AUDITOR-GENERAL
SOUTH AFRICA

INTEGRATED ANNUAL REPORT

TWENTY TWENTY

ENHANCED POWERS ENHANCED ACCOUNTABILITY

ENHANCED POWERS ENHANCED ACCOUNTABILITY

THE 2020 REPORT THEME

The public debate about the failure of accountability mechanisms in the public sector led to the amended Public Audit Act **enhancing** the auditor-general's **powers** to enable **accountability**. The powers allow us to take binding remedial action if material irregularities are not appropriately addressed and, where necessary, issue a certificate of debt to recover lost money from accounting officers or authorities.

We accept our powers with the seriousness that they deserve and, in turn, we subject our use of these powers to full scrutiny, ensuring that we are held to the same strict level of accountability as those we audit.

ABOUT THIS REPORT

As part of our legislated accountability, we provide Parliament with a detailed report of the Auditor-General South Africa's annual activities. We also align to the following best practices, standards and legislation:

- Public Audit Act 25 of 2004 (PAA)
- Global Reporting Initiative (GRI) standards
- International Integrated Reporting <IR> framework
- King IV principles and codes
- ISSAI 12
- Sustainable development goals

This report is based on our annual activities measured against our commitments detailed in our *2019-22 strategic plan and budget.*

We welcome feedback on our integrated annual report to continue providing pertinent information in our reporting. Written feedback can be sent to agsa@agsa.co.za or reach out on twitter at @AuditorGen_SA

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

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

30 September 2020

Honourable Speaker Modise

Report to the Speaker in terms of section 10(2) of the Public Audit Act 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 2020, 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 2020.

Yours sincerely

20/09/2020.

THEMBEKILE KIMI MAKWETU
Auditor-General

2019-20 INTEGRATED ANNUAL REPORT

VALUE-ADDING AUDITING

Implemented the MI process at **16** national and provincial, and **9** local government auditees

Identified **45** MIs in 2019-20 worth an estimated **R4,25 billion**

Successfully executed **1 070** audits

Achieved **76%** compliance with quality standards

We audit **14** of the 21 section schedule **2** institutions with **2** in the pipeline

Integration continued to **gain momentum** and in some instances produced **audit efficiencies**

Requests for investigations increased by **126%** from **34** to **77**

Resistance from certain auditees to our audit messages and opinions increased: **57** during the national and provincial audits and **41** during the local government audits

Deployed a multi-disciplinary team to facilitate government's **preventative controls on covid-19** procurement

VISIBILITY FOR IMPACT

Status-of-records-review was implemented in **91%** of instances

Portfolio committees used our insight to hold **auditees accountable**

Scopa elevated key governance issues focusing on entities that **did not submit financial statements**

Our media briefings have led to widespread coverage on **various media platforms** (print, broadcast, online, social media and community)

Our citizen engagement efforts **have increased** the understanding of our mandate and audit message

The National Treasury used **our audit insight** to help improve financial management in public sector

Played a leading role in the **Intosai and Afrosai-e capacity-development** efforts

Collaborated with **civil society** to pilot a social audit on delivering **sanitation in an informal settlement**

The auditor-general was awarded the **2019 Abasa Presidential Award**

PERFORMANCE SNAPSHOT

VIABILITY

R107million saved by pooling initiatives supported revenue optimisation

Reduced overheads through **cost containment strategies**

Debt owed to the AGSA
R931 million, an increase of **25%**, with local government owing **42%** of the whole

The R50 million appropriation from National Treasury did not materialise and had to be absorbed in our overhead costs

Total recruitment
949 appointments

Internal progressions
74% internal appointees

Graduated
1 195 CAs since 1991

Trained
2 263 employees on the MI process

Enhanced our cybersecurity initiatives

Ranked 5th on Universum's **most attractive employers** by students studying accountancy

Successfully upgraded TeamMate R11 to **TeamMate R12**

VISION AND VALUES DRIVEN

Achieved
B-BBEE level 1 status for the second year in a row

R686 million spent **on outsourced work**

90% of our audit work to B-BBEE levels 1 and 2 firms

62% of our outsourced audit work allocated to 51% black-owned firms

21% spent on 30% black women-owned firms

Graduated
11 enterprises from our ESD programme

Created
81 jobs through ESD

Closed
94% of our audit findings

Received a favourable rating on the status of **ethics in our organisation**

Received
23 complaints through the whistle blowing mechanism

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SECTION ONE

THE AUDITOR-GENERAL'S MESSAGE

THEMBEKILE KIMI MAKWETU
AUDITOR-GENERAL

No matter where we start, we make sure that the end is always better than the beginning.

AGE: 54
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 South Africa's new auditor-general for a period of seven years. Kimi's tenure draws to a close at the end of this year.

Accountability is at the heart of the level of trust in any government and is an ultimate indicator of the administration's capacity to manage public resources in a way that benefits the citizens it serves. Not knowing what happens to public money leads to mistrust in the government. The year 2020 will be remembered as a time of upheaval for the world, our country and our organisation. It introduced great uncertainty and tremendous challenges to the public sector and led us into unchartered territory.

In such times, the role of the supreme audit institution of South Africa has become crucial as it demonstrates our clear value proposition as an independent and authoritative voice that contributes to good governance and improvements in managing public resources.

The unique auditing powers that Parliament has given to the auditor-general and, by implication to the AGSA, enabled our auditors to report independently, without fear, favour, or prejudice on how government uses public assets and its level of accountability.

This annual report is a transparent look at how we executed our mandate to enable Parliament and citizens to hold government accountable.

> Whether you change the linen or stitch up wounds, cook the food or dispense the medicines, it is in your hands to help build a public service worthy of all those who gave their lives for the dream of democracy.
>
> **– Nelson Mandela**

PAA and preventative controls

Parliament and our various stakeholders have expressed great interest in how our newly enhanced powers will be executed and the results they will bring. I am very pleased to report that we successfully implemented the first phase of the material irregularity concept. We have outlined all the identified material irregularities to date in our general reports and highlighted the trail from the event of non-compliance with the laws and regulations to the steps taken by the specific accounting officer or accounting authority to remedy such non-compliance. In our second year of implementation, which is currently underway, we will test the effectiveness of the accounting officers' or authorities' actions. If required, we will apply the remaining set of powers up to issuing certificates of debt to those accounting officers or authorities who fail to prevent the loss of public monies or resources. A summary of our performance on implementing the amended Public Audit Act is included in this report.

To improve accountability, I continue to rely on the accounting officers and authorities of public institutions to prevent and detect non-compliance, fraud, theft and breaches of the fiduciary duty of care before our auditors identify material irregularities. Preventative controls will help them stop material irregularities and cost much less than implementing consequences for gross financial mismanagement and abuse of the public purse. Such controls can obviate the need for us to apply the amendments to the Public Audit Act. In line with this endeavour, in 2017-18 we introduced the status-of-records reviews as an early warning system that provides accounting officers with an opportunity to strengthen their internal controls and improve their audit outcome.

At the other end of the spectrum, the executive authorities must set the tone for consequence management by investigating and dealing with any allegations of financial misconduct and irregularities by accounting officers and authorities. Their role is to monitor the implementation of the recommendations on material irregularities. All oversight structures can now use our reports to oversee the progress of resolving material irregularities at both accounting and executive levels.

Ultimately, we are striving for accurate financial and performance management in the public sector, creating a solid foundation for service delivery and for the citizens to tangibly experience and feel the vision set by the Constitution and the *National development plan 2030.*

Auditing the covid-19 relief fund

> The abnormal situation requires extraordinary interventions from all the relevant structures of the state
>
> **– Mkhuleko Hlengwa, Scopa chairperson**

The covid-19 pandemic has affected every individual on the planet, from infections and restrictions on human rights, to loss of life and livelihoods. The South African government's urgent, multipronged approach to minimise the pandemic's health and economic consequences, protect vulnerable layers of society and counter the economic recession has been reinforced by a R500 billion stimulus package. The urgency to distribute these emergency funds means that the strength of procurement regulations eased. This presents opportunities for financial abuse given the movement of large amounts of money at a rate and frequency that public institutions have never operated at before.

With the president's support, we have undertaken comprehensive, multifaceted and risk-based audits of government's key initiatives and its management of the multibillion rand made available. The AGSA is independent and can empower government to institute proactive, relevant and practical preventative and deterrent controls that should accompany the massive undertaking of using the covid-19 relief fund. I believe that our work will allow government to inhibit the aid being siphoned off and, where this had occurred, to rapidly identify these instances and apply consequence management to help recover lost funds.

Although we did not have direct experience of auditing in times of disaster, we looked at examples from our fellow supreme audit institutions and designed a South African-specific audit plan. The plan relied on immediate, extensive engagement with the accounting officers and authorities of the identified auditees, gaining in-depth understanding of the transactions and conducting the audits urgently. Our expertise, built over the last few years, in using computer-assisted audit techniques and fraud detection analysis played a significant role in flagging risks and alerting the management of audited entities before the money was spent.

Our first report, tabled on 2 September 2020, highlights shortcomings that include:

- a lack of agility in government's information technology and systems
- a lack of validation, integration and data sharing across government platforms
- compounded pre-existing deficiencies in supply chain management such as –
  - overpricing
  - unfair processes and potential fraud
  - inability to coordinate and oversee the efforts of multiple departments, agencies and spheres of government.

These resulted in initiatives being slow in getting off the ground, delays in delivering personal protective equipment, an unfair allocation of grants and benefits, or deserving applicants being unfairly rejected. Poor record keeping made it difficult for us to audit all matters.

Safety of our audit staff

During our audits, we adapted our established modus operandi considerably to ensure the safety of our staff and auditees alike. Where possible, we use remote audit planning and information examination, while visits to the auditees' sites, e.g. hospitals, schools, etc. follow the strictest possible precautions. Our staff's safety remains our highest priority.

Our work is reflected in special reports to Parliament, including the responses of accounting officers and authorities to the weaknesses identified by our teams.

It is important for me to note that the organisation I lead was alert to the needs of our stakeholders and acted swiftly to support Parliament in exercising its oversight responsibility. Our actions demonstrate the value of a world-class supreme audit institution.

Strategy execution

In reflecting on the organisation's performance, I am inspired by the work we have done since the inception of our organisational strategy. The overall goal of our 4V strategy was to add significant value through our audits as we focus on the issues of greatest priority for our nation, to support accountability and to drive public service improvement through our visibility programmes.

Our audit environment has evolved tremendously over time and we have been diligent in adjusting our tactics to respond effectively. We advanced our audit portfolio in response to audit risks and parliamentary requests. Through all the changes, driven by our passion for the public sector and the people of our country, we kept our eyes on our vision and executed our strategy unwaveringly. The result is overwhelming. We:

- built deeper and wider audit expertise which we used to audit the vast and technically complex public sector, including 67% of the major state-owned enterprises
- institutionalised integration in examining the financial and performance behaviour of our auditees and extracting valuable insight by using our specialists in information systems auditing, performance auditing and investigations
- elevated our audit methodology to be on par with international best practice and made it responsive to the challenges of the South African public sector. It allows us to focus on 'what matters' and see public sector performance throughout entire value chains
- committed to maintain high-quality audits and openly reported our results and the measures taken to improve areas of underperformance
- developed new, contemporary methods of engagement to influence improvement in the public sector. Our communication made it easy for our stakeholders to access and understand our work and enabled them to discharge their own duties and exercise their rights using the insight derived through the audits. Most importantly, our insight changed the nature of the conversations in the public sector
- increased the organisation's attractiveness by enhancing our employee value proposition and providing a highly ethical environment for staff to flourish

- invested in building our own professional capacity, which now boasts 1 327 audit professionals (36% of the total staff) and 934 non-audit employees with tertiary education (25%). This includes the unique trainee auditor scheme, which over the past two decades has delivered 1 195 chartered accountants. Our leadership development programmes significantly strengthened our internal capacity and ensured a sustainable pipeline
- protected our staff against threats and intimidation, allowing them to exercise their constitutional role of making difficult, independent and courageous audit judgements
- managed to remain financially viable, and thus independent, in an environment of persistent financial constraints
- transformed our organisation in support of the most important societal change process in the country, achieving a level 1 broad-based black economic empowerment status.

Apart from our organisational work, we demonstrated that clean administration is achievable. We enhanced our own accountability and transparency by adopting best practices in organisational reporting, and increasing the scope and depth of disclosing our performance indicators. Following the amendment to our enabling legislation, we immediately implemented our enhanced powers for the continued relevance of our work.

International contribution

While focused firmly on our public sector effort, we believe that a supreme audit institution can only be as good as the collective of public sector auditors across the globe. We therefore continue to make a significant ongoing contribution to the international auditing community. In our role as the chair of the International Organisation of Supreme Audit Institution's capacity building committee, we were instrumental in crafting global guidelines to professionalise public sector auditors. This work will continue as the guidelines are elevated to professional standards and these pronouncements are included in the compendium of standards of public sector auditing within the next three years. Considering the complex audit environments and sophisticated financial and performance management systems, the value of well-qualified professional auditors has never been more apparent, or so well demonstrated, as in these times of crisis.

Our commitment to support and collaborate with African supreme audit institutions is also unwavering, and was realised in our financial support and specialist secondment to the African Organisation of English-speaking Supreme Audit Institutions to ensure the sustainability of this vital development organisation on the African continent. We trust that this investment will speed up improvements in accountability on the continent and globally.

Closure

I am eternally grateful for the opportunity to lead one of the greatest institutions in South Africa – one that is important, relevant, ethical, employs great people and allows them to realise their full potential. The men and women of the AGSA have met challenge after challenge with passion, skill and independence, and I have no doubt they will continue to do so in the future.

In this last message of my tenure, I express my everlasting appreciation for the work done by every single staff member, for the sacrifices they have made in pursuit of our common dream of a better South Africa and for the support they have shown me during my time as auditor-general.

The AGSA has a rich legacy, but as history tells us time and time again, the best years are still ahead. The role of the institution will continue to grow in importance. All our stakeholders will look to us for relevant information that will allow them to execute their civil or citizen duties and hold government to account over its spending.

I am leaving the AGSA in a strong position to cope with the serious challenges it will face on its path. What helped me in my journey was the continuity of vision, based on delivering benefits to the citizens of South Africa, balanced with the importance of ensuring evolution and innovation. The principles of our sustainability as a national audit office remain our independence, credibility, professionalism and relevance. These non-negotiable factors, combined with genuine humility to be a public servant and to work to strengthen South Africa's democracy, have become the hallmark of the audit office and its leaders. In a democratic society where accountability, transparency and integrity are indispensable indicators of a stable order, there will always be a need for a strong audit office to underpin the trust of citizens in their elected representatives.

To the leadership of the organisation that remains behind – whatever course you take, make sure that the end is always better than the beginning.

25/09/2020.

KIMI MAKWETU
Auditor-General

THE DEPUTY AUDITOR-GENERAL'S OVERVIEW OF PERFORMANCE

TSAKANI MALULEKE
DEPUTY AUDITOR-GENERAL

We continued to enhance our processes to ensure that we add value to our stakeholders and build a strong institution.

AGE: 45
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.

2019-20 was a year of milestones. It was our last complete reporting period under the visionary leadership of Auditor-General Kimi Makwetu. It was also the first time we implemented the enhanced mandate he envisioned when he took up the reins of auditor-general in 2013. This year therefore gave us an opportunity to consolidate our gains, reflect on what we have achieved under his leadership and plot our way forward.

We worked hard, focusing on achieving our vision 2024 by consistently delivering on our enhanced mandate. We completed our audits in the midst of increased threats and intimidation towards our people, and pushbacks on our audit opinions. Confirming the first material irregularity in an audit was a defining moment for the organisation, as it proved that we had embraced our duty as the supreme audit institution of South Africa.

The amended Public Audit Act gives us a necessary mechanism for our efforts to improve the worsening state of accountability in the public sector. I cannot overstate my gratitude towards the audit teams that have pioneered this process, as I know the hard work you put in to ensure that the process was implemented successfully. I salute you for your dedication and professionalism.

During the year, we continued to implement the 4V strategy, embedding its major building blocks and consolidating the gains we have accumulated over the past six years. We continued to enhance our processes to ensure that we add value to our stakeholders and build a strong institution.

As a supreme audit institution, we responded to the changes in the audit environment by deploying a team to assist government to deal with the challenges posed by its responses to the covid-19 pandemic, which increased the value that we add to government and the people of South Africa.

Value-adding auditing

Our audits over this past year again provided insight to 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 the people of South Africa.

During the past financial year, we completed 1 070 audits, 81% of which were signed-off within the legislated deadlines. Our general reports indicate that audit outcomes for national, provincial and local government regressed from 2014-15 to 2018-19. Audit outcomes from both audit cycles improved in 2019-20 compared the previous year. Irregular expenditure remained high, non-compliance with supply chain management legislation continued to increase, and auditees' financial health deteriorated.

This deterioration hampered government's ability to deliver on its priorities in education, health and infrastructure, and at a local government level, which all had an impact on providing for citizens' basic needs.

Resistance from certain auditees to our audit messages and opinions increased: there were 57 contestations during the audits of national and provincial departments and 41 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. Although pushbacks have generally increased, pushbacks on technical matters decreased because our status-of-records review mechanism provided an early warning on issues of contention that enabled them to be addressed early in the audit process.

These contestations continued to have an impact on the timely completion, quality and cost of audits. We continue working with our auditees and the relevant authorities to resolve these disputes on time and outside of legal processes.

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

Section 4(3) audits

Our earlier strategic choice to increase the oversight of section 4(3) audits' governance was rewarded by the increased appetite (and external pressure) to take over, and our increased ability to handle, such audits. We have drastically increased the number of state-owned enterprises that we audit directly over the last six years. Of the 21 schedule 2 institutions, we audit 14. This is a vast increase from the six we audited in 2013-14. We are working with the current Eskom and Transnet auditors to gradually take over these highly complex audits.

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

Section 4(3) of the Public Audit Act 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.

Quality of audits

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

We implemented a series of measures to improve our compliance with quality standards. This year, we achieved a 76% (2018-19: 72%) compliance rating against our target of 80% – 90%. The slow progress in improving these results has increased our determination and focus on tightening a range of controls supporting audit quality. These include the adequacy of our internal technical support capabilities and support programmes available for audit engagement managers.

A number of external factors also contributed to the quality control results. The increase in the sheer volume of audits and our rapid takeover 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.

PAA implementation

The first phase of the implementation journey included 25 auditees (16 national and provincial and 9 local government auditees). The auditees for the first phase were selected based on their high irregular expenditure identified over the last three years; the cumulative audit coverage of a significant portion of the budget of national and provincial or local government; and a sufficient and manageable distribution of audits across all our audit business units.

Our initial implementation identified a number of material irregularities. The main cause of material irregularities remains shortcomings in the supply chain process, which led to overpriced goods and services or impaired service delivery. Another general category of material irregularities was the lack of attention to programme management disciplines, such as supervising the quality of services and late or no payments to suppliers.

We believe that the systematic implementation of the material irregularity process will serve our initial intent to create a preventative mechanism rather than a punitive one. Our focus has therefore been on increasing our advocacy for strong preventative controls in the public sector.

A summary of the material irregularities identified during the audits is included in section 4 of this report.

The phased approach enabled us to manage all the identified risks, such as possible exposure to disputes and litigation, costs associated with implementation, and stakeholder expectations. It also allowed us to establish mechanisms for collaboration with a number of public bodies.

Covid-19 audits

The outbreak of the global coronavirus pandemic demanded an extraordinary response from governments around the world. This fight against the biggest health threat of our time required every legislature, organisation, company and individual to respond quickly to this challenge. The South African government announced a number of interventions to ease the disaster's impact on individuals and organisations. It adopted a multipronged approach, underpinned by a R500 billion stimulus package to support citizens and the country's economy.

We responded to government's approach by deploying a multidisciplinary team to assist government in applying appropriate financial management and strong preventative controls. We also designed a proactive audit plan specific to government's covid-19 funding, and executed it using strict safety protocols. The outcomes of the covid-19-related audits were published in a special report on 2 September 2020.

Stakeholder engagements

Constitutional stakeholders

Continual interaction with both our internal and external stakeholders is essential for delivering on our mandate. We share our knowledge and insight proactively, empowering public sector leadership to take action where necessary to ensure solid financial and performance management. 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.

In our 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 deal with recurring issues. Portfolio committees used our insights to ask probing questions and were better informed about the financial performance of departments and entities.

The Standing Committee on Public Accounts elevated key governance issues within departments and entities with financial management challenges. Its briefings focused on entities and departments that failed to submit financial statements for audit within the legislated deadlines, as well as those that failed to table their annual reports.

As a result of our engagements, the Association of Public Accounts Committees recommitted to collaborating with the AGSA to co-create solutions for public sector challenges, and strengthening its oversight of the executive and its demand for consequence management.

Lately, our constitutional stakeholders have rigorously engaged with the audit outcomes expressed in our reports. In our view, the engagements with portfolio committees (especially the Standing Committee on Public Accounts) have matured over the last six years and are at a point where we are confident that we have achieved the original intent of our engagements.

Status-of-records review

Our implementation rate dropped to 91% this year (423 auditees of the 465 selected) against 99% in the previous year. However, the impact of these engagements was noticeable in the 84% of audits that experienced improvements from using the status-of-records review. This ranges from improved internal controls to reduced number of technical audit findings and pushbacks.

This initiative has continued to heighten our audit risk assessment as our deeper understanding of the auditee enabled us to effectively respond to audit risks, and engage in focused and insightful conversations. We expect that the initiative will continue to provide depth to the discussions on key controls.

Citizen engagement

We used various platforms, including print media, social media and public lectures to engage citizens on our role, mandate, audit outcomes and the amended Public Audit Act.

Our national and provincial government, and local government briefings continued to receive widespread coverage on national and provincial media platforms, increasing the reach of our general report messages. Provincial business executives briefed regional, local and community journalists on the audit outcomes, giving them an opportunity to clarify issues relevant to their localities and helping them report our audit messages from an informed position.

Over the past few years, we have built and developed social media platforms as an official channel to engage citizens. Our primary social media objective has been to increase the reach and understanding of our messages about accountability, governance and oversight, and about our role and mandate.

Engagement with civil society organisations and social audits

We interacted with civil society organisations to explore opportunities for sharing information and engaging on initiatives that formed part of government's covid-19 relief efforts. The key focus is to use this information for our risk assessments by narrowing the focus on hotspots and challenges.

International visibility

Our international visibility excelled over the past six years. The Intosai (International Organisation of Supreme Audit Institutions) capacity building committee, which we chair, achieved its targets for the period. Under the guidance of our auditor-general, the capacity building committee intensified its leading role in professionalising auditors working within supreme audit institutions. This resulted in the Intosai Governing Board approving the *Guide on developing pathways for the professional development of auditors in a supreme audit institution*, and the revised Competency Framework.

Our teams participated as subject matter experts in Intosai working groups and sub-committees.

We continued to host the secretariat of Afrosai-e (the community of English-speaking supreme audit institutions in Africa) by making senior staff available as subject matter experts in support of its training initiatives.

Financial performance

This report comes at the time when the whole world is faced with the devastating covid-19 pandemic, which has had a significant impact on economies and societies across the world. In South Africa, the pandemic arrived in the context of a poorly performing economy and a fiscus that was already under pressure. Our institution has had to contend with the resultant financial constraints, balancing the need to keep staff safe and well while we deliver on our mandate. During this period, we worked on countless measures to avoid falling victim to the poor economic performance of the country.

In 2016-17, in response to fiscal challenges that resulted in budget constraints in the public sector, we implemented a number of strategic projects to improve our efficiencies. These projects include:

- the revised audit methodology, which enhanced our auditing methods while boasting other significant benefits such as reducing the cost of an audit and improving efficiencies.
- information technology projects such as upgrades to PeopleSoft (our enterprise resource management system) and Teammate R11 (our audit software). Both upgrades aimed to maintain the stability of the applications, enhance employee experience and improve operational efficiencies.

Preparing our environment and implementing the first two phases of the fundamental amendments to our mandate and powers succeeded, without the budgeted and expected R50 million appropriation from the National Treasury. Our success was due to the agility of our funding model and the decision not to pay performance bonuses. This allowed us to use our amended mandate at a much larger selection of 89 national and provincial and 57 local government auditees during the 2019-20 audit cycle.

Although we executed our mandate under immense financial pressure, we avoided a significant increase in audit fees. Over the past five years, our audit fees have grown in line with the inflation rate, and in some instances were below inflation. We delivered cost-efficient yet value-adding audits by effectively deploying multidisciplinary audit teams that applied their diverse skills to various audits in the portfolio.

I am pleased to report that over the years, we have remained self-funded with a very healthy liquidity position. This has, without doubt, maintained our independence.

All these achievements were made possible by sound leadership and a dedicated staff who, in the past five years, learnt many valuable lessons that will help them to confront any future challenges.

We remain optimistic about the future.

Building reserves

We have consistently ensured that we have adequate cash resources to see the organisation through unforeseen tough times. We now report a year-end cash reserve balance of R674 million built through focused effort over many years.

Our ability to pay salaries and our creditors was achieved by purposely focusing our attention on cost optimisation, instituting a head count moratorium, renegotiating leases, intensifying debt collection, and other measures to enhance revenue and improve efficiencies.

Financial outlook

Although difficult to forecast with any reasonable degree of certainty given the serious effect of the covid-19 pandemic, we expect the year ahead to be challenging as the economic recovery is likely to be protracted. Our favourable financial performance at 31 March 2020, the proven resilience of our business model, the demonstrated long-term culture of cost management and austerity, and other proactive strategies that drive the organisational financial performance give me certainty that the organisation will remain a going concern for the foreseeable future.

Developing our human capital

We attracted, retained and cultivated talented individuals by continually improving talent-sourcing mechanisms and talent development programmes.

This demonstrates our strong and effective talent 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 221 trainees with a certificate in the theory of accounting qualification. These trainees started their training contracts with us in January and February 2020.

