



AUDITOR-GENERAL
SOUTH AFRICA

2021-24 AGSA Strategic plan

Scoag engagement
5 March 2021

ENHANCED POWERS ENHANCED ACCOUNTABILITY

Our Mission and Vision



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 VISION

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

Matters for discussion

- ✓ 2021-24 Strategic commitments
- ✓ 2021-22 AGSA budget
- ✓ 2021 Audit directive
- ✓ AGSA Complaints policy



The AGSA's strategic direction

Our strategic direction

- ✓ Our legacy as the current stewards of the institution of the auditor-general will be defined by **the degree to which we contributed to the fulfilment of the aspirations of the people of South Africa** by carrying out our mandate without fear, favour or prejudice
- ✓ In order to achieve that, our ultimate goal is **to elevate the relevance of the institution by narrowing down the gap between the outputs of our audit work and the lived experiences of our people**
- ✓ **In the short term, we continue to implement our 4V strategy** that has served us well over the last few years
- ✓ We will take time to understand the changes that impact our work so that, as a collective, **we craft a strategic direction for the next seven to 10 years** that will allow us to **remain an independent and trusted source of insight on the use of the public purse**



Operating context

The context in which we operate





- ✓ **Increased expectations from stakeholders and citizens**, unrelenting pressure to meet deadlines and to maintain quality
- ✓ **Complex audit environment**, increased audit risks and emerging priorities, dented reputation of the auditing profession
- ✓ **Fast digitisation of the business world**, radically reduced physical proximity to our clients and staff, influx of collaborative and communication tools, new ways of working
- ✓ **Subdued economic growth**, increased difficulty in collecting audit fees, pressure to remain financially viable and hence independent
- ✓ **Vibrant discussions on public sector governance and accountability**, increased vigour in oversight activities



STRATEGIC GOAL #1

VALUE-ADDING AUDITING



-  We will continue **deepening our knowledge of the auditees' business** and applying all **analytical tools** at our disposal to deliver relevant insight
-  We will continue **implementing various measures** to strengthen adherence to audit quality standards which is paramount for **our reputation as a supreme audit office.**
-  We will pay special attention to **the major state-owned enterprises that are critical for the functioning of our country.**
-  **The integration of our audit disciplines will** remain the standard approach to auditing complex and risky environments.



Demonstrate value-adding auditing

Measure

2021-22 target

AG's assessment of the organisation's performance in value-adding auditing

Achieved organisational objectives

% completed actions as per the approved PAA implementation plan

80% – 100% of the actions for 2021-22

Improve stakeholders' perception of our added value by tabling special audit reports

Special audit reports tabled as per the AG-defined timelines

Ensure quality of our audits

Measure

2021-22 target

% adherence to quality standards: audit engagements

80% – 90%
(C1, C1#, C2 and C3 rating)



Continue to **implement the enhanced powers**

- Implement the material irregularity process at identified auditees for the specific performance year

Implement our **s 4(3) strategy**

- Exercise strict oversight of the governance of section 4(3) audits that we opt not to conduct ourselves

Continuously **improve the quality of our audits**

- Roll out the system of audit quality indicators
- Prepare the organisation for implementing ISQM

Institutionalise mechanisms and **structures for developing deep knowledge** of auditees

- Intensify the use of data analytics techniques (CAATs, fraud data analytics, and others)
- Continue to review our audit programme for relevance and efficiency
- Review and re-balance our audit portfolios for maximum added value



STRATEGIC GOAL #2

VISIBILITY FOR IMPACT



- ✓ We will continue to **increase the depth of the discussions on key controls**, especially the importance and role of **preventative internal controls**
- ✓ We will focus on protecting the audit teams, providing them with **skills to deal with threats and intimidation**, and equipping them with capacity and tools **to carry out our mandate without fear, favour or prejudice**
- ✓ **We will persist in educating citizens and empowering them** to hold their elected representatives accountable
- ✓ Internationally, we will continue to **participate in various Intosai and Afrosai-e structures and initiatives** for the benefit of our organisation and the global community of practice



Achieve impact through visibility programmes

Measure	2021-22 target
AG's assessment of the organisation's performance in visibility	Achieved organisational objectives
% implementation of our constitutional visibility programme	80% – 100% of the actions for 2021-22

Engage actively with citizens

Measure	2021-22 target
% implementation of our citizen engagement programme	80% – 100% of the actions for 2021-22



Ensure **high-quality, practical and effective engagements** with constitutional stakeholders

- Implement our prioritised stakeholder engagement programme

Continue implementing our **citizen engagement strategy**

- Increase the reach and impact of engagements on our mandate and role
- Enhance stakeholder awareness and understanding of audit outcomes

