codes.

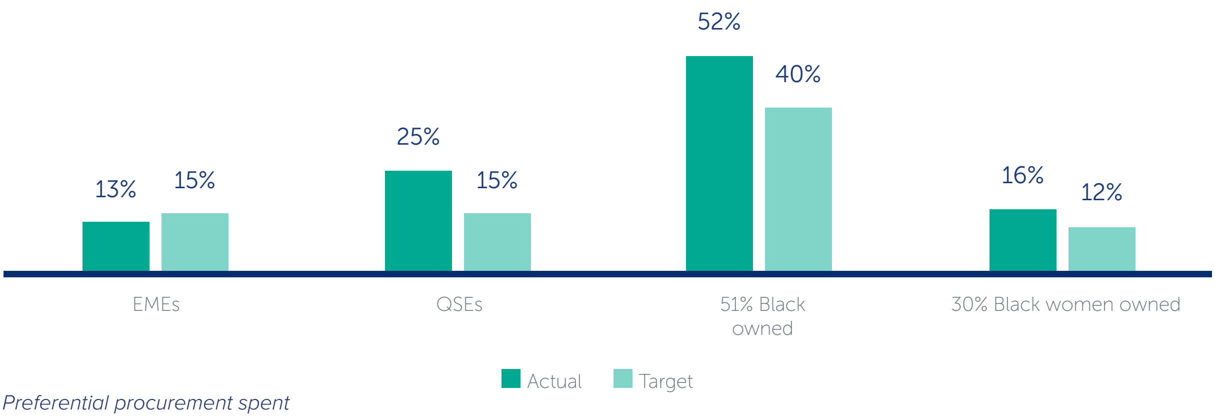
We also had 131 learners benefitting from our bursary scheme, with 58% passing their exams at the end of 2018. As part of developing skills and nurturing our talent, we achieved 20% against a target of 6% of the skills development levy (SDL) for training black employees.

Enterprise and supplier development

Preferential procurement

As part of our contribution to the country's economic growth, we continued to strengthen our support of EMEs and QSEs that are 51% black and 30% black women-owned businesses. We also intensified our procurement from businesses owned by the youth in response to the high youth unemployment rate.

We continue to be open to subcontracting and partnering opportunities for small businesses in our tender processes.



Preferential procurement spent

Enterprise and supplier development programme

Our small ESD programme successfully introduced our small and medium-sized audit firms into the mainstream economy. We have facilitated their entry into the industry, accelerated their growth and ensured the sustainability of black and black female-owned firms, which transforms the auditing landscape. ESD beneficiaries have created 160 jobs in the 2018-19 financial year, which in turn enables them to hire additional trainees. Four of these firms opened new branches.

The ESD programme started with 20 beneficiaries at the beginning of the performance period. An additional seven beneficiaries during the year expanded the programme to 27 beneficiaries. The programme provides financial as well as non-financial support to beneficiaries. Aside from support, ESD beneficiaries are eligible to receive ad-hoc outsourcing allocations.

A budget of R4 000 000 was allocated to the ESD programme and R4 140 179 (104%) was spent on initiatives to assist ESD beneficiaries.

For the 2018-19 financial year, we obtained full B-BBEE points under ESD by achieving the ESD objectives. We also obtained bonus points on the ESD programme as a result of the following;

- Outsourcing allocations that helped create jobs in 2018-19
- Six beneficiaries of ESD graduated to supplier development.

Key firm growth

Eight firms were adopted into the programme during the financial year. Three ESD beneficiaries in the programme later merged with two small firms to form a medium-sized audit firm. Their growth within the programme led to four firms opening new branches, which included assistance with Saica accreditation and outsourcing allocations. In an effort to assist the ESD beneficiaries become training offices, the programme assisted seven firms with Saica applications.

Description	2018-19	2017-18	2016-17
Outsourcing baseline (including ad-hoc)	R66 710 918	R17 763 315	R3 347 434
Outsourcing consolidated baseline	R443 783 922	R448 355 798	R485 001 532
Percentage allocation to ESD firm baseline	15%	4%	1%

Outsourcing allocation to ESD firms

We achieved an important milestone as ESD beneficiaries shared 15% of the total outsourcing allocations compared to a target of 10%.

B-BBEE level	Number of firms	Allocation R	Actual spend R	%
1	45	324 699 481	411 763 878	70
2	14	169 618 199	94 090 627	16
3	3	17 295 065	20 576 091	3
4	21	47 904 095	49 865 155	8
6	3	4 493 936	2 118 532	0
7	4	6 247 925	971 621	0
8	8	13 368 850	12 119 427	2
N	6	4 871 256	3 883 733	1
Total	**104**	**588 498 807**	**595 389 065**	

Outsourced audit work expenditure

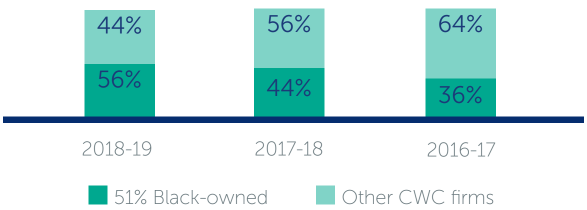
Of our outsourced audit work, 85% (R506 million) was allocated to B-BBEE levels 1 and 2 audit firms.

Firm size	# of firms	Allocations (R)	%	Actual paid (R)	%
Generic – large i.e. turnover above R50 million)	6	356 226 350	60	355 435 367	60
QSE – medium-sized, i.e. revenue above R10 million but less than R50 million	17	122 031 610	21	128 985 869	21
EME – small i.e. maximum R10 million	81	110 240 846	19	110 967 828	19
Total	**104**	**588 498 807**	**100**	**595 389 065**	**100**

	Firm size	# of firms	Amount paid (R)	%
All suppliers	All sizes	104	595 389 065	100
Less than 51% black-owned firms	QSE	3	53 585 016	9
	EME	53	29 769 453	5
	Generic	6	178 616 719	30
Black-owned firms	QSE - Medium	7	250 063 407	42
	EME - Small	35	83 354 469	14
	Generic - Large	0	-	0

Expenditure on 51% black-owned firms (including recognition level)

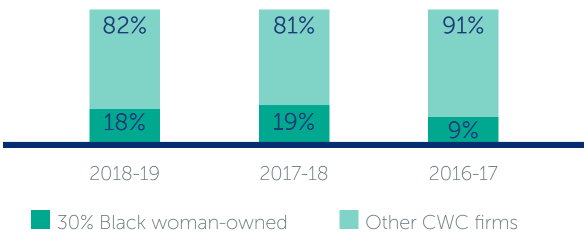
Our outsourcing expenditure on 51% black-owned firms over the past three years increased from 35% in 2016-17 to 56% in 2018-19. For 2018-19, the allocation was R301 million.



	Firm size	# of firms	Amount paid (R)	%
Black-owned firms	QSE - medium	7	7 501 902	7
	EME - small	13	35 366 110	33
	Generic - large	2	64 302 019	60
Total		22	107 170 031	100

Expenditure on 30% black women-owned firms (including recognition level) compared to overall suppliers

We increased our outsourcing expenditure on 30% black women-owned firms in the past three years from 9% in 2016-17 to 18% in 2018-19. For 2018-19 the allocation was R107 million.



Socio-economic development

We strive to play a positive role in uplifting our communities by actively supporting community initiatives that have an impact on the lives of the people of South Africa. A budget of R780 000 was allocated to three key socio-economic development (SED) initiatives:

- adopted school programme
- Mandela Day initiatives
- sponsorship of historically disadvantaged universities.

We created a trainee auditee pipeline using an SED budget of R395 000 for the adopted school programmes and the sponsorship of historically disadvantaged universities. The remaining budget of R384 000 was allocated to the Mandela day initiative.

Adopted school initiatives progress

The audit business units continued with their yearly activities at the 16 adopted schools across the nine provinces. They share a three-year partnership with these rural, semi urban and special needs schools. Business unit's implementation plans included:

- Highlighting our role and mandate at the school
- Providing learners with stationery and study material
- Providing extra maths lessons
- Providing financial assistance to learners to register for the National Benchmark Test (NBT) as well as transport to the universities
- Assisting learners to apply for AGSA bursaries
- Assisting learners with university applications
- Mandela day activities at the adopted schools to improve the facilities at the school.

The auditor-general and deputy auditor-general provided support to the Filadelfia Secondary School, a special needs school for children with disabilities.

We allocated R340 000 towards this initiative. Audit business units spent R339 200 (R20 000 allocated to 15 rural and semi urban schools and R40 000 to the special needs school). Three learners from the adopted schools have been awarded bursaries.

Mandela Day initiatives

The theme for 2018, was taking action against poverty in all forms. Business units spent their allocated R384 000. We supported a number of non-governmental organisations (NGOs) in various spheres such as:

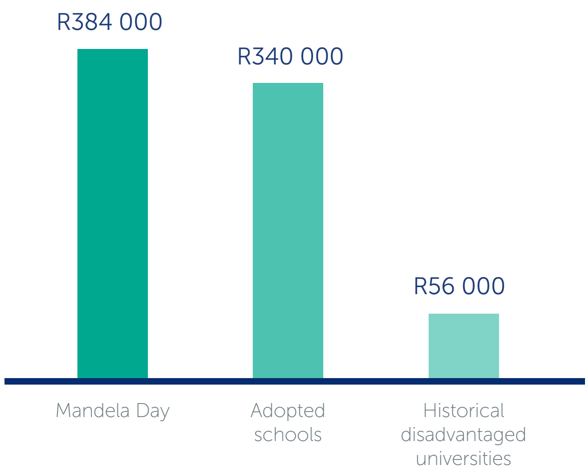
- Adopted schools
- Special needs schools
- Homes for people living with disabilities
- Homes for the aged
- Orphanages
- Homes for abused women and children

Historically disadvantaged universities

We provided financial support to grow the chartered accountancy profession. We sponsored accounting students affiliated to Abasa and Awca with a total contribution of R56 000 (R7 000) to each at the following previously disadvantaged universities:

- University of Fort Hare – Alice branch
- University of Fort Hare – East London
- University of Limpopo
- University of KwaZulu-Natal
- University of South Africa

The sponsorship supported students with induction and mentorship events where we were given an opportunity to make them aware of our role and mandate, and showcase the AGSA bursary scheme and its benefits.



Socio-economic initiatives

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Demonstrate clean administration

Continuously enhance ownership and accountability of business process owners

Combined assurance
The combined assurance model is aimed at optimising the assurance obtained from the different assurance providers across the organisation's landscape. The different assurance providers encompass:

- management as a first line of assurance
- risk management, ethics and quality control as the second line of assurance
- internal audit, external audit and other external assurance providers as a third line of assurance.

Our 2018-19 combined assurance matrix outlined a minimum of 16 key organisational risks that were identified and mapped to the different assurance providers. This ensured that we received adequate and appropriate assurance on the implementation of controls related to the risks.

We received the highest level of assurance on 12 risks, with medium to low assurance on the three remaining risks. Our leadership and the audit committee are satisfied with our first-line assurance on two risks. Although preferred, we could not obtain independent assurance on the risk failure to have a positive impact, as this is relevant to our stakeholders (misalignment between stakeholder expectation and our mandate). We believed that assurance from a subject matter expert would be ideal; however, we could not fulfil this due to delays in sourcing the assurance provider. This assurance will be rolled over to the 2019-20 performance period, as the risk remains relevant.

Continuously review processes and tools to ensure their adequacy and responsiveness to changes in the environment

Part of this risk includes the periodic review of organisational policies and procedures. In line with our policy framework, we develop or revise policies and procedures in response to emerging risks, changes in legislation or business requirements. Organisational policies affected by the amended PAA were therefore revised or new policies were developed.