The continued growth of brand AGSA on social media platforms such as LinkedIn, Facebook and others helped us to attract talent, especially for positions that are challenging for acquisition.

We focused on building a stable and dynamic high-performing workforce with superior technical capabilities and strong leadership skills. The trainee auditor scheme, which is an essential component of our business model and talent pipeline, plays a crucial role in transforming the profession and, to date, has assisted over 1 195 candidates to become chartered accountants. It is characterised by our commitment to provide access and opportunity to students for whom a professional qualification has not always been accessible. The majority of our trainee auditors come from formerly disadvantaged communities and are female.

Our commitment to professionalising our organisation is demonstrated by the following achievements:

- 1 327 qualified audit professionals, comprising 682 CAs(SA), 506 RGAs, 47 Accas, 92 Cisas
- 48 employees with PhDs and Masters degrees, in diverse areas including education, medicine and engineering
- 1 064 employees who wrote the professional exams in their journey towards qualifying as chartered accountants.

With the dramatic increase in the number of candidates sitting for these exams, our next area of focus is improving the pass rate from current levels.

Leadership development programmes

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 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 in partnership with the Enterprises University of Pretoria – targeted at senior managers and managers, it focuses on personal, team and leadership mastery.
- Executive coaching programme – successfully launched and implemented in partnership with the Henley Business School.

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 also enhanced our employee value proposition.

Organisational culture and employee engagement initiative

We successfully unpacked, reviewed and aligned our organisational values to our desired organisational culture. This validation included finalising and adopting the AGSA culture statement and revised AGSA values.

As a result, we will update our expected leadership and staff behaviour profiles, which will be embedded in our competency framework and other organisational processes such as performance management, competency assessments, leadership development, learning and development, and talent acquisition.

Our focus for the next performance year will be to communicate and engage with our staff on the revised values.

Universum annual rankings

We were ranked fifth on Universum's annual South Africa's student most attractive employers in South Africa. These results were based on a survey of 14 155 business and commerce students whose main field of study was accountancy. We were also ranked number 16 by student in the general business and commerce fields. This recognition confirms the relevance of our employee value proposition and increases our chances of attracting and retaining top talent.

Recognition for sterling work

The auditor-general was awarded the 2019 Presidential Award for Lifetime Achievement by the Association for the Advancement of Black Accountants in Southern Africa for his sterling work and contribution to the accounting/auditing profession.

The award recognises the auditor-general's remarkable contribution to the profession, and particularly to advancing black accountants from disadvantaged backgrounds.

Organisational tools

We implemented a number of enterprise resource planning enhancements to improve and streamline our business processes using automated controls.

The TeamMate audit management solution was successfully upgraded from version R11 to R12 while ensuring uninterrupted audits.

Our various information technology infrastructure investments have served us well, especially over the recent period as our staff worked remotely in the wake of the covid-19 pandemic.

Ethics and risk management

Ethics Monitor, an ethics monitoring and management consultancy, conducted an independent ethics maturity assessment. The objective was to provide our leaders and the audit committee with an independent view of whether our ethics management programme is adequate, the degree to which our processes are institutionalised and recommendations for improvement. With a resounding 87% response rate, the AGSA received an "AA" rating on the ethical boundary axis. I could not be more pleased with this outcome as the organisation continues to lead by example in its commitment to uphold ethical values.

The state of our control environment remains relatively healthy; in the previous year, I highlighted our slow response to addressing control gaps that were dependent on information technology. During the year, we made a significant effort to review and revise several policies and procedures to address control gaps identified by both business and auditors (internal and external).

Contribution to transformation

We maintained our level 1 broad-based black economic empowerment contributor status. This is a great reward for our hard work on our processes over the last two years. Our score improved from 95% in 2016-17 to 102,3% in 2019-20. I attribute this success to employee commitment, effective collaboration among our various experts, quality processes and monitoring plans, and strong leadership oversight.

We achieved our management control targets at key management levels and encouraged efforts to recruit and retain persons with disabilities. We have ensured that all our facilities can accommodate people with disabilities.

Allocating audit work to private firms is a major stimulus for transformation in the accounting profession. We paid R686 million to private firms for outsourced audit work. Of this amount, R614 million (90%) was paid to audit firms whose broad-based black economic empowerment contributor status is at levels 1 and 2.

Our audit outsourcing expenditure on 51% black-owned firms over the past five years increased from 16% in 2015-16 to 62% in 2019-20, while the expenditure on 30% black women-owned firms over the past four years increased from 9% to 21%.

Our enterprise and supplier development programme provides financial and non-financial support to beneficiaries who are small black-owned audit firms.

The programme was first piloted in 2015-16 with just three small black firms (two female-owned and one male-owned). Over the following four years, the programme grew its intake to 27 black-owned audit firms with representation across all nine provinces. This year, 11 enterprises graduated from the programme compared to one firm in 2016-17.

Conclusion

Overall, we have achieved the strategic intention of our 4V strategy. We have diligently implemented the strategy over the past six years, and in the process solidified the foundations of a strong institution built on independence, professionalism and relevance.

Although in the short term the challenges of the covid-19 pandemic are severe, the environment presents us with a unique opportunity to recalibrate our business, review different aspects of our operating model and optimise major cost structures. The C-19 Nerve Centre, established as an internal think tank with a unique purpose, helps to ensure that we maintain business continuity and, most importantly, our employees' safety while they execute our mandate. The C-19 Nerve Centre team has begun to research possible new ways of running the organisation. We will incorporate the outcome of this thinking in our next strategic plan and budget.

Undoubtedly, it is going to be critical for the AGSA to continue to make wise choices. We are grateful and proud of the resilience and the character shown by our teams, and remain optimistic about the future.

I express my sincere and warm gratitude to the auditor-general for his visionary leadership over the past seven years. This challenging and rewarding journey has brought out the best in the organisation and culminated in us implementing our enhanced mandate. Your pioneering resolve has created a lasting legacy that will be felt by the country for many years. The organisation has truly improved under your leadership; of this you can be proud. Thank you AG.

The outstanding commitment, diligence and professionalism of all leadership and employees on this journey is commendable and greatly appreciated. With you, I know the institution can only grow stronger.

Maluleke.

TSAKANI MALULEKE
Deputy Auditor-General

EXECUTIVE COMMITTEE

ALICE MULLER
ACTING NATIONAL LEADER: AUDIT SERVICES

SOLOMON SEGOOA
CORPORATE EXECUTIVE: AUDIT

MABATHO SEDIKELA
CORPORATE EXECUTIVE: AUDIT

MLUNGISI MABASO
CHIEF PEOPLE OFFICER

SIBONGISENI NGOMA
CHIEF FINANCIAL OFFICER

VANUJA MAHARAJ
CORPORATE EXECUTIVE: AUDIT

SIBONGILE LUBAMBO
CORPORATE EXECUTIVE: AUDIT

SIPHO NDABA
CORPORATE EXECUTIVE: SPECIALISED AUDIT SERVICES

JAN VAN SCHALKWYK
EXECUTIVE IN THE OFFICE OF THE AUDITOR-GENERAL

SECTION TWO

Who we are

AUDITOR-GENERAL OF SOUTH AFRICA MILESTONES

Our milestones over the past century that feature progress during our many iterations.

1956 AG must audit all bodies that use state funds

1961 RSA confirms the AG and provincial auditors

1975 The first steps to professionalising the OAG

1976 – 1981 TBVC states gain independence from RSA

1989 OAG gets partial autonomy from the public sector

1991 JL van Schaik publishes a trilingual business dictionary

1992 First consistent accountability framework for public entities

1993 OAG gains independence
Publishes statutory accountability report

2003 MFMA is promulgated

2004 The Public Audit Act is passed

2019 PAA amendments come into effect

1909 First controller and auditor-general, and provincial auditors

1916 Regulations on the controller and auditor-general, and auditors

1951 PAAB is established to guide the profession

1953 Intosai is founded

1981 Safrosai is founded

1984 Provincial audit offices amalgamate with OAG

1986 The OAG's administrative independence begins

1987 Report encourages OAG independence

1994 Democracy dawns for RSA

1995 Audit offices of the former TBVC states abolished

1996 Constitution grants OAG full independence

OAG recruits for greater diversity

1999 PFMA is passed

2020 The ground-breaking MI process is implemented under the leadership of Auditor-General Kimi Makwetu using a transparent phased-in approach.

WHO WE ARE

Our mandate and legal form

The AGSA is South Africa's supreme audit institution, with a mandate stemming from chapter 9 of the Constitution of the Republic of South Africa, 1996. This makes us one of six state institutions that support constitutional democracy. The Constitution entrenches the AGSA's independence as subject only to the Constitution and the law. In turn, the Constitution requires us to be impartial, and to exercise our powers and perform our functions without fear, favour or prejudice. The AGSA is an organ of state as defined by 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. This requirement is governed by sub-section 10(1) of the Public Audit Act 25 of 2004 (PAA).

Our functions, beneficiaries and products

Our functions are described in section 188 of the Constitution. These functions, and the powers necessary to perform them, are also regulated by chapters 2 and 3 of the PAA. By law, we audit and report on how the government spends the South African taxpayers' money. Every year, we audit national and provincial government departments, certain public entities, municipalities and municipal entities (our auditees). We also conduct discretionary and special audits, such as performance audits and investigations. Our reports on these audits of the public sector enable the legislature to call the executive to account for the way they manage public funds.

Auditees include our audit reports 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. We may provide audit reports 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 audits at national, provincial and municipal levels. The results of our audits of water boards are summarised in a special presentation to the responsible portfolio committee in October each year. Similarly, each May we issue a special report on our audits of technical and vocational education and training (TVET) colleges.

Public Audit Act amendments

The Public Audit Amendment Act, 2018 (amendment act), came into effect on 1 April 2019. The amendments address long-standing concerns about the failure to address the AGSA's findings, specifically on unauthorised, fruitless, wasteful and irregular expenditure. These amendments aim to arrest the failure of accountability mechanisms in the public sector.

The amended PAA extends the AGSA's mandate, allowing us to:

- report on material irregularities (MIs) that we find during audits, and take action if accounting officers and authorities do not deal with the MIs appropriately
- refer MIs for investigation to public bodies or include recommendations in the audit report on what should be done to address the irregularity
- take binding remedial action for mismanaging public resources if our recommendations are not implemented. In cases where the remedial action is not implemented, the auditor-general can now issue a certificate of debt so that money lost can be recovered from accounting officers or authorities.

A material irregularity occurs when:

- a person does not comply with or contravenes legislation, engages in fraud or theft, or violates their entrusted duty
- this action can or does result in a significant financial loss, the misuse or loss of a significant public resource or substantial harm to a public sector institution or the general public
- the action is identified during an audit performed under the PAA.

The key amendments to our legislation are summarised below.

Included right to refer for **investigation** to a public authority

Developed **criteria for discretionary regularity audits** [section 4(3) audits]

Revised **relevance** and **completeness** of definitions

Increased discretion and scope of our audits

Committed to **reporting on the exercise and outcome** of our additional powers

Added two more types of audits – **international** audits and **stand-alone** performance audits

Reviewed process to **recover a portion of the audit fees** of financially distressed auditees from National Revenue Fund

Included right to prescribe **binding remedial action** and issue **certificate of debt**

Summary of key PAA amendments

The auditor-general's enhanced powers come with an equal responsibility to be accountable and report annually on the exercise and the outcome of these powers. This additional 'accountability report' will cover 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. The accountability reports will be included as a separate section in our integrated annual report. Our first ever accountability report can be found on page 60 in section 4 of this annual report.

All audit-derived information on MIs is included in our general reports on the outcomes of the specific audit cycle.

Scale of the organisation

At the end of March 2020:

AGSA employed

3 667 people, including trainee auditors and those on short-term contracts

The organisation's gross surplus was

R1 358 million

earned through 1 070 audits. Our net surplus was

R190 million

The way we are organised

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

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

The AGSA has 15 regularity audit business units – nine operating in each of South Africa's provinces and six at a national level – three specialised audit services units, and 14 support business units (see our management structure on page 31). We use a shared services model for all enterprise resources, which include financial and human capital, information and communication technology services, legal services, technical services, quality control, information and knowledge management, risk management, strategic management and communication.

Definitions

Regularity audit
is a statutory examination and reporting on the auditee's financial statements. Within our scope of regularity audit, we also examine the auditees' compliance with relevant legislation and their reporting on performance against predetermined objectives. This is consistent with the provisions of our enabling legislation.

Regularity audit business units
are part of the audit portfolios of the AGSA responsible for conducting regularity audits at all auditees within a specific province or a portfolio of departments.

Specialised Audit Services portfolio
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 business units 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** – Alice Muller (acting)
      - **Audit Research & Development** – Linda le Roux
      - **Quality Control** – Gerhard Joubert

CORPORATE AND BUSINESS EXECUTIVES – AUDIT

AUDIT Odwa Duda (acting)	AUDIT Solomon Segooa	AUDIT Mabatho Sedikela	AUDIT Vanuja Maharaj	AUDIT Sibongile Lubambo	SPECIALISED AUDIT SERVICES Sipho Ndaba
National D Andries Sekgetho	National B Polani Sokombela	National A Corné Myburgh	National C Lourens van Vuuren	National E Zolisa Zwakala	Performance Auditing Kevish Lachman
Limpopo Muhammed Essa (acting)	Western Cape Sharonne Adams	North West Success Marota	Eastern Cape Shereen Noble	National F Kgabo Komape	Information Systems Audit Gomotsegang Machele (acting)
Free State Luthando Mbandazayo (acting)	Northern Cape Charles Baloyi	Gauteng Dumisani Cebekhulu	KwaZulu-Natal Ntombifuthi Mhlongo	Mpumalanga Bomkazi Bhobho	Investigation Aletta van Tromp
					Information and Communication Technology Badzelisile Matsebula

CORPORATE AND BUSINESS EXECUTIVES – SUPPORT

CHIEF PEOPLE OFFICER Mlungisi Mabaso	CHIEF FINANCIAL OFFICER Sibongiseni Ngoma	COMMUNICATIONS & TECHNOLOGY Vacant
People and Organisation Effectiveness Ben-Johan Weideman	Corporate Legal and Provisioning Services Marissa Bezuidenhout	Communication Mandla Radebe
Business Support and Operations Rirhandzu Malatjie	Finance Newman Madanhi	
	Strategic Audit Projects Bongani Habile	
	Information and Knowledge Management Thandi Mavundla (acting)	

2019-20 Value-added statement

	%	R million
Revenue		**3 784**
Paid to suppliers		1 274
– value added by operation		2 510
Interest income		79
Total value added		2 589
Applied as follows		
Paid on external empowerment	**1,43**	**37**
– Corporate social investment and social responsibility	0,08	2
– Bursaries external	1,35	35
Paid on employees and internal empowerment	**88,92**	**2 302**
– Salaries, wages and benefits	86,87	2 249
– Employee wellness	0,23	6
– Study assistance	0,58	15
– Training	1,24	32
To pay providers of capital	**0,23**	**6**
– Finance cost	0,23	6
Reinvested in the business	**9,42**	**244**
– Depreciation	2,08	54
– Retained (deficit)/surplus	7,34	190
Total value added	**100,00**	**2 589**

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.

Total number of non-audit suppliers

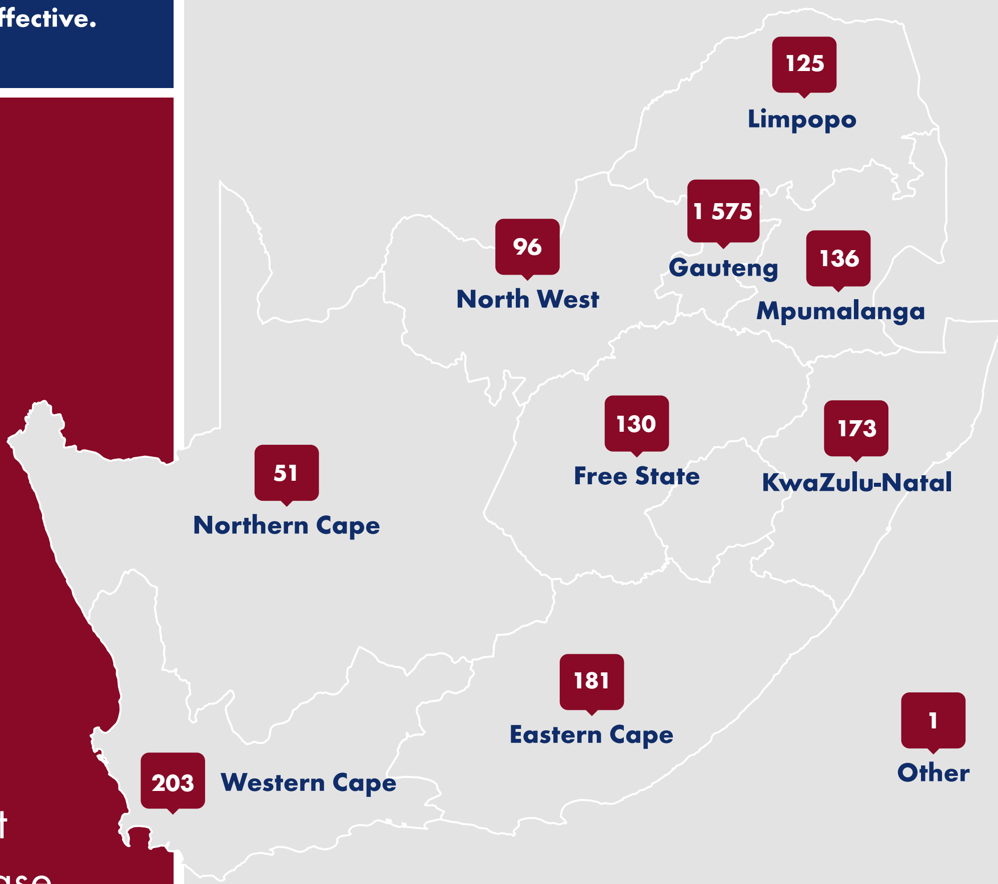
2 671

The update led to a decrease in our non-audit supplier database from 3 829 suppliers in 2018-19 to 2 671 in 2019-20, as we corrected duplicate supplier details.

Categorising databases

All nine regional offices updated their non-audit supplier databases to include companies' broad-based black economic empowerment (B-BBEE) information and service categories. 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



Contracts awarded

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

During 2019-20, R686 million was spent on core audit work by private firms, but only R670 million was billed to auditees. Of this, R346 million was allocated to black-owned firms, while R126 million was allocated to black women-owned firms.

For further information on our active response to transformation, see the vision and values driven chapter from pages 138 to 155.

Audit firms

104

6 large | **17** medium | **81** small[1]

Audit contracts

1 262

audit contracts were awarded to these firms

Outsourced work

included pre-issuance reviews, regularity audits, information systems audits and performance audits.

[1] Large firm – turnover of more than R50 million
Medium firm – turnover between R10 million – R50 million
Small firm – turnover between R0 million – R10 million

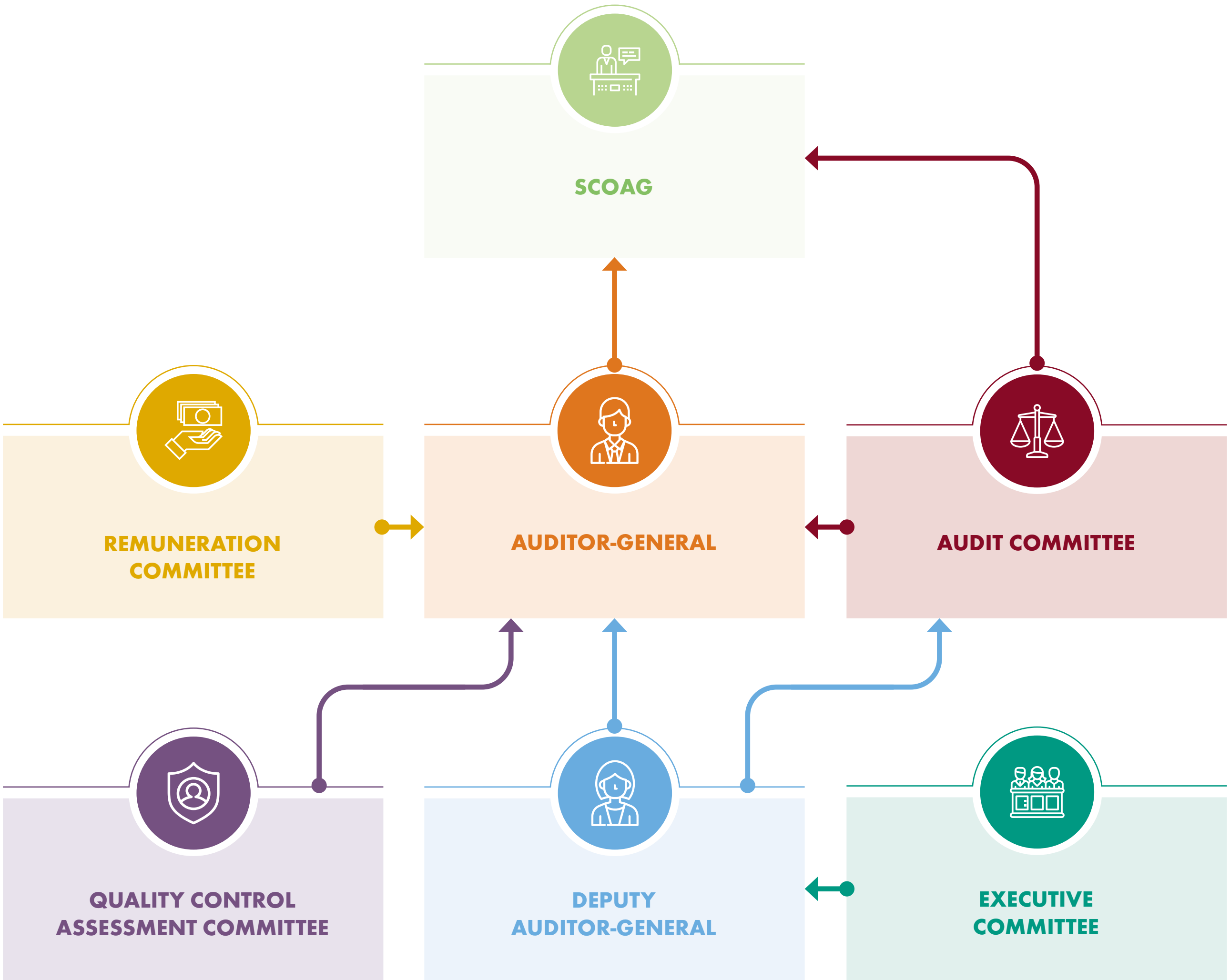
Significant changes during the reporting period

We began implementing the MI process introduced in the previous year at 16 national and provincial and 9 local government auditees. Our report on implementing the amendments and their outcomes at these 25 auditees was included in our general reports. A summary is included in section 4 of this report.

We will systematically increase the breadth and the depth of this implementation in the coming years.

CORPORATE GOVERNANCE FRAMEWORK

Our governance framework is defined by the Constitution, PAA and good governance best practices. We are finalising our gap analysis for compliance with the King IV code of corporate governance and intend to fully implement it after we institutionalise the amended PAA into our governance structures.



AGSA governance structure

STANDING COMMITTEE ON THE AUDITOR-GENERAL

The National Assembly established the Standing Committee on the Auditor-General (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 fulfils 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 confirm the five-year appointment of an independent firm of external auditors.

During its engagements with the AGSA from 1 April 2019 to 31 March 2020 Scoag considered and resolved the following matters:

- Provided guidance and reported on the AGSA's draft strategic plan and budget
- Held an orientation workshop to acquaint new committee members with the amended PAA, and the AGSA's capacity to implement the amendments and its ethical code of conduct
- Provided recommendations and reported to the National Assembly on the AGSA integrated annual report
- Resolved to involve the South African Police Service in instances of auditors receiving threats and intimidation and, in the meeting held in March 2020, requested feedback on specific cases of threats and intimidation towards AGSA staff.

The committee comprised the following members:[2]

- ANC – MR SS SOMYO (CHAIRPERSON)
- ANC – MR JB MAMABOLO
- ANC – MR OM MATHAFA
- ANC – MR Z MLENZANA
- ANC – MR ZJ PETER
- ANC – MS C SEOPOSENGWE
- ANC – MS SR VAN SCHALKWYK
- DA – MR JN DE VILLIERS
- DA – MS ERJ SPIES
- IFP – MR N SINGH
- EFF – MS NV MENTE-NQWENISO

[2] ANC – Ms BP Mbinqo-Gigaba – served on the committee from 27 June to 19 July 2019.
ANC – Ms N Ntobongwana – served on the committee from 27 June to 19 July 2019 and attended no meetings.

AUDIT COMMITTEE

Section 40(1) of the PAA mandates the auditor-general to establish an audit committee and appoint its members. The audit committee does not have managerial responsibility, but reports to the auditor-general and Scoag on:

- the adequacy and effectiveness of internal control and risk management
- its evaluation of the AGSA's financial statements
- its opinion that the chief financial officer and the finance function of the AGSA have the necessary financial expertise to fulfil their responsibilities.

The committee consists of four independent, non-executive members. Their skills and competencies 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 AGSA's chief financial officer and finance function's financial expertise to fulfil their responsibilities.

The audit committee's full report is presented on page 158.

Knowledge, skills and competencies of the audit committee members

100%

MR JOHN BIESMAN-SIMONS (66)

Qualifications: BCom, CA(SA)
Date of appointment: 2005
Rank: Chairperson

John served as an audit partner at Deloitte & Touche for 13 years. He currently serves as a non-executive director of a JSE-listed real estate investment trust (REIT), chairs its audit committee and is chairman of other private companies. He has served on the audit committees of a number of public and private sector organisations.

