2017 – 2020

STRATEGIC PLAN AND BUDGET

of the Auditor-General of South Africa
OUR VISION

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

OUR MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country’s democracy by enabling **OVERSIGHT, ACCOUNTABILITY AND GOVERNANCE** in the public sector through auditing, thereby building public confidence. This is our reputation promise.

OUR VALUES

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

- To engage the AGSA’s oversight committee on the 2017-20 Strategic plan and budget.
Presentation outline

- Main external and internal factors and trends considered in this plan.
- Performance measures per strategic goal
- Synopsis of the organisational budget for 2017-18.
Our strategic roadmap to 2024

To be recognised as the relevant supreme audit institution by all our stakeholders

Oversight and accountability
Strong financial and performance management systems
Commitment and ethical behaviour by all

A competent and value-adding Auditor-general

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country’s democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

A transformational organisation that is vision and values driven

Value-add
Visibility
Viability

2017
2024
Major environmental trends considered in this plan

✓ Increased number and trends of pushbacks resulting in infringement of our mandate

✓ Greater attention to consequence management in the public sector.

✓ Slowdown in economic growth resulting in increased number of auditees in distress

✓ Increased importance and attention to the achievement of the SDG

✓ Scarcity of skills

✓ Contribution to transformation

✓ Attention to quality of audits
Alignment of audit focus areas to government priorities

National development plan priorities
- Economy and employment
- Improving education, training and innovations
- Transforming human settlements
- Economic infrastructure
- Fighting corruption
- Environmental sustainability and resilience
- Inclusive rural economy
- Creating a capable and developmental state
- Nation building and social cohesion
- SA in the region and the world

Five government priorities
- Create decent jobs
- Education
- Health
- Fighting crime
- Rural development
- Building safer communities
- Health care for all
- Social protection

AGSA long-term audit priorities
- Education
- Health
- Crime
- Infrastructure (incl. water)
The value that we expect to add to the work of government and all our stakeholders resides in enhancing our audit approach and focus areas.
Our focus remains on auditing areas that matter.
Sharpen our work on detecting and exposing practices that ultimately result in wastage of public money.
Elevate the instances of irregular and unauthorised expenditure and will seek to establish a direct line of sight from detection of breaches to implementation of consequences.
Continue examining real drivers of value in our client’s activities and deepening our understanding of the entities’ real business.
Start providing awareness of the achievement of the UN SDGs.
Improve the timing of completion of our performance audit reports.
Measure: % of stakeholders who view our audit work as adding value to the achievement of their mandates.

Performance Target: 70% - 80% and closure of identified gaps.

Measure: Auditor General's assessment of organisation’s performance on Value Add.

Performance Target: Achieved organisational objectives on value add

Key Strategic Initiatives and enablers

- Integrated audits tailored to the needs of each client
- Use of CAATs and data analytics
- Implementation of our new Audit methodology
- Implementation of our section 4(3) strategy.
Measure: % adherence to quality standards of audits

Performance Target: 80% - 90% (C1, C2 and C3 rating)

Key Strategic Initiatives

✓ Increase the technical quality of our audits.
✓ Improve timeliness of audit reports
✓ Ensure quality and timeliness of our GRs
✓ Benchmark our practices internationally
Meaningful and continuous engagement of stakeholders that enables positive improvements in financial and performance management
Our stakeholders expect an increased level of communication about our findings and forewarnings about the status of the system of public administration as a whole.

Explore better and innovative ways of communicating about what matters to our stakeholders.

Educate and empowering citizens to hold their elected representatives accountable.

Drive internal improvements in our engagement tools and building capacity for impactful stakeholder interactions.

Provide leadership internationally through our role in the CBC and derive value from our international endeavour.
Measure: % of stakeholders who view our engagements as meaningful and of high quality.

Performance Target: 65%-75% and closure of identified gaps

Measure: Auditor General’s assessment of the organisation’s performance on Visibility.