We strive to ensure compliance with all applicable laws, codes, standards and best practices in a way that achieves our strategic objectives and aligns with our vision and values. We reviewed and updated our compliance regulatory environment and assessed the effectiveness of our controls to meet these compliance requirements. The strength of the processes aimed at addressing legislative provisions satisfies us that there are no regulatory penalties, sanctions or fines for contraventions or non-compliance with statutory obligations.

Continue to monitor controls performance

The state of our control environment remains relatively healthy. However, we have taken note of the slow response to addressing IT-dependent control gaps, reported by internal and external auditors. Our focus remains to develop and implement certain technology-related interventions, enabling us to improve the findings closure rate of 78%.

The outstanding audit findings can generally be attributed to findings where the response requires us to enhance systems (mostly PeopleSoft), strengthen the information technology environment and enrich some policies and procedures. In this performance period, we appointed new persons in key positions in the information technology environment to address the control weaknesses identified.

We remain committed to ensuring absolute adherence to defined internal controls through the internal controls monitoring process. This is a periodic self-assessment activity that each business unit undertakes, which is complemented by an independent assessment undertaken by the risk management function. Based on the independent internal controls assessment observations, we have improved in our conformity to defined internal controls.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Our ethical character

Vision and values driven objective 3: Safeguard the ethical character of the organisation

Performance measure

% decisive and timely action against reported ethical breaches

2018-19 Target	2018-19 Actual
100%	100%

Cultivate an environment that enables the desired ethical behaviour

Overseeing and monitoring the implementation of the ethics policy

Laying the foundation for ethical behaviour and conduct, the ethics policy establishes boundaries, guidelines, and best practices for acceptable behaviour in our environment. The ethics policy also enables us to create levels of uniformity and consistency in employee rights and responsibilities, to eliminate differing interpretations when it comes to ethical conduct. The policy principles and adopted codes provide direction to employees about their ethical obligations, while the revised procedures demonstrate how to give effect to these principles.

In March 2019, the ethics policy was revised to respond to the environmental influences prevailing at that time, including potential ethical threats related to the amended PAA. As part of this process, we enhanced the controls to manage the ethical threats that arise from employees seeking to join the employ of auditees. To ensure that our processes remain aligned to best practise, these policy amendments were benchmarked with other institutions and private firms.

Enabling engagement on ethics

We recognise that optimal compliance to the ethics policy requires continuous support and an acceleration of initiatives that promote ethical behaviour in the AGSA.

We embraced ethical values and principles we deem central to a healthy ethical environment. To facilitate high levels of integrity, we have:

- engaged employees on what is expected of them using various platforms
- compelled leadership to set an example by expressing their commitment and leading staff engagements
- shared the ethics message, and repeated it often
- ensured that employees have platforms and avenues for reporting unethical conduct.

We continued to engage with all our business units to fulfil the objectives of our ethics engagement plan. Doing so ensures that our employees are conscious of, and are empowered to respond to, the ethical dilemmas and challenges they encounter during the course of their work.

Ethics awareness was also raised at sessions led by the ethics office. Employees' appreciation of these sessions is testament to their value to the overall ethics objective. These ongoing engagements continue to be used as a temperature gauge of how well employees understand and embrace the new policy principles.

Enhance the complaints management process and roll out a whistle-blowing mechanism

At the end of the 2017-18 performance year, eight complaints were still being investigated. Seven of them were finalised in the 2018-19 performance period and the outcomes communicated to the complainants. Only one has yet to be finalised.

At 31 March 2019, 37 complaints were recorded on the complaints register for the 2018-19 performance year. Of these, 33 were finalised and their outcomes communicated to the respective complainants. Four complaints were in various stages of the investigation process and were consequently rolled over to the 2019-20 performance period.

Category	Description	Lodged	In progress	Lodged	In progress	Lodged	In progress
		2018-19		2017-18		2016-17	
1	Complaints not in the policy	19	0	7	0	0	0
2	Audit-related complaints	3	0	5	1	5	0
2 + 3	Audit and conduct complaints	4	2	5	0	2	0
3	Conduct and administration complaints	11	2	10	0	9	0
4	Complaints about the auditor-general, not the institution	0	0	0	0	0	0
5	Complaints related to the Protected Disclosures Act	0	0	0	0	0	0
	Total	**37**	**4**	**27**	**1**	**16**	**0**

Complaints reported over the past three years

We successfully implemented the whistle-blowing initiative internally to support our strategic objective to safeguard the ethical character of the AGSA.

We believe this is a critical step to detect and appropriately address any matters of unethical conduct or any complaints regarding the office, its operations and employees.

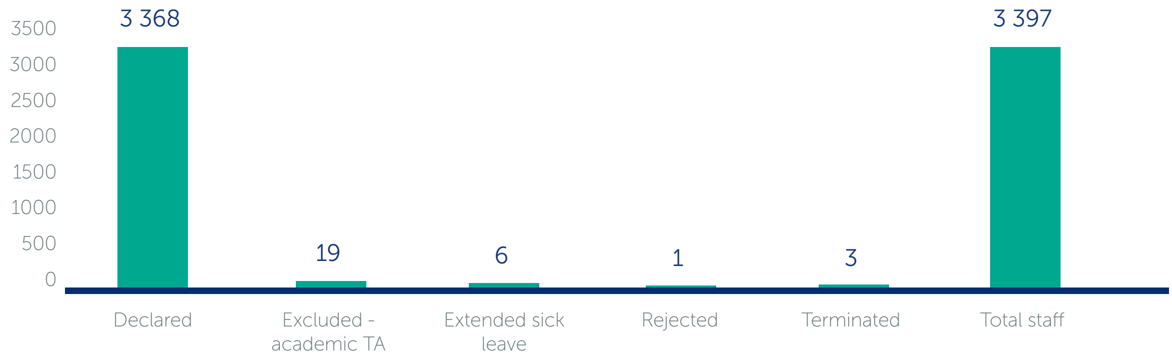
We envisage rolling out the whistle-blowing mechanism to external stakeholders during the course of the 2019-20 performance year.

Ethical and independence requirements

The ethics policy requires employees to reaffirm their understanding and commitment to our adopted ethical principles in their annual declarations.

The annual declaration cycle for the 2018-19 performance year was completed with a 99% declaration rate, maintained from the previous performance year. The remaining 1% were:

- 19 academic trainee auditors who were not permanent employees
- employees who were on extended sick leave
- employees whose employment was terminated after the declaration period started.



Annual declaration rate 2018-19

Enable the leadership with knowledge and information to deal decisively with ethical breaches

As a result of the complaints investigated, we noted isolated incidents of conflict of interest not declared, audit process weaknesses and, in some instances, trends of compromised internal processes such as recruitment.

Findings for each complaint were presented to our leadership, with recommendations to remedy the weaknesses or misconduct identified. We are satisfied that appropriate action was taken for all concluded cases.

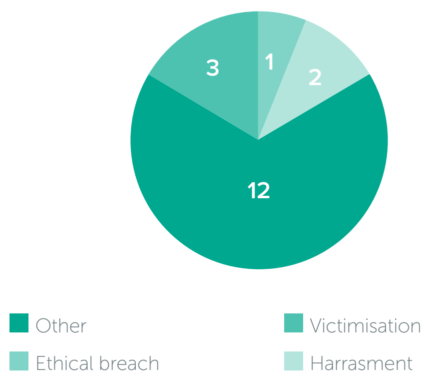
We are rolling out an extensive awareness drive targeting the entire leadership team (senior manager and above), to cover various topics such as the complaints management process, arising trends and emerging issues. This also covers implementing remedial actions to minimise a recurrence of concluded cases.

Addressing concerns about unethical conduct and integrity matters

We have a dedicated and automated ethics register to support the effective application of the ethical principles. The register allows employees to record threats encountered while either conducting audits or fulfilling their corporate duties. Such incidents may pose a threat to their compliance with the fundamental ethical principles.

We assessed the matters recorded to determine the best way to assist employees. Assistance included referrals to our security office, the EWP or a line manager in a position to assist. Referrals were informed by the merits of each case. Where the intervention was solely within the ethics function, the necessary processes were initiated.

From 1 April 2018 to the end of the performance period, 18 ethical threats in varying categories were declared, as detailed on the graph below.



Ethical threats

Demonstrate quality and transparency of reporting in our accountability instruments (the strategic plan and budget and the integrated annual report)

The *AGSA strategic plan and budget for 2019-2022* was tabled on 15 February 2019. The document outlines the financial and performance plan for the organisation over the reporting period 1 April 2019 to 31 March 2022.

Our 2017-18 Integrated annual report was tabled in parliament on 28 September 2018. The report included the AGSA business model, which articulated the inputs, processes, outputs and outcomes of our business, and our carbon footprint of 44,296 metric tons of CO_2. This footprint was high considering the size of our organisation, but we noted the following considerations:

- 2017-18 was the first year of implementation and this resulted in change management challenges as well as duplicate reporting
- In some instances, users provided inaccurate information.
- We also audit in the outskirts of South Africa, which contributed to the higher emissions related to our travel.

CONCLUSION ON THE PERFORMANCE OF THE VISION AND VALUES STRATEGIC GOAL

The state of our control environment, although relatively healthy, was significantly weakened by our slow response to addressing the IT-related control gaps. However, based on the independent internal controls assessment, there are positive indications that conformity to defined internal controls improved compared to the previous performance period.

We revised our organisational policies affected by the amended PAA and developed new policies in response. These included policies such as the material irregularity, audit engagement performance, acceptance and continuance, and investigations policies.

In line with our objective of leading by example and being an ethical and good corporate citizen, we reviewed and updated the compliance environment, and assessed the effectiveness of our controls. The strength of our controls satisfied us that we were not in contravention of our statutory obligations.

We were alive to the potential ethical threats and risks of the changes in the PAA that could affect our employees. We therefore revised and enhanced the ethics policy to address the changing environment and improved the guidance provided through the policy.

Our independent whistle-blowing mechanism was implemented internally to enable employees to report any wrongdoing. The use of the tool will mostly depend on a strong ethical culture within the organisation. We are proud of our level 1 B-BBEE contributor status, achieved for the first time in the organisation's history. Our score improved from 95% in 2016-17 to 101,50% in 2018-19.

Key challenges

Our low audit finding closure rate where the response was system enhancement (mostly PeopleSoft), strengthening the IT environment and enriching policies and procedures is a concern.

Information and cyber security remain concerns. We implemented measures to address this risk and included a strategic measure on information and cyber security in our 2019-22 strategic plan and budget.

We were unable to acquire a case management system for a complaints management process due to the organisation-wide cost containment measures.

Our drive towards employing people with disabilities remains a challenge; however, there has been a marked improvement of 1,24% of our workforce against a 2% target.

Future outlook

The state of our control environment has been significantly weakened by the slow response to IT challenges. We will ensure that our internal control environment remains strong by continuously assessing the effectiveness of our processes and closing any control gap identified.

While being unable to acquire a complaints management, we will explore the potential of leveraging our case management system on the case management software being procured for the amended PAA. We will also explore available alternatives.

The ethics sessions will continue into the next year to elevate the importance of ethics in the minds of our employees. We will also work towards ensuring that our control environment and ethical standards remain above reproach.

Achieving our transformation vision will be a continuous endeavour in the areas of equity, a culture defined by fairness, inclusivity, meaningful economic empowerment, enterprise and supplier development, social investment and growing the CA profession.