100%

MR CEDRICK MAMPURU (44)

Qualifications: CA(SA)
Date of appointment: 2018
Rank: Member

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

67%

MS CAROL ROSKRUGE-CELE (46)

Qualifications: BSc Hons Molecular Eng, MSc Biochemical Science, MBL Governance & Leadership
Date of appointment: 2016
Rank: Member

Carol is a senior executive with many years of supply and value chain experience. She is a non-executive director at private and JSE-listed companies and has served as a member of various audit committees, which complements her leadership role.

50%

MS GRATHEL MOTAU (45)[3]

Qualifications: CA(SA), MPhil, BCompt. Honours
Date of appointment: 2017
Rank: Member

Grathel 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.

[3] Ms Grathel Motau resigned at the end of February 2020

QUALITY CONTROL ASSESSMENT COMMITTEE

The quality control assessment committee (QCAC) oversees the system of quality control at the AGSA. The QCAC consists of the auditor-general, the deputy auditor-general, a member of the audit committee and an additional external member co-opted by the auditor-general annually.

The QCAC provides reasonable assurance that the AGSA and its employees adhere to professional and legal requirements, and that our audit reports are in line with accepted international standards.

All quality control monitoring review reports are submitted to the QCAC annually. The QCAC decides on the quality assessment ratings of those engagement managers subjected to a quality control review. The QCAC also plays a critical role by reviewing and approving our policies and processes for monitoring quality control compliance.

At its meeting on 8 June 2020, the QCAC finalised the assessment results of a sample of our audit engagements reviewed in the 2019-20 performance year. The main points of deliberation were:

- amendments to the policy on monitoring quality control compliance
- the quality control review process
- the AGSA system of audit quality and the initiatives implemented to strengthen it
- the review statistics and overall results of the report received from the IRBA on the quality control risk findings and review ratings.

The results are reported under performance information on the system of quality control on page 90.

Knowledge, skills and competencies of the QCAC members

100%

MR KIMI MAKWETU (54)

Qualifications:
CA(SA)

Date of appointment:
2013

Rank:
Chairperson

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

100%

MS TSAKANI MALULEKE (45)

Qualifications:
CA(SA)

Date of appointment:
2014

Rank:
Member

Tsakani is a qualified chartered account (CA) with more than 20 years of experience in the private and public sectors, spanning diverse areas that include auditing, corporate advisory, development finance, investment management and skills development.

100%

MR JOHN BIESMAN-SIMONS (66)

Qualifications:
BCom, CA(SA)

Date of appointment:
2013

Rank:
Member

John served as an audit partner at Deloitte & Touche for 13 years. He currently serves as a non-executive director of a JSE-listed REIT, chairs its audit committee and is chairman of other private companies. He has served on the audit committees of a number of public and private sector organisations.

100%

MS LINDA DE BEER (46)

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

Date of appointment:
2015

Rank:
Member

Linda is a professional director serving on the boards of a number of JSE-listed companies, often chairing their audit committees. Her appointments include chairing institutions that focus on oversight, reporting, governance and auditing standards.

REMUNERATION COMMITTEE

The auditor-general determines the terms and conditions of employment of all employees in the organisation. The remuneration committee (remco) provides the auditor-general with specialised advice on remuneration and related issues, which is considered before the auditor-general makes a final decision.

It also provides advice on industry developments in remuneration frameworks. The remuneration and audit committees are reviewed annually for independence.

In addition, the amended PAA mandates remco to make recommendations to the independent commission on the salary, allowances and benefits of the auditor-general.

During the year, the committee met twice to provide advice on remuneration frameworks and recommend annual employee increases to the auditor-general.

Knowledge, skills and competencies of the remco members

100%

DR MARK BUSSIN (57)

Qualifications:
BSc, HDPM, MM, D Com, Master Reward Specialist

Date of appointment:
2007

Rank:
Chairperson

Mark serves on several boards, human resource/ remuneration and audit committees. He held global executive positions at three multinationals and was a professor at various universities.

100%

MR BERNARD NKOMO (59)

Qualifications:
BCom, Advanced Executive Development Programme, Senior Management Development Programme

Date of appointment:
2008

Rank:
Member

Bernard has over 18 years of senior management experience in finance and human resource reward management at various companies. He currently consults in human resources and reward management.

100%

MS MPUSENG TLHABANE (58)

Qualifications:
B Admin Ind Psych, MDP, MyPDA Coach Analyst, FLA Coach, NLP Practitioner, Master HR Practitioner

Date of appointment:
2008

Rank:
Member

Mpuseng has 27 years of experience as a human resource practitioner, 15 at executive level and seven years at her own consulting company. She has served on the human capital & ethics committee of a state-owned enterprise (SOE) since November 2019.

100%

MS NAZLIE SAMODIEN (50)

Qualifications:
B Soc. Science, PDM, M Dip (HR), GRP, Master Reward Specialist

Date of appointment:
2009

Rank:
Member

Nazlie 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.

EXECUTIVE COMMITTEE

The PAA gives both the auditor-general and the deputy auditor-general the authority to delegate their assigned powers or duties to any member of staff. The executive committee (exco) assists the deputy auditor-general to manage the business affairs of the organisation, in line with the delegation of authority set out in the AGSA management approval framework.

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

Exco met 10 times during the 2019-20 financial year. It dealt with implementing strategic initiatives, approving various policies and strategic documents, considering the internal and external auditors' management reports, and monitoring management information for issues and trends.

Biography of the executive committee

100%

MS TSAKANI MALULEKE (45)

Qualifications:
CA(SA)

Date of appointment:
2014

Tsakani is a qualified CA with more than 20 years of experience in the private and public sectors, spanning diverse areas that include auditing, corporate advisory, development finance, investment management and skills development.

80%

MS ALICE MULLER (52)

Qualifications:
CA(SA)

Date of appointment:
2008

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

90%

MS SIBONGISENI NGOMA (44)

Qualifications:
CA(SA)

Date of appointment:
2012

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.

80%

MR SOLOMON SEGOOA (47)

Qualifications:
CA(SA)

Date of appointment:
2014

Solomon has 22 years of experience, 18 of which were spent in executive positions. This includes leadership roles in the private and public sectors, in SOEs and industries such as investment banking, mining and auditing. He joined the AGSA as a corporate executive in 2014.

NB: Mrs Alice Muller was appointed as acting national leader from February 2019
Mr Odwa Duda was appointed as acting corporate executive from February 2019

90%

MS MABATHO SEDIKELA (43)

Qualifications:
CA(SA), Master of Commerce Taxation

Date of appointment:
2016

Mabatho is a qualified CA with over 15 years of experience in the audit profession. She joined the AGSA in 2010 and over the years climbed the corporate ladder to corporate executive, a position she has held since 2016.

100%

MR MLUNGISI MABASO (53)

Qualifications:
Honours degree – Industrial Relations, Masters diploma – Human Resources

Date of appointment:
2016

Mlungisi has 29 years of experience as a human capital professional, 16 of which have been in senior leadership roles. He joined the AGSA as chief people officer in 2016.

90%

MS VANUJA MAHARAJ (44)

Qualifications:
CA(SA)

Date of appointment:
2017

Vanuja joined the AGSA as a senior manager at the KwaZulu-Natal business unit in 2005. She has progressed over the past 15 years to her current role as corporate executive.

100%

MS SIBONGILE LUBAMBO (41)

Qualifications:
CA(SA)

Date of appointment:
2017

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

90%

MR SIPHO NDABA (49)

Qualifications:
MSc

Date of appointment:
2018

Sipho has over 25 years of experience in technology audits, risk management and consulting. He spent 14 years at KPMG in various roles as a partner before joining the AGSA as a corporate executive.

100%

MR ODWA DUDA (51)

Qualifications:
RGA, MBL

Date of appointment:
2019

Odwa became part of the executive committee in an acting capacity from his role as a business executive. He joined the AGSA as an auditor and moved up the ladder to business executive: audit, a position he has occupied since 2012.

Corporate executive in the auditor-general's office

MR JAN VAN SCHALKWYK (53)

Qualifications:
CA(SA)

Date of appointment:
2010

Jan is a qualified CA who 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 executive in the auditor-general's office. He is also involved in the Intosai community and their capacity building committee.

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

The AGSA is an active member of the International Organisation of Supreme Audit Institutions (Intosai) and participates in several of its working groups. We host the secretariat of the African Organisation of English-speaking SAIs (Afrosai-e), the regional chapter of Intosai.

We subscribe to the following standards and principles:

- The International Standard on Quality Control (ISQC 1)
- The International Standards on Auditing
- The International Standards of Supreme Audit Institutions (ISSAI)
- The Institute of Internal Auditors' *International standards for the professional practice of internal auditing*
- 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 ISSAI 12, which 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 to the lives of ordinary citizens in their respective countries.

MAKING A DIFFERENCE TO THE LIVES OF CITIZENS

How the AGSA, as a supreme audit institution, uses our strategic goals to make a difference in the lives of our citizens

1

Strengthening the accountability, transparency and integrity of government and public entities

STRENGTHENING ACCOUNTABILITY

- Independence of SAI
- Carrying out audits
- Enabling those charged with governance
- Reporting on audit results

2

Demonstrating ongoing relevance to citizens and other stakeholders

RELEVANCE TO STAKEHOLDERS

- Responsive to changes & risks
- Effective communication
- Credible source of insight & guidance
- Capacity building through learning

3

Being model organisations through leading by example

BEING A MODEL ORGANISATION

- Own transparency & accountability
- Own good governance
- Complying with own code of ethics
- Striving for service excellence & quality

SECTION THREE

INTEGRATED ANNUAL REPORT PROFILE

Reporting cycle and approach

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 26 September 2019.

This integrated annual report provides a concise and balanced story of our performance from 1 April 2019 to 31 March 2020 against the commitments outlined in the *2019-22 strategic plan and budget*. This report includes the financial statements and the reports of the remuneration and audit committees.

Our integrated approach to reporting is a result of our leadership and the executive teams applying integrated thinking to defining the imperatives for creating long-term, sustainable value for our stakeholders. The report covers the performance of all AGSA business units, including our head office and our offices in the nine provinces.

Reporting principles, policies and practice

The ‘general disclosures’ version of the Global Reporting Initiative (GRI) guidelines for sustainable reporting and the International Integrated Reporting <IR> framework both informed the content and format of this report. 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 International Financial Reporting Standards (IFRS) and the PAA.

Our focus for the content of this report

Matters of significance to us are those that have a large impact on the AGSA’s ability to create value, which in turn affect our sustainability. These matters generally relate to our financial and performance management, as well as the risks and opportunities that inform the scenarios we may face in the future.

These material topics are defined by exco in the strategic commitments made to Parliament, which are based on our long-term strategy and outlined in detail in the AGSA’s *2019-22 strategic plan and budget*. They are confirmed at the end of the reporting period in consultations with those corporate executives responsible for leading the various strategic goals.

The material aspects are applicable to all AGSA business units, while the material aspects of our value-adding auditing and visibility for impact strategic goals are applicable to all our key stakeholders. We therefore continuously engage with our stakeholders to find out what is important to them so that we can respond to their needs.

Apart from the covid-19 pandemic, we did not identify new material topics in our year-end consultations. There were also no changes to, or limitations on, the scope and boundary of the material aspects that we had identified. We did not need any restatements from our previous integrated annual reports.

External assurance on this report

Organisation's policy and practice on seeking external assurance

We adhere to a majority of the principles of good governance outlined in the King IV code. Our combined assurance model defines the various role players that provide assurance to the AGSA, which include 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.

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 163 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 auditing the AGSA is less than 15% of the firm's annual revenue.

Scoag's contribution to seeking assurance on the organisation's sustainability report

Scoag, which oversees the AGSA's work on behalf of Parliament, appoints the external auditor for five years (renewable once) and confirms its appointment every year. The audit committee facilitates contracting the external auditor on behalf of Scoag, in a process that is fair, equitable, transparent, cost-effective and in line with our transformation agenda.

The audit committee also examines the auditor's capacity and competence to provide assurance on the sustainability information, which it reports on as part of its annual report to Scoag. Certified service providers annually train the members of this committee on their responsibilities to 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.

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 *2019-20 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 *2019-20 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 2020, has been approved by the auditor-general and deputy auditor-general.

Signed: Deputy Auditor-General

Signed: Auditor- General

THE AGSA STRATEGY

Our daily work provides value to the people of South Africa and their elected representatives in all spheres of government. We are driven by our aspirations for the public service and 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:

1
strong financial and performance management systems

2
oversight and accountability

3
commitment and ethical behaviour by all

4
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 our 4V strategy's four strategic goals.

Value-adding auditing (V1)
provides audit-derived valuable insights to our stakeholders on the status of their internal control and performance environment, accompanied by actionable recommendations. When implemented, our recommendations will lead to visible improvements in public sector administration. Reporting on this goal is on pages 76 – 93.

Visibility for impact (V2)
structures our stakeholder engagement programmes to effectively encourage and enable the required improvements in the public sector. Reporting on this goal is on pages 94 – 113.

Viability (V3)
focuses an internal perspective of our work to ensure 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. Reporting on this goal is on pages 114 – 137.

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. Reporting on this goal is on pages 138 – 155.

CONDITIONS UNDER WHICH WE OPERATE

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

Increasingly complex and difficult audit environment

Our state-owned enterprises (SOE) audit portfolio has grown rapidly, increasing the number of specialised and complex environments that we audit. Although the pace of this change has exerted pressure on our resources, it has led to intensive training and learning for our staff, while enhancing the value that we provide in strengthening oversight of these entities.

Implementing the MI process will intensify the impact on our skills and capacity to perform high-quality audits. During this process we focus on identifying and reporting MIs that result, or are likely to result, in a financial loss, and on driving consequences for such irregularities as prescribed. We have a defined plan for phasing in the full MI definition at more auditees over the next few years.

Year after year we see **internal control environments that are inadequately managed**. **Weak preventative controls** and the **disregard for our audit messages** increase the audit risk profile.

Audit contestations have become a constant feature of our environment and we will continue to track the number and nature of such cases to understand how we can engage with the respective stakeholders to pre-empt pushbacks. A possible increase in contestations resulting from our enhanced mandate could pose a risk to the behaviour of our staff. We use various internal platforms to support our staff to maintain their ethical conduct and make the right choices.

The poor quality of the annual financial and performance reports submitted by many of our auditees has a negative impact on the time frame and quality of our audits because additional work is needed to respond to the risks posed by misstatements. We continue to work with accounting officers to improve the quality of their reports and engage with oversight on this issue.

Prolonged slow economic growth and its financial impact on us

For the past few years, South Africa has seen slow economic growth that resulted in a recession and ratings downgrades. This presents government with fiscal constraints to delivering its programmes and generating revenue, especially at local government level, which exerts continued pressure on audit fees. We have attempted to ease some of this pressure by enhancing the way we use resources and containing overheads.

Collecting **outstanding debt, predominantly from local government and ailing SOEs**, remains a challenge. We expect this trend to increase, given the loss of revenue throughout the public sector and the number of bailouts granted across the spectrum of critical service providers.

Increased risk of cyber-attacks and new technologies

With cyber-attacks on the rise globally, we recognise the **potential for data breaches** and have taken steps to protect our information from such threats.

We will continue to intensify our information management and security measures to secure the information collected during the MI audits.

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

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

During the past few months we embedded tools for working remotely and intend to enhance this new capability. We also worked towards introducing low-scale innovation to track the progress of our audits. More attention will be allocated to business innovation as people and financial resources become available.

Coronavirus pandemic disruption

Although the global coronavirus pandemic was only recognised as a factor at the end of the reporting period, it has affected our operations in a number of ways. Following President Ramaphosa's announced state of disaster and a country-wide lockdown on 26 March 2020, we had to assess our basic business processes. We maintained critical operations such as security, information and communication technology, and payroll, while our staff worked from home to ensure that our audits continued where possible. Our leadership will continue to assess the full impact of the pandemic on our audit operations. As we travel this new path, we will take the time to adjust to the changed environment and increase the value of our audits.

STRATEGIC RISKS

Our all-encompassing risk profile is made up of strategic, business, technological and financial risks. As part of an integrated risk management approach, the AGSA's exco annually assesses our strategic risk when doing its strategic planning.

Exco reflects on our operating environment and identifies measures to manage significant risks to the AGSA. Strategic risks are addressed by the strategic initiatives outlined in our three-year rolling strategic plan. In some cases, the strategic risks are addressed at an operational level by specific functional units and risk owners that are tasked with leading risk mitigation efforts.

For the 2019-20 performance period, we streamlined our strategic risks, resulting in their reduction from nine in the previous year to six. Some previous risks were adequately mitigated while others were consolidated.

We led by example during the year, with a disciplined focus on managing risks and deploying expertise to reduce the risks to acceptable levels. Our strategic initiatives also focused on improving our current business activities and processes to enhance efficiencies and effectiveness. Each initiative was assigned to a senior leader who would champion it to ensure a high level of ownership and accountability.

We expect the impact of the covid-19 pandemic and the national lockdown to be felt throughout the organisation, with an effect on finances, resources and achieving objectives. At the time of writing this report, the impact of the covid-19 pandemic has yet to be quantified and is not factored into the 2019-20 risks.

During 2019-20, the impact of implementing the amended PAA was seen in most risks. Consequently, many responses developed to mitigate strategic risks were associated with the PAA amendments. The following are the strategic risks for 2019-20 and our response to them:

- Inability to maintain the organisation's financial viability in areas of revenue, costs and collections
- Failure to prevent and consistently respond to issues of unethical conduct by our employees and external stakeholders
- Inability to attract, develop and retain essential skills and employees to achieve our key organisational priorities
- Audit process failure
- Failure to have a positive impact and be relevant to our stakeholders
- Failure to promptly respond to business technology needs and manage information security threats

We are comfortable that we have managed our risk exposure to acceptable levels, which are overseen by the audit committee.

While comfortable with our risk owners' efforts to reduce the exposure associated with the strategic risks to acceptable levels, work is still required to fully mitigate the strategic risks. The mammoth task that risk owners will face cannot be overstated, given the consequences of the covid-19 pandemic and the objectives the organisation set for itself.

Our primary task in 2020-21 will be to assess the impact of the covid-19 pandemic on the organisation's strategic risks and ensure that these are adequately articulated and mitigated.

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 the results of our audit work public, 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
- recommending improvements tailored to the business of the auditee
- holding executives accountable for material irregularities

The auditing and accountancy professions by

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

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 for 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 by limiting our head count growth and employing 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 insight 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 and 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 publicly available, transparent and annually revised parameters 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 (capitals) and transform them using business processes (activities) to produce outputs (outcomes) that, over the short, medium and long term, create value for the organisation, its stakeholders, society and the environment.

INPUT – is the status of the capital at the begnning of the year

PROCESSES – are the methods that we use to ensure that the input of each capital yields the desired output

OUTPUT – is the status of the capital at the end of the financial year

Primary processes

- Auditing organisations and entities funded by public money using the following tools:
  - audit research methodology
  - audit planning
  - audit execution
  - audit reporting
  - quality control over audit processes and products
- Training professional auditors

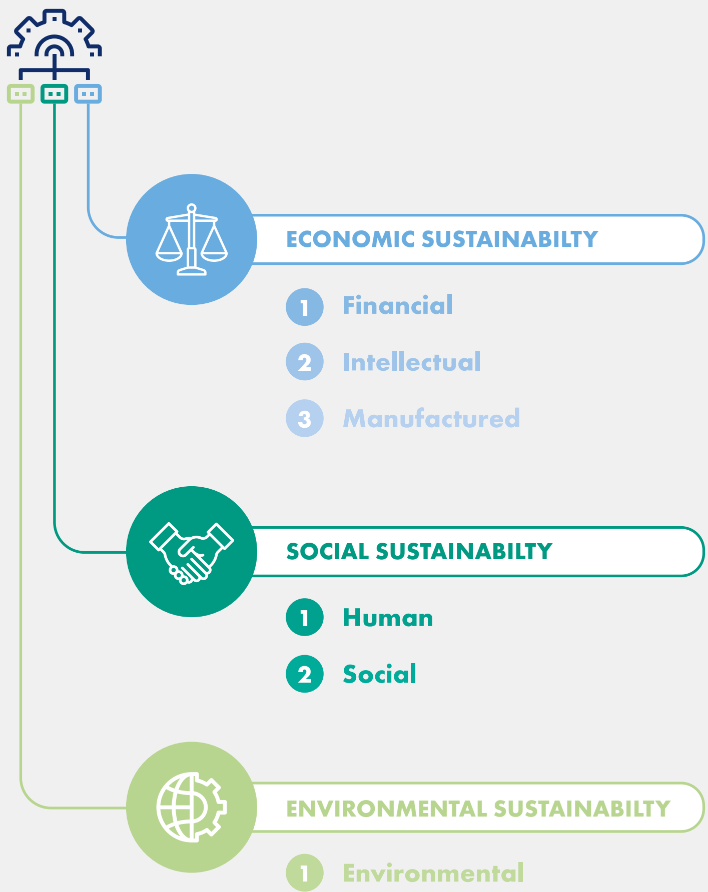
Secondary processes

- Communication with stakeholders
- Stakeholder relations management
- Human resource management
- Legal
- Information technology management
- Information and records management

Management control

- Strategy management
- Risk management
- Governance
- Ethics management
- Policy management
- Transformation management

BUSINESS MODEL SUMMARY



The term 'capital' used in the integrated reporting framework refers broadly to any store of value that we use to deliver 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.

2019-20
AGSA BUSINESS MODEL

Business inputs/resources

FINANCIAL CAPITAL

- Surplus R71 million
- R101 million in own hours' income from pooling resources
- Reserves to the value of R908 million
- Debt owed to the AGSA of R744 million

INTELLECTUAL CAPITAL

- Audit process
- 1 063 audit reports issued
- System of quality control
- Audit technical guidance material
- Funding model specifically designed for the AGSA
- Technical expertise

MANUFACTURED CAPITAL

- Leased offices in all nine provinces and our head office in Pretoria
- Property, plant and equipment of R103 million
- Stabilised our audit computer software – TeamMate version R11.0
- Implemented various ERP enhancements as per the organisation's priorities

Business outputs	Business outcomes
• Surplus R190 million • R107 million income from pooling resources • Reserves to the value of R1 121 million • Increase in debtors. Total debtors worth R931 million	• Maintained financial viability and independence • Increased own hours revenue
• Audit process that includes identifying MIs • 1 070 audit reports issued • Two general reports issued • Audit technical guidance, including on the MI process • Audit technical guidance material • Technical expertise	• Increased understanding of the auditee environment and increased ability to provide better recommendations for improvements to auditees and better insight to oversight structures • Audit efficiencies and reduced unbilled hours • Commitment to addressing our findings and actionable recommendations highlighted in our reports
• All our offices have remained unchanged • Property, plant and equipment of R100 million • Optimised TeamMate R12.0 • Implemented various ERP enhancements in line with the organisation's priorities	• Effective and efficient management of our operations • Improved and streamlined business processes and strengthened the protection of information

2019-20
AGSA BUSINESS MODEL

Business inputs/resources

HUMAN CAPITAL

- Diverse, skilled, capacitated and motivated workforce of 3 556
- High absorption rate of qualified CAs(SA) from our trainee auditor scheme
- A pipeline of 1 344 trainee auditors
- 111 students passed APC exams
- Registered audit professionals: CA(SA) – 633, RGA – 467, Cisa – 85, Acca – 42
- Human resources policies, frameworks and processes
- Staff engagement survey results
- Accountable and ethical leaders
- Suppliers: 104 contract work firms and 3 829 general suppliers
- 131 academic and 230 Thuthuka bursary holders
- Recruited 235 trainees with CTA

SOCIAL CAPITAL

- Maintained our position within the top 20 (#16) most attractive employers in the Universum employer of choice survey (2018-19 survey results)
- Relationships with stakeholders
- Level 1 B-BBEE contributor status

ENVIRONMENTAL CAPITAL

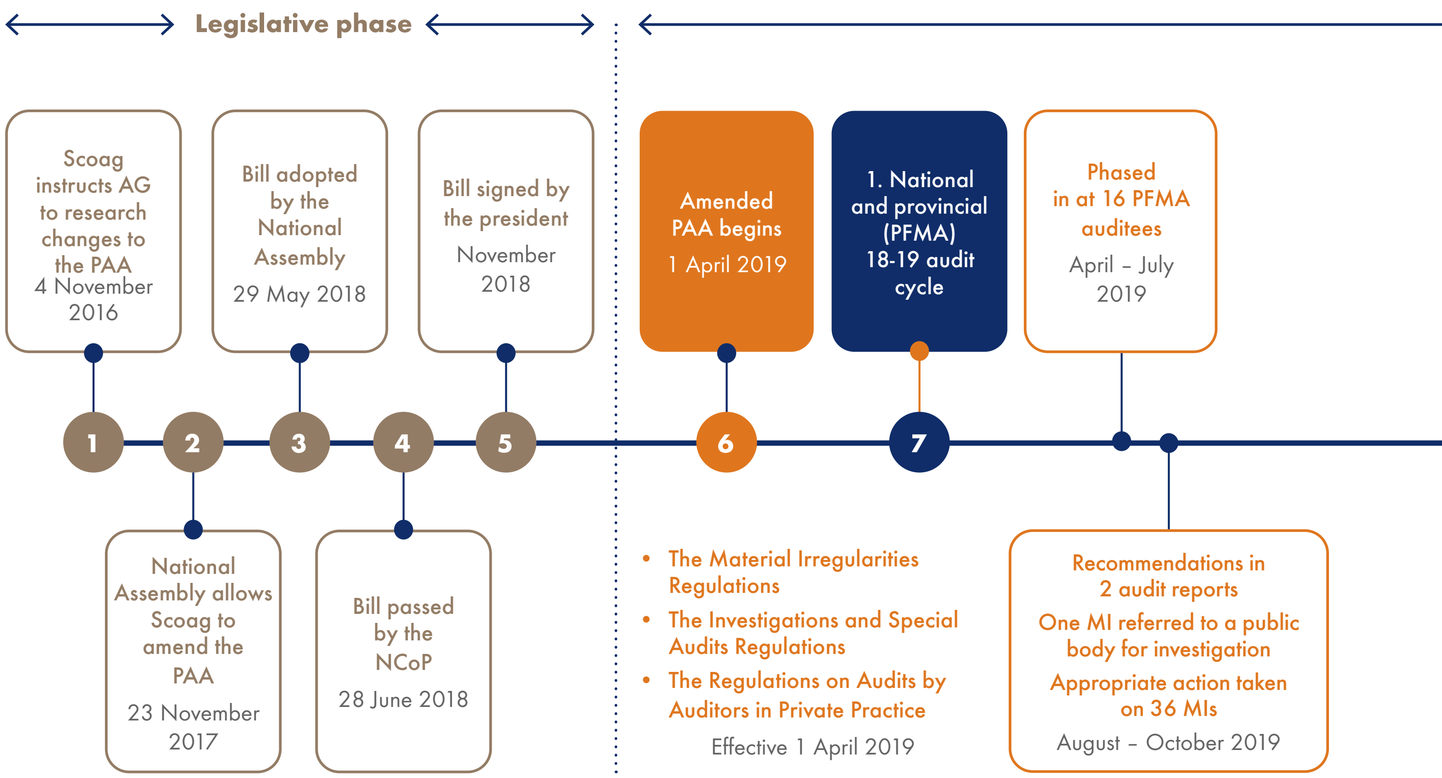
- Our use of natural resources – land, air, water, trees (paper), energy
- Total carbon emissions – 14 456,25 CO_2e