Performance Target: Achieved organisational objectives for Visibility

Key Strategic Initiatives

✓ Intensify engagements with constitutional stakeholders with the use of our Status of records review tool.
✓ Implement our thought leadership programme for AO and CFOs
✓ Provide effective support to AFROSAl-E on professional development
✓ Implement the CBC strategy effectively and contribute to the work of the specialist INTOSAI groups
Engage actively with citizens

Measure: % of favourable opinion of the AGSA by citizens.

Performance Target: 70% - 80% and closure of identified gaps.

Key Strategic Initiatives

✓ Increase the reach and impact of engagement with citizens on our mandate and role through: community outreach, CSI activities, social media.

✓ Synergies with Parliament on engaging citizens

✓ Enhance citizens’ awareness and understanding of audit outcomes: engaging professional associations, consolidating the GR supporting material, responsible media coverage of audit outcomes
Executing our mandate in the most economical, efficient and effective manner to achieve **optimal management of our resources**

**VIABILITY**
Further improve efficiencies and increase audit fees collection.

Strengthen our contribution to consequence management for maladministration in the public sector.

Develop professional staff, both in audit and support areas.

Train black CAs as part of our commitment to the transformation of the accounting and auditing profession.

Intensify leadership engagement with staff.
Key Strategic Initiatives

- Review and optimisation of our operating model.
- Cost optimisation through limiting headcount growth, reduction of overtime and strategic sourcing.
- Debt collection through ring-fencing and litigation
- Management of working capital
Key Strategic Initiatives: consequence management in the public sector

- Utilise MoUs with other organs of state. E.g. Public protector, SIU, Anti corruption task team, etc.
- Optimise the opportunities for consequence management provided by the Audit directive.
- Pursue other options for augmenting legislation that supports consequence management in the public sector

Maintain financial and legal viability and independence
Build employee competencies and grow organisational capabilities

**Measure:** % improvement of SAICA board exam (APC) pass rates

**Performance Target:** 10% (vs 2016-17 results)

**Measure:** SAICA accreditation of our training offices

**Performance Target:** High Risk: 0

**Measure:** Voluntary turnover of critical skills

**Performance Target:** 8% - 10%

**Measure:** % successfully implemented PIPs and PDPs

**Performance Target:** 80% - 90%
Instil a performance based reward culture

**Measure:** % improved recovery rates aimed at improving organisational productivity.

**Performance Target:** 1% - 3%

**Measure:** % successfully achieved objectives aimed at improving employee productivity

**Performance Target:** 80% - 90%

**Measure:** Staff engagement index

**Performance Target:** 55% - 59%
Strategic Initiatives

✓ Implement our comprehensive people strategy
✓ Implement our trainee auditor strategy
✓ Fully capacitate our training offices
✓ Strengthen our pipeline for intake of TAs with CTA
✓ Improve further our TA support programmes
✓ Create a magnetic employer brand that attracts the best
✓ Drive robust performance management processes
✓ Improve talent management
✓ Increase leadership engagement with staff
Measure: Automation of business processes

Performance Target:
- Upgraded audit management information system
- Upgraded ERP 9.2

Key Strategic Initiatives
- Develop, enhance and integrate IT solutions for increased efficiencies
- Integrate all organisational data
- Enhance our GR model for faster compilation of reports
- Develop online tender process, incl. the CWC tender
Leading by example through high levels of accountability and effective governance, such that we are deserving of our independence.
Overall focus: deserve our independence

- Ensure highest levels of **accountability and effective governance**.
- Respond to the **transformation objectives** of the country.
  - Support to black owned and transformed audit firms
  - Strict procurement practices and support to EMEs and QSEs
  - Increasing the number of black employees living with disabilities
Drive the AGSA’s transformation programme

**Measure:** BBBEE level  
**Performance Target:** Level 2

**Strategic Initiatives**

- Implement our transformation strategy
- Actively contribute to the growth and transformation of the profession
- Increase the number of black employees living with disabilities
- Strengthen our Enterprise and supplier development programme
Demonstrate clean administration

**Measure:** External audit opinion  
**Target:** Clean audit

**Strategic Initiatives**

- Enhance ownership and accountability of business process owners.