We will endeavour to maintain and improve our level 1 B-BBEE contributor status by strengthening our processes and increasing the number of our people with disabilities in our employ.

SECTION FIVE

The reports and statements set out below comprise the financial statements:

FOCUS ON PRIORITIES

SDG 11 calls for sustainable cities and communities. The goal is to create habitable areas that are safe and viable for households. The MTSF also calls for adequate housing and improved living environments. In line with our strategic plan, the SDGs and MTSF, the estimates of national expenditure and topics covered in the Sona, human settlements remains a focus of our infrastructure audits. An effective and coordinated value chain among the role players within human settlements remains part of the solution to overcoming challenges to service delivery and ensuring that citizens benefit from sustainable human settlements.

HUMAN SETTLEMENTS

VALUE CHAIN

National Department of Human Settlements

Sustainable human settlements and improved quality of household life

Administration	Policy, strategy and planning	Delivery support	Housing development finance
R440m	**R93m**	**R246m**	**R31.6b**

to

Human settlements development grant (HSDG) to build houses

Provincial government

Housing projects to create adequate housing

Funds transfered to provinces and municipalities

Local government - including:

Municipalities, metro's and public entities
SHRA, HDA, NGHFC, NURCHA, RHLF, NHBRC, EAAB, CSOS

Urban settlements development grant (USDG) for bulk infrastructure

Provincial and local government where bulk infrastructure is created and managed, and service delivery takes place

AUDIT COMMITTEE'S **REPORT**

Introduction

The audit committee (the committee) is a statutory structure, constituted in terms of section 40 of the Public Audit Act no. 25 of 2004 (PAA) and is accountable to the auditor-general and the Standing Committee on the Auditor-General (Scoag). The committee's powers and responsibilities are outlined in its terms of reference.

In accordance with its terms of reference, in this report, the committee presents a synopsis of how it fulfilled its powers and responsibilities for the financial year ended 31 March 2019.

Overview of activities

The committee met at least three times in the performance year under consideration in line with their work plan, excluding special meetings and audit committee workshops convened when required.

The audit committee members' attendance for the year under review is set out in the section 2 of the 2018-19 Integrated annual report.

As a consequence of amendments to the PAA, the terms of reference of the audit committee were revised in order to align the establishment and appointment of the audit committee and its members with the new requirements of the Act. Previously, the establishment and appointment of the audit committee was undertaken by the deputy auditor-general; with the new amendments, the powers are now vested in the auditor-general.

Figure 1, provides a high-level synopsis of key audit committee activities undertaken during the performance period.

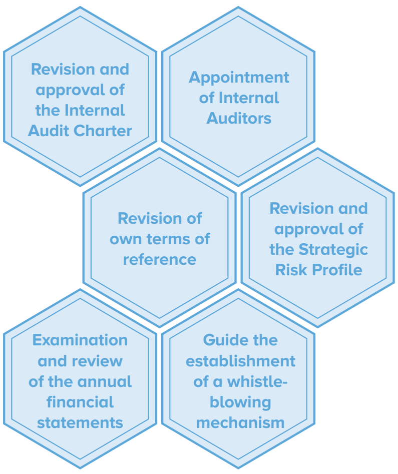


Figure 1: Key audit committee activities

Details of the oversight activities undertaken by the committee are outlined in the below topics.

Meeting with Scoag

The committee met with Scoag to present its 2017-18 audit committee report, incorporated into the organisation's integrated annual report. Additionally, the audit committee provided feedback on the progress of the appointed external auditors (Crowe's) transformation journey, in line with the contractual condition as endorsed by Scoag.

The committee is satisfied with the transformation strategy outlined by Crowe, and the progress made thus far. The committee will continue to monitor and hold Crowe accountable in its efforts to meet the agreed transformation commitments.

Evaluation of the financial statements

The committee reviewed the audited financial statements as well as the integrated annual report for the year ended 31 March 2019. No significant matters were identified by the committee relating to the financial statements. In arriving at that conclusion, the committee:

- considered the confirmation received from management relating to the going concern
- considered accounting treatments, significant unusual transactions and accounting judgements
- considered the appropriateness of accounting policies adopted and any changes
- considered the extent and effectiveness of internal financial controls
- reviewed compliance with the International Financial Reporting Standards and the PAA
- reviewed whether the financial statements fairly presents the financial position of the AGSA at 31 March 2019, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended

- reviewed whether the integrated annual report presents the economic, social and environmental performance of the AGSA
- reviewed the management representation letter
- considered any problems identified, and reviewed any significant legal matters that could have a material impact on the financial statements
- reviewed the report of the external auditors, considered the accounting policies and the summary of uncorrected misstatements.

The committee is satisfied that the financial statements and the integrated annual report present a balanced view of the organisation's financial performance for the period under review, as well as the quality and integrity of the information contained in the integrated annual report.

Internal audit

The committee received, interrogated and considered reports from internal auditors, including the message contained in the written assessment on the state of the internal control environment for the 2018-19 financial year. Although concerns are raised around the state of the organisation's information technology environment, the committee notes that concerns are not pervasive. It is the committee's view that the concerns raised are concentrated in one functional area out of numerous functional areas, and management has made firm commitments to aggressively address the weaknesses noted. Furthermore, during the current performance period, the committee:

- reviewed and approved the internal audit strategy
- reviewed and approved the annual internal audit plan
- revised the internal audit charter in order to incorporate recommendations arising out of the independent quality assessment performed in the previous year
- evaluated the independence, effectiveness and performance of the internal audit function and the chief audit executive
- received assurance that an adequate and effective system of internal control and risk management is being maintained
- met separately with the internal auditors, without management present, to ensure that the quality, credibility and effectiveness of the internal audit process is maintained at all times.

As a result of the above, the committee is satisfied that there were no weaknesses in the design and operating effectiveness of the control environment in the period under consideration that have not been addressed or are not being addressed by management.

Lastly, the tenure of the current internal auditors (SNG-GrantThorton) comes to an end with the presentation of this report. Accordingly, the committee initiated procurement processes that led to the appointment of Ngubane & Co as the outsourced internal auditors for three years.

Ngubane & Co is a black-owned multidisciplinary professional services firm. The firm was established in 1995 as an accounting and auditing firm and has evolved into its current form over the years. Ngubane & Co has presence in most provinces of the Republic of South Africa. We welcome Ngubane & Co and wish them well for their tenure as internal auditors to the AGSA.

The committee would like to thank SNG-GrantThorton and the lead director Ms Bukkie Adewuyi for the services and value provided to the committee and the organisation at large.

External audit

The audit committee is satisfied that the external auditor, Crowe, is independent and not conflicted as required by Section 39(2)(c) of the PAA. In relation to the external auditors, during the current performance period, the committee:

- reviewed and approved the annual audit plan, including the proposed audit approach, audit risks, key findings, budgeted fee and terms of engagement
- ensured that non-audit services are evaluated and do not compromise the independence of the external auditor
- met separately with the external auditors, without management present, to ensure that the quality, credibility and effectiveness of the external audit process is maintained at all times.

In accordance with its terms of reference, the committee recommends that Scoag reappoint Crowe as the external auditor in accordance with section 39 (1) of the PAA for the next performance year.

Risk management and the effectiveness of internal controls

In recognition of its role as an integral component in the oversight of the risk management process, the committee reviewed the activities of the risk management function. Significantly, the committee:

- had oversight of the strategic risks of the organisation, where it monitored the implementation of the mitigations agreed with management to manage the risks to an acceptable level, as well as approved the strategic risk profile for the 2019-20 performance period
- had oversight of the assurance received from the internal auditors on the risk management function
- reviewed and approved the risk appetite statement and monitored the organisation's performance in relation to the appetite measures defined. The committee also approved the risk appetite statement for the 2019-20 performance period
- reviewed and approved the combined assurance matrix to ensure that the assurance is obtained for all material risk areas, and that assurance received by the different assurance providers is adequate. The committee approved the combined assurance model and matrix for application in the 2019-20 performance period
- reviewed issues raised by internal audit functions and the corrective action committed to and undertaken by management to address the associated exposure.

The committee is satisfied with the effectiveness of its oversight of the governance of risk and the effectiveness of the design and implementation of the internal controls to address organisational risks.

Furthermore, the committee considered the information presented to it relating to the control environment as reported by the various assurance providers, and is pleased to report that while there are areas requiring improvement, the internal controls in place are largely adequate and effective, with an overall risk rating of "medium".

Assessment of the finance function and the chief financial officer

The committee considered the composition, experience and skills set of the finance function as well as the performance and expertise of the chief financial officer and is satisfied they were appropriate to fulfil their responsibilities.

Conclusion

The committee is satisfied that it has complied with all its statutory and other responsibilities. Having had regard to all factors that may have an impact on the integrity of the financial statements and the integrated annual report, the committee recommends to the deputy auditor-general that she may sign the integrated annual report and the accompanying financial statements.

REMUNERATION **COMMITTEE'S REPORT**

Background statement

The auditor-general is responsible for determining the terms and conditions of employment of all employees in the organisation, in accordance with section 34(3) of the Public Audit Act (PAA). The remuneration committee (Remco), is established to provide specialised advice to the auditor-general on remuneration and related matters, while the final decision-making power rests with the auditor-general.

Remco was established as an oversight governance structure with the primary purpose of ensuring that the organisation's remuneration principles, policies and practices are fair and transparent, and promote the achievement of strategic objectives.

The organisation developed a remuneration policy, procedures and processes that are made available to all employees through the organisation's intranet. Any amendments to the policy principles are communicated to employees following consultations (where applicable).

The organisation implements the policy principles in accordance with the provisions of its management approval framework (MAF).

Overview of the main provisions of the AGSA remuneration policy

The organisation achieved a significant milestone in the amendments to the PAA, which came into effect on 1 April 2019. One of the key amendments relates to the role of Remco. The sections of the PAA have been amended as follows:

- Section 5 – establishment, composition and functions of Remco
- Section 7 – the Independent Commission must consult Remco on the salary, allowances and benefits of the auditor-general
- Section 34 – The auditor-general must consult Remco on the determination of salaries, allowances and benefits of staff of the AGSA.

This amendment will strengthen the organisation's commitment to accountability and transparency in remuneration matters.

The organisation is constantly looking for ways to enhance the reward offering, ensure internal parity and align itself to the developments in the external environment. To this end, the organisation has revised its reward philosophy. The main focus of the revision was to change the current performance-based salary increase approach and introduce the cost-of-living adjustment (Cola) to employee salaries, to offset the effects of inflation on employees. Furthermore, other components of the reward philosophy were revised to take into consideration the need for the organisation to have a robust employee value proposition. To bring the reward philosophy into effect, the reward policy was revised and approved, and came into effect in March 2019.

The AGSA subscribes to a reward philosophy that promotes a culture of high performance. The following are key principles that shape our policy:

- The reward philosophy and policy are approved by the organisation's executive committee (Exco). The policy principles and practices are reviewed from time to time to ensure they are aligned with best practice.

- The organisation promotes transparency in its remuneration practices by communicating them to all employees.

- The remuneration policy promotes internal and external equity by ensuring that all positions in the organisation are graded based on the best practice job evaluation system. Furthermore, the organisation regularly benchmarks its pay scales as well as broader remuneration practices. The basis for determining pay grades is consistently applied across all job levels.

- Annual salary adjustments are based on market information, CPI and affordability.

- The organisation has a well-designed performance bonus scheme. Performance bonuses are discretionary and based solely on performance.

- The organisation promotes the professionalisation of employees by providing a conducive environment to advancing employee qualifications and subsequently recognising the achievement of qualifications with monetary rewards.