Business outputs	Business outcomes
• Diverse, skilled, capacitated and motivated workforce of 3 667 • 63% absorption rate of qualified CAs(SA) from our trainee auditor scheme • A pipeline of 1 241 trainee auditors • 144 students passed APC exams • Increased number of registered audit professionals: CA(SA) – 682, RGA – 506, Cisa – 92, Acca – 47 • Accountable and ethical leaders (introduced the leadership development programmes such as LDP and EDP) • Suppliers: 104 contract work firms and 2 671 general suppliers • 59 academic trainee auditors and 280 Thuthuka bursary holders • Recruited 221 trainees with CTA	• Retained and developed a competent and ethical workforce that enabled us to effectively execute our mandate • Increased our contribution to the accounting and auditing profession, with 1 195 CAs(SA) qualifying through our training programme • Maintained leadership and trainee auditor pipelines to ensure organisational continuity • Maintained a sustainable suppliers database
• Ranked 5th among Universum's student's most attractive employers in South Africa by students whose main field of study was accountancy. We were also ranked 16th by students in the general business and commerce fields • Improved and evolved relationships with stakeholders • Maintained level 1 B-BBEE contributor status	• Enabled our stakeholders to better execute their mandates • Assisted parliamentary committees in their oversight roles • Increased citizens' understanding of our mandate • Increased our stakeholders' understanding of the amended PAA 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
• Reduced carbon emissions to – 13 372,5 CO_2e	• Effective and efficient management of our operations • Improved and streamlined business processes and strengthened the protection of information

SECTION FOUR

PAA

PAA TIMELINE



Process to encourage accountability for public resources and take decisive action to present or recover losses

Refer wrongdoings found during an audit for investigation by relevant public bodies such as the public protector, the hawks and other similar bodies

Implementation phase

8 — 2. Local government (MFMA) 18-19 audit cycle

Phased in at 9 selected MFMA auditees
September 2019 – February 2020

No recommendations or referrals. MIs addressed by the accounting officers/ authorities or reported as "Other MI matters"
March – April 20

9 — Audit Fees Regulations
Effective 1 April 2020

10 — 3. PFMA 19-20 audit cycle

Phased in at 89 selected PFMA auditees
May – June 2020

11 — Established advisory committee on material irregularities (ACMI)
30 June 2020

Take binding remedial action for failure to implement the auditor-general's recommendations to remedy wrongdoing

The auditor-general also has the powers to **issue a certificate of debt** in the names of those in charge of overseeing public resources if the remedial action is not implemented

ACCOUNTABILITY REPORT
IMPLEMENTING THE MI PROCESS

MEASURE
% completed actions as per the PAA amendments implementation plan

2019-20 target	2019-20 actual
80% – 100% planned work	100%

Accountability failures in the public sector impair our auditees' institutional strength and financial health, which results in a lack of essential service delivery and infrastructure maintenance.

When auditees do not achieve their performance objectives, this has a negative effect on the well-being of the South African people. In 2016, troubled by the growing extent of our auditees' irregular, unauthorised, fruitless and wasteful expenditure at all tiers of government, Scoag initiated a process to expand our mandate beyond auditing and reporting. Scoag was fully backed by the National Assembly, the National Council of Provinces (NCoP) and the president. This resulted in the amendment to the PAA, which came into effect on 1 April 2019.

The amendment act extends the power of the AGSA, allowing the auditor-general to take binding remedial action where we identify mismanagement of public resources: we use the term material irregularities (MIs). MIs relate to the non-compliance with laws or rules and serious breaches in duties that we identify during our audits, which could result in a significant financial loss, a misuse or loss of public resources, or harm to the public or a public institution.[4]

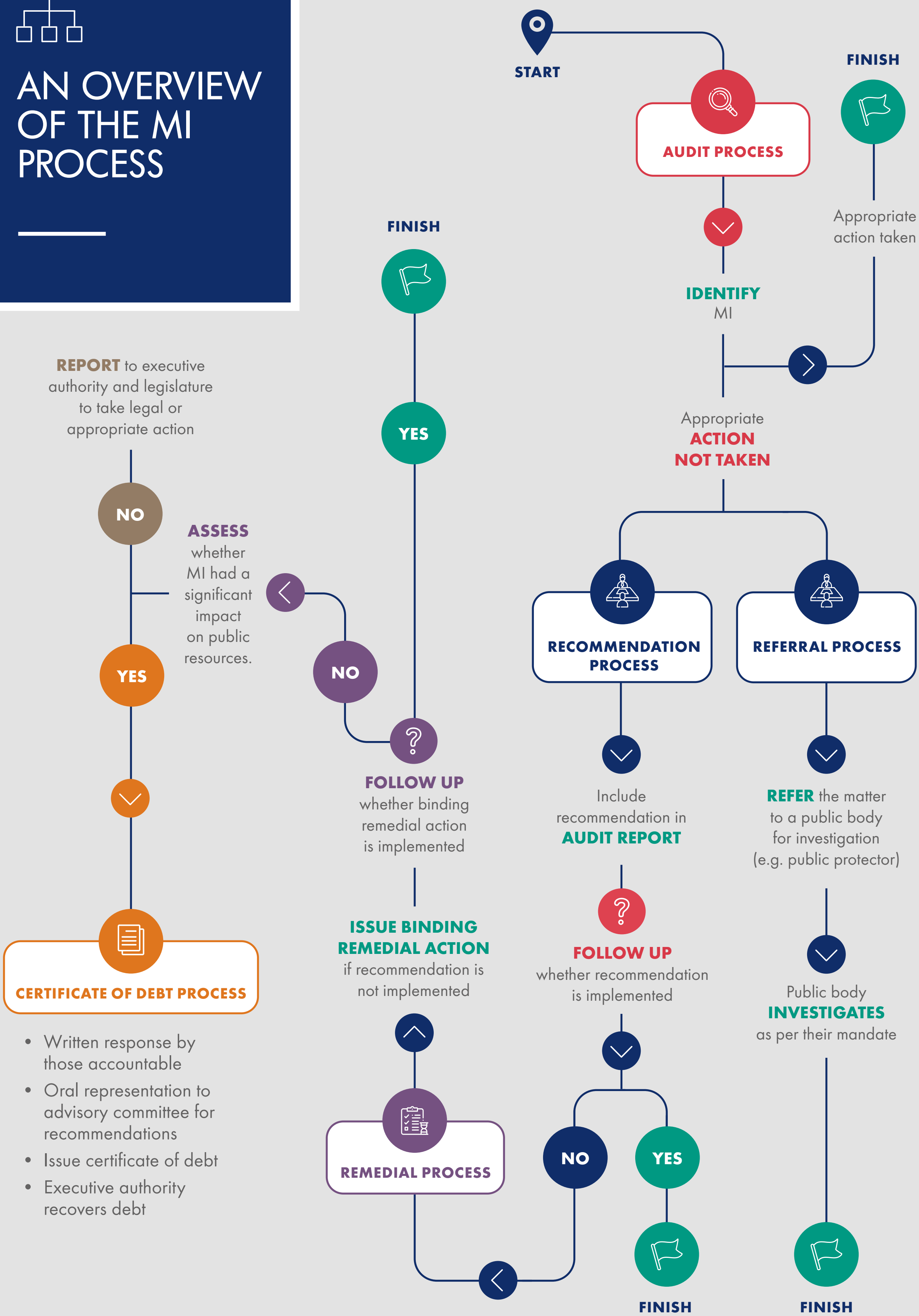
The auditor-general is also able to refer specific instances for investigation by public investigative bodies and law enforcement agencies.

While giving additional powers to the auditor-general, the amendment act also commits the auditor-general to report annually on the exercise and the outcome of these additional powers. All our accountability reports will, from now on, cover information on the matters that we referred for investigation, and detail the remedial action taken and certificates of debt issued during the course of the reporting cycle.

This section provides Parliament, and all our stakeholders with a detailed account of how we implemented the amended PAA and the outcomes for the 2019-20 reporting period. The implementation discussed in this report refers specifically to the process of identifying and addressing MIs detected through our audits (the MI process).

[4] Note: this definition is a summary of the legal definition of material irregularity in section 1(g) of the amendment act.

AN OVERVIEW OF THE MI PROCESS



Implementation approach

An extensive consideration of the AGSA's resources, skills and capacity, as well as the expectations of our stakeholders, dictated the formulation of the phased implementation approach agreed between the AGSA and Scoag. The phasing relates to implementing the various components of the MI definition (depth) and to the number of auditees at which the MI process will be implemented (breadth).

The phased approach enables us to manage all the identified risks, such as possible exposure to disputes and litigation, costs associated with implementation, and stakeholder expectations. It also allows us to determine the work to be done through public bodies, newly established mechanisms for decision-making and others.

Phase 1 – implementation

The focus for the 2018-19 national and provincial, and local government audit cycles was to identify material non-compliance with, or contravention of, legislation during an audit performed under the PAA that resulted, or is likely to result, in a material financial loss.

The first phase of the implementation journey included 25 auditees (16 national and provincial and 9 local government).

The auditees for the first phase were selected based on:

- their high irregular expenditure identified over the last three years
- cumulative audit coverage of a significant portion of the budget of national and provincial or local government
- a sufficient and manageable distribution of audits across all our audit business units

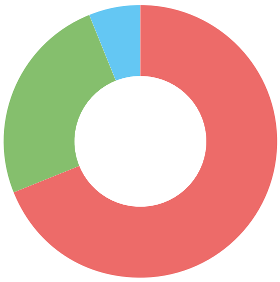
National and provincial overall outcomes

39 material irregularities identified

R4 billion financial loss (**R3 billion** known and **R1 billion** estimated)

Auditees

69% (11)
25% (4)
6% (1)



Addressing the material irregularities

36 (92%) Accounting officer or authority is taking appropriate action

2 (5%) Recommendations included in audit report

1 (3%) Material irregularity referred to a public body

Auditees identified in phase 1	Status	Material irregularities
Free State Department of Human Settlements		10
Passenger Rail Agency of South Africa		9
Department of Cooperative Governance		6
North West Department of Community Safety and Transport Management		3
Department of Water and Sanitation		2
Gauteng Department of Health		2
Northern Cape Department of Health		2
Water Trading Entity		2
KwaZulu-Natal Department of Health		1
Department of Basic Education		1
Limpopo Department of Education		1
Department of Correctional Services		0
Department of Defence		0
Eastern Cape Department of Education		0
Mpumalanga Department of Health		0
SAA Technical		

Completed audit – no MIs **Completed audit – MIs identified** **Audits outstanding**

Summary of the MIs identified during the 2018-19 national and provincial audit cycle[5]

5 This integrated annual report includes all MIs identified for the national, provincial and local government cycles.

Recommendations and referrals

As part of the MI process for the national and provincial audits, accounting officers and accounting authorities took appropriate action to address 36 of our MIs. The following three MIs were not adequately addressed.

Auditee: Gauteng Department of Health

Financial loss: R8 million

Material irregularity:

Medical claims were not paid within the time frames specified in court judgements, leading to the department being charged interest.

The accounting officer's action was not appropriate to address the material irregularity.

Recommendations with an implementation date of 31 March 2020:

- The accounting officer should investigate the fruitless and wasteful expenditure resulting from the interest paid.
- The department must take effective and appropriate disciplinary steps against any official found to be responsible.
- The department must determine whether the responsible official is legally liable for the losses so that it could recover the money.

Status update:

On 3 February 2020, the accounting officer requested that we extend the implementation deadline, which we approved.

Following the accounting officer's response on 10 February 2020, and after extensive engagements on our request for further information, the eventual documents did not assist to conclude a way forward with the MI.

The accounting officer then requested a 6 – 8 week extension, acknowledging that he had not fully investigated the MI and committing to a formal investigation.

On 24 May 2020 we resolved to grant the extension, with a new implementation date of 13 August 2020.

Auditee: Passenger Rail Agency of South Africa (Prasa)

Financial loss: R2 200 million

Material irregularity:
The procurement process for locomotives in July 2012 showed multiple instances of non-compliance. This resulted in the contract being unfairly awarded. Prasa made a prepayment of R2 600 million to the supplier, but derived no value as the locomotives were not fit for purpose. As the supplier applied for liquidation in December 2018, the financial loss of R2 200 million is unlikely to be recovered.

An investigation by the board in 2015 led to the matter being referred to the Directorate for Priority Crime Investigation.

Recommendations with an implementation date of 31 March 2020:

- Appropriate action should be taken to conclude the second phase of the investigation.
- Where the investigation finds employees responsible for the MI, Prasa needs to take effective and appropriate disciplinary steps against them.

Status update:
The courts set the contract aside in May 2019, and the second phase of the investigation, into the officials implicated, is still in progress.

The MI notification was re-issued on 18 May 2020 and gave the administrator until 18 August 2020 to implement the recommendations

Auditee: Northern Cape Department of Health

Financial loss: To be determined as part of the investigation

Material irregularity:
The criteria applied in the evaluation process of a three-year contract for medical waste collection, awarded in November 2018, were different from those included in the original bidding invitation. This non-compliance will likely result in a material financial loss, as the fixed monthly price awarded to the supplier differed significantly from the variable costing price included in the original bidding invitation.

The accounting officer disagreed with our finding of non-compliance in the procurement process.

Referral:
We referred the matter to the National Treasury in October 2019 for investigation.

Status update:
The National Treasury delayed acknowledging acceptance of the investigation until 21 February 2020 because of the delay in engagements on the memorandum of agreement to facilitate the referral. The engagement to finalise the memorandum of agreement is ongoing.

Our follow-up on the progress of the investigation was delayed until May 2020 as a result of the national lockdown. The progress feedback is still pending.

Local government overall outcomes

6 material irregularities identified

R25 billion financial loss
(**R3 billion** known and **R22 billion** estimated)

Auditees

33,3% (3)
33,4% (3)
33,3% (3)

Addressing the material irregularities

6 (100%) Municipal managers are taking appropriate action

Auditees identified in phase 1	Status	Material irregularities
Ngaka Modiri Molema District (NW)		3
City of Tshwane Metro (GP)		2
Ga-Segonyana (NC)		1
Nelson Mandela Bay Metro (EC)		0*
eThekwini Metro (KZN)		0
City of Cape Town Metro (WC)		0
Matjhabeng (FS)		
Mogalakwena (LP)		
Dr JS Moroka (MP)		

* Material irregularities were identified, but not all processes had been finalised by the time of the audit report

Completed audit – no MIs **Completed audit – MIs identified** **Audits outstanding**

Summary of the MIs identified during the 2018-19 local government audit cycle

All the notified accounting officers took appropriate action to address the identified MIs. The effectiveness of the action will be assessed during the next audit cycle and the results reflected in the general report.

Reflection on the first year of implementation

Looking back at the events of the last 12 months we can confidently conclude that we were able to implement our extended mandate from the day the amendment act came into effect. Despite the short time available for preparation, we created the unique content, processes and internal structure necessary.

While limited in depth and breadth, the initial implementation identified sizeable MIs. Our most meaningful successes, though, were the full transparency of our work, our extensive involvement with all our stakeholders to clarify our powers and implementation approach, the lack of MI-related pushbacks and legal challenges, and observed changes in accounting officers' behaviour.

The main cause of MIs remains shortcomings in the supply chain process, which inevitably led to overpriced goods and services or impaired service delivery. Another general category of MIs is the lack of attention to programme management disciplines, such as supervision of the quality of services and late or no payments to suppliers. These irregularities ultimately result in public funds being squandered and service delivery promises not being fulfilled.

We believe that the systematic implementation of the MI process will serve our initial intent to create a preventative mechanism rather than a punitive one. Our focus has therefore been on increasing our advocacy for strong preventative controls in the public sector.

Phase 2 – preparation effort

While our pioneer audit teams implemented the MI process at selected auditees, our support functions continued their structured preparation for the next phase of audits. The effort was guided by the increased depth and breadth of the planned MI audits. The focus for the 2019-20 audits was to identify any *non-compliance with, or contravention of legislation; fraud; theft; or a breach of a fiduciary duty identified during an audit performed under the Act that resulted, or is likely to result, in a material financial loss.* This definition is being applied to 89 national and provincial and 57 local government audits, or on average a 600% wider implementation than phase 1.

The scale of the second phase of implementation required significant preparation covering a number of areas that included:

- Technical and soft skills training for audit staff responsible for each of the audits. We trained 2 263 audit and support staff, using training material developed in-house. Of these, 1 441 auditors were part of the MI implementing teams.
- Internal capacity building, especially in the areas of technical support in the legal, audit and investigation disciplines
- Augmenting audit processes using prepared practice guides, instituting mandatory technical consultations on all MIs, and conducting legal reviews on all notifications
- Formulating internal and external structures to ensure our enhanced powers achieve the most impact.

An important part of implementing our enhanced powers was to form a multidisciplinary rapid response team (RRT) comprising legal, audit, investigation and quality control specialists. The RRT provided on-the-ground support to the pioneering audit teams. This ensured consistency and alignment when concluding on MIs. The RRT created a learning environment that increased the organisation's intellectual capital and helped to minimise the risks related to the new audit process.

Appointing an advisory committee on material irregularities

Section 5(2)(b) of the PAA mandates the auditor-general to appoint advisory and other structures outside the administration to provide specialised advice and support.

> The advisory committee on material irregularities advises the auditor-general on decisions related to issuing a certificate of debt (CoD) to accounting officers or accounting authorities who have not taken appropriate steps to address MIs during our audits.

We followed a fully transparent recruitment process and the committee held its first meeting in August 2020.

Stakeholder engagement

Meaningful and continual engagements with stakeholders have become important instruments to encourage improvements in the public sector.

Therefore, while ensuring our staff's readiness to implement our enhanced powers, we continued to dedicate our attention to our external stakeholders, who we see as critical to a successful MI process.

Constitutional stakeholder engagements

A number of our stakeholders expressed anxiety about the possible consequences of our enhanced powers. Much of their anxiety was because they were unaware of what the amendments entailed. Our audit teams shared this anxiety as they were expected to deliver these amended PAA messages to their auditees. We therefore ensured that our staff was adequately prepared to engage with their respective stakeholders to raise awareness and understanding of the amendments and outline the stakeholder's role in implementing preventative controls to avoid material irregularities.

These engagements confirmed both the need to proactively engage oversight bodies about their role in demanding accountability, and the critical importance of close cooperation with national and provincial treasuries to ensure that accounting standards and legislative prescripts are not misinterpreted.

Constitutional stakeholder engagements included:

Phase 1 engagements by December 2019

Phase 1 PFMA and MFMA key stakeholders

- Executive authorities
- Accounting officers/authorities
- Audit committees
- Public bodies
- Oversight committees

Engagements by end of March 2020

Additional 173 meetings with constitutional stakeholders that were not part of phase 1

- 35 executive authorities
- 78 accounting officers/ authorities
- 60 audit committees

Engagements with Parliament

The auditor-general created awareness about Parliament's roles and responsibilities, which are critical to the process of accountability in the public sector

- Standing Committee on Public Accounts (Scopa)
- Scoag

Non-constitutional stakeholder engagements

Acknowledging the role that non-constitutional stakeholders play in holding their elected representatives accountable for the use of public funds, we continued to engage with them. Our focus was to enlighten them about our enhanced powers, with the expectation that they would play an active part in the overall accountability process in the country. In turn, these engagements allowed us to understand their expectations and to create processes in time to meet certain reasonable expectations.

Our non-constitutional stakeholder engagements included:

Professional and industry stakeholders

Engagements centred mainly on our mandate and functions, and the amendment act

- 2019 Southern African Accounting Association International Biennial Conference
- Law Society of South Africa
- Saica's PAA seminar for the leadership of outsourced audit work audit firms
- 2019 annual Abasa convention

Media

Our focus was on the rationale behind the amended PAA to foster accurate reporting, and key concepts such as material irregularities vs irregular expenditure, audits vs investigations, and interpreting the audit reports on MIs

- Print media e.g. Mail & Guardian, Business Day, Moneyweb, Daily Dispatch and SABC
- Broadcasters such as eNCA, Primedia Group, SABC
- Social media

Civil society

Our focus was on bridging the gap between what the law says the AGSA can do and what citizens perceive

- Nehawu
- Seta communicator's forum

It is our view that this country-wide communication with all our stakeholders contributed positively to managing citizens' expectations. For more details about our interactions with constitutional and non-constitutional stakeholders, see section 5, page 74 of this report.

Conclusion on the accountability report

From its first phase, we were ready to implement the amended PAA and, embracing lessons learnt and refinements, are better prepared for a deeper and broader execution of our enhanced powers. We were transparent in our approach and our staff demonstrated passion and outstanding commitment in applying these powers during their audits. We also reported extensively on the results of the first audits.

While accountability in the public sector is deteriorating, we are determined to play our role in curbing public funds being mishandled. The public sector tends to rely on corrective controls and investigators chasing the money after it has been spent. Unfortunately, in certain circumstances the amount government spends on chasing and collecting stolen funds exceeds the amount that it is trying to recover.

Let us rather invest in preventative controls; when you have effective preventative controls, you do not have to worry about audit outcomes. This can render the PAA amendments redundant, which is our first prize.

Preventative controls are less expensive than corrective action, such as investigations and court battles, because they rely on people already in the system. However, implementing these controls requires the right tone at the top and a culture to match. This will inform the focus of our PAA work going forward.

SECTION FIVE

76

Reporting on performance against predetermined objectives

REPORTING ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

VALUE-ADDING AUDITING (V1)

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Financial and performance management in the public sector

Our principal legislation requires that we annually audit and report on the quality of our auditees' financial statements, performance reports and compliance with key legislation. We report on the progress of these audit outcomes in our general reports.

We choose audit focus areas that enable us to audit what matters most, guided by government priorities and the areas of public spending most relevant to citizens' well-being. Government priorities are defined in various strategic documents such as the *National Development Plan 2030* (NDP) and the Medium-Term Strategic Framework (MTSF).

Using focus areas allows us to gain an in-depth knowledge of the auditees' business and apply all analytical tools at our disposal to deliver relevant insights. We therefore maintained our focus on the infrastructure, education, health, water and sanitation, and roads infrastructure sectors aiming to highlight deficiencies in specific service delivery programmes. Through our management, audit and general reports, we reveal the weaknesses in our auditees' internal controls and the risks that need attention. Our reports communicate the root causes of audit findings and provide recommendations to address these root causes.

We share our audit insights during engagements with senior officials, accounting officers and authorities, executives and premiers, and portfolio and public accounts committees, which adds value to their management and oversight processes. These practices ensure that our messages are heard.

Our response to covid-19

The fight against the biggest health threat of our time required an extraordinary response by governments, parliaments, organisations, companies and individuals around the world. The South African government adopted a multipronged approach, underpinned by a R500 billion stimulus package in support of the citizens and the country's economy.

As South Africa's supreme audit institution, we are ideally equipped to assess the risks to public funds associated with such a rapid government response. We are also sufficiently independent to play a role in empowering government to institute the proactive, relevant and practical preventative and deterrent controls that should accompany its massive undertaking.

The auditor-general made a public commitment to deploy a multidisciplinary team to assist government in dealing with the challenges of applying appropriate financial management. Strong preventative controls would prevent funds intended for services to citizens from being misdirected to unscrupulous individuals. Government must strike a delicate balance between enabling rapid delivery to citizens and maintaining basic but strong risk management.

We designed an audit plan specific to government's covid-19 funding, which we are currently implementing. The plan emphasises the need to engage the accounting officers on the government's relief interventions, gain a proper understanding of the transactions and use the breadth of our diverse auditing skills to execute these proactive audits as a matter of urgency.