- Demonstrate quality and transparency of reporting in our accountability instruments (the Integrated annual report and the Strategic plan and budget).
We are determined to continue executing our mandate economically, efficiently and effectively.
## Funding model principles and financial key indicators

<table>
<thead>
<tr>
<th>Current funding model</th>
<th>Compliance</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
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<tbody>
<tr>
<td>Tariff increase in line with salary increase</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Mark factor</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>No capping on tariffs</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Self-funding</td>
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### Funding principles and key performance indicators

<table>
<thead>
<tr>
<th>Funding principles and key performance indicators</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own hours %</td>
<td>76%</td>
<td>80%</td>
<td>79%</td>
<td>82%</td>
</tr>
<tr>
<td>CWC %</td>
<td>24%</td>
<td>20%</td>
<td>21%</td>
<td>18%</td>
</tr>
<tr>
<td>Gross profit % (30% to 33%)</td>
<td>33.1%</td>
<td>31.6%</td>
<td>32%</td>
<td>32%</td>
</tr>
<tr>
<td>Overheads %</td>
<td>30%</td>
<td>31%</td>
<td>33%</td>
<td>31%</td>
</tr>
<tr>
<td>Actual surplus %</td>
<td>5.0%</td>
<td>3.7%</td>
<td>1%</td>
<td>2%</td>
</tr>
</tbody>
</table>

### NOW

- Commercially viable and financially independent
- Tariffs not capped and linked to salary increases
- Enables to fund both operational and capital expenditure.
- Decent surpluses (1 – 4%) to fund our infrastructure and people development

### THEN

- The model did not foster financial viability and hence threatened our independence
- Tariffs were capped resulting into massive operational loss and no funds to cater for operational daily expenditure
- A couple of years the AGSA was in a deficit resulting in the suspension of key projects, capacity in support services on hold, high vacancy rate in audit and high CWC%.
- The model is adequate, however challenges remain on the collection of debt especially local government debt

The model was revised

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Our performance has been in line with the funding model principles approved by SCoAG.
### Summary income statement: 2017-18 budget

<table>
<thead>
<tr>
<th>(R million)</th>
<th>Actual 2015/16</th>
<th>Budget 2016/17</th>
<th>Budget 2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit income</td>
<td>2 835</td>
<td>3 090</td>
<td>3 276</td>
</tr>
<tr>
<td>- Own hours</td>
<td>2 258</td>
<td>2 433</td>
<td>2 678</td>
</tr>
<tr>
<td>- Contract Work</td>
<td>577</td>
<td>657</td>
<td>598</td>
</tr>
<tr>
<td>Direct costs</td>
<td>1 929</td>
<td>2 117</td>
<td>2 222</td>
</tr>
<tr>
<td>Gross profit</td>
<td>906</td>
<td>973</td>
<td>1 054</td>
</tr>
<tr>
<td>Other income</td>
<td>68</td>
<td>69</td>
<td>68</td>
</tr>
<tr>
<td>Overhead expenses</td>
<td>869</td>
<td>1 011</td>
<td>1 054</td>
</tr>
<tr>
<td>Net Surplus</td>
<td>105</td>
<td>31</td>
<td>68</td>
</tr>
</tbody>
</table>

### % of audit income

<table>
<thead>
<tr>
<th></th>
<th>CWC</th>
<th>GP</th>
<th>Overheads</th>
<th>Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>20%</td>
<td>32%</td>
<td>30%</td>
<td>4%</td>
</tr>
<tr>
<td>Budget</td>
<td>21%</td>
<td>32%</td>
<td>33%</td>
<td>1%</td>
</tr>
</tbody>
</table>