Continue implementing an **international participation programme**

- Participate in the work of Intosai and its working groups to further enhance our international reputation
- Provide effective support to Afrosai-e and collaborate with African SAs on various capacity-building programmes



STRATEGIC GOAL #3

VIABILITY

Our strategic commitments to **ensure our viability and sustainability**



- ✓ We will continue to **generate adequate revenue** and **collect audit fees**, considering the subdued economic growth in the country
- ✓ We will pursue optimal **investment in information technology and audit-related tools** needed to efficiently execute our mandate
- ✓ Continuous improvement of skills and the professionalisation of our workforce will remain an ongoing priority, as will the availability of **professional staff, both in audit and support areas**
- ✓ Our staff and leadership will be encouraged to review their processes and **innovate** to ensure the best **use of our resources**



Maintain financial viability	
Measure	2021-22 target
Net surplus (%)	-2% – 0%
Level of safety/cash margin	1.5 – 2 months
Attract, develop and retain great talent	
Measure	2021-22 target
Rating of our training offices by Saica	Low risk: 7 – 9, Medium risk: 6 – 8, High risk: 0 – 2
Create an enabling culture and leadership	
Measure	2021-22 target
% implementation of planned staff engagement actions	80% – 90% implementation of 2021-22 planned actions



Enable operational effectiveness and efficiencies

Measure	2021-22 target
% implementation of our technology optimisation programme	Audit software business plan and roadmap completed and approved by 31 March 2022



Implement our **financial sustainability strategy**

- Optimise operational costs
- Implement debt management strategies
- Optimise own hours' revenue through resource pooling and reducing the CWC portion
- Review our operating model

Implement our **people strategy**

- Implement our culture improvement plan
- Implement leadership development programmes
- Implement the trainee auditor tactical plan

Progress on our **technology optimisation journey**

- Implement our IT strategy
- Acquire and implement suitable audit software to drive audit efficiencies over a 3-5 year period
- Acquire and implement a material irregularity case management system over a period of two years
- Develop our innovation roadmap and commence implementation in year 1 of the plan (2021-22)
- Intensify knowledge-sharing capabilities



STRATEGIC GOAL #4

VISION AND VALUES DRIVEN

Our strategic commitments to **continue leading by example**



- ✓ Running our own corporate affairs appropriately, **ensuring high levels of accountability, ethics and effective governance, will remain non-negotiable** so that we are deserving of our independence
- ✓ We will continue to demonstrate our support for **the transformation objectives of our country** and maximise our contribution to transformation
- ✓ We continue to see our **clean administration and good governance as our licence** to engage and recommend actions for improvement to our auditees



Drive the AGSA's transformation strategy	
Measure	2021-22 target
B-BBEE level	Level 2
Demonstrate clean administration	
Measure	2021-22 target
External audit opinion	Clean audit
Safeguard the ethical character of our organisation	
Measure	2021-22 target
% actions taken against reported ethical breaches	100%



Reinforce our transformation strategy by developing our people and supporting our suppliers and communities

- Continue implementing organisation-wide transformation measures
- Continue to strengthen our enterprise supplier development programme

Cultivate an environment that enables the desired ethical behaviour

- Implement relevant measures to strengthen leadership to take ownership in driving ethical behaviour
- Ensure sustainable and timely management of complaints



2021-22 Budget



Current funding model	Compliance		
	2019-20	2020-21	2021-22
Self-funding	Yes	Yes	Yes
Mark factor	Yes	Yes	Yes
No capping on tariffs	Yes	Yes	Yes
Tariff increase in line with salary increase	Yes	Yes	Yes

Funding principles and key performance indicators	2019-20	2020-21	2021-22
Own hours %	79%	78%	77%
CWC and S&T %	21%	22%	23%
Gross profit %	38%	38%	35%
Overheads %	40%	40%	38%
Actual surplus/deficit %	0,8%	1,4%	-1,4%