The first proactive audits have begun:

Healthcare services
- National department
- Provincial departments
- National Health Laboratory System

Water supply
- Department of Water Affairs
- Water Trading Entity
- Rand Water

Relief to financially distressed small-scale farmers
- Department of Agriculture, Land Reform and Rural Development
- Agricultural Land Holding Account

Expanded public works programme beneficiaries for covid-related activities
- Department of Public Works
- Independent Development Trust

Education – personal protective equipment
- National and provincial departments of education

Quarantine sites and other covid-related construction and maintenance
- Property Management Trading Entity
- National and provincial departments of public works

Relief of social distress
- National department
- Provincial departments
- South African Social Security Agency

Sports, arts and culture relief fund
- Department of Sports, Arts and Culture

Wage protection
- Unemployment Insurance Fund
- Department of Labour

Tourism relief fund
- Department of Tourism
- SA Tourism

Occupationally incurred covid-19
- Compensation Fund, Department of Labour

Loans through the Industrial Development Corporation
- Industrial Development Corporation

Assistance by the defence force
- Department of Defence

Local government assistance
- Audits to be selected

Resettlement of informal settlements
- National and provincial departments of human settlements
- Metros
- Housing Development Agency

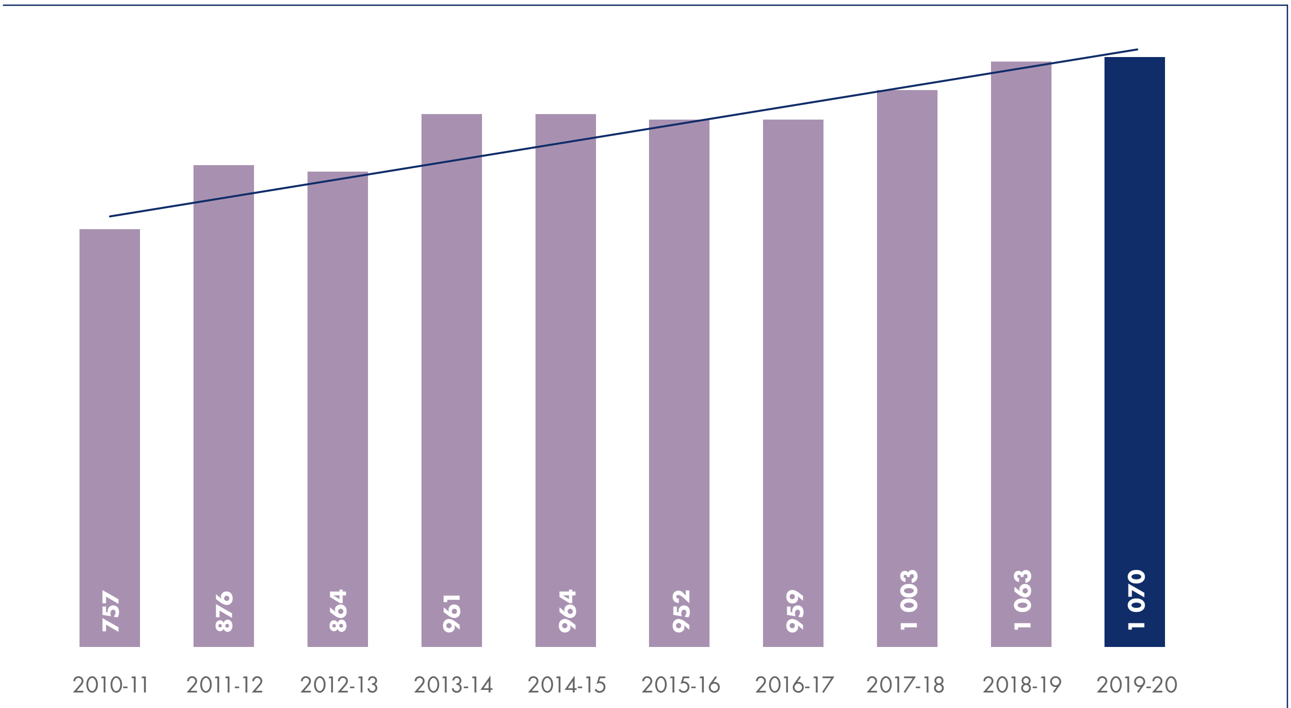
Debt relief and small, medium and micro enterprises funding
- Department of Small Business Development
- Small Enterprise Development Agency
- Small Enterprise Finance Agency

While executing these audits, the safety of our staff remains our priority and strict engagement protocols were enforced at all times.

The outcomes of these proactive audits related to covid-19 are being published in special reports during the 2020-21 performance period.

Audit outcomes of the 2018-19 audit cycle

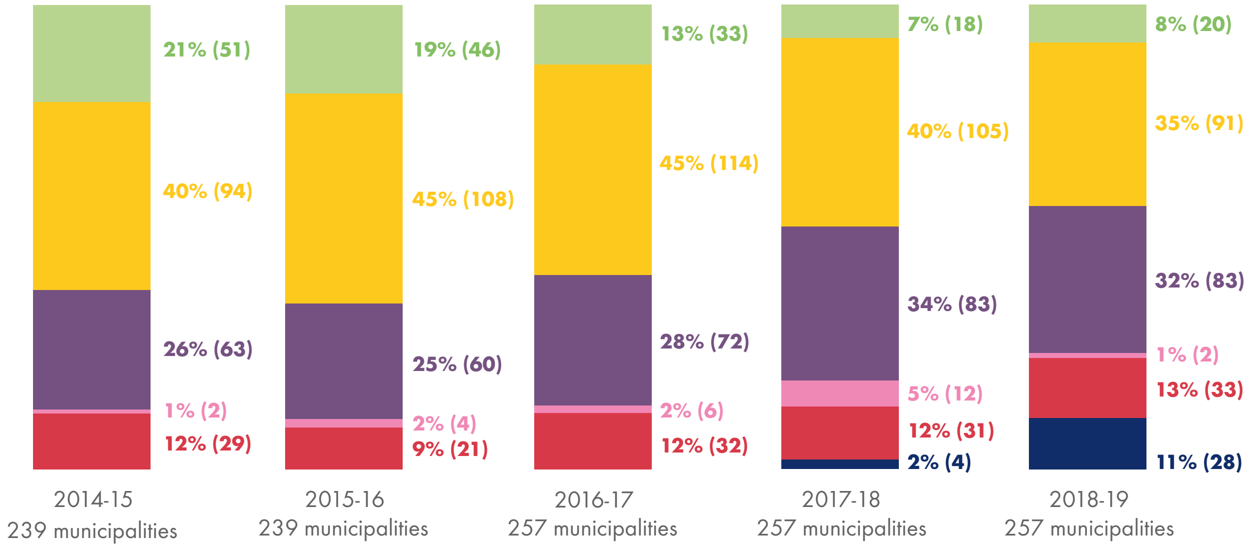
Total number of audits increased



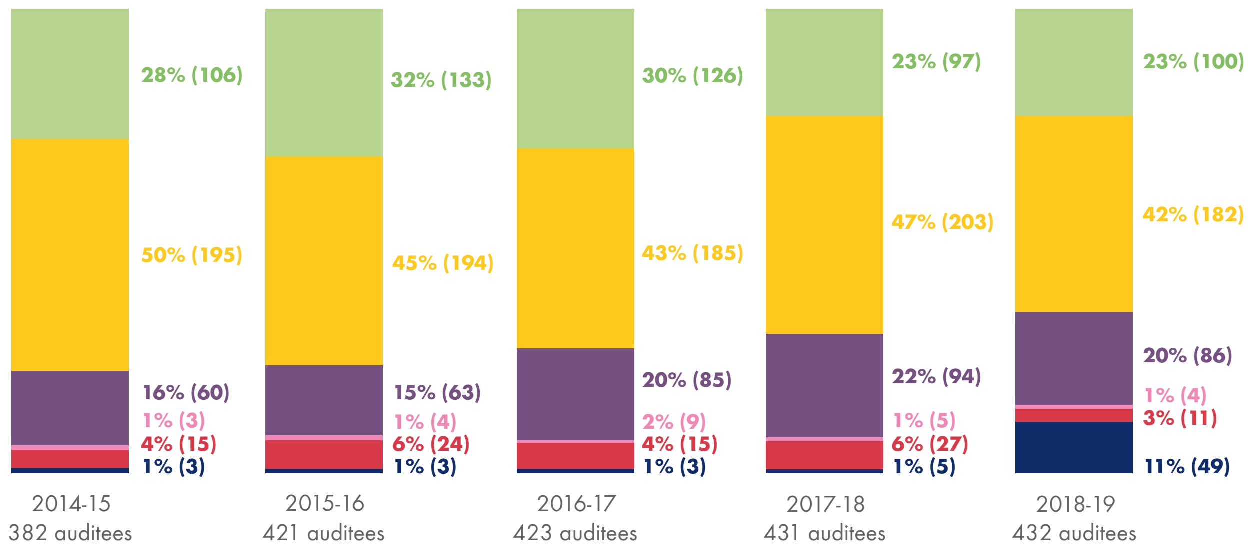
Total number of audits

Our audit portfolio continues to grow year on year, with a slight increase in the number of public entities we audit. We executed 1 070 (2018-19: 1 063) audits this year with no significant change in our capacity. Instead, we offset the increase against the audit efficiencies gained through effectively pooling our audit staff, implementing our revised audit methodology and better integrating audit disciplines. Our general reports contain extensive analyses of the audit outcomes, which we use in our engagements with various stakeholders to encourage an urgency to act. These reports indicate that the audit outcomes for national, provincial and local government regressed from 2014-15 to 2018-19, although they showed a slight improvement in 2019-20.

Irregular expenditure remained high, non-compliance with supply chain management (SCM) legislation continued to increase, and auditees' financial health deteriorated, all of which is cause for concern.



Local government audit outcomes

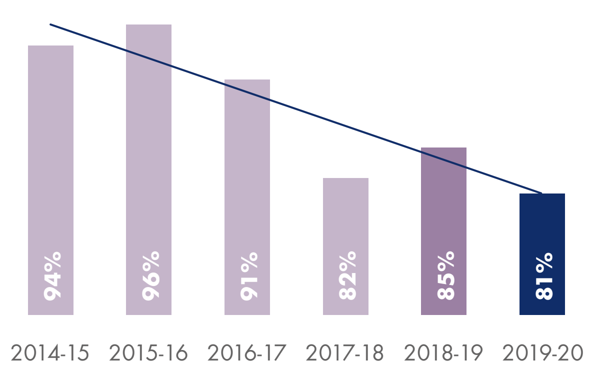


National and provincial government audit outcomes

- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Outstanding audits

Accountability in some departments, public entities and local governments continued to deteriorate, which had a negative effect on government's service delivery programmes, as seen most prominently in local government.

Completion of audits within the legislated timelines



Audits completed within the legislated timelines

The trend of completing audit reports late continued this year, with only 81% of our audits finalised on time – 84% at national and provincial level and 74% at local government level. Auditee delays had a severe impact on local government audits and were consistent with those encountered during the national and provincial government audits. Factors contributing to auditee delays included:

- annual financial statements and annual performance reports being submitted for audit later than the legislated submission deadline
- submitted annual financial statements and annual performance reports being of poor quality and containing misstatements that required us to make numerous requests for resubmissions, which created additional work as these had to be reconsidered for audit
- the slow response to our requests for information, especially at municipalities with poor record keeping
- pushbacks, threats and intimidation.

Pushbacks, threats and intimidation during the audit process also had a negative effect on our audit completion rate. At certain auditees we had to withdraw our teams to ensure their safety.

We delayed the completion and signing off on selected audits to allow for the new MI process provided for in the amended PAA.

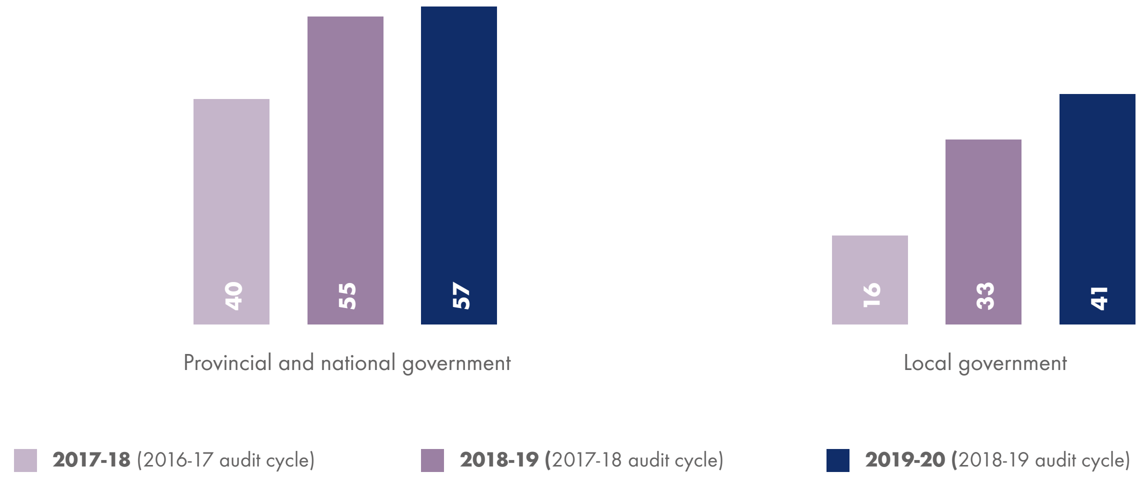
Delayed sign-off also delays accountability because oversight bodies cannot have meaningful deliberations with auditees until the audit report is signed off. These delays also negatively affect the quality and cost of the audit. We will continue to communicate with accounting officers to minimise auditee delays and to drive the importance of their support in the audit process. As we implement the MI process across more auditees, we will consider the lessons learnt from the first phase so that we minimise delays in the audit process.

Audit contestations

Our audit environment has become increasingly hostile, with our audit findings being contested, pushbacks against our audit processes and questions about the motives of our audit teams.

In 2019-20, we had 57 contestations for the 2018-19 national and provincial audit cycle and 41 for the 2018-19 local government audit cycle. The reasons for auditees' contestations were consistent with those of the previous year:

- A potential regression in audit outcomes (particularly when losing a clean audit status)
- Disagreeing with or rejecting audit findings or technical consultations
- Expecting an audit improvement but not achieving one
- Recurring audit qualifications on aspects of the annual financial statements.



Audit contestations

The status-of-records review (SoRR) mechanism, which provides auditees with early warnings on issues of contention, has led to a decrease in technical pushbacks. However, audit contestations have continued to increase in the national and provincial, and local government cycles. They have an impact on the efficiency of the audit process.

Managing threats to our audit teams

In December 2019, Scoag noted with concern the number of threats and intimidation against AGSA staff. At Scoag's follow-up session in March 2020, with the Nelson Mandela Bay and eThekwini metropolitan municipalities, we brought an additional three incidents to its attention. Scoag discussed these metros' follow-up actions on the threats against our staff while the South African Police Service, also in attendance, committed to working with us on certain risk assessment processes, finalising action plans and following up on the reported cases.

In all the instances of threats and intimidation we acted immediately to ensure our staff's safety. 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.

Since 2018, strikes and protest action that affected our audit progress increased by 122%. For their safety, the audit teams were withdrawn from these audits until it was declared safe to return. These conditions had an impact on our ability to finalise certain audits on time.

We remain concerned about the impact of these incidents on our audit teams. The incidents and the anxiety that they engender have a demoralising effect on our employees. The employee wellness programme continues to assist our employees to deal with this stress and trauma.

Develop deep knowledge of auditees and add value to stakeholders

Integrated audits

Over the past few years, we have institutionalised an integrated approach to our audits, bringing together the diversity of skills and expertise that add value to the annual regularity audits. The integration approach is supported by our audit methodology and entails including information systems, investigations and performance auditors (collectively known as specialised audit services) in the audit teams. Specialised audit services consists of professionals who specialise in information technology governance, financial and enterprise resource planning (ERP) systems, data analytics, information security, financial fraud and health, education, infrastructure, and water and sanitation projects. Integrating this knowledge base into a single audit increases the audit teams' capacity and allows us to gain better insight and delve into those complex areas that are associated with high expenditure and greater audit risk.

The improved capacity from integration also enhances our phased implementation of the amended PAA.

This collective effort allows us to understand the auditee environment better, and achieve a more vigorous risk identification and response process.

Overall, we have achieved our strategic objective of effectively drawing on the depth and breadth of specialist expertise available to the AGSA in each phase of the audit process, which facilitates integrated, holistic auditing and boosts the abilities of our regularity audit teams.

Our **Investigations business unit (IBU)** team enhances the audit risk assessment to ensure that it covers the areas susceptible to fraud or misstatement, which improves the auditor's procedures and response to these high-risk areas.

IBU worked on 229 audits with regularity auditors:

- 51 fraud risk engagements
- 74 fraud risk detection analyses
- 38 forensic data analytics
- 66 reviews of high-risk SCM contracts.

During the year, forensic data analytics replaced the manual fraud risk detection analysis. The new approach improved effectiveness and efficiencies, and contributed to enhancing the outcomes to include sector and transversal risks, consistency and accuracy of the analytics.

Local government

	2017-18 (2016-17 audit cycle)	2017-18 (2016-17 audit cycle)	2019-20 (2018-19 audit cycle)
Fraud risk detection analysis	52	69	0
Forensic data analytics	0	0	38
High-risk SCM contracts	20	25	30
Fraud risk engagements	29	20	18
Total	101	114	86

National and provincial

	2017-18 (2016-17 audit cycle)	2017-18 (2016-17 audit cycle)	2019-20 (2018-19 audit cycle)
Fraud risk detection analysis	79	90	74
Forensic data analytics	0	0	0
High-risk SCM contracts	28	44	36
Fraud risk engagements	51	41	33
Total	158	175	143

IBU service offering

Forensic data analysis outcomes ensure that audit sample selection is risk-based, which contributes to enhancing our overall risk identification and mitigation processes by assisting regularity auditors with the following:

- Knowledge of the business – identifying the major role players and service providers that receive the most business from government and provinces
- Identifying selected service providers, their related entities and business partners that received negative media publicity
- Trend analysis of departments' and municipalities' expenditure to certain service providers.

Investigators decreased their number of fraud risk engagements over the years primarily because they had trained regularity auditors to perform these functions. This allowed our investigation specialists to focus on high-risk audits.

The efficiencies attained through integration improved the quality of our audits, especially in audit areas such as complex procurement processes and material contracts.

Our **Information Systems Audit business unit's (ISA)** overall contribution to integrated audits during the national and provincial audit cycle increased. Regularity auditors were able to rely on automated controls and data-driven auditing techniques, which are more predictable and reliable than testing manual controls. The result was increased operational efficiencies and reduced audit risk. It also allowed auditors to focus on areas that require greater discernment, which resulted in a higher quality audit.

Local government

	2017-18 (2016-17 audit cycle)	2017-18 (2016-17 audit cycle)	2019-20 (2018-19 audit cycle)
General control reviews	84	83	73
Network security audits	9	12	14
Business process reviews	6	7	15
CAATs	302	328	414

National and provincial

	2017-18 (2016-17 audit cycle)	2017-18 (2016-17 audit cycle)	2019-20 (2018-19 audit cycle)
General control reviews	238	231	238
Network security audits	58	64	64
Business process reviews	73	72	57
CAATs	503	531	880

ISA service offering

ISA conducted 1 755 reviews including 311 general control reviews, 72 business process reviews, 1 294 specialised computer-assisted audit techniques (CAATs) and 78 network security audits (auditees with levels 2 and 3 risk).

While ISA's network security services remained constant during our national and provincial audits as some auditees' information technology sophistication levels increased from 1 to 2, it slightly increased during our local government audits where some information technology sophistication levels decreased from 2 to 1. At level 1 auditees, where manual processes and controls are prevalent, regularity auditors took a substantive audit approach as these auditees' reliance on information technology systems was limited.

LEVEL 1	LEVEL 2	LEVEL 3
• Not reliant on key information technology controls for financial reporting and performance information. Controls are mostly manual • Regularity auditors plan a substantive audit approach	• There is some reliance on key information technology controls for financial reporting and performance information. However, there are still several manual controls • Regularity auditors plan a combined audit approach	• Heavy reliance on key information technology controls for financial reporting and performance information

Levels of information technology sophistication

Intensifying CAATs

As regularity auditors began taking over information technology network security audits for risk level 1, ISA was able to focus on advanced reviews that added further value in terms of audit efficiencies and audit coverage. These included CAATs that tested:

- account balances
- audits of predetermined objectives
- assets
- class of transactions
- compliance employee costs
- expenditure and revenue.

Our need for CAATs expanded, especially when testing automated controls in high-volume transaction environments such as:

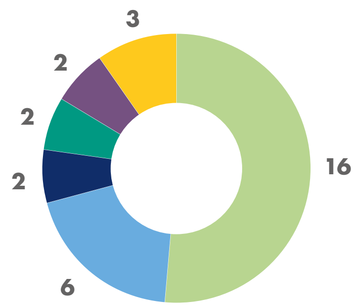
- the South African Revenue Service
- the National Student Financial Aid Scheme (NSFAS)
- the South African National Roads Agency (Sanral)
- Denel
- Transnet
- the Development Bank of Southern Africa
- the Trans-Caledon Tunnel Authority.

In addition, CAATs and detailed information technology contract management procedures assisted our regularity auditors as they conducted audits that incorporated the MI process.

Computer-assisted audit techniques (CAATs) refers to the use of technology to help evaluate controls by extracting and examining relevant data. Sophisticated use of CAATs can be known as 'data analytics' and is increasingly being used across the auditing profession.

Performance Auditing draws on a broad range of specialists in various fields that can provide rich insight to our audits. These specialists allow us to develop a deeper understanding of the challenges affecting the economical procurement of resources and their effective and efficient use. Our specialists were involved in an increasing number of audits during the 2018-19 national, provincial and local government audit cycles as part of the integrated audit effort. The demand for infrastructure-related specialists has increased beyond the traditional departments of health, education and public works.

Our auditees used the insights derived from our audits to improve their processes and service delivery.



Performance audit specialists

NATIONAL AND PROVINCIAL			LOCAL GOVERNMENT		
2017-18 (2016-17 audit cycle)	2017-18 (2016-17 audit cycle)	2019-20 (2018-19 audit cycle)	2017-18 (2016-17 audit cycle)	2017-18 (2016-17 audit cycle)	2019-20 (2018-19 audit cycle)
Support to audit teams 74	Support to audit teams 85	Support to audit teams 90	Support to audit teams 84	Support to audit teams 78	Support to audit teams 84

	2017-18 (2016-17 audit cycle)	2017-18 (2016-17 audit cycle)	2019-20 (2018-19 audit cycle)
Health departments	10	10	10
Education departments	11	11	11
Infrastructure	22	30	36
Other	32å	34	33
Municipalities	84	78	86

Performance Auditing engagements

Outcomes of the integration approach

Stand-alone audits

Stand-alone audits are focused audits that drill down to unearth the root causes of mismanagement, irregularities or lapses in service delivery. These projects do not span a performance year, but could cover the lifetime of a project or the period of the alleged irregularity or mismanagement.

Investigations

Requests for investigations increased by 126% from 34 to 77. This is primarily because of the public outcry against fraud and corruption within the public sector and a greater awareness of our mandate. However, collecting the information and supporting documentation needed for these investigations often has an impact on our income, as investigators do not charge a fee for this work, and the time needed increases the pressure on our investigations. We expect these requests to increase further during the 2020-21 financial year, which along with the MI process will stretch the capacity of our investigators. We have therefore increased our capacity of forensic investigators.

During 2018-19, we conducted three stand-alone investigations. We completed the fieldwork for these investigations and issued management reports. The reports were on:

- 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.

In 2019-20, investigations at the Gauteng Department of Social Development and the Eastern Cape Provincial Legislature were delayed by auditees because of budgetary constraints and their management's resistance to the investigations.

Performance Auditing

We tabled in Parliament the follow-up performance audit of the immigration processes for undocumented individuals at the Department of Home Affairs on 27 November 2019.

The department and independent bodies involved in these processes began wide-ranging corrective actions. The minister prioritised the Border Management Authority Bill, which the NCoP has adopted and referred to the National Assembly. The portfolio committee of Home Affairs will monitor the department's action plan as part of its oversight function. It has also requested a follow-up performance audit in the future.

Continually refine our audit methodology

At the onset on the 4V strategy, one of our priorities was to revise our audit methodology.

- **2013-14** – Audit methodology initiation
- **2014-15** – Consultation with the IRBA commenced with the audit methodology update
- **2015-16** – Finalisation of the improved audit methodology
- **2016-17** – Audit methodology plotted
- **2017-18** – Audit methodology implemented
- **2018-19** – Institutionalisation
- **2019-20** – Entrench audit service integration

Timeline of our implemented audit methodology

The revised audit methodology, which was implemented in 2017-18, has allowed a seamless and integrated assurance on financial statements, annual performance reports and compliance with key legislation. The methodology has also strengthened and institutionalised our integrated audit services.

Implementing the audit methodology allowed our audit teams to:

- Integrate information systems audit into audit processes
- Enhance knowledge of the auditee
- Increase the use of fraud experts
- Focus on what matters
- Phase in the value chain approach
- Apply a consistent risk approach: risk assessment and response options enhancing efficiencies

Benefits of our implemented audit methodology

Going forward, we will continue to periodically refine our methodology so that it remains responsive to the audit environment.

Annually review and update our audit portfolio

Taking over section 4(3) audits

SOEs use a substantial part of the national budget to provide utility services or infrastructure to the people of South Africa. Parliament and other stakeholders have shown a greater interest in our taking over SOE audits.

We are therefore systematically taking over these audits to enhance oversight of SOEs. We now directly audit a majority of the SOEs listed in schedule 2 of the Public Finance Management Act.

Internally, these audits of complex corporate environments provide invaluable opportunities for our staff to develop and grow their expertise and for us to increase our skills base and ability to handle such audits.

During the year, we increased our participation in the Transnet and Eskom audits working in collaboration with appointed audit firms from the private sector. This is part of our plan to manage a smooth transition of the audit from the private audit firm to us, when we decide to take over the direct responsibility for auditing them as provided for in section 4(3) of the PAA. We are currently preparing to sign off the audit of Transnet in the 2020-21 financial year.

2013-14 6 SOEs audited by the AGSA

+

2015-2020 8 further SOEs audits taken over by us

2020 2 audits in the process of being taken over by us

16 of 21 schedule 2 audits conducted by the AGSA

Summary of audits taken over

Strict oversight of governance in section 4(3) audits

At the onset of the 4V strategy, we made a strategic choice to enhance governance oversight at section 4(3) audits. We enhanced our governance of the audit process in cases where we opted not to conduct the audits, maintained a vested interest in all these auditees and continued to oversee the audits to ensure consistency in reporting to the National Assembly. We improved our process to monitor how external auditors are appointed and discharged at these SOEs and provided guidance where necessary to both the auditors and SOEs.