- The organisation has a vigorous performance management system, with clearly defined performance targets that are sufficiently challenging to drive a high performance culture.

- All remuneration transactions are approved in accordance with the relevant level of authority and provisions of the remuneration policy.

The total short-term, long-term and termination benefits paid to the members of the executive committee are disclosed in our financial statements

Refer to pages 175 to 176 in the financial statements.

Internal and external factors that influenced remuneration

Remuneration considerations and decisions are always based on a combination of external and internal factors. The external factors include:

- market benchmarks, trends and practices
- changes in legislation relating to remuneration
- environmental factors such as stakeholder perceptions
- the organisation's reputational considerations.

Internal factors affecting the organisation, such as staff retention and employee engagement, are also considered.

Key areas of focus and key decisions taken by the remuneration committee during the reporting period

Over the period, the committee considered the following matters:

- The committee proposed amendments to ensure its terms of reference aligned to the amended PAA.

- Review and recommendations on annual salary increases (including trainee auditors) based on Cola and performance bonuses.

- Monitoring the implementation of the revised total reward philosophy.

- Executive market benchmarking to determine the remuneration positioning of executive pay.
- The culture and employee engagement survey results.

Use of remuneration consultants

While the organisation strives to use its internal resources to deliver on remuneration initiatives, it should be noted that there have been areas of specialty where external remuneration consultants were used due to the nature of expertise required.

These include:

- Market benchmarking – This is an area of specialty that can only be provided by service providers that are accredited as salary survey providers for the purposes of, among other things, developing pay scales, providing salary increase projections and best practices on executive remuneration.

- Group risk benefits (i.e. group life, disability, funeral cover as well as the group pension fund) are all administered through the use of external service providers. These functions require specialist expertise and in-depth knowledge of various financial regulations and legislation.

- Job evaluation – The organisation uses the services of external service providers for its job evaluation processes.

The committee has satisfied itself that the AGSA remuneration policy has achieved its objectives.

Remuneration awarded to individual members of the governing body and executive management during the reporting period

Members of the governing body are remunerated according to the rate in the Guideline on fees for audits done on behalf of the Auditor-General of South Africa (AGSA). This currently translates into R3 028 per hour.

The AGSA remunerates its executives in terms of the AGSA remuneration policy. The details of executives' remuneration are reported in section 5 of the 2018-19 Integrated annual report.

Future focus areas

The organisation achieved a significant milestone relating to the amendments to the PAA. The amended PAA came into effect on 1 April 2019, and the committee will craft processes to strengthen the organisation's commitment to accountability and transparency in remuneration matters.

In addition to the above, a further key focus area aligned to the objectives of the organisation's people strategy, will be monitoring the impact of implementing the total reward philosophy.

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 AGSA as at the end of the financial year and the results of its operations, change in equity and cash flows for the year then ended, in conformity with International Financial Reporting Standards (IFRS) and the PAA and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. External auditors are engaged to express an independent opinion on the financial statements.

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 AGSA's focus on risk management is on identifying, assessing, managing and monitoring all known forms of risk across the organisation. While operational risk cannot be fully eliminated, we endeavour 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 2020 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. The going concern basis assumes that the AGSA will be able to realise its assets and discharge its liabilities and commitments in the normal course of business.

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 143 to 189, which have been prepared on the going concern basis, were approved and signed by me on 31 July 2019 on behalf of the AGSA.

Maluleke

Tsakani Maluleke
Deputy Auditor-General

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the Auditor-General of South Africa (AGSA) as set out on pages 143 to 189, which comprise the statement of financial position as at 31 March 2019, the statement of surplus or deficit and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the AGSA as at 31 March 2019, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the AGSA in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The deputy auditor-general (DAG) is responsible for the other information. The other information comprises the annual report which includes the audit committee's report, the remuneration committee's report and the DAG's report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the deputy auditor-general and the audit committee

In terms of section 43 of the PAA the DAG is responsible for the preparation and fair presentation of these financial statements in accordance with the IFRS and for such internal control as is determined as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the DAG is responsible for assessing the AGSA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

The audit committee is responsible for overseeing the AGSA's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISAs, we exercise professional judgment and maintain professional scepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the DAG's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the AGSA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained to the date of our auditor's report. However, future events or conditions may cause the AGSA to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the DAG and the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide the DAG and the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on other legal and regulatory requirements

Report on predetermined objectives

Introduction

We have audited the report on performance against predetermined objectives of the AGSA for the year ended 31 March 2019, as set out on pages 73 to 133 of the integrated annual report 2018-19.

The deputy auditor-general's responsibilities

The DAG is responsible for the preparation and fair presentation of the report on performance against predetermined objectives as required by the PAA, and for such internal controls as determined necessary to enable the preparation of a report on performance against predetermined objectives that is useful and reliable.

Auditor's responsibility

As required by the PAA, 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 (Revised): 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-add
- 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 provisions from the Public Audit Act.
Consistency: Objectives, indicators and targets are consistent between the 2018-2021 Strategic plan and budget and the 2018-2019 IAR as required by the Public Audit Act.
Measurability: Indicators are well defined and verifiable, and targets are specific, measurable and time bound, as required by best practice.
Relevance: The indicators relate logically and directly to aspects of the AGSA's mandate and the realisation of strategic goals and objectives, as required by the Public Audit Act and the 2018-2021 Strategic plan and budget tabled in Parliament.

Reliability of information

Validity: Reported performance has occurred and relates to the AGSA.
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 (Revised). 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 detailed 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.

Crowe JHb

Crowe JHb

Raakesh Khandoo
Partner
Registered Auditor

Sandton
31 July 2019

STATEMENT OF **FINANCIAL POSITION**

	Notes	2019 R'000	2018 R'000
ASSETS			
Non-current assets		137 431	147 852
Property, plant and equipment	2	102 845	108 860
Intangible assets	3	34 586	38 992
Current assets		1 366 435	1 265 543
Trade and other receivables	4	642 981	601 921
Cash and cash equivalents	5	723 454	663 622
Total assets		**1 503 866**	**1 413 395**
RESERVES AND LIABILITIES			
Reserves		907 735	853 394
General reserve	6	831 318	781 086
Special audit services reserve	7	4 964	4 964
Accumulated surplus	8	71 453	67 344
Liabilities			
Non-current liabilities		66 939	81 903
Retirement benefit obligations	9	51 745	58 000
Straight-lining of leases liability	10	15 194	23 903
Current liabilities		529 192	478 098
Retirement benefit obligations	9	2 684	2 572
Straight-lining of leases liability	10	8 448	12 392
Trade and other payables	11	518 060	463 134
Total reserves and liabilities		**1 503 866**	**1 413 395**

STATEMENT OF **SURPLUS OR DEFICIT AND OTHER COMPREHENSIVE INCOME**

	Notes	2019 R'000	2018 R'000
Revenue	12	3 463 507	3 246 612
Local services rendered		3 463 507	3 246 174
International services rendered		-	438
Direct audit cost		(2 189 822)	(2 062 815)
Recoverable staff cost	13	(1 424 165)	(1 326 372)
Contract work	14	(595 389)	(574 678)
Subsistence and travel	15	(170 268)	(161 765)
Gross surplus		**1 273 685**	**1 183 797**
Other income		1 315	1 260
Contribution to overheads		**1 275 000**	**1 185 057**
Non-recoverable staff cost	13	(846 451)	(787 122)
Depreciation expense	2	(29 254)	(40 611)
Amortisation expense	3	(4 862)	(17 177)
Other operational expenditure	16	(385 173)	(340 357)
Retirement benefit obligations - current service costs	9	(700)	(793)
Operating surplus/(deficit) before finance charges		**8 560**	**(1 003)**
Interest income	17	58 694	67 065
Interest expense	17	(5 234)	(5 898)
Surplus for the year		**62 020**	**60 164**
Other comprehensive income			
Items that will not be reclassified to surplus or deficit			
Retirement benefit obligations - Actuarial gains	9	**9 433**	**7 180**
Total comprehensive surplus for the year		**71 453**	**67 344**

STATEMENT OF **CHANGES IN EQUITY**

	General reserve R'000	Special audit services reserve R'000	Accumulated surplus/ (deficit) R'000	Total R'000
Balance at 1 April 2017	**795 664**	**4 964**	**(14 578)**	**786 050**
Transfer of accumulated deficit to reserves	(14 578)	-	14 578	-
Total comprehensive surplus			67 344	67 344
Surplus for the year	-	-	60 164	60 164
Other comprehensive income				
- Actuarial gains	-	-	7 180	7 180
Balance at 31 March 2018 as published	**781 086**	**4 964**	**67 344**	**853 394**
Increase in impairment of trade receivables due to application of IFRS 9			(9 885)	(9 885)
Decrease in revenue due to application of IFRS 15			(7 227)	(7 227)
Restated balance at 31 March 2018	**781 086**	**4 964**	**50 232**	**836 282**
Transfer of accumulated surplus to reserves	50 232	-	(50 232)	-
Total comprehensive surplus			71 453	71 453
Surplus for the year	-	-	62 020	62 020
Other comprehensive income				
- Actuarial gains	-	-	9 433	9 433
Balance at 31 March 2019	**831 318**	**4 964**	**71 453**	**907 735**
Notes	6	7	8	

STATEMENT OF **CASH FLOWS**

	Notes	2019 R'000	2018 R'000
Cash flows from operating activities			
Cash receipts from auditees	18.1	3 363 644	3 349 224
Total direct audit cost payments	18.2	(2 169 798)	(2 082 990)
Operational expenditure payments	18.3	(1 164 281)	(1 151 926)
Interest received	17	55 091	67 065
Interest paid	17	-	(15)
Net cash inflow from operating activities		**84 656**	**181 358**
Cash flows from investing activities			
Additions to property, plant and equipment	2	(26 454)	(60 678)
Additions to intangible assets	3	(456)	(11 510)
Proceeds from sale of property, plant and equipment	2	2 086	1 223
Net cash outflow from investing activities		**(24 824)**	**(70 965)**
Net increase in cash and cash equivalents		**59 832**	**110 393**
Cash and cash equivalents at the beginning of the year		663 622	553 229
Cash and cash equivalents at the end of the year	5	**723 454**	**663 622**

NOTES TO THE **FINANCIAL STATEMENTS**

Accounting policies

1. Presentation of financial statements

The financial statements have been prepared on the going concern basis in accordance with IFRS, issued by the International Accounting Standards Board (IASB), and in line with the requirements of the 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 amortised cost or unless stated otherwise, and incorporate the principal accounting policies set out below. These accounting policies are consistent with the previous year, unless otherwise stated.

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

Standard / Interpretation	Effective date	Details	Impact
IFRS 9 – Financial instruments	01/01/2019	Prepayment features with negative compensation. The narrow-scope amendment allows companies to measure particular prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met.	No impact on the AGSA financial statements
IFRS 16 - Leases	01/01/2019	A 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.	Should IFRS 16 have been implemented during 2018-19, the impact on the AGSA financial statements would have been as follows: • Increase in amortisation cost of R78 million • Decrease in other operational expenditure of R84 million • Increase in interest expense of R40 million • Increase in accumulated surplus of R24 million • Increase in property, plant and equipment of R351 million • Increase in lease liability of R375 million • Decrease in operating lease liability of R24 million

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

Standard / Interpretation	Effective date	Details	Impact
IFRS 16 - Leases (continued)		IFRS 16 contains expanded disclosure requirements for lessees. IFRS 16 supersedes the following standards and interpretations: • IAS 17: Leases • IFRIC 4: Determining whether an arrangement contains a lease • SIC-15: Operating leases - incentives • SIC-27: Evaluating the substance of transactions involving the legal form of a lease.	
IAS 1 - Presentation of financial statements **IAS 8** - Accounting policies, changes in accounting estimates and errors	01/01/2020	Disclosure initiative: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.	The impact on the AGSA's financial statements is yet to be determined.
IAS 19 - Employee benefits	01/01/2019	Plan amendment, curtailment or settlement (Amendments to IAS 19): The amendments require an entity to use the updated assumptions from a remeasurement net defined liability or asset resulting from a plan amendment, curtailment or settlement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.	No impact on the AGSA financial statements.