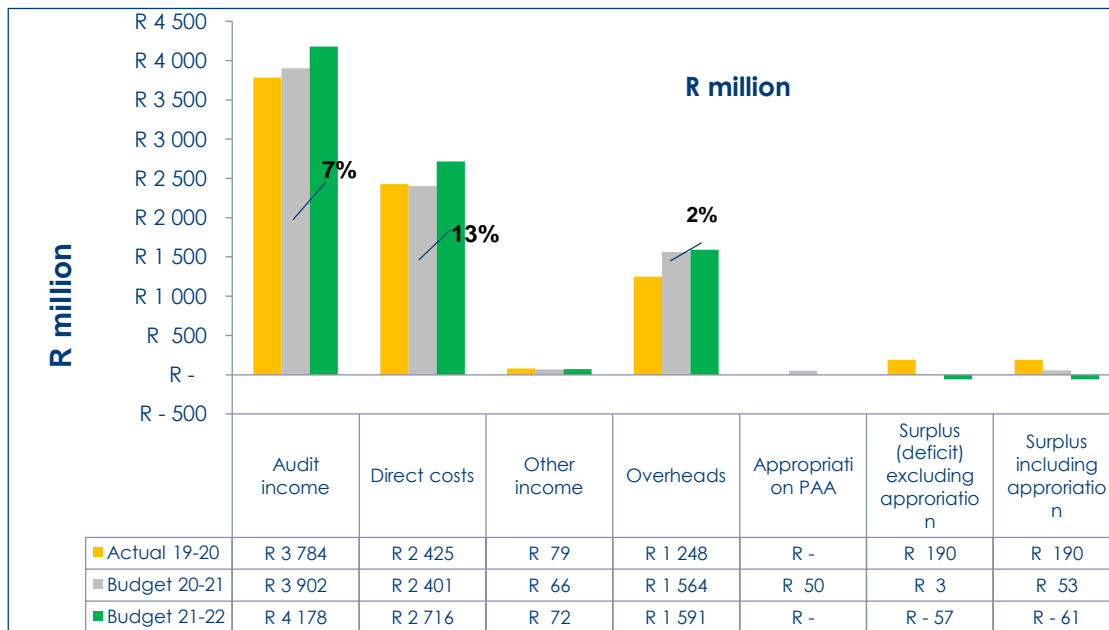
- The funding model was confirmed by Scoag in 2008. Since then all the key financial indicators were consistently met.
- However, some of the surpluses have not translated into cash, resulting in a backlog in some capex and infrastructure projects.
- Consequently, the AGSA cash cover for budget 2021-22 is 2,1 months, compared to the desired level of three months.
- The negative impacts of covid-19 are expected to continue, which could exert pressure on the revenue, cash inflows and cash cover.

In line with the risk appetite level, defined in our risk management prescripts, we aim to secure a cash cover of three months to ensure availability of funds to meet ongoing planned and expected financial commitments.

Summary income statement: 2021-22 budget



(R million)	Actual 2019-20	Budget	
		2020-21	2021-22
Audit income	3 784	3 902	4 178
- Own hours	2 920	3 062	3 204
- Contract Work	864	840	974
Direct costs	2 425	2 401	2 716
Gross profit	1 359	1 501	1 462
Other income	79	66	72
Overhead expenses	1 248	1 564	1 591
Net surplus/(deficit)	190	3	-57
Appropriation – PAA		50	
Net surplus/(deficit)	190	53	-57



- Budgeted revenue for 2021-22 is expected to grow by 7%, driven by new and catch-up audits and an increase in the scope and risk of audits
- Overheads will grow by 1,71%, mainly due to additional cost to support the ICT infrastructure. Factoring out the ICT-related cost, the overheads would have reduced by 1,60% year on year, which is in line with the cost optimisation tactics planned to respond to the negative impact of covid-19 on our revenue stream



Description	Budget 2020-21	Budget 2021-22
	R million	
Motor vehicles	1	2
Furniture and equipment	7	4
Computer equipment	46	58
Computer software	20	39
Leasehold improvement	54	5
Total	128	108

- The year-on-year capex decrease is mainly due to tenant installation for the new head office of R46 million that was budgeted in 2020-21.
- The 2021-22 budgeted deficit will result in a draw down from our reserves to cover the funding of capex. This will have a negative impact on our cash cover going forward.



Audit directive

March 2021



Section 13(1) of the PAA requires the auditor-general, after consulting the oversight mechanism, to determine:



the standards to be applied in performing the audits [section 11 audits]



the frequency, nature and scope of such audits



the procedures for handling complaints when performing such audits



These matters are determined through an audit directive issued in terms of section 13(3)(b) of the PAA



- ✓ The current effective directive was issued through a gazette on 5 May 2020 after consultation with Scoag
- ✓ There will be limited changes made to the scope of our audits from the 2020 to the 2021 directive
- ✓ Changes will only be made in the following areas:
 - ✓ the scope of the audit of compliance
 - ✓ full implementation of the material irregularity definition will replace the phased-in implementation indicated in the 2020 directive

Scope of the **compliance audit** – what we will cover in 2020-21



Compliance audit subject matters scoped in for 2020-21	PFMA or MFMA audit cycle
1. Financial statements, performance reports and annual reports	PFMA & MFMA
2. Procurement and contract management	PFMA & MFMA
3. Expenditure management	PFMA & MFMA
4. Transfer of funds	PFMA only
5. Utilisation of conditional grants	PFMA & MFMA
6. Revenue management	PFMA & MFMA
7. Asset management	PFMA & MFMA
8. Liability management	PFMA only
9. Consequence management	PFMA & MFMA
10. Strategic planning and performance management	PFMA & MFMA
11. Governance and oversight	PFMA only