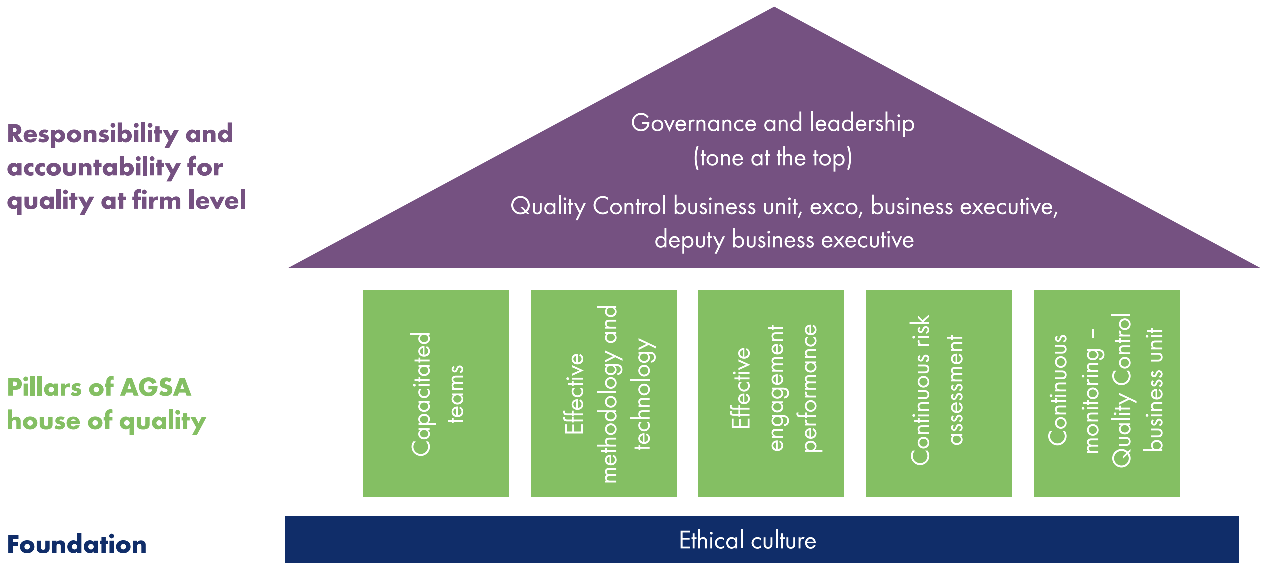
Continuously improve the quality of our audits

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

Performance measure

% adherence to quality standards: audit engagements

2019-20 target	2019-20 actual
80% – 90% (C1, C1#, C2 and C3 rating)	76%

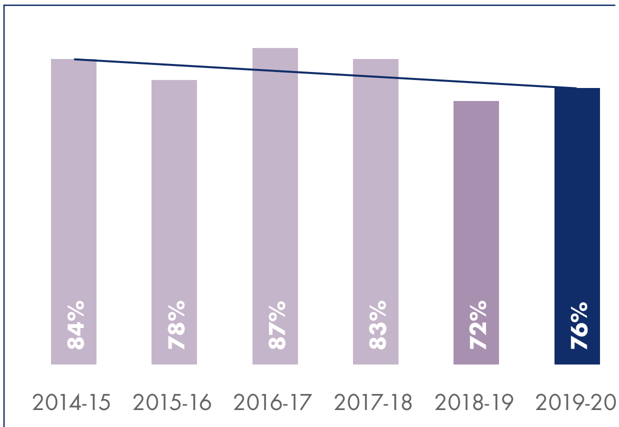


Developing the system of quality control

The Quality Control business unit reviewed the quality of a selection of audit files. The results were tabled at the QCAC, which is chaired by the auditor-general. The director of inspections of the Independent Regulatory Board for Auditors (IRBA) attends the meeting at the invitation of the auditor-general. We firmly believe that the quality of our audits should be of the highest possible standard.

This year we subjected 85 audit files to a post-issuance quality review process and obtained a 76% compliance rate for quality standards against a target range of 80% to 90%. Although the results show a slight improvement from last year's 72%, we are still concerned that the results are below the target.

With the regression in our quality control results for 2018-19, we committed to an audit quality improvement plan with initiatives/actions to improve the quality of our audits, which we continue to implement.



Audit quality assessments

AGSA audit quality improvement plan

1. Capacitate audit teams
2. Detailed root cause analysis
3. Strengthen pre-issuance capacity
4. Capacitate the Quality Control business unit
5. Capacitate the Audit Research and Development business unit
6. Greater accountability from contracted audit firms
7. Coaching and review support for new, acting and non-complying senior managers

Capacitate audit teams

We embarked on an exercise to ensure that audit teams are well capacitated through different initiatives including:

- strengthening technical support to the audit teams by employing additional product champions and technical managers. The capacity of the technical support was further enhanced by PC masterclass training
- increasing technical training significantly. Further insights are provided in the section on viability on page 114
- establishing a centre of excellence for banking to provide better support to the audit business units that audit banks and auditees in the financial services sector
- strengthening accountability by including a higher weighting to quality control results in the individual performance contracts of all audit staff
- audit business leaders reviewing the engagement managers' workload and, where necessary, creating additional capacity. The delegations were reviewed to ensure that high risk audits are signed at the appropriate levels
- regularly communicating on audit quality matters with the auditors throughout the different phases of the audit.

Capacitate technical support business unit

We increased the capacity of the two business units central to providing the technical support required to maintain audit quality. These are the Quality Control and the Audit Research and Development business units. We focused on filling key vacancies in these units and realigning their activities so that they support the audit product.

Root cause analysis

In June 2019, we held a focused root cause analysis workshop on the previous year's quality control findings. We designed corrective actions for each root cause and cascaded these to the relevant levels while assigning responsibilities to various role players. We are implementing these actions, which are being tracked by the Quality Control business unit. The root causes of the quality control findings raised in 2019-20 will be followed up by a further analysis and our actions will be updated where necessary.

Strengthen the pre-issuance review process and capacity

To address the audit quality concerns, we now ensure that we finalise the selection process in time for pre-issuance reviewers to effectively function within the timelines agreed with audit business units.

Before we begin the annual national, provincial and local government audit cycles, we train our reviewers for their task and provide refresher courses where necessary.

Greater accountability from contracted audit firms

We strengthened our processes for outsourced work to contracted audit firms, requiring each firm to provide us with a quality assurance certificate. This certificate is a declaration to confirm that the quality of the firm's audit is at the required level.

Coaching and review support for new, acting and non-complying senior managers

Our focused action plan is designed to support all new and acting engagement managers, as well as those who had not complied with quality standards in the previous cycle.

Audit business units initiated support mechanisms that assist these senior managers to address the quality of their audit files. These include:

- compulsory pre-issuance reviews on all their audits
- allocating an independent person to provide support and review coaching for each audit and to review all the senior manager's audit reports
- product champions diligently reviewing all new and acting senior managers' audit reports, and those of certain senior managers that did not comply with quality standards
- business executives ensuring that audit teams have all the capacity needed to support these senior managers in their audits.

Contributors to the quality results

There are still persistent factors that contributed to the quality control results. The increase in the complexity of audits, taking over SOEs, new PAA MI requirements and threats and intimidation put pressure on the skills and capacity needed to perform high-quality audits.

The continual increase in the risk profile of various auditees and auditee pushbacks had a negative impact on our audit timelines and, consequently, on our audit quality. We performed a detailed analysis of our system of quality control as part of the root cause analysis, as indicated above, and we are actively implementing focused corrective action to address the deficiencies identified. We have seen a slight improvement in the current year's results and are confident that our investment will soon get us to the desired state of achieving our set targets.

We continue to obtain assurance from independent external bodies. The reliability of our internal quality control review process was assessed by the IRBA, which reviewed all our quality control engagement review reports to determine whether we correctly applied the quality control policy when concluding on the risk ratings of the findings raised during the monitoring review cycle.

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, and proactively managing audit pushbacks, threats and intimidation to our audit staff.

We began implementing the amended PAA at 16 national and provincial and nine local government auditees. Reporting on implementing the amendments and their outcomes at these 25 auditees was included in our general reports. We have effectively prepared for the second phase of implementation, which focuses on identifying any non-compliance with, or contravention of legislation; fraud; theft; or a breach of a fiduciary duty, and which resulted, or is likely to result, in a material financial loss.

We have progressed with integrating specialised audit services and regulatory audit teams. The demand for specialised audit services increased because the environmental risk increased, and their value was recognised during audits. Our audit methodology facilitated this acceptance by institutionalising integration using enhanced working papers that require collaboration from both regularity auditors and Specialised Audit Services.

To enhance our knowledge of the auditees' environment, we implemented various initiatives including value chain analyses, analytical and investigative techniques, and CAATs. These initiatives contributed to increased efficiencies and the quality of our audit opinion. We continued to embed CAATs in our audit process, which increased operational efficiencies and reduced audit risks by providing a higher quality audit. Our CAATs offering has also increased to cover the standard transversal audit of employee compensation and the municipal audit environment.

Our efforts have slightly improved audit outcomes, although high levels of non-compliance with SCM legislation, and unauthorised, irregular, fruitless and wasteful expenditure continued at local government level. The public sector institutions' financial health, particularly public entities, continued to be of concern.

We closed all the gaps identified from the feedback received from our stakeholders in the previous year.

Key challenges

The growth in the number of contestations, threats, intimidation and late submissions continued to put immense pressure on our staff and the audit environment in general. The increase in the number and complexity of audits, taking over SOEs and new PAA MI requirements also put pressure on the skills and capacity needed to perform high quality audits. This led to noticeable challenges to audit reporting timelines and the quality of audits. Although we have employed a number of initiatives to improve the quality of our audits, there are still persistent factors that contribute to the quality control results.

The necessary national lockdown imposed by the government in response to the covid-19 pandemic disrupted our audit operations. The challenges posed by the pandemic requires pragmatic methods to safeguard our audit teams as we execute our mandate. These challenges will continue into the new performance year.

Future outlook

A cornerstone audit standard that guides national audit offices – Intosai P12, *The value and benefits of supreme audit institutions – making a difference to the lives of citizens* requires audit offices to be very responsive to how government reacts to the challenges of the covid-19 crisis.

The auditor-general made a public commitment to deploy a multidisciplinary team to assist government in dealing with the challenges of applying appropriate financial management. Strong financial management would prevent funds intended for services to citizens from being misdirected to unscrupulous individuals. Government has to strike a delicate balance between enabling rapid delivery to citizens and maintaining basic but strong risk management.

Our focus for the upcoming year will be to provide support to our auditees during these challenging times. We will do this while ensuring the safety of our employees and our auditees.

The continued regression in audit timeliness and quality is cause for concern. We have various measures to arrest this trend and to seek assistance from our stakeholders where necessary. We will continue implementing and monitoring remedial actions aimed at addressing deficiencies in the quality control process.

We will proactively use our audit quality indicators to monitor and manage our audit quality while implementing corrective action to address the deficiencies identified in the system of quality control in 2019-20. These actions will assist in detecting potential risks to audit quality early.

Our focus in the second phase of PAA implementation will include an extended definition of the MIs and identifying any non-compliance with, or contravention of legislation; fraud; theft; or a breach of a fiduciary duty, which resulted, or is likely to result, in a material financial loss.

Lastly, we will continue looking for ways to add value to our stakeholders by defining, refining and auditing what matters.

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. Serving our mission requires us to effectively engage with our stakeholders.

These essential engagements and professional relationships influence our stakeholders to build strong financial and performance management systems.

Central to our relevance is improving the public sector's financial and performance management systems, and securing our stakeholders' interest.

Our visibility programmes are designed to support our stakeholders, engage with them on our products and provide insight. Broadly, we categorise our stakeholders as either constitutional or non-constitutional.

Our constitutional stakeholders – those identified through the Constitution – include our auditees, executive stakeholders and legislative stakeholders. Non-constitutional stakeholders – identified over the years as integral to achieving our mandate and improving public sector accountability – include the citizens of South Africa, the media, standard-setters, professional institutions, Intosai and Afrosai-e.

Our approach to stakeholder management

We use a simple three-step approach:

- Analyse stakeholder needs
- Develop stakeholder-specific action plans
- Engage with stakeholders and monitor the impact

Constitutional stakeholders

Visibility for impact objective 1: Achieve impact through visibility programmes

Performance measure

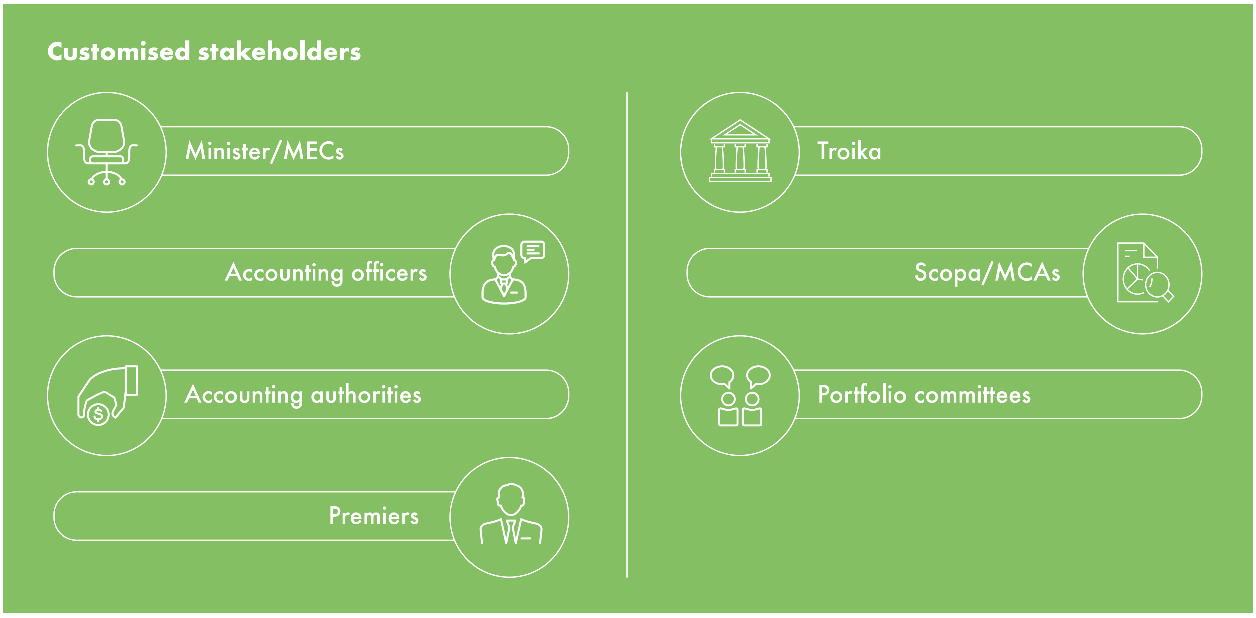
% implementation of our visibility programmes (constitutional stakeholder engagement plans)

2019-20 target	2019-20 actual
80% – 100% of the actions for the financial year	101%

Impact of our visibility programmes

We prioritised 127 constitutional stakeholders for 287 interactions to help influence change, improve or maintain strong financial management systems, and implement corrective action where necessary.

However, we exceeded our planned interactions by holding 292 engagements with these stakeholders for the year.



Prioritised constitutional stakeholders

Our interactions with constitutional stakeholders focused on audit outcomes, audit action plans, preventative controls, consequence management and the implications of the amended PAA. The range of audit topics included:

- audit strategy and risk assessment
- SoRR (discussions and feedback)
- service level checklists
- tracking and implementing audit action plans
- quality of financial statements
- reducing qualification areas.

We engage with constitutional stakeholders to ensure their buy-in and commitment. Overall, we believe that our engagements helped stakeholders to execute their mandates.

These interactions assisted our stakeholders to better understand our audit messages. Accounting officers were empowered to craft audit action plans that addressed key internal control deficiencies and report relevant progress to their executive authorities and oversight committees. Some auditees proactively closed the internal control gaps highlighted in our SoRRs.

Constitutional stakeholders rigorously engaged on the audit outcomes expressed in our reports. Engagements with portfolio committees, particularly Scopa, matured and we are confident that we achieved our intent to proactively share knowledge and insight that empowers oversight committees to take action. The following is a summary of these interactions.

LEGISLATIVE OVERSIGHT AUTHORITIES

The various forms of legislature rely on us for insight to their auditees' state of financial and performance management, which they use to tailor their oversight programmes. These engagements drive an integrated approach to good governance in the public sector and improve internal controls, financial management systems, and public accountability

CABINET

Cabinet directs government policy and makes decisions about national issues. It focuses on achieving the MTSF and the NDP as expressed annually in the Sona

Outcomes of our interactions

Auditor-General Kimi Makwetu briefed the Cabinet on the outcomes of the 2018-19 national and provincial audits. Cabinet is concerned about the continued increase in poor audit outcomes

Cabinet advised the National School of Government to provide the necessary training and support to institutions whose officials require further training. Those who blatantly violate the public finance management framework must face the consequences of abusing state resources

NATIONAL ASSEMBLY PORTFOLIO COMMITTEES

These stakeholders are responsible for and oversee all aspects of their departments, including structure, budgets, functioning and policy

Outcomes of our interactions

Capacity-building sessions for the portfolio committees of the 6th Parliament helped members understand their oversight role and the AGSA mandate

Induction sessions and the budget review and recommendations reports (BRRR) process shared information that allowed committees to effectively hold the executives to account for their actions. Hearings addressed issues raised during the auditor-general's briefings and formed actionable recommendations

At a joint briefing on the audit outcomes for the Scopa and the Standing Committee on Appropriations (Scoa), these committees resolved to evaluate departments that had not received clean audit opinions

SCOPA

The committee is mandated to oversee how public funds are spent

Outcomes of our interactions

Based on our insight Scopa prioritised its hearings for executives. Our insight also assisted the committee to:

- elevate governance issues at institutions with financial management challenges
- focus on reasons for poor performance
- elevate issues of unauthorised, irregular, fruitless and wasteful expenditure, which led to other Scopa activities that did not include the AGSA
- hold briefings with entities that failed to submit financial statements
- hold briefings with departments that did not table annual reports
- bring key governance failures in the public sector to citizens' attention

COORDINATING MINISTRIES

- National Treasury
- Department of Planning, Monitoring and Evaluation
- Cooperative Governance and Traditional Affairs (Cogta)
- Department of Public Service and Administration
- Provincial treasuries
- Provincial Cogtas

These ministries focus on improving governance and performance in all spheres of government

Outcomes of our interactions

The ministries used our insight to empower departments and entities to improve or sustain their audit outcomes by:

- sharing strategies for sustaining their own clean audit outcomes
- influencing improvements in audit outcomes and sound internal controls
- providing effective technical guidance to curb expenditure
- influencing local government to improve service delivery and achieve clean audit outcomes
- encouraging a culture of consequence management across the public sector

NATIONAL COUNCIL OF PROVINCES

The NCoP represents provinces in the national sphere of government to ensure that provincial interests are taken into account

Outcomes of our interactions

- Our briefings on the audit outcomes strengthened oversight and consequence management in the various provinces. This encouraged greater accountability in the public sector

PROVINCIAL GOVERNMENT

Provincial government is responsible for meeting citizens' service delivery needs

Outcomes of our interactions

- Our briefings on the audit outcomes highlighted areas of concern with entrenching a culture of consequence management within departments and portfolios
- We briefed oversight structures on their portfolios' overall performance
- During oversight public hearings, we actively participated as an expert witness

PUBLIC ACCOUNTS COMMITTEES

Association of Public Accounts Committees (APAC) is a collective of South Africa's public accounts committees that aims to improve quality and performance, and the capacity of its individual members

National Association of MPACs (Nampac) is a coordinating structure for municipal public accounts committees (MPACs) to enhance public accountability and oversight in local government

Outcomes of our interactions

APAC confirmed its commitment to co-creating solutions to public sector challenges in collaboration with the AGSA. After our briefings on audit outcomes the association committed to:

- support Nampac in its mandate to empower MPACs to discharge their oversight responsibilities and address unacceptable audit outcomes at local government level
- support the AGSA in implementing its amended powers
- ensure coordinated oversight at provincial and national level and use AGSA insights
- partner with the AGSA to deal with pushbacks
- strengthen its oversight of the executive and demand consequence management

EXECUTIVE AUTHORITY

We critically assess the maturity of the key control environment and provide assurance to the executive across the three spheres of government on whether national policies were implemented and the executive function of the state is working

NATIONAL, PROVINCIAL AND MUNICIPAL EXECUTIVE AUTHORITIES

The executive is responsible for running the country, province or municipality and formulating policy aligned to the Constitution in the best interest of citizens

Outcomes of our interactions

- We influenced executive authorities to strengthen their oversight of accounting officers
- Our briefings on audit outcomes highlighted areas of concern and entrenching a culture of consequence management within departments and portfolios
- We engaged on implementing audit action to improve audit outcomes

We are aware, however, that more needs to be done to change the trajectory of audit outcomes in the public sector, and we will continue our visibility programmes to influence our stakeholders to do more.

Closing the gaps of the 2018-19 stakeholder feedback

Performance measure

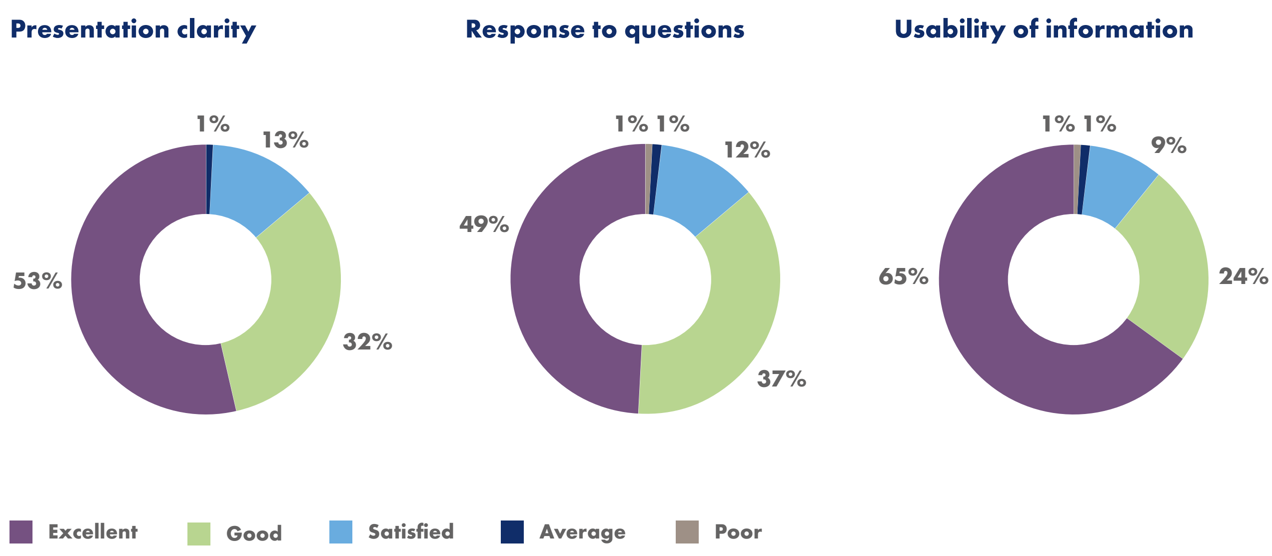
% implementation of actions to improve our stakeholders' perception on our added value

2019-20 target	2019-20 actual
80% – 100% of the actions for the financial year	100%

Stakeholder feedback is vital to maximise future successes in stakeholder interactions. Generally, we solicit stakeholder feedback in a systematic approach using questionnaires and service level checklists as tools to acquire information. The leaders of audit business units are required to gather input from their stakeholders and submit a plan to respond to the stakeholder's needs.

Our stakeholders, especially oversight committees, generally expected simplified ways of decoding technical audit language. In some instances, they requested briefing documents in advance of the engagement.

The national Parliament's overall feedback during the BRRR indicated a high level of satisfaction. The 59% response rate equated to 139 questionnaires, an increase of 36 responses from the previous year.



Summary of Parliament's feedback on closed-ended questions

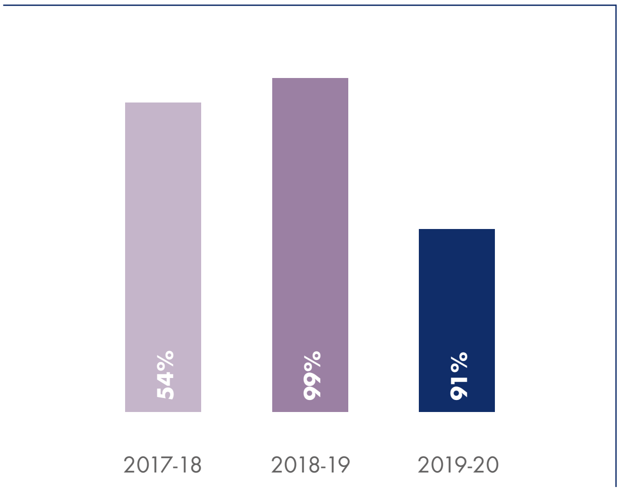
Status-of-records review

Visibility for impact objective 1: Achieve impact through visibility programmes

Performance measure
% Rollout of status-of-records review

2019-20 target	2019-20 actual
80% – 100% of the planned rollouts for the financial year	91%

The SoRR is our enhanced stakeholder engagement mechanism. Its reviews are an early warning system to accounting officers about areas of concern, giving them the opportunity to strengthen their internal controls and improve their audit outcomes. The initiative also empowers executives to enhance their oversight of auditees and hold accounting officers who are unresponsive to the initiative accountable.