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:

Revenue recognition

In accordance with IFRS 15, management is required to make an assessment of the collectability of amounts recorded as revenue. When management identifies

1.1 Significant judgements and accounting estimates (continued)

that there is doubt on the collectability of revenue, that portion of revenue is only recognised when the amount is received by the AGSA. This adjustment does not affect the legal nature of the transaction, any amounts invoiced to auditees remains due and payable in the ordinary course of business and payable in terms of the PAA within 30 days of invoice. The AGSA is entitled under law to pursue the collection of any debts owed and due to the AGSA.

In determining the collectability of amounts recorded as revenue, management have taken into account the payment history of the related auditees over the past 2 - 3 years when no payments have been received, or if current circumstances suggest that an auditee will not be able to meet its obligation to the AGSA. These amounts will only be recognised as revenue once they have been received by the AGSA.

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 on the appropriateness of the assumptions is taken from independent actuaries. 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. (Refer to note 1.7)

Allowance for impairment of receivables

An allowance for impairment of trade receivables accounts for expected credit losses, and changes thereto, to reflect changes in credit risk since initial recognition of financial assets. The calculation of the amount to beallowed for impairment of receivables requires the use of estimates and judgements. (Refer to note 1.5)

The AGSA always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

AGSA expected credit loss rates:

	Current	30 days	60 days	90 days	120 days	150 days	180 days	181+ days
National	0%	0%	0%	1%	1%	3%	3%	100%
Provincial	0%	0%	1%	3%	5%	9%	13%	100%
Local								
Local municipality	6%	11%	17%	22%	29%	35%	43%	100%
District	1%	1%	3%	7%	11%	19%	20%	100%
Metro	0%	0%	0%	0%	0%	0%	0%	100%
Statutory	1%	2%	6%	10%	16%	18%	19%	100%
Other debtors	2%	4%	12%	19%	26%	32%	39%	100%
Non audit debtors	100%	100%	100%	100%	100%	100%	100%	100%

1.1 Significant judgements and accounting estimates (continued)

Fair value of ring-fenced debtors

The fair value of ring-fenced debtors is calculated using the prescribed interest rate and the remaining periods of the outstanding ring-fenced agreements. Since the amount was insignificant and considered immaterial, no adjustment was made to the amount owed by ring-fenced debtors.

Annual evaluation of property, plant and equipment and intangibles

To review property, plant and equipment and intangibles for possible impairment, changes in useful lives and changes in residual values at the end of each financial year, reference is made to historical information and the intended use of assets. (Refer to notes 1.2 and 1.3)

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 use, and the intended use, of the asset. Depreciation is calculated on the straight-line method to write off the cost, less residual value, of each asset over its estimated useful life as follows:

	Useful life	
ITEM	**2019**	**2018**
Computer equipment	8 years	3 to 8 years
Motor vehicles	7 to 10 years	5 years
Furniture and fittings	6 to 19 years	6 to 19 years
Office equipment	5 years	3 to 5 years
Leasehold improvements	Over the period of the lease	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 lives are mainly based on historical information relating to the use of the assets. 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	
ITEM	**2019**	**2018**
Enterprise resource management system - PeopleSoft	14 years	14 years
Other software	8 years	3 years

1.3 Intangible assets (continued)

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 generate probable economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and overheads directly attributed to preparing the asset for use. 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 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:

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

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 providing 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

IFRS 9 requires an expected credit loss model to be used in impairing financial assets. This model requires the AGSA to account for expected credit losses and changes thereto at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. It is no longer necessary for a credit loss event to have occurred before impairments are recognised. The AGSA has elected to apply the simplified approach for measuring

1.5 Financial instruments (continued)

the loss allowance at an amount equal to lifetime credit losses for trade receivables. 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 allowance. Reversals of impairment losses are recognised in surplus or deficit.

The AGSA has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the AGSA's previous accounting policy stated below.

In the comparative period, impairment allowances were recognised when there was 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.

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 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.

1.7 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

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 employee's 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

1.7 Employee benefits (continued)

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 recognised in 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 recognised in 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, dependent on the category of leave. The value of leave is recognised in the statement of financial position as a short-term employee benefit.

1.8 Revenue

The new IFRS 15 establishes a single, comprehensive and robust framework for the recognition, measurement and disclosure of revenue. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

- Identify the contract with the customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contracts.
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The AGSA has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18. The details of accounting policies under IAS 18 are disclosed separately if they are different from those under IFRS 15 and the impact of changes is disclosed in note 27.

The AGSA generates revenue through the rendering of audit services to the public sector. The AGSA has 3 main revenue streams:

- Own hours - audit services performed by the AGSA
- Contracted work recoverable - audit services contracted out to 3rd parties and performed on behalf of the AGSA
- Subsistence and travel - amounts recovered from auditees for costs of subsistence and travelling of AGSA's audit staff in the performing of their duties.

Revenue is recognised for all revenue streams above over time as the services are rendered and is measured based on the consideration specified in a contract with an auditee to the extent that the amounts are collectable. Revenue consists of amounts net of value-added tax. In terms of the PAA, amounts are due and payable within 30 days of the invoice date.

In the comparative period, revenue was measured at the fair value of the consideration received or receivable and was recognised in the accounting periods in which the services were rendered and when the outcome could be estimated reliably. The outcome of a transaction could be estimated reliably when all the following conditions were satisfied:

- the amount of revenue could be measured reliably
- it was probable that the economic benefits associated with the transaction would flow to the organisation
- the costs incurred for the transaction could be measured reliably.

1.9 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.

1.10 Losses through criminal conduct

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

1.11 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 according to the IFRS definition.

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.

2 Property, plant and equipment

2019	Cost R'000	Accumulated depreciation R'000	Carrying amount R'000
Computer equipment	141 868	(79 543)	62 325
Motor vehicles	8 006	(5 391)	2 615
Office equipment	3 303	(2 364)	939
Furniture and fittings	64 994	(42 919)	22 075
Leasehold improvements	43 709	(28 818)	14 891
	261 880	**(159 035)**	**102 845**

The carrying amounts are reconciled as follows:	Opening carrying amount R'000	Additions [1] R'000	Disposals R'000	Depreciation charge R'000	Closing carrying amount R'000
Computer equipment	71 271	17 116	(2 457)	(23 605)	62 325
Motor vehicles	1 568	1 200	-	(153)	2 615
Office equipment	788	273	(2)	(120)	939
Furniture and fittings	19 401	2 301	(480)	853	22 075
Leasehold improvements	15 832	5 620	(332)	(6 229)	14 891
	108 860	**26 510**	**(3 271)**	**(29 254)**	**102 845**

[1] Included in additions is an amount of R56 000 accrued at yearend but not yet paid.

	2019 R'000
Proceeds on disposal of property, plant and equipment	2 086

2 Property, plant and equipment (continued)

2018	Cost R'000	Accumulated depreciation R'000	Carrying amount R'000
Computer equipment	147 722	(76 451)	71 271
Motor vehicles	7 337	(5 769)	1 568
Office equipment	3 198	(2 410)	788
Furniture and fittings	63 535	(44 134)	19 401
Leasehold improvements	45 432	(29 600)	15 832
	267 224	**(158 364)**	**108 860**

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	40 421	56 538	(1 325)	(24 363)	71 271
Motor vehicles	2 664	-	-	(1 096)	1 568
Office equipment	878	514	(26)	(578)	788
Furniture and fittings	25 701	758	(10)	(7 048)	19 401
Leasehold improvements	20 500	2 868	(10)	(7 526)	15 832
	90 164	**60 678**	**(1 371)**	**(40 611)**	**108 860**

	2018 R'000
Proceeds on disposal of property, plant and equipment	1 223

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 20.1).

3 Intangible assets

2019	Cost R'000	Accumulated amortisation R'000	Carrying amount R'000
Computer software - purchased			
Enterprise resource management system - PeopleSoft	17 288	(4 633)	12 655
Other software	54 041	(32 110)	21 931
	71 329	**(36 743)**	**34 586**

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
Computer software - purchased					
Enterprise resource management system - PeopleSoft	14 363	-	-	(1 708)	12 655
Other software	24 629	456	-	(3 154)	21 931
	38 992	**456**	**-**	**(4 862)**	**34 586**

2018	Cost R'000	Accumulated depreciation R'000	Carrying amount R'000
Computer software - purchased			
Enterprise resource management system - PeopleSoft	17 288	(2 925)	14 363
Other software	53 585	(28 956)	24 629
	70 873	**(31 881)**	**38 992**

3 Intangible assets (continued)

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
Computer software - purchased					
Enterprise resource management system - PeopleSoft	15 106	-	-	(743)	14 363
Other software	29 556	11 510	(3)	(16 434)	24 629
	44 662	**11 510**	**(3)**	**(17 177)**	**38 992**

4 Trade and other receivables

	2019 R'000	2018 R'000
Trade receivables (refer to note 23.2) [2]	744 323	649 595
Allowance for impairment of receivables [3]	(137 959)	(87 144)
Net trade receivables	606 364	562 451
Staff debtors	11 456	12 081
Prepayments	24 955	27 176
Other debtors	206	213
	642 981	**601 921**

[2] The AGSA has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated (refer to note 27).

[3] Allowance for impairment of receivables

	2019 R'000	2018 R'000
Balance at the beginning of the year	(87 144)	(177 367)
Adjustment of opening balance due to IFRS 9	(9 885)	-
Restated balance at the beginning of the year	(97 029)	(177 367)
Used during the year	1 511	53 603
Adjustment of allowance for impairment of receivables (refer to notes 16 and 18.3)	(42 441)	36 620
Balance at the end of the year (refer to note 23.2)	**(137 959)**	**(87 144)**

In determining the recoverability of trade receivables, the AGSA considered any change in quality of the trade receivables from the date that the credit was initially granted to the reporting date.

5 Cash and cash equivalents

	2019 R'000	2018 R'000
Investment reserved for specific liabilities [4]	168 465	159 536
Call account at Public Investment Corporation	85 388	159 536
Notice deposit	83 077	-
Overnight call account	1 948	1 834
Notice deposit	319 879	147 176
Current bank account	233 162	355 076
	723 454	**663 622**

[4] Investment reserved for specific liabilities

The liabilities covered by this investment include the following:

	2019 R'000	2018 R'000
Post-retirement benefits: medical care contributions (refer to note 9) [5]	54 429	60 572
13th cheque accrual (refer to note 11)	8 792	9 117
Leave pay accrual (refer to note 11) [6]	115 853	111 334
Repayment to former TBVC states employees - deductions of salary over-payments	195	195
	179 269	**181 218**

[5] The future service liability for post-retirement benefit: medical care contributions totalling R3 968 000 (2018: R5 374 000) 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.

[6] Only R83 777 773 (2018: R81 910 652) of the leave pay accrual is ring-fenced through the investment reserved for specific liabilities. The balance of R32 075 094 (2018: R29 423 793) is covered through the current account as this can be encashed within the current year.