### Headcount

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit staff headcount</td>
<td>2 988</td>
<td>3 144</td>
<td>3 123</td>
</tr>
<tr>
<td>Support staff headcount</td>
<td>457</td>
<td>536</td>
<td>495</td>
</tr>
</tbody>
</table>

### Graphs

- **Audit Income**: Actual 2015/16: R 2 835, Budget 2016/17: R 3 090, Budget 2017/18: R 3 276
- **Direct Costs**: Actual 2015/16: R 1 929, Budget 2016/17: R 2 117, Budget 2017/18: R 2 222
- **Other income**: Actual 2015/16: R 68, Budget 2016/17: R 69, Budget 2017/18: R 68
- **Overhead expenses**: Actual 2015/16: R 869, Budget 2016/17: R 1 011, Budget 2017/18: R 1 054
- **Net Surplus**: Actual 2015/16: R 105, Budget 2016/17: R 31, Budget 2017/18: R 68

### Footnotes

- **Audit staff headcount**: 2015/16: 2 988, 2016/17: 3 144, 2017/18: 3 123
**Revenue analysis - 2017-18 budget**

### Audit Income

<table>
<thead>
<tr>
<th></th>
<th>Contract work</th>
<th>Own hours</th>
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</thead>
<tbody>
<tr>
<td><strong>R million</strong></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>2 835</td>
<td>20%</td>
</tr>
<tr>
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</tr>
<tr>
<td>Budget 2017/18</td>
<td>3 276</td>
<td>82%</td>
</tr>
</tbody>
</table>

- **AGSA efficiency drive**
  - The reduction of R13 million in audit fees due to the amalgamation of municipalities.
  - The reduction of CWC from 21% to 18% which translates to an increase in own hours of 137 000. This will be achieved through increased internal efficiencies and pooling/sharing of internal resources (within BU’s and between provincial and national BUs).
  - Continuous drive to improve value-added services through integration of specialised audit services and regularity audit business units.
  - Revised audit methodology programmes (AMP) to be implemented in 2017/18 which will result in further improvements in audit processes. This project is also earmarked to spearhead the reduction in audit fees especially for the distressed municipalities. The AMP will result in a once off investment of R45 million to be absorbed internally.

- Reduced hours base’ over the past years due to efficiencies drive and a commitment to affordable fees resulted in revenue increase of only 3% in 2015/16 which is lower than CPIX. This translates to a revenue discount of R52 million to the fiscus.
- The budgeted increase in the revenue for 2016/17 was based on an increase of 5% year on year which is also below CPIX.
- For 2017/18 the AGSA will continue with the drive to contain audit fees at 6% which is on par with CPIX. The following has been factored in this budget:
  - Capping of fees for financially distressed municipalities to 1% of total expenditure resulting in R32 million given back to the national fiscus in 2017/18.

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<table>
<thead>
<tr>
<th></th>
<th>20%</th>
<th>21%</th>
<th>18%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual 2015/16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget 2016/17</td>
<td>80%</td>
<td>79%</td>
<td>82%</td>
</tr>
<tr>
<td>Budget 2017/18</td>
<td>80%</td>
<td>79%</td>
<td>82%</td>
</tr>
</tbody>
</table>