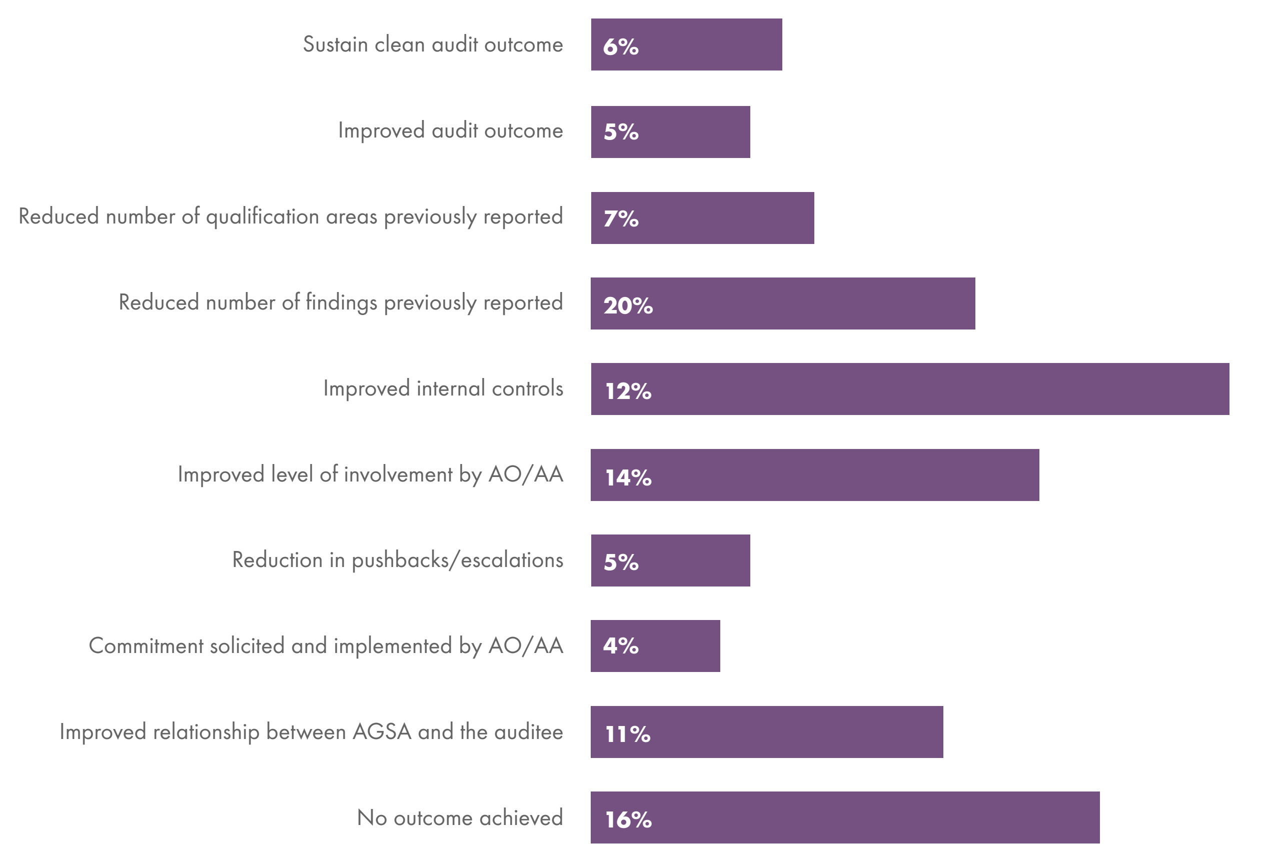


Our SoRRs at identified auditees from the three spheres of government are based on:

- the auditees' risk assessment profile
- departments selected based on their spending and impact on citizens such as education, health and water and sanitation
- auditees where we phased in the amended PAA during our audits.

The reviews were implemented at 91% of identified auditees, or 423 of 465. SoRRs were not completed at 42 auditees because of the national lockdown towards the end of March 2020 (18 auditees), and auditee delays (12 auditees).

The SoRRs deepened our auditee risk assessment, enabled an appropriate response to the audit risks, and drove focused and insightful conversations. The majority of stakeholders embraced the initiative and welcomed the opportunity to address areas of concern before preparing for their year-end reporting.



SoRR outcomes

Our SoRRs had the following impact:

- An improved internal controls environment
- Improved stakeholder relationships and active participation from accounting officers
- Reduced pushbacks on technical matters.

Stakeholders embrace the tool as it allows them to implement corrective measures before they submit their financial statements. However, no outcomes were achieved at 16% of auditees, mainly because of the timing between the SoRR and the audit. A number of SoRRs were performed in the last quarter of 2019-20, and their impact will only be seen after the audits, which will take place during the 2020-21 financial year.

Audit teams have embedded the SoRRs as part of their audit process, noting that the reviews offer benefits and valuable insight to our stakeholders. We will continue to enhance the reviews to improve our audit process, specifically in fast-changing environments.

Non-constitutional stakeholders

Visibility for impact objective 2: Engage actively with citizens

Performance measure
% implementation of action per our citizen engagement plans (non-constitutional stakeholder engagement plans)

2019-20 target	**2019-20 actual**
80% – 100% of the actions for the financial year	83%

Our strategy uses our non-constitutional stakeholder engagements to give our messages a wider reach and leans towards stakeholders that have the ability to influence change. Each interaction gives us the opportunity to share knowledge and experiences to reach a common understanding of good governance, transparency and public accountability.

Our citizen engagement strategy

Enhanced citizen engagement is an emerging trend internationally among supreme audit institutions. Our thought leadership programme provides us with ample opportunity to share our knowledge and experience with stakeholders that can influence change in the way public funds are managed and in public sector accounting, auditing, governance and accountability. These interactions also allow us to decode the technical language of auditing, making it easier for our stakeholders to clearly understand our messages.

Our executives, led by the auditor-general, drove these engagements both nationally and abroad. We used various platforms to share insight on the 2017-18 local government and 2018-19 national and provincial audit insights, discuss preventative controls, and explain the enhanced role and mandate of the AGSA. These engagements aimed to co-create solutions for improvements in the public sector and create ambassadors for our messages. The engagements included:

ACADEMIC INSTITUTIONS

- Nelson Mandela University public lecture
- Stellenbosch University public lecture
- Free State University's annual JN Boshoff memorial lecture
- UCT investment society
- UCT Nelson Mandela School of Public Governance public lecture
- Wits School of Governance public lecture
- Tshwane University of Technology Faculty of Economics and Finance
- University of Johannesburg public lecture
- Milpark Business School public lecture

PROFESSIONAL BODIES

- Brand Summit South Africa
- The Law Society of South Africa
- Association for the Advancement of Black Accountants of South Africa (Abasa) 2019 Convention
- African Women Chartered Accountants (Awca) annual woman of substance conference and fundraising banquet
- Consulting Engineers of South Africa (CESA) Infrastructure Indaba

AUDIT AND ACCOUNTING BODIES

- KPMG Conscious and Ethical Leadership Dialogue
- South African Institute of Chartered Accountants (Saica) nation building summit
- Southern African Accounting Association international biennial conference
- Saica Public Sector Tech-talk webcast
- Saica PAA seminar with CEOs and public sector directors
- Chartered Institute of Government Finance Audit & Risk Officers annual conference

AUDITING, BUSINESS AND PROCUREMENT FORUMS

- ProudlySA public sector procurement forums
- Black Management Forum annual conference
- The Institute of Internal Auditors South Africa (IIA SA) public sector forum
- SOE procurement forum

UNIONS

- South African Municipal Workers Union (Samwu)
- National Education, Health and Allied Workers' Union (Nehawu)

GOVERNMENT COMMUNICATOR FORUM

- Department of Higher Education and Training Sector Education and Training Authority (Seta) Communicators' Forum

CIVIL SOCIETY ORGANISATIONS

- Joint and separate session with civil society organisations Social Audit Network (SAN) and Good Governance Learning Network (GGLN)
- Organisation Undoing Tax Abuse (Outa)
- Corruption Watch
- Public Service Accountability Monitor (PSAM)

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 main objective is to collaborate with and influence these stakeholders to ensure that our technical audit insights are used to execute their mandate. At the same time, we gather relevant insight from them for our use.

THE INDEPENDENT REGULATORY BOARD FOR AUDITORS (IRBA)

The IRBA creates value by protecting the financial interest of the South African public and international investors in South Africa, It effectively regulates the assurance conducted by registered assurance providers according to internationally recognised standards and processes

Outcomes of our engagements

- The public sector standing committee (PSSC), which we chair, is responsible for the IRBA guidance on public sector audits
- As a member of the IRBA committee for auditing standards (CFAS) steering committee, we participated in a number of sub-committee and task team meetings
- We provided public sector audit insight by participating in regulating audits in the private and public sectors where applicable, through the work of the inspections committee
- The IRBA issued a revised *Guide for auditing in the public sector*. We made significant changes to the guide through the PSSC to ensure that it is up to date and easy to use. This strengthened audit standards and guidance to auditors in the public sector
- Our continuous engagements with the CFAS and the PSSC resulted in the IRBA including the following projects in its approved work plan until 2021:
  - update to the *IRBA guide on conducting audits on behalf of the AGSA*
  - update to the *IRBA guide on conducting the audits that the AGSA has opted not to perform*
- We actively participated in measures to strengthen monitoring the quality of audits in the private and public sectors, where applicable, resulting in the public's financial interest being protected

THE NATIONAL TREASURY

The National Treasury is responsible for managing South Africa's national government finances and supporting local government. Its functions include determining the financial reporting frameworks applicable to national and local government, promoting government financial policies and determining relevant laws and regulations

Outcomes of our engagements

- The National Treasury used our national and local government audit insights to facilitate reforms or improvements in public sector financial management
- Our audit insight resulted in changes or updates to the National Treasury's Modified Cash Standard and other guidance
- We used the National Treasury's insight, gained through our engagements, to continuously improve our audits
- Our feedback to the National Treasury on audit process concerns raised by auditees and provincial treasuries were considered for improvement. A key issue was the dispute resolution process, which has since been updated and discussed. It will be approved by the acting accountant-general and the acting national leader of the AGSA

ACCOUNTING STANDARDS BOARD (ASB)

The ASB is responsible for developing, promoting and maintaining the Standards of Generally Recognised Accounting Practice (Standards of GRAP), and monitoring its implementation

Outcomes of our engagements

- The ASB considered our audit insight when setting the Standards of GRAP
- Our perspectives were incorporated into the Standards of GRAP and related guidance
- We use the insight gained from the ASB to continuously improve our audits

THE PUBLIC SECTOR AUDIT COMMITTEE FORUM (PSACF)

The PSACF raises awareness of the function, duties and composition of public sector audit committees. It uses various initiatives to improve public finance management, governance, risk and control to improve audit outcomes

Outcomes of our engagements

- We participated in drafting, reviewing and approving guidance papers, language reviewed papers and supported roundtable discussions and topics
- The PSCAF issued guidance papers that incorporated our perspectives to audit committee members

THE INSTITUTE OF INTERNAL AUDITORS (IIA)

The IIA enhances the integrity, relevance and standing of the internal audit profession for the benefit of society

Outcomes of our engagements

- We ran an internal audit campaign to help auditors to use and better understand internal audit work by drafting guidance and FAQs
- We support the IIA and the internal audit profession in raising awareness and improving internal audit capacity in the public sector

THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS (SAICA)

The Saica assurance guidance committee and assurance leader forum were established for assurance practitioners to deliberate on challenges and contribute to developing solutions to these challenges

Outcomes of our engagements

- We formed part of the task groups or provided written input to develop the committee's various guidance documents

Over the years, these engagements have allowed us to create strong partnerships and a common view of accountability matters, and to co-create solutions where we encounter disagreements.

Our engagement with civil society organisations

During the year, we interacted with five civil society organisations (CSOs):

- Organisation Undoing Tax Abuse
- Corruption Watch
- Public Service Accountability Monitor
- Social Audit Network (SAN)
- Good Governance Learning Network.

Our intent was to gain insight and information from CSOs to assist our risk assessments by focusing on hotspots and challenges.

Social audit

A social audit is a community-driven review of official records to determine whether the expenditure reported reflects the actual money spent and services meet the required standards. In South Africa, social audits are coordinated by the SAN for various community organisations. These include:

- Social Justice Coalition
- Equal Education
- Planact.

The International Budget Partnership South Africa (IBP_SA) partners with civil society to analyse and influence the public budget. We collaborated with IBP_SA and Planact on a pilot social audit of sanitation delivery to informal settlements in the City of Ekurhuleni. The audit, aimed at identifying systemic causes of poor sanitation delivery, looked at 13 informal settlements and worked collaboratively with the municipality. We believe that if government increases its responsiveness to the social audit findings, we could see a reduction in service delivery protests.

Collaborating with SAN on social audits could have potential benefits as a tool for critical input to our audit process. This will help to correctly assess the impact of government activities on citizens' social well-being, assess the social costs and measure the social benefits of effectively implementing programmes.

Social recognition

The auditor-general was awarded the Abasa 2019 Presidential award for lifetime achievement for his sterling work and contribution to the accounting/auditing profession and advancing black accountants from disadvantaged backgrounds.

Abasa lauded the amended PAA as *having the potential to significantly alter the safeguarding of the nation's resources through fostering greater accountability amongst the custodians of public resources.*

Abasa also recognised the AGSA as the training office that qualified the largest number of chartered accountants.

Interactions with the media

Social media

Our primary social media objective was to increase the reach and understanding of our messages about accountability, governance and oversight, and our role and mandate.

By 31 March 2020, we had increased our use of social media platforms to share our messages of accountability, governance and oversight with members of the public. We also used these platforms to drive messages that position the AGSA as a thought leader by shining a spotlight on our leaders as they addressed various conferences, industry bodies, professional associations and civil society.

Our public education efforts focused on the amended PAA and, particularly, on bridging the gap between what the law says about our enhanced powers and the citizen's perception of what the AGSA will be able to do. We achieved this using social media posts that clarify the three key amendments to the PAA and related topics.

Our future focus will be to build a sustainable digital environment alongside the current social media presence. In this way, we will continue to communicate messages to our various stakeholders in the current and post covid-19 environment.

Traditional media

We have, over time, established sound and mutually beneficial relations with the media, forged in recognition of the media's critical role in distributing information to the public. Through the media we equip and encourage citizens to use our messages on accountability, oversight and governance to hold their elected representatives in all spheres of government accountable.

Our media briefings have led to widespread coverage on various media platforms (print, broadcast, online and community). This coverage conveyed our messages on the audit outcomes contained in our general and performance audit reports. The public discussions on these various media platforms improved the level of understanding about the role of the AGSA and how audit outcomes relate to the use of public funds. This justifies our continuous engagement.

We continued to focus on improving responsible media reporting using:

Provincial media briefings (for our general reports) – Provincial business executives briefed regional, local and community journalists on the audit outcomes. This approach allowed the media to ask for, and get clarity on, issues relevant to their localities. It also helped them to report our audit messages from an informed position.

PAA media training/workshops – We hosted regional media workshops to educate provincial journalists (in Gauteng, Eastern Cape and Northern Cape) on the basic principles of the PAA. The focus of these sessions was on key PAA concepts such as material irregularity vs irregular expenditure, and the results of the first phase of implementation.

In addition to spreading national and provincial, and local government audit messages through provincial media briefings, we also conducted a series of media interviews. These targeted mainstream media agencies such as eNCA, Primedia Group, SABC television and radio stations as well as provincial/regional news agencies. This helped to spread our messages on key topics such as the results of the first phase of the amended PAA audits. Independent media analysis showed that our approach helped to keep our messages in the public discourse much longer.

Enhancing community reach

We have increased our focus on engaging citizens over the past six years. Our efforts have increased the understanding of our mandate and audit messages by this group of stakeholders.

We shared the following products with various stakeholders to increase our reach and impact:

- PAA booklet
- MI leaflet
- The role of the AG booklet
- Citizens report

In communicating the organisations' strategy and values to citizens, we used social media platforms to highlight the organisations' transformation agenda and showcase our progress. We celebrated women leaders within the organisation as part of the national women's month celebrations, which was followed by coverage in a special edition of the *Audit thought leader* magazine. The magazine served as an external platform to profile the organisation's women leaders and their contribution to the profession.

Following the successful outcome of our engagement with the Seta Communicators' Forum, the Department of Higher Education and Training requested that we engage further on the amended PAA at the TVET Colleges' Communicators' Forum and the Heads of Setas Forum, which will take place in the next performance year.

We assisted the Tshwane University of Technology Faculty of Economics and Finance to develop a chapter on auditing in the public sector. This chapter formed the course content in its module for the Postgraduate Diploma in Public Finance, and the material provided will form part of its teaching and learning for students.

Towards the end of the financial year, we could not carry out some external engagements due to the covid-19 pandemic and national lockdown. The constraints of the pandemic required us to review our engagement methods to provide a fresh covid-19 audit approach.

International thought leadership

The AGSA's journey leading the Intosai capacity building committee

We continued to live up to our reputation as a leading supreme audit institution within the global Intosai community. As chair of the Intosai capacity building committee (CBC), we have helped to enhance capacity and professionalism, attributes that lead to enhanced supreme audit institutions and, therefore, enhanced global accountability.

2013-14

- Assumed chairmanship of CBC
- Implemented an improved value proposition anchored by cooperation with various Intosai committees and regions

2014-15

- Established a permanent quality control mechanism for Intosai audit standards with the PSC and KSC
- Produced the white paper on *Professional development in Intosai*
- Launched CBC website that serves as a community of practice for global SAI capacity development

2015-16

- Assumed governance leadership for the SAI Performance Measurement Framework
- Created a regional platform for strategic regional capacity development issues
- Developed a global framework to strengthen regional professionalism
- Revised two key Intosai standards supporting capacity development:
  - ISSAI 5600 (peer reviews)
  - ISSAI 5800 (cooperative audits)

2016-17

- Completed strategic review of Intosai capacity building goal
- Strengthened cooperation with Intosai's donor cooperation committee
- Developed a competency framework for public sector audit professionals
- Issued a position paper on enabling mechanisms to facilitate professional development

2017-18

- Established a new work steam to support SAIs in complex and challenging circumstances
- Introduced a monitoring and evaluation tool for Intosai's strategic goal committees
- Developed a quality assurance system for public goods In cooperation with the PSC and KSC
- Revised the terms of reference of the CBC for broader stakeholder representation

2018-19

- Augmented the Intosai Competency Framework for Public Sector Audit Professionals with a section on SAIs with jurisdictional responsibilities
- Issued a *Guide on developing pathways for the professional development of auditors in a supreme audit institution*
- Established a new CBC work stream to promote and support good practices in capacity building

2019-20

- Concluded the CBC's six-year focus on the fundamentals of SAI professionalism in support of global SAI capacity development
- Developed an Intosai pronouncement on auditor competence for incorporation into the Intosai Framework of Professional Pronouncements
- Reported on the successful completion of all CBC work streams of the last six years under the Auditor-General of South Africa chairmanship

The CBC reported to the Intosai Governing Board on successfully implementing the Intosai strategy in all 10 CBC annual delivery areas:

- Auditing in complex and challenging contexts intosaint (institutional integrity tool)
- Peer-to-peer cooperation
- Intosai auditor professionalisation
- SAI Performance Measurement Framework
- Regional forum for capacity development
- Cooperative audits
- Peer reviews
- CBC guides and occasional papers
- Global inventory of capacity development tools

The Task Force on Intosai Auditor Professionalisation, chaired by the AGSA, strengthened professional development and auditing standards by having two of its key guidance documents and a project proposal approved. Approvals were given by:

- The Intosai Governing Board for two key documents –
  - the *Guide on developing pathways for the professional development of auditors in a supreme audit institution*
  - the revised Intosai Competency Framework (updated for reflections on supreme audit institutions with jurisdictional responsibilities)
- The forum for Intosai professional pronouncements, which oversees the quality for Intosai standards for –
  - a formal project proposal to develop a new Intosai standard ISSAI 150, *Competencies in public-sector auditing* and supporting guidance materials.

With these accomplishments, we have taken a leading role in strengthening the global public sector's audit professionalism. Our solid reputation at Intosai also led to a number of requests for presentations during various sessions of XXIII Incosai (International Congress of Supreme Audit Institutions), providing thought-leadership on topics such as:

- the role of supreme audit institutions in achieving national priorities and goals
- the role of supreme audit institutions in supporting the implementation of the United Nation's sustainable development goals
- the importance of gender equality in supreme audit institutions
- the role of supreme audit institutions in guarding and raising the level of public trust.

As part of our global investment in capacity building, Auditor-General Kimi Makwetu serves as an Intosai representative on the Intosai Development Initiative (IDI) board. Apart from our strategic guidance role at board level, we also make various subject matter experts available to help develop a number of IDI global programmes including:

- the IDI's global programme for the professional education of SAI auditors (which is built into the Revised Intosai Competency Framework)
- IDI's SAIs engaging with stakeholders programme – two of our senior managers were again requested as facilitators, given our mature stakeholder engagement practices.
- the SAI young leaders programme – we promoted two of our senior managers whose insight and skills matured after attending this programme.

We remain very active in Intosai where our various subject matter experts participate in committees such as the professional standards committee, certain of its sub-committees, and many of the knowledge sharing committee working groups. Our subject matter experts share best practices from our audit environment and, in turn, study best practices used by other supreme audit institutions.

Our international profile was boosted by the auditor-general participating in an Organisation for Economic Cooperation and Development workshop in Paris, where he shared key perspectives of our experience auditing SOEs.

Review and benchmark our audit practices internationally

As reported last year, we were selected by the Office of the Auditor General of Canada (OAG Canada) to lead an international team of supreme audit institutions to complete a peer review of its compliance with legislation, professional standards and internal systems of operations.

The OAG Canada's leadership pronounced the peer review a resounding success and described the process as rigorous and informative, while meeting its expectations of the review.

The peer review allowed us to benchmark our strategies and practices. Some concepts of innovation hubs recommended to the OAG Canada could be used in our context as well.

Collaboration with African supreme audit institutions and African capacity development programmes

Our commitment to supporting and collaborating with African supreme audit institutions in the interest of capacity building on our continent led to the following:

We continued to host and oversee Afrosai-e activities to **support 26 African supreme audit institutions**

We provided Afrosai-e with **financial support**, seconded key staff and regularly made **subject matter experts available for key programmes** such as **external quality assurance** reviews of member countries

We facilitated a workshop for African supreme audit institutions on the **key principles of legislature engagement and support,** in cooperation with the Swedish National Audit Office

We benefitted from Afrosai-e programmes such as **training in the audit of extractive industries, the latest approaches in performance auditing, and supreme audit institution reporting and communication**

At a bilateral level we **hosted study visits from the supreme audit institution of Botswana and ministry of finance of Mozambique**, and **provided the supreme audit institution of Angola with technical advice**

Our participation in the African Union audit

We are a permanent member of the African Union Board of External Auditors and one of the most experienced and influential supreme audit institutions in the African Union Commission (AUC), along with supreme audit institutions Algeria, Morocco and Egypt. We were allocated two audits: the AUC Head office in Addis Ababa and the African Union Advisory Board on Corruption in Tanzania.

While we engaged with other supreme audit institutions during the audit process, we also focused on building strong relationships, sharing best practices and helping the AUC to strengthen controls and to implement corrective measures. These measures will improve its audit outcomes. We will continue to play this role to ensure our continued development and in supporting the AUC and member supreme audit institutions.

Conclusion on the performance of the visibility for impact strategic goal

The value created by our social and relationship capital is based on the wealth of information and insight we gather and distribute as a result of our work. Ultimately, our aim is to increase this capital by using the knowledge we possess to benefit our stakeholders, which enables us to achieve our mandate.

We continued to engage constitutional stakeholders on the SoRR, audit outcomes, audit action plans, amended PAA implications, our evolved role and our profile, in line with the increased expectations of public and political accountability. We succeeded in providing a heightened level of communication about our findings in individual audits as well as insight about the status of the system of public administration as a whole.

Our proactive interventions to address recurring risks, such as a well-structured SoRR, have already borne fruit. We have improved the internal audit environment and stakeholder relationships, gained active participation from accounting officers and reduced technical pushbacks during the audit process. Our stakeholders see value in the tool as it allows them to correct errors and improve audit outcomes.

We continue to implement the citizen engagement strategy to increase the reach and impact of our messages. It also enhances community awareness, ensures an appropriate social media presence, and creates synergy with Parliament to engage citizens. Our social media community has grown and increased the direct exposure of citizens to our messages on accountability, governance and oversight.

The need to enhance awareness and understanding, improve responsible media coverage and engage citizens on province-specific issues drives our stakeholder engagements. We also aim to deepen our engagement with professional associations and industry organisations.

Profiling AGSA women as thought leaders in the *Audit thought leader: women in leadership* edition provided a platform to highlight their contribution to the profession externally.

We also leveraged sponsorships to support our visibility. These included sponsorship of the Abasa final qualifying examination dinner and the Awca annual woman of substance conference.

With the auditor-general's guidance, the CBC intensified its leadership role in professionalising auditors working within supreme audit institutions. This resulted in the Intosai Governing Board approving the *Guide on developing pathways for the professional development of auditors in a supreme audit institution*, and the revised Intosai Competency Framework. Our leadership participated as subject matter experts in Intosai working groups and sub-committees.

We continued to host the Afrosai-e secretariat and made senior staff available as subject matter experts to support its training initiatives. Our staff benefitted from the annual Afrosai-e workshop on extractive industries, a strategic focus for supreme audit institutions in Africa. They obtained a good understanding of the value chain of extractive industries and how the AGSA will have to reposition itself to effectively audit this sector.

Key challenges

Some planned engagements, including SoRRs, did not take place due to the covid-19 national lockdown. Although the lockdown began on 26 March 2020, stakeholders were cautious from early March.