	2019 R'000	2018 R'000

6 General reserve

	2019 R'000	2018 R'000
Balance at the beginning of the year	781 086	795 664
Transfer of accumulated surplus/(deficit) to general reserve (refer to note 8)	50 232	(14 578)
Balance at the end of the year	**831 318**	**781 086**

Accumulated surplus that was recommended by the Standing Committee on the Auditor-General (Scoag) 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

	2019 R'000	2018 R'000
Balance at the beginning and end of the year	**4 964**	**4 964**

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 Scoag established in terms of section 55(2)(b)(ii) of the Constitution.

8 Accumulated surplus

	2019 R'000	2018 R'000
Balance at the beginning of the year	67 344	(14 578)
Adjustment of opening balance due to IFRS 9	(9 885)	-
Adjustment of opening balance due to IFRS 15	(7 227)	-
Restated balance at the beginning of the year	**50 232**	**(14 578)**
Transfer of accumulated (surplus)/deficit to general reserve (refer to note 6)	(50 232)	14 578
Total comprehensive surplus for the year	71 453	67 344
Balance at the end of the year	**71 453**	**67 344**

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

	2019 R'000	2018 R'000

9 Retirement benefit obligations

	2019 R'000	2018 R'000
Post-retirement benefits: medical care contribution	**54 429**	**60 572**
The liability is reconciled as follows:		
Balance at the beginning of the year	60 572	63 587
Current year provision	(3 499)	(504)
Current service costs	700	793
Actuarial gains	(9 433)	(7 180)
Remeasurements due to experience adjustments	(3 048)	(6 272)
Remeasurements due to demographic assumptions	-	(42)
Remeasurements due to financial assumptions	(6 385)	(866)
Interest expense adjustment on retirement benefit obligations (refer to note 17)	5 234	5 883
Less: Payments made	(2 644)	(2 511)
Balance at the end of the year (refer to note 5)	**54 429**	**60 572**
Non-current portion	51 745	58 000
Current portion	2 684	2 572
	54 429	**60 572**

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 2019 by Alexander Forbes using the projected unit credit method.

The valuation is based on the following principal actuarial assumptions:	2019	2018
The discount rate reflects the timing of benefit payments and is based on market bond yields.	10,5%	8,9%
Subsidy increase rate (based on the inflation rate)	6,7%	6,0%
Expected retirement age	63/65	63
Number of continuation members	219	210
Average age of continuation members	70,0	69,4
Percentage continuation members married	76%	75%
Number of in-service members	125	135
Average age of in-service members	53,9	53,6
Average years of past service of in-service members	29,2	28,8

9 Retirement benefit obligations (continued)

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

	2019		
	Discount rate		
	Assumption 10,50%	**-1%**	**+1%**
Accrued liability 31 March 2019 (R'000)	54 429	61 677	48 487
% change	-	13,3%	-10,9%

	Subsidy increase rate	
	Assumption 6,70%	**0%**
Accrued liability 31 March 2019 (R'000)	54 429	27 759
% change	-	-49,0%

	Expected retirement age		
	Assumption 63/65 years	**1 year younger**	**1 year older**
Accrued liability 31 March 2019 (R'000)	54 429	55 569	53 362
% change	-	2,1%	-2,0%

9 Retirement benefit obligations (continued)

	2018		
	Discount rate		
	Assumption 8,90%	**-1%**	**+1%**
Accrued liability 31 March 2018 (R'000)	60 572	69 538	53 331
% change	-	14,8%	-12,0%

	Subsidy increase rate	
	Assumption 6,00%	**0%**
Accrued liability 31 March 2018 (R'000)	60 572	31 028
% change	-	-48,8%

	Expected retirement age		
	Assumption 63 years	**1 year younger**	**1 year older**
Accrued liability 31 March 2018 (R'000)	60 572	61 799	59 211
% change	-	2,0%	-2,2%

	2019 R'000	2018 R'000
10 Straight-lining of leases liability		
Non-current portion	15 194	23 903
Current portion	8 448	12 392
Total straight-lining of leases liability	**23 642**	**36 295**

	2019 R'000	2018 R'000

11 Trade and other payables

	2019 R'000	2018 R'000
Trade payables	58 981	45 154
Accruals	55 261	47 737
13th cheque accrual (refer to note 5)	8 792	9 117
Leave pay accrual (refer to note 5)	115 853	111 334
Performance bonus accrual	192 918	180 095
Staff creditors	7 694	7 009
VAT and PAYE	78 561	62 688
	518 060	**463 134**

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
2019						
Trade payables	**58 981**	**22 557**	**26 910**	**2 171**	**2 440**	**4 903**
2018						
Trade payables	**45 154**	**6 776**	**26 236**	**8 866**	**1 704**	**1 572**

	2019 R'000	2018 R'000

12 Revenue [7]

	2019 R'000	2018 R'000
Local services rendered	3 463 507	3 246 174
Own hours	2 708 606	2 510 169
Contract work recoverable (refer to note 14)	585 339	574 678
Subsistence and travel (refer to note 15)	169 562	161 327
International services rendered - subsistence and travel (refer to note 15) [8]	-	438
	3 463 507	**3 246 612**

[7] The AGSA has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated (refer to note 27). The amount of revenue invoiced but not recognised for the current period is R 22 765 000.

[8] International income relates to the African Union Commission, the Southern African Customs Union (SACU) and Pan African Parliament audits.

13 Staff cost

	2019 R'000	2018 R'000
Management salaries (refer to note 22.1)	45 766	44 380
Other non-recoverable staff salaries	450 953	398 272
Other staff expenditure	227 582	199 439
Performance bonus	188 108	164 313
Group life scheme	31 151	26 738
Other employer contributions	8 323	8 388
Course fees and study assistance	85 087	107 401
Adjustment of leave pay accrual	37 063	37 630
Total non-recoverable staff cost	**846 451**	**787 122**
Recoverable staff cost (part of direct audit cost)	1 424 165	1 326 372
Total staff cost	**2 270 616**	**2 113 494**
Average number of staff	**3 508**	**3 472**

	2019 R'000	2018 R'000

14 Contract work

Contract work recoverable (refer to note 12)	585 339	574 678
Contract work non-recoverable	10 050	-
	595 389	**574 678**

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.

15 Subsistence and travel

Subsistence and travelling recoverable (refer to note 12)	169 562	161 765
Subsistence and travelling non-recoverable	706	-
	170 268	**161 765**

This represents subsistence and travel cost of AGSA staff while performing their duties. No mark-up is applied to subsistence and travel.

	2019 R'000	2018 R'000

16 Other operational expenditure

	2019 R'000	2018 R'000
Auditors' remuneration - statutory audit services	3 831	2 363
Adjustment of allowance for impairment of receivables (refer to notes 4 and 18.3)	42 441	(36 620)
Governance costs	1 184	1 374
ICT services	69 617	61 456
Internal audit fees	3 499	3 531
Legal costs	7 585	5 609
Loss on disposal of property, plant and equipment (refer to note 18.3)	1 185	151
Operating leases - land and buildings	118 098	115 111
Operating leases - equipment	4 890	5 690
Other operational expenses (excluding staff cost)	24 363	21 735
Outsourced services	11 501	15 464
Receivables written off as uncollectable	1 142	57 719
Recruitment costs	14 511	15 820
Stakeholder relations	26 333	21 279
Stationery and printing	6 874	7 076
Subsistence and travelling non-audit	37 804	33 604
Telephone and postage	10 315	8 995
	385 173	**340 357**

17 Interest

	2019 R'000	2018 R'000
Interest income		
Interest income - bank, investments and debtors		
Interest income on bank and investments	45 057	35 974
Interest on overdue debtors accounts - received	10 034	31 091
	55 091	67 065
Interest on overdue debtors accounts - accrued	3 603	-
	58 694	**67 065**
Interest expense		
Interest on lease payments	-	(14)
Interest on repayment of salary over-payments in the former TBVC states	-	(1)
Interest expense adjustment on retirement benefit obligations (refer to note 9)	(5 234)	(5 883)
	(5 234)	**(5 898)**

	2019 R'000	2018 R'000

18 Notes to the cash flow statement

18.1 Cash receipts from auditees

	2019 R'000	2018 R'000
Revenue	3 463 507	3 246 612
Net (increase)/decrease in trade receivables	(99 863)	102 612
	3 363 644	**3 349 224**

18.2 Total direct audit cost payments

	2019 R'000	2018 R'000
Direct audit cost	(2 189 822)	(2 062 815)
Net increase/(decrease) in trade payables	20 024	(20 175)
	(2 169 798)	**(2 082 990)**

18.3 Operational expenditure payments

	2019 R'000	2018 R'000
Operational expenditure	(1 207 466)	(1 122 336)
Adjusted for:		
Operating leases	(12 653)	(7 567)
Interest income	(58 694)	(67 065)
Interest expense	5 234	5 898
Depreciation	29 254	40 611
Amortisation	4 862	17 177
Increase/(decrease) in allowance for impairment of receivables (refer to notes 4 and 16)	42 441	(36 620)
(Decrease)/increase in 13th cheque accrual	(325)	62
Increase/(decrease) in leave pay accrual	4 519	(1 613)
Increase in performance bonus accrual	12 823	35 565
Decrease in liability for post-retirement medical aid benefits	(6 143)	(3 015)
Increase/(decrease) in accruals	2 658	(6 103)
Loss on the disposal of property, plant and equipment (refer to note 16)	1 185	151
	(1 182 305)	**(1 144 855)**
Other working capital changes	18 024	(7 071)
Decrease in other receivables	2 853	3 299
Increase/(decrease) in other payables	15 171	(10 370)
	(1 164 281)	**(1 151 926)**

	2019 R'000	2018 R'000

19 Notebook losses

	2019 R'000	2018 R'000
175 (2018: 74) notebook computers stolen and written off at the carrying amount	**1 229**	**391**

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

20 Commitments

20.1 Operating lease commitments

The future minimum commitments are as follows:

	2019 R'000	2018 R'000
Due within one year	81 680	88 018
Land and buildings	79 482	83 623
Office equipment	2 198	4 395
Between one and five years	136 305	126 210
Land and buildings	136 305	124 012
Office equipment	-	2 198
More than five years	35 232	50 357
Land and buildings	35 232	50 357
	253 217	**264 585**

The office premises are leased for periods between two and thirteen years. The average lease payments are R6 623 485 (2018: R6 968 578) per month. The lease payments escalate between 7% and 10% annually. The lease agreements are renewable for periods between one month and five years at the end of the lease term and the AGSA does not have the option to acquire the land and buildings.

Certain items of office equipment are leased for a period of two years. The average lease payments are R366 250 (2018: R366 250) 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.

20.2 Other commitments

Thuthuka

The AGSA has committed to fund 230 undergraduate students for a period of 3 years while they complete 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. As the rate per student is determined yearly, the commitment cannot be quantified; however, the yearly commitment at current rates amounts to R17 596 150 (230 students x R76 505 per student).

20.2 Other commitments (continued)

External bursaries

External bursaries are awarded annually to full-time students for undergraduate and postgraduate studies until they complete 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 if the student already has a degree. 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 059 000 for approximately 129 students for the 2019-20 financial year.

	2019 R'000	2018 R'000
20.3 Capital commitments		
Approved and contracted [9]	32 012	8 752
Approved but not yet contracted	100 398	50 948
Total approved [10]	**132 410**	**59 700**
Source of funding		
Internal financing	132 410	59 700
	132 410	**59 700**

[9] Property, plant and equipment approved and contracted for in 2018-19 but for 2019-20 financial year.

[10] This relates to property, plant and equipment approved during 2018-19 for the 2019-20 budget.