Scope of the **compliance audit** – what will be delayed to 2021-22



The following compliance subject matters will not be scoped in for the 2020-21 audit cycles, but will be delayed to 2021-22:

Compliance audit subject matters delayed to 2021-22	PFMA or MFMA audit cycle
1. Human resources management (limited to collecting information on the use of consultant)	MFMA

The following areas were included in the 2020 directive as new focus areas but not implemented because of the covid-19 pandemic, and we propose that these areas be delayed for MFMA 2021-22:

Compliance audit subject matters we propose be delayed to 2021-22	PFMA or MFMA audit cycle
1. Liability management	MFMA
2. Transfer of funds	MFMA
3. Environmental management	MFMA



Complaints policy



Section 13(1)(c) of the PAA provides for the auditor-general to **determine the procedures for handling complaints when performing audits**, after consulting the oversight mechanism

The purpose of this submission is to

- **highlight key elements of the complaints handling process** as outlined in the policy
- socialise the committee on the **proposed policy changes**
- ensure that the committee **agrees to the changes**



✓ We revised the complaints policy based on the **audit committee's recommendation** to provide for **handling complaints against the conduct of oversight structure members** appointed by the AG

✓ Together with this recommendation, we **reviewed the policy in its entirety** to ensure that it is **relevant and responsive to our current environment** in the following areas

- the **independence and transparency** of the process
- the **procedural fairness** of the process
- the **timelines** within which AGSA responds to complaints

Main changes to the existing policy



Reference to policy	Summary
Definitions	The new policy contains the definition of 'External governance structure members', which is in line with sections 5(2) and 40(1)(a) of the PAA, because it introduces a mechanism for dealing with complaints against members of such structures.
Policy principle 5.1(b)	This policy principle has been expanded to refer to complaints that are received through the whistleblowing channel.
Policy principle 5.1(c)	This principle introduces the requirement for complainants to first exhaust the internal escalation processes outlined in audit engagement letters for the relevant audit before lodging a complaint. This applies to complaints of suspected impropriety concerning non-compliance with professional standards and applicable legal requirements during the course of the audit.

Main changes to the existing policy



Reference to policy	Summary
Policy principle 5.10.3	Category 3 complaints (pertaining to the conduct of employees and administration of the AGSA in the performance of their duties) have been expanded to include complaints against oversight structure members appointed by the auditor-general in the performance of their duties.
Policy principle 5.15.3	This principle highlights the element of independence when dealing with complaints. It explains the escalation process and also introduces Scoag, which will be jointly responsible for assessing and determining the course of action and steps to be taken for complaints lodged against members of the AGSA external governance structures.



Complaints lodged **against the AGSA** are dealt with by the **Risk and Ethics business unit**, which is **independent of the audit portfolio**



A complainant may **lodge a complaint directly or through an anonymous reporting channel**, which was recently implemented



To allow for a defined and consistent approach, our complaints policy provides for complaints to be **classified into five categories**



Complaints that pertain to **operational matters dealt with during the audit, execution, scope and audit outcome** are classified and investigated under **category 2** (see slide on classification of complaints for more detail)



Complaints pertaining to the deputy auditor-general are escalated to the auditor-general for investigation and finalisation, and **complaints pertaining to auditor-general are escalated to Scoag**



The complaints process allows for an **appeal to be lodged against the outcome** of a complaint if the complainant is **dissatisfied with the manner in which the complaint was handled**. Appeals are **lodged with the deputy auditor-general** for a final decision



These complaints are reported, and **trends are monitored by the executive committee and the audit committee**



✓ The **categories of complaints** are:

- ✓ **Category 1:** Complaints that do not fall within the scope of complaints mentioned in the policy
- ✓ **Category 2:** Complaints relating to operational matters dealt with during the course, execution or scope of an audit
- ✓ **Category 3:** Complaints relating to the actions of employees and the administration of the AGSA
- ✓ **Category 4:** Complaints relating to the actions of the auditor-general in their official and personal capacity
- ✓ **Category 5:** Complaints that fall within the scope and ambit of the Protected Disclosure Act; where an employee is subjected to occupational detriment after having made a protected disclosure



Oversight discussion



Provide inputs to and endorse the AGSA's strategic plan



Provide inputs to and endorse the AG's 2021 audit directive



Provide inputs to and endorse the AG's complaints policy

THANK YOU

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