Our implementation rate dropped to 91% this year (423 auditees of the 465 selected) against 99% in the previous year. However, the impact of these engagements is discernible in the 84% of audits that experienced improvements from using the SoRR. This ranges from improved internal controls to the reduced number of audit findings and technical pushbacks.

Future outlook

Due to social distancing and restrictions introduced by the covid-19 pandemic, we will need to be creative when engaging with our stakeholders. The safety of our people is paramount during this unprecedented time; we will therefore ensure compliance with covid-19 regulations in our face-to-face engagements and consider different platforms, including web-based applications, to maintain physical distancing. We will use all viable platforms to engage with our stakeholders on audit oncomes and material irregularities.

While the SoRRs offer opportunities and potential, as demonstrated by their value in improving the internal control environments, to remain relevant in a fast-changing environment, we must continuously review the SoRR and enhance its relevance to provide greater efficiency.

We need to engage with the TVET Colleges' Communicators' Forum and the Heads of Setas Forum on the amended PAA. These engagements will be carried out in the next performance year.

We plan to drastically improve our social media presence and consistently engage the media and external stakeholders, such as professional bodies, using digital platforms. This will go a long way towards enhancing our ability to empower citizens to hold their elected representatives accountable and engaging them on the outcomes of implementing our enhanced mandate.

Internationally, the CBC work on defining global competencies for public sector auditing and guiding the pathways for professionally developing auditors will continue with a dedicated effort to craft global professional pronouncements on auditor competence. The AGSA will continue investing in building capacity in English-speaking African supreme audit institutions by hosting the Afrosai-e secretariat and supporting their strategic plan.

Our continued interactions with various civil society groups will enable us to spread our messages and to create ambassadors for our messages and mandate. We will also continue using these engagements to gather information for our risk assessments to assist us in narrowing the focus on hotspots and challenges.

Going forward we will also strengthen our partnership with the SAN and consider using social audit findings in our risk assessment and work planning processes.

VIABILITY (V3)

Our strong legislative framework and viable business and funding model are supported by staff who have 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

2019-20 target	2019-20 actual
1 – 4%	5,0%

Margin of safety

2019-20 target	2019-20 actual
2 – 4 months	2,2 months

We stay financially viable by making sure that our financial administration is sound, our cash flow is strictly managed, and our internal controls, systems and processes are strong.

Using this funding model allows us to remain solvent and cover our operational and capital expenses, including our technology requirements.

Financial performance

Audit income

Our audit revenue was R3 784 million, which was 4% above budget (2018-19: R3 464 million). This amount is made up of own hours' income of R2 932 million (2% above budget), outsourced audit work income of R670 million (13% above budget), subsistence and travel of R182 million (9% above budget), and a gross surplus of R1 358 million (1% below budget). Our gross surplus was affected by our direct expenses, which were 8% above budget.

Revenue enhancement and proactive initiatives led to year-on-year growth in audit revenue. These included:

- our staff pooling initiative to support revenue optimisation, which brought in an additional R107 million
- our fully implemented revised audit methodology, which led to further efficiencies, especially in reducing unbilled hours.
- our commitment to achieving prescribed recovery rates and own hours' revenue.

Our revenue enhancement and the efficiencies created led to a reduction in the audit work allocated to private audit firms as a percentage of our audit income. Our own hours' income rose steadily from 70% in 2013-14 to 78% in 2019-20.

Optimising our operational costs

The South African economy was already fragile when covid-19 hit our shores, and the pandemic led to a further decline, which had an impact on our funding. Our funding further deteriorated when the National Treasury's appropriation of R50 million, earmarked for the MI process, did not materialise. We needed to manage our revenue, reduce our costs and preserve our cash flow so that we could remain sustainable while absorbing the costs of implementing the MI process. Our leadership initiated various strategies to ensure our sustainability.

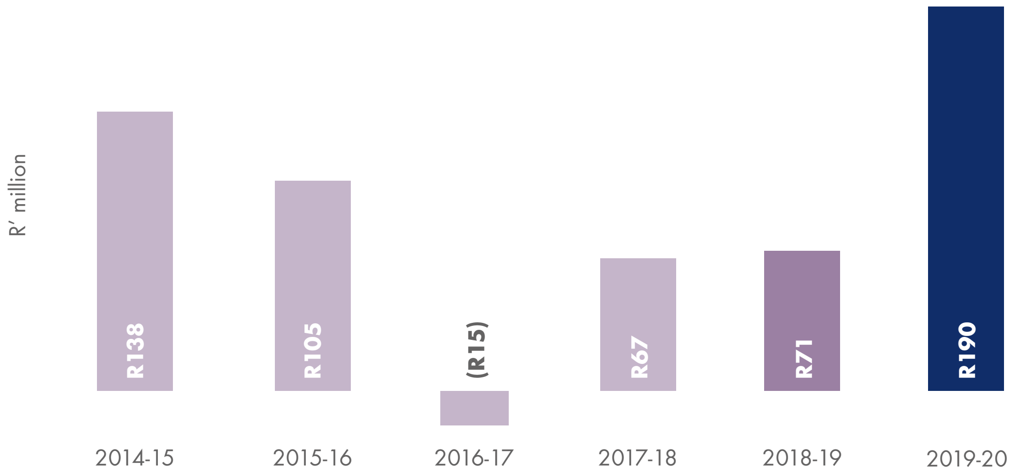
Our actual overheads of R1 220 million (2019: R1 266 million) was significantly below our budget of R1 459 million, largely because of our commitment to containing costs. The R65 million (budget: R87 million) required to implement the amended PAA formed part of our overheads and included MI training, furthering stakeholder relations, legal expenses and employment costs from capacity building.

Our recruitment strategy continues to yield positive results, and in 2019-20 we optimised our total operational costs and our headcount growth without compromising on service delivery. Our total operational costs were 16,4% below budget, and our actual support staff cost for the 2019-20 financial year was 8% below budget.

We also withheld the budgeted R161 million in performance bonuses to preserve our liquidity as we navigate this unprecedented economic period.

These initiatives helped us achieve a net surplus of R190 million (2019: R71 million) or 5% of the audit income.

Our balance sheet is healthy, with good levels of liquidity, and we have maintained a working capital ratio of 3,04 (2019: 2,58). This is in line with the norm of 1:1 and, in essence, means that the organisation has one rand and thirty-eight cents to cover every one rand owed to short-term creditors.



Surplus over the past six years

Debtors

The outstanding debt balance as at 31 March 2020 was R931 million, compared to R744 million in the previous year. Local government debtors are the main contributor to this increase, making up 46% of the total debt (2018-19: 43%). Other entities debtors, including SOEs, public entities and agencies, increased from R172 million in 2018-19 to R197 million in 2019-20.

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
National government	74	73	90	66	69	75
Provincial government	142	128	150	137	140	163
Local government	366	343	391	249	321	425
Statutory debtors	38	38	43	45	42	71
Other debtors	89	97	132	153	172	197
Total debt	709	679	806	650	744	931

Debtors balance as at 31 March 2020 by category (R'million)

Over the years, we enhanced our collection efforts by giving our auditees an opportunity to settle their current debt and catch up on their long-outstanding debt through our normal payment collection methods. Other collection methods include litigation and ring-fencing mechanisms, although these will only be used as a last resort, and accessing payments from the National Treasury for auditees that it recognises as 1% auditees[6] and financially distressed auditees.

	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Auditees with ring-fencing agreements	**58**	**79**	**96**	**114**	**128**
Ring-fenced	**R179 million**	**R243 million**	**R329 million**	**R358 million**	**R407 million**
Cumulative collections	**R89 million**	**R183 million**	**R274 million**	**R338 million**	**R387 million**

Accumulated process of the ring-fencing agreement since implementation

Using our enhanced collection process, we expect to collect R128 million (65%) of the R197 million owed by other debtors. The remaining R69 million will be collected through our litigation and ring-fencing mechanisms, with most of the work done by our internal legal team to contain legal costs. These methods had already cumulatively assisted the organisation to collect R850 million, reducing some of the long-outstanding debt. We also received R62 million from the National Treasury to liquidate a portion of the debt owed by 1% and financially distressed auditees.

[6] Section 23(6) of the Public Audit Act provides that if our audit fee exceeds 1% of the total expenditure of an auditee for the financial year (hence the 1% auditee), the amount that exceeds that 1% must be paid from National Treasury's budget, provided that the auditee is not a department and the National Treasury recognises the auditee's financial difficulty.

2015-16	2016-17	2017-18	2018-19	2019-20
Auditees **54**	Auditees **69**	Auditees **82**	Auditees **93**	Auditees **104**
Litigated **R201 million**	Litigated **R278 million**	Litigated **R366 million**	Litigated **R436 million**	Litigated **R486 million**
Cumulative collections **R108 million**	Cumulative collections **R171 million**	Cumulative collections **R244 million**	Cumulative collections **R404 million**	Cumulative collections **R463 million**

Accumulated process of litigation since its implementation

We expect to improve our collection of 1% auditees' debt as we implement the new audit fees regulations based on the amended PAA. These regulations, effective from 1 April 2020, allow us to claim the 1% auditee fees directly from the National Revenue Fund as opposed to receiving payments from the National Treasury's budget.

Provision for doubtful debt

The provision for doubtful debt increased from R138 million in 2018-19 to R160 million for 2019-20. The provision for doubtful debt takes into account the rate at which auditees continue to default after the due date for payment. The three business units that contribute the most to this provision are North West, the Northern Cape and the Free State.

Cash flow

Historically, our peak collection period is at the end of the financial year. This year, however, the president announced a national lockdown at the end of March, which had a negative effect on our 2019-20 year-end cash balance. We had to fund PAA-related costs from our own resources because we did not receive the budgeted R50 million appropriation income from the National Treasury to cover these expenses. As a result, we ended the year with a cash balance of R674 million, compared to the 2018-19 balance of R723 million.

People viability

AGSA workforce

At 31 March 2020, we had 3 667 staff (2018-19: 3 556), including trainee auditors and short-term contract employees. This is an increase of 111 (3,12%) employees from last year. Our workforce increased because of the extra capacity and specialised skills needed to implement the amended PAA and to take over the SOE audits. We actively monitored this growth to contain overhead costs while meeting the requirements of our audit mandate. By 31 March 2019, 93,9% of positions in the organisation were filled, which was 3,9% above our target rate of 90%. This is mainly because we had a focused recruitment drive during the year to fill certain positions.

	2015-16	2016-17	2017-18	2018-19	2019-20
Occupancy rate	91,9%	91%	91%	93,7%	93,9%
Number of positions	3 810	3 827	3 796	3 796	3 904
Number of employees	3 502	3 483	3 459	3 556	3 667
Vacancies	308	344	337	240	237

AGSA workforce profile

Our diverse and inclusive workforce reflects the demographics of South Africa. We actively promote gender equality in the workplace and 55,44% of our employees are women.

	African		Coloured		Indian		White		Foreign National		Total		
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	
<25	106	134	7	12	3	5	0	1	0	0	116	152	7,31%
25-35	865	1 098	54	60	56	53	24	23	0	3	999	1 237	60,98%
36-55	253	245	37	51	45	50	102	117	10	8	447	571	27,76%
>55	26	31	1	4	4	1	39	36	2	1	72	73	3,95%
Total	**1 250**	**1 608**	**99**	**127**	**108**	**109**	**165**	**177**	**12**	**12**	**1 634**	**2 033**	100%
%	76,50	79,09	6,06	6,25	6,61	5,36	10,10	8,71	0,73	0,59	44,56	55,44	

Workforce distribution by age, gender and race

You can get more details on our management control in the transformation section, from pages 138 to 147.

We have a young workforce, with an average age of 34 years. Currently, we have 102 employees between 55 and 60 years of age, and another 43 over the age of 60. We monitor employees nearing retirement age to plan for succession and ensure that they have enough time to transfer their skills so that we do not lose capacity when they retire.

Having this information about our employees helps us to make long-term decisions about the future of our workforce in areas such as workforce planning, the employee value proposition, talent mobility and accessibility.

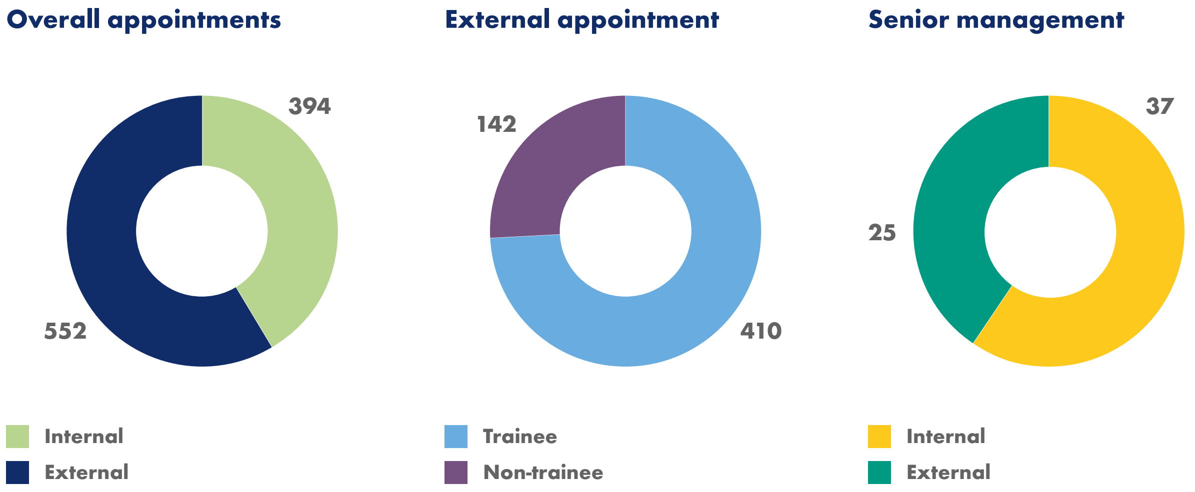
		%		%	Total	AGSA %
Auditor-general	0	0,00	1	100	1	0,03
Fixed-term contract	192	53,78	165	46,22	357	9,73
Permanent	1 128	54,76	932	45,24	2 060	56,18
Trainee contract	713	57,09	536	42,91	1 249	34,06
	Total 2 033	% 55,44	Total 1 634	% 44,56	Total 3 667	100%

Workforce distribution by gender and contract type

More than half of our staff (56,18%) are employed on permanent contracts (2018-19: 56,07%), while 9,73% have fixed-term contracts.

We actively recruit and retain people with disabilities. At 31 March 2020, 1,72% of employees (63) were people with disabilities, against a target of 2% (2018-19: 1,55%). During the year, six current employees and 11 new recruits disclosed their disabilities to us.

Attract, develop and retain great talent



AGSA recruitment

AGSA employees accounted for 74% of the people we appointed (excluding trainee auditors and audit seniors). With a target for internal appointments of 60% of all placements, this is a reflection of a strength of our talent pipeline. However, to maintain diversity and strengthen our skills base, we will be increasing the number of external hires.

Staff turnover

Viability objective 2: Attract, develop and retain great talent

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

2019-20 target	2019-20 actual
8% – 10%	6,22%

This year, we again had more than 90% of our positions filled, and our total staff turnover excluding trainees was 6,76%, which is below the industry benchmark of 15%.

2015-16	2016-17	2017-18	2018-19	2019-20
8,9%	8,1%	8,5%	6,38%	6,76%

Total staff turnover excluding retirees and expired contracts

Our critical skills staff turnover for the year was 6,22% (2018-19: 7,97%), which is well below our target of 8 – 10%. Critical skills include all senior managers and above, and the high-potential employees we identify through our talent management processes. These numbers reflect our decisions on workforce planning, employee value proposition, talent mobility and accessibility.

We had 465 staff leave during the reporting period. Nearly half of them (49,03%) chose to resign (2018-19: 45,4%), while 43,87% had their contracts expire (2018-19: 45%).

	B	C	C+	D	E	F	G	GC	Total	%
Contract expired		4		2	30	1	73	94	204	43,87
Deceased					2				2	0,43
Did not meet requirements							1		1	0,21
Dismissal		2		3	2		4		11	2,37
Incapacity: ill health				5		1			6	1,29
Non-academic progress							2		2	0,43
Retirement		2	1	2	6				11	2,37
Voluntary	2	13	1	40	100		49	23	228	49,03
Total	2	21	2	52	140	2	129	117	465	100,00
%	0,43	4,52	0,43	11,18	30,11	0,43	27,74	25,16	100,00	

Terminations by category and band

Labour disputes

This year, we had 10 disputes referred to the Commission for Conciliation, Mediation and Arbitration, the same number as in 2018-19, and we made no settlements. The three ongoing disputes have been referred for arbitration.

	2018-19		2018-19	
	Total	%	Total	%
Favourable decision	4	40	4	40
Unfavourable decision	1	10	1	10
Settled	2	20	0	0
Withdrawal by applicant	1	10	2	20
Ongoing	2	20	3	30
Total debt	10	100	10	100

Commission for Conciliation, Mediation and Arbitration disputes by outcome

Employee wellness

Our employees are our most important asset, and we believe that their mental and physical health directly affects our productivity and financial viability. Our employee wellness programme (EWP) is a work-based advisory, counselling and support programme that offers life, health, performance and wellness management services to employees and their immediate households as part of their employee benefits.

Our employee assistance almost doubled in 2019-20 to 13 960 engagements from the previous cycle's 7 815. A key reason is the organisation-wide campaign that rolled out four employee wellness initiatives to raise awareness about psychosocial issues. A recent survey revealed that our employees are satisfied with the EWP offering due to our increased focus on employee wellness.

This year we rolled out the following initiatives under our employee assistance programme:

- emotional and trauma intervention
- legal assistance
- financial advice
- family care support
- managerial consulting and referrals
- online electronic advisory services
- incapacity management and disability benefits and disclosures

3 GOOD HEALTH AND WELL-BEING

1 TOTAL ENGAGEMENT

2019-20: 13 960
2018-19: 7 815

2 INDIVIDUAL CASES

2019-20: 1 263
2018-19: 1 016

3 PERSONAL PROBLEMS

2019-20: 3 273
2018-19: 2 488

4 GROUP TRAUMA INTERVENTION

2019-20: 130
2018-19: 131

EWP assistance statistics

Mental illness awareness

Goal: to destigmatise mental illness, teach coping skills, highlight treatment options and explain how to support colleagues with mental illness

Disability sensitivity & awareness

Goal: to empower employees with legislation (B-BBEE and Employment Equity acts) requirements and reasonable accommodation through EWP support

At-risk employee support

Capacity-building session for line managers

Goal: to help line managers proactively identify and support at-risk employees, and understand EWP's referral processes

Health risk assessment

Goal: to encourage employees to screen for health risks, e.g. blood pressure, blood sugar, cholesterol, HIV, offering referrals for counselling and testing where appropriate

2019-20 Employee wellness programme initiatives

8 DECENT WORK AND ECONOMIC GROWTH
16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Talent management

Attracting and retaining talented people with skills, knowledge and attributes makes us more competitive. In 2019-20, we reviewed the roles and responsibilities of our various levels of staff for relevance, which allowed us to update our accountability framework and, in turn, allowed for adequate staff growth and empowerment.

To ensure the sustainability of our leadership pipeline, we use our talent management processes to identify high-potential employees who will undergo targeted development. Currently, our pool consists of 246 employees across all bands.

Investment in training

Over the years we have invested more in training our staff. For 2019-20, we focused on building a stable and dynamic high-performing workforce that has superior technical abilities and strong leadership skills. We began training our frontline teams to apply the critical skills we need to fulfil our mandate as a supreme audit institution and, specifically, to implement the amended PAA. The PAA training drove the increase in average training hours per employee, which reached 105 hours.

Growing the number of qualified professionals

	African (male)	African (female)	Coloured (male)	Coloured (female)	Indian (male)	Indian (female)	White (male)	White (female)	Foreign National (male)	Foreign National (female)	Total (male)	Total (female)	
Saica	222	229	35	23	39	25	48	55	3	3	347	335	682
Saiga	156	185	18	9	23	11	72	32	0	0	269	237	506
Acca	15	11	1	1	2	4	2	6	3	2	23	24	47
Cisa	24	41	1	2	5	1	12	5	1	0	43	49	92
Total	**417**	**466**	**55**	**35**	**69**	**41**	**134**	**98**	**7**	**5**	**682**	**645**	**1 327**

Our audit professionals per audit professional body

Professionalising our organisation remains an ongoing imperative. Our recruitment and talent management strategies allowed us to grow our audit staff by 8% to 1 327 professionals (2018-19: 1 227).

	2015	2016	2017	2018	2019	2020
CA(SA):	547	548	619	622	633	682
RGA:	345	358	464	436	467	506
Acca:	27	34	39	45	42	47
Cisa:	61	64	76	81	85	92
Total	980	1 004	1 198	1 184	1 227	1 327

Historic analysis of our audit professionals per audit professional body

Trainee auditor scheme

Our trainee auditor scheme is an essential part of our business model and talent pipeline, and is crucial to our sustainability. We play a critical role in transforming the auditing profession and have helped 1 195 candidates become CAs(SA). Our scheme gives opportunities to students who do not have access to a professional qualification, and most of our trainee auditors are women from previously disadvantaged communities. This supports our vision of growing the number of audit professionals in the organisation and the profession.

We regularly assess whether our learnerships are relevant and effective. Unfortunately, we have had to take fewer candidates for our Saiga learnership and stop accepting candidates for our Association of Chartered Certified Accountants (Acca) learnership while we streamline management and support. Over the next few years we will review the learnerships we offer and explore other learnerships that might be relevant to our extended mandate.

Certificate in the theory of accounting recruitment

As part of our strategy to professionalise our workforce and contribute to transforming the accounting and auditing profession, we are recruiting more trainees with a Certificate in the theory of accounting (CTA) qualification.

Through our graduate recruitment efforts, we appointed 410 trainees who started their trainee auditor articles at the beginning of 2020. While 221 (54%) of these trainees already have their CTA qualification, this is below our goal for 2020 of 245 trainees with a CTA. We will look at ways of improving our trainee auditor hiring strategy to address this.

	2015-16	2016-17	2017-18	2018-19	2019-20
CTA	**17 (4%)**	**107 (29%)**	**217 (58%)**	**235 (56%)**	**221 (54%)**
Non-CTA	**370**	**259**	**154**	**184**	**189**

CTA recruitment as a percentage of overall intake

Universum annual rankings

In 2020, business and commerce students whose main field of study was accountancy, ranked us 5th in the Universum student survey of most attractive employers in South Africa. We were also ranked 16th by students in the general business and commerce fields. These results were based on a survey of 14 155 business and commerce students.

We choose to invest in providing access to education, training and development so that we can grow professional accountants and auditors. These activities help to make us an employer of choice, and for the past four years we have been one of South Africa's 20 most attractive employers among all students surveyed.

These results confirm our strong and relevant employee value proposition – to attract and secure the very best young talent available – and highlight our people and trainee auditor strategies.

#19	#13	#16	#16
2017	2018	2019	2020

AGSA position in Universum annual rankings

Our business model and talent pipeline rely on our ability to attract great talent into our trainee auditor scheme. This is also an important part of our strategy to professionalise the organisation and transform the accounting profession.

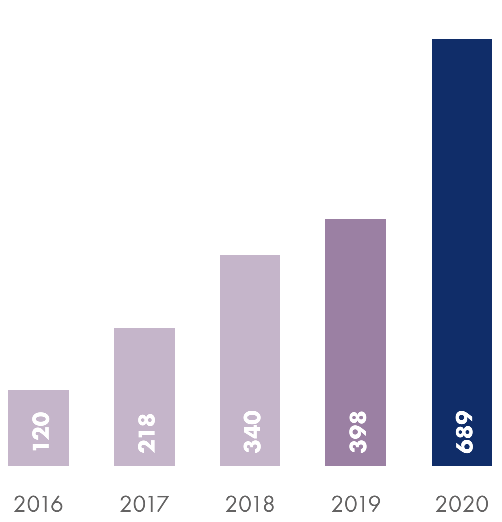
We are constantly looking at how we can use our graduate recruitment efforts and the brand communication strategy to make the AGSA brand more attractive.

	African (Male)	African (Female)	Coloured (Male)	Coloured (Female)	Indian (Male)	Indian (Female)	White (Male)	White (Female)	Foreign National (Male)	Foreign National (Female)	Total (Male)	Total (Female)	Total
Saica	471	627	22	32	20	30	6	9	0	0	519	698	1 217
Saiga	2	2	0	0	0	0	0	0	0	0	2	2	4
Acca	5	21	2	1	0	0	0	0	0	0	7	22	29
Cisa	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**478**	**650**	**24**	**33**	**20**	**30**	**6**	**9**	**0**	**0**	**528**	**722**	**1 250**

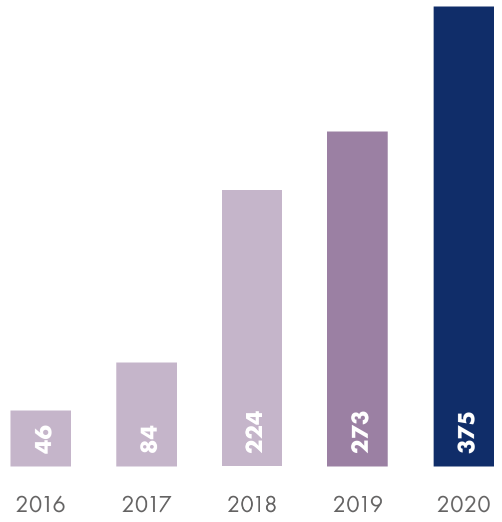
Learnership profile

Trainee auditor assessment outcomes

The number of AGSA candidates sitting for the Initial Test of Competence (ITC) and the Assessment of Professional Competence (APC) increased considerably over the years. Candidates sitting for the ITC exams increased from 120 candidates in 2016 to 689 in 2020 and the APC candidates increased from 46 to 375 over the same period. Our training programme now produces the fourth highest number of candidates who sit for the APC exams.