21 Contingent liabilities

Legal claim

During the 2017 financial year, a review application was brought against the AGSA in the High Court of South Africa. The AGSA's legal advisors believe that the AGSA has reasonable defences against the claim and that the probability of loss will be unlikely. Accordingly, no provision has been made in the annual financial statements.

22 Related parties

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

22.1 Key management personnel compensation

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

2019				Short-term benefits		Long term benefits	
Position	**Name**	**Appointment date**	**Termination date**	**Gross remuneration** R'000	**Performance bonus** R'000	**Deferred Compensation** R'000	**Total remuneration** R'000
Auditor-General [11]	T Makwetu	1 Dec 2013		5 252	-	1 524	6 776
Deputy Auditor-General	T Ratsela	1 Apr 2014		4 044	1 236	-	5 280
National Leader	EM Zungu	1 Jul 2014	7 Dec 2018	2 069	-	-	2 069
National Leader	AH Muller (Acting)	1 Feb 2019		542	-	-	542
Corporate Executive	AH Muller	1 Mar 2008		2 439	599	-	3 038
Corporate Executive	OH Duda (Acting)	1 Feb 2019		399	-	-	399
Corporate Executive	BR Wheeler	1 Mar 2008	31 Aug 2018	1 191	-	-	1 191
Corporate Executive	JH v Schalkwyk	1 Nov 2010		2 938	599	-	3 537
Chief Financial Officer	SS Ngoma	1 Nov 2012		2 894	599	-	3 493
Corporate Executive	MS Segooa	1 Aug 2014		2 938	599	-	3 537
Corporate Executive	MM Sedikela	1 Jan 2016		2 938	599	-	3 537
Chief People Officer	MM Mabaso	1 Aug 2016		2 704	551	-	3 255
Corporate Executive	SL Lubambo	1 Aug 2017		2 622	537	-	3 159
Corporate Executive	V Maharaj	1 Aug 2017		2 619	537	-	3 156
Corporate Executive	SL Ndaba	1 Jul 2018		2 331	466	-	2 797
Total management compensation (refer to note 13)				37 920	6 322	1 524	45 766

22.1 Key management personnel compensation (continued)

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

2018				Short-term benefits		Long term benefits	
Position	**Name**	**Appointment date**	**Termination date**	**Gross remuneration** R'000	**Performance bonus** R'000	**Deferred Compensation** R'000	**Total remuneration** R'000
Auditor-General [11]	T Makwetu	1 Dec 2013		4 885	-	1 466	6 351
Deputy Auditor-General	T Ratsela	1 Apr 2014		3 803	1 167	-	4 970
National Leader	EM Zungu	1 Jul 2014		3 113	632	-	3 745
Corporate Executive	AH Muller	1 Mar 2008		2 701	565	-	3 266
Corporate Executive	BR Wheeler	1 Mar 2008		2 701	565	-	3 266
Corporate Executive	JH v Schalkwyk	1 Nov 2010		2 709	565	-	3 274
Chief Financial Officer	SS Ngoma	1 Nov 2012		2 540	942	-	3 482
Corporate Executive	SN Ngobese	1 Jan 2013	31 Jan 2018	1 976	-	-	1 976
Corporate Executive	MS Segooa	1 Aug 2014		2 618	565	-	3 183
Corporate Executive	MM Sedikela	1 Jan 2016		2 608	565	-	3 173
Chief People Officer	MM Mabaso	1 Aug 2016		2 466	520	-	2 986
Corporate Executive	V Maharaj (Acting)	1 Dec 2016	31 May 2017	355	-	-	355
Corporate Executive	V Maharaj	1 Aug 2017		1 658	497	-	2 155
Corporate Executive	SL Lubambo	1 Aug 2017		1 701	497	-	2 198
Total management compensation (refer to note 13)				**35 834**	**7 080**	**1 466**	**44 380**

[11] The remuneration and conditions of employment provide that the auditor-general is not entitled to an annual performance bonus, but shall receive a terminal bonus/deferred compensation on successful completion of his term. During the year, the auditor-general received an interest free loan of R860 000 which will be repaid at the end of his term in November 2020. This loan was granted with the understanding that the auditor-general has already served five of the seven year term, representing around 70% of the envisaged deferred compensation the auditor-general will be entitled to at the end of the term.

23 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.

23.1 Market risk

23.1.1 Interest rate risk management

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

	2019		
	Current and investment accounts interest rate		
	Current balance	**+1%**	**-1%**
Net surplus (R'000)	71 453	78 809	64 173
% change	-	10,3%	-10,2%
Current bank and investment accounts balances (R'000)	723 454	730 810	716 174
% change	-	1,0%	-1,0%

	2018		
	Current and investment accounts interest rate		
	Current balance	**+1%**	**-1%**
Net surplus (R'000)	67 344	73 404	61 318
% change	-	9,0%	-8,9%
Current bank and investment accounts balances (R'000)	663 622	669 682	657 596
% change	-	0,9%	-0,9%

23.2 Credit risk

Financial assets that potentially subject the AGSA to concentrations of credit risk consist principally of cash and short-term deposits placed with the Public Investment Corporation (PIC) and financial institutions that have the following short-term bank deposit credit ratings:

	2019 (2018)		
Financial institution	**Fitch**	**Moody's**	**S&P**
Standard Bank	F1+ (F1+)	P-1 (P-1)	B (B)
Investec	F1+ (F1+)	P-1 (P-1)	A-1 (A-1)
Nedbank	F1+ (F1+)	P-3 (P-3)	B (B)
First National Bank	F1+	P-3	B

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 Sector Conduct Authority. Trade receivables are presented net of the allowance for impairment. Credit risk with respect to trade receivables is limited to some degree due to the AGSA's constitutionally conferred audit mandate. 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:

R339 849 000 (2018: R267 325 000) of receivables, comprising 45,4% (2018: 41,2%) of total receivables, are in arrears. Local government debtors arrears comprise R268 061 000 (2018: R190 402 000) which is 78,9% (2018: 71,2%) of total arrears and amount to 35,8% (2018: 29,3%) of total receivables.

A breakdown of the ageing and concentration of credit risk that arises from the AGSA's trade receivables (refer to note 4) in relation to the type of auditees is as follows:

2019	**Total**	**Current**	**30 - 120**	**120+**
Debtor type	R'000	R'000	R'000	R'000
National	69 747	68 750	94	903
Provincial	139 669	132 529	6 051	1 089
Local	320 780	52 719	183 645	84 416
Statutory	42 035	23 664	2 215	16 156
Other [12]	172 092	126 812	10 750	34 530
	744 323	**404 474**	**202 755**	**137 094**

23.2 Credit risk (continued)

2018 Debtor type	Total R'000	Current R'000	30 - 120 R'000	120+ R'000
National	66 193	64 388	1 650	155
Provincial	136 477	127 761	5 744	2 972
Local	248 867	58 465	122 489	67 913
Statutory	45 357	22 289	950	22 118
Other [12]	152 701	109 367	13 712	29 622
	649 595	**382 270**	**144 545**	**122 780**

Financial assets subject to credit risk

2019 Debtor type	Trade receivables R'000	Expected credit loss R'000	Net trade receivables R'000
National	69 747	(838)	68 909
Provincial	139 669	(1 270)	138 399
Local	320 780	(87 455)	233 325
Statutory	42 035	(16 491)	25 544
Other [12]	172 092	(31 905)	140 187
	744 323	**(137 959)**	**606 364**

2018 Debtor type	Total R'000	Fully Performing R'000	Past due but not impaired R'000	Impaired R'000
National	66 193	64 388	1 792	13
Provincial	136 477	127 761	8 232	484
Local	248 867	58 465	147 378	43 024
Statutory	45 357	22 289	2 926	20 142
Other [12]	152 701	109 367	19 853	23 481
	649 595	**382 270**	**180 181**	**87 144**

23.2 Credit risk (continued)

Aging of financial assets past due but not impaired

2018 **Debtor type**	**30-60 days** R'000	**60-90 days** R'000	**90-120 days** R'000	**120+ days** R'000	**Total** R'000
National	1 664	2	-	126	1 792
Provincial	5 362	262	107	2 501	8 232
Local	15 260	49 393	47 950	34 775	147 378
Statutory	532	178	-	2 216	2 926
Other [12]	5 185	4 706	2 482	7 480	19 853
	28 003	**54 541**	**50 539**	**47 098**	**180 181**

[12] Other receivables include unlisted public entities, municipal entities and utility agency corporations.

23.3 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 and cash flow forecasts are prepared annually to ensure liquidity risks are monitored and controlled.

23.3 Liquidity risk (continued)

Maturity profile of financial instruments

	2019 R'000	2018 R'000
	1 year or less	**1 year or less**
Assets		
Trade and other receivables	618 026	574 745
Total trade and other receivables	642 981	601 921
Prepayments	(24 955)	(27 176)
Cash	723 454	663 622
Current account	233 162	355 076
Overnight call account	1 948	1 834
Notice deposits	402 956	147 176
Call account - PIC	85 388	159 536
Total financial assets	1 341 480	1 238 367
Liabilities		
Trade and other payables	323 646	289 112
Total trade and other payables	518 060	463 134
Leave pay accrual	(115 853)	(111 334)
VAT and PAYE	(78 561)	(62 688)
Total financial liabilities	323 646	289 112
Net financial assets	**1 017 834**	**949 255**

All financial assets and liabilities mature in less than one year

23.4 Classification of financial instruments

2019 **Line items presented in the statement of financial position summarised per category of financial instrument**	**Loans and receivables** R'000	**Non-financial assets** R'000	**Total** R'000
Financial assets			
Financial assets measured at amortised cost			
Trade and other receivables (refer to note 4)	618 026	24 955	642 981
Cash and cash equivalents (refer to note 5)	723 454	-	723 454
	1 341 480	**24 955**	**1 366 435**

	Financial liabilities R'000	**Non-financial liabilities** R'000	**Total** R'000
Financial liabilities			
Financial liabilities measured at amortised cost			
Trade and other payables (refer to note 11)	323 646	194 414	518 060
	323 646	**194 414**	**518 060**

2018 **Line items presented in the statement of financial position summarised per category of financial instrument**	**Loans and receivables** R'000	**Non-financial assets** R'000	**Total** R'000
Financial assets			
Financial assets measured at amortised cost			
Trade and other receivables (refer to note 4)	574 745	27 176	601 921
Cash and cash equivalents (refer to note 5)	663 622	-	663 622
	1 238 367	**27 176**	**1 265 543**

	Financial liabilities R'000	**Non-financial liabilities** R'000	**Total** R'000
Financial liabilities			
Financial liabilities measured at amortised cost			
Trade and other payables (refer to note 11)	289 112	174 022	463 134
	289 112	**174 022**	**463 134**

24 Taxation

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

25 Professional indemnity insurance

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

26 Events after the reporting period

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

27 Change in accounting policies

Except for the changes below, the AGSA has consistently applied the accounting policies to all periods presented in these financial statements.

The AGSA has adopted IFRS 15, *Revenue from contracts with customers* with a date of initial application of 1 April 2018 using the cumulative effect method. Therefore, the comparative information has not been restated and continues to be reported under IAS 18. The application of IFRS 15 resulted in the adjustment of revenue and trade receivables.

The AGSA has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the AGSA's previous accounting policy. The change in accounting policy relating to the application of IFRS 9 resulted in the adjustment to the provision for impairment of trade receivables.

The quantitative impact of the changes are set out below.

Impact on financial statements

The following tables summarise the impacts of adopting IFRS 15 and IFRS 9 on the AGSA's financial statements for the year ending 31 March 2018.