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### Overheads

<table>
<thead>
<tr>
<th></th>
<th>Actual 15-16</th>
<th>Budget 16-17</th>
<th>Budget 17-18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R mil</td>
<td>R mil</td>
<td>R mil</td>
</tr>
<tr>
<td><strong>Staff remuneration</strong></td>
<td>287</td>
<td>353</td>
<td>360</td>
</tr>
<tr>
<td><strong>Other Personnel Expenses¹</strong></td>
<td>59</td>
<td>42</td>
<td>48</td>
</tr>
<tr>
<td><strong>Performance Bonus Liability</strong></td>
<td>116</td>
<td>124</td>
<td>124</td>
</tr>
<tr>
<td><strong>Learning and development</strong></td>
<td>85</td>
<td>100</td>
<td>101</td>
</tr>
<tr>
<td><strong>Accommodation</strong></td>
<td>93</td>
<td>114</td>
<td>115</td>
</tr>
<tr>
<td><strong>Technological Services</strong></td>
<td>49</td>
<td>44</td>
<td>60</td>
</tr>
<tr>
<td><strong>Stakeholder relations</strong></td>
<td>30</td>
<td>33</td>
<td>41</td>
</tr>
<tr>
<td><strong>Office maintenance</strong></td>
<td>35</td>
<td>40</td>
<td>42</td>
</tr>
<tr>
<td><strong>Other expenses²</strong></td>
<td>115</td>
<td>161</td>
<td>164</td>
</tr>
<tr>
<td><strong>Total overheads expenses</strong></td>
<td>869</td>
<td>1 011</td>
<td>1 054</td>
</tr>
</tbody>
</table>

**Other expenses consist of:** Depreciation, insurance and legal fees, audit expenses, outsourced services, recruitment expenses, corporate wellness programme, communication, S&T irrecoverable

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### Staff remuneration

- The staff remuneration in 2015/16 was 10% below budget due to vacancies being filled later than planned.

- The staff remuneration in 2016/17 increased by 12% attributable to inflationary increase and a modest increase in headcount due to backlog in filling of vacancies.

- Aggressive cost cutting in line with cost optimisation tactics such as moratorium on recruitment (position-freeze), rationalisation of headcount resulting in overall containment of staff remuneration to increase of 2% in 2017/18.

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### Learning and development

- In 2015/16 the reprioritisation of training and development in line with the 4 V strategy resulted in savings. In 2017/18 focus on development continues to be heightened through courses such as SMDP and MPD to enhance development of our managerial levels.

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### Technological Services

- The 2017/18 expenditure relates to licences and cost for the maintenance of CAPEX projects (ERP, resource planning, MIS recoveries projects) which were developed in 2015/16 and 2016/17 that are now operational.

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Within other personnel expenses, the following items are included:

- Leave pay provision
- Medical aid provision
- Group life scheme
- Workman's compensation premium
- UIF etc.
<table>
<thead>
<tr>
<th>Description</th>
<th>Budget 2016-17</th>
<th>Budget 2017-18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R million</td>
<td></td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>1</td>
<td>3</td>
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<tr>
<td>Equipment</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Furniture &amp; Fittings</td>
<td>8</td>
<td>3</td>
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<tr>
<td>Computer equipment</td>
<td>4</td>
<td>31</td>
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<tr>
<td>Computer software</td>
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<td>18</td>
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<tr>
<td>Notebooks</td>
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<td>26</td>
</tr>
<tr>
<td>Leasehold improvement</td>
<td>17</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>79</strong></td>
<td><strong>90</strong></td>
</tr>
</tbody>
</table>

The increase in computer equipment expenditure from budget of R4 million to R31 million is due to the replacement and upgrade of old computer equipment which will reach the end of its useful life in 2017-18.

This include the following:

1) Upgrade of telephone system
2) Network and storage systems
3) Network security infrastructure
4) Servers
5) Tablets (iPads)
The full implementation of AMP, amalgamation of some municipalities and the impact of distressed municipalities in the 2017-18 budget have an impact on revenue.

The negative macro economic factors coupled with the changes in local government leadership, could increase the risk of low collections. In response to this, the AGSA has committed to invest in new relationships and continue to enforce the existing collection mechanisms.

Our cost optimisation tactics have a positive impact on the containment of overhead expenses. This value will be passed on to auditees.

Furthermore, strict control of overtime, reduction in use of consultants and optimisation of supply chain practices will contribute to the improvement of operational efficiencies and cash flow.
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