27 Change in accounting policies (continued)

Statement of financial position	As reported 31 March 2018 R'000	Adjustments R'000	Restated R'000
ASSETS			
Non-current assets	147 852	-	147 852
Property, plant and equipment	108 860	-	108 860
Intangible assets	38 992	-	38 992
Current assets	1 265 543	17 112	1 248 431
Trade and other receivables	601 921	17 112	584 809
Cash and cash equivalents	663 622	-	663 622
Total assets	**1 413 395**	**17 112**	**1 396 283**
RESERVES AND LIABILITIES			
Reserves	853 394	17 112	836 282
General reserve	781 086	-	781 086
Special audit services reserve	4 964	-	4 964
Accumulated surplus	67 344	17 112	50 232
Liabilities			
Non-current liabilities	81 903	-	81 903
Retirement benefit obligations	58 000	-	58 000
Operating lease liability	23 903	-	23 903
Current liabilities	478 098	-	478 098
Retirement benefit obligations	2 572	-	2 572
Operating lease liability	12 392	-	12 392
Trade and other payables	463 134	-	463 134
Total reserves and liabilities	**1 413 395**	**17 112**	**1 396 283**

27 Change in accounting policies (continued)

Statement of surplus or deficit and other comprehensive income	As reported 31 March 2018 R'000	Adjustments R'000	Restated R'000
Revenue	3 246 612	7 227	3 239 385
Local services rendered	3 246 174	7 227	3 238 947
International services rendered	438	-	438
Direct audit cost	(2 062 815)	-	(2 062 815)
Recoverable staff cost	(1 326 372)	-	(1 326 372)
Contract work	(574 678)	-	(574 678)
Subsistence and travel	(161 765)	-	(161 765)
Gross surplus	**1 183 797**	**7 227**	**1 176 570**
Other income	1 260	-	1 260
Foreign exchange loss			
Contribution to overheads	**1 185 057**	**7 227**	**1 177 830**
Non-recoverable staff cost	(787 122)	-	(787 122)
Depreciation expense	(40 611)	-	(40 611)
Amortisation expense	(17 177)	-	(17 177)
Other operational expenditure	(340 357)	9 885	(350 242)
Retirement benefit obligations - current service costs	(793)	-	(793)
Operating surplus/(deficit) before finance charges	**(1 003)**	**17 112**	**(18 115)**
Interest income	67 065	-	67 065
Interest expense	(5 898)	-	(5 898)
Surplus for the year	**60 164**	**17 112**	**43 052**
Other comprehensive income			
Items that will not be reclassified to surplus or deficit			
Retirement benefit obligations - Actuarial gains	7 180	-	7 180
Total comprehensive surplus for the year	**67 344**	**17 112**	**50 232**

27 Change in accounting policies (continued)

Statement of cash flows	As reported 31 March 2018 R'000	Adjustments R'000	Restated R'000
Cash flow from operating activities			
Cash receipts from auditees	3 349 224	-	3 349 224
Total direct audit cost payments	(2 082 990)	-	(2 082 990)
Operational expenditure payments	(1 151 926)	-	(1 151 926)
Interest received	67 065	-	67 065
Interest paid	(15)	-	(15)
Net cash inflow from operating activities	**181 358**	**-**	**181 358**
Cash flow from investing activities			
Additions to property, plant and equipment	(60 678)	-	(60 678)
Additions to intangible assets	(11 510)	-	(11 510)
Proceeds from sale of property, plant and equipment	1 223	-	1 223
Net cash outflow from investing activities	**(70 965)**	**-**	**(70 965)**
Net increase in cash and cash equivalents	**110 393**	**-**	**110 393**
Cash and cash equivalents at the beginning of the year	553 229	-	553 229
Cash and cash equivalents at the end of the year	**663 622**	**-**	**663 622**

28 Change in estimates

The useful lives of certain property, plant and equipment and intangible assets were revised during 2018-19. The useful lives used in 2018-19 are as follows:

Property, plant and equipment

	Useful life	
Item	**Revised**	**Original**
Computer equipment	8 years	3 to 8 years
Motor vehicles	7 to 10 years	5 years
Furniture and fittings	6 to 19 years	6 to 19 years
Office equipment	5 years	3 to 5 years
Leasehold improvements	Over the period of the lease	Over the period of the lease

Intangible assets

	Useful life	
Item	**Revised**	**Original**
Enterprise resource management system - PeopleSoft	14 years	14 years
Other software	8 years	3 years

The effect of the change in estimate is as follows:

	2019		
	Net impact R'000	**After change** R'000	**Before change** R'000
Effect in the statement of financial position			
Non-current assets			
Property, plant and equipment	13 702	102 845	89 143
Intangible assets	13 843	34 586	20 743
Effect in the statement of comprehensive income			
Depreciation	(13 702)	(29 254)	(42 956)
Amortisation	(13 843)	(4 862)	(18 705)

28 Change in estimates (continued)

Effect in notes to the financial statements

Property, plant and equipment (note 2)

	2019					
	After change			Before Change		
	Cost R'000	Accumulated depreciation R'000	Carrying amount R'000	Cost R'000	Accumulated depreciation R'000	Carrying amount R'000
Computer equipment	141 868	(79 543)	62 325	141 868	(85 571)	56 297
Motor vehicles	8 006	(5 391)	2 615	8 006	(6 151)	1 855
Office equipment	3 303	(2 364)	939	3 303	(2 800)	503
Furniture and fittings	64 994	(42 919)	22 075	64 994	(49 397)	15 597
Leasehold improvements	43 709	(28 818)	14 891	43 709	(28 818)	14 891
	261 880	**(159 035)**	**102 845**	**261 880**	**(172 737)**	**89 143**

	After Change				
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	71 271	17 116	(2 457)	(23 605)	62 325
Motor vehicles	1 568	1 200	-	(153)	2 615
Office equipment	788	273	(2)	(120)	939
Furniture and fittings	19 401	2 301	(480)	853	22 075
Leasehold improvements	15 832	5 620	(332)	(6 229)	14 891
	108 860	**26 510**	**(3 271)**	**(29 254)**	**102 845**

	Before change				
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	71 271	17 116	(2 457)	(29 633)	56 297
Motor vehicles	1 568	1 200	-	(913)	1 855
Office equipment	788	273	(2)	(556)	503
Furniture and fittings	19 401	2 301	(480)	(5 625)	15 597
Leasehold improvements	15 832	5 620	(332)	(6 229)	14 891
	108 860	**26 510**	**(3 271)**	**(42 956)**	**89 143**

28 Change in estimates (continued)

Effect in notes to the financial statements (continued)

Intangible assets (note 3)

	2019					
	Before change			After Change		
Computer software - purchased	**Cost** R'000	**Accumulated amortisation** R'000	**Carrying amount** R'000	**Cost** R'000	**Accumulated amortisation** R'000	**Carrying amount** R'000
Enterprise resource management system - PeopleSoft	17 288	(4 633)	12 655	17 288	(4 633)	12 655
Other software	54 041	(32 110)	21 931	54 041	(45 953)	8 088
	71 329	**(36 743)**	**34 586**	**71 329**	**(50 586)**	**20 743**

	After Change				
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
Computer software - purchased					
Enterprise resource management system - PeopleSoft	14 363	-	-	(1 708)	12 655
Other software	24 629	456	-	(3 154)	21 931
	38 992	**456**	**-**	**(4 862)**	**34 586**

	Before change				
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 software - purchased					
Enterprise resource management system - PeopleSoft	14 363	-	-	(1 708)	12 655
Other software	24 629	456	-	(16 997)	8 088
	38 992	**456**	**-**	**(18 705)**	**20 743**

GRI CONTENT INDEX

The Guidelines for sustainable reporting of the Global Reporting Initiative (GRI) standards informed the content and format of this report, which meets the information and reporting requirements in accordance with the 'core' version.

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INTEGRATED REPORTING INDEX

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Governance	• Corporate governance • The governance chain • External charters, principles and initiatives that we subscribe to or endorse
Business model	• Business model • Our value creation model • Value & benefits of supreme audit institutions
Risks and opportunities	• Strategic risks • Our value creation model
Strategy and resource allocation	• The auditor-general's message • The deputy auditor general's overview of performance • Who we are • Value creation process
Performance	• Organisation's performance against predetermined objectives • Value-adding auditing • Visibility for impact • Viability • Vision and values driven
Outlook	• The deputy auditor general's overview of performance • Value-adding auditing • Visibility for impact • Viability • Vision and values driven
Basis of preparation and presentation	• Reporting profile

TABLE OF ABBREVIATIONS AND ACRONYMS

Abasa	Association for the Advancement of Black Accountants of SA
Acca	Association of Chartered Certified Accountants
ADP	Audit development programme
Afrosai-e	African Organisation of English-speaking Supreme Audit Institutions
AGSA	Auditor-General of South Africa
AoPO	Audit of predetermined objectives
APAC	Association of Public Accounts Committees
APC	Assessment of Professional Competence
APT	Accounting Professional Training
AWCA	African Women Chartered Accountants
B-BBEE	Broad-based black economic empowerment
BRRR	Budget review and recommendations reports
CA	Chartered account
CAAT	Computer-assisted audit techniques
CBC	Capacity-building committee
CCMA	Commission for Conciliation, Mediation and Arbitration
CIR	Cyber incident response
CoD	Council of Delegates
Cogta	Department of Cooperative Governance and Traditional Affairs
CRL rights commission	Cultural Religious and Linguistic
CSSA	Chartered Secretaries Southern Africa
CTA	Certificate in the theory of accounting
EDP	Executive development programme
EME	Exempted micro enterprises
ERP	Enterprise resource planning
ESD	Enterprise and supplier development
EVP	Employee value proposition
EWP	Employee wellness programme
Exco	Executive committee
FQE	Final qualifying exam

GAAP	Generally Accepted Accounting Practice
GCIS	Government Communication and Information System
GRI	Global Reporting Initiative
GTI	Group trauma interventions
IBU	Investigation business unit
ICT	Information and communication technology
IDI	Intosai Development Initiative
IESBA	International Ethics Standards Board for Accountants
IFRS	International Financial Reporting Standards
IIASA	Institute of Internal Auditors South Africa
Intosai	Organisation of Supreme Audit Institutions
IRBA	Independent Regulatory Board for Auditors
ISA	Information Systems Auditing
ISD	Institutions supporting democracy
IT	Information technology
ITC	Initial test of Competence
LADC	Leadership assessment development centre
LDP	Leadership development programme
MADC	Management assessment development centre
MAF	Management approval framework
MFMA	Municipal Finance Management Act
MPAC	Municipal Public Accounts Committees
MVS	Managed vulnerability scanning
NGO	Non-governmental organisation
NBT	National Benchmark Test
NCoP	National Council of Provinces
OAG	Office of the Auditor General of Canada
PAA	Public Audit Act
PABU	Performance Auditing business unit
PAC	Public accounts committees

PDP	Personal development plans
PFMA	Public Finance Management Act
PMO	Project management office
PSM	Public Sector Manager
QCAC	Quality control assessment committee
QSE	Qualifying small enterprises
Remco	Remuneration committee
SAI	Supreme audit institution
SAI PMF	SAI Performance Measurement Framework
Saica	South African Institute of Chartered Accountants
Saiga	Southern African Institute of Government Auditors
SAS	Specialised Audit Services
SCM	Supply chain management
Scoag	Standing Committee on the Auditor-General
Scopa	Standing Committee on Public Accounts
SDG	Sustainable development goals
SDL	Skills development levy
SED	Socio-economic development
SOE	State-owned entities
SoRR	Status-of-records review
TBF	Thuthuka Bursary Fund

Notes

Notes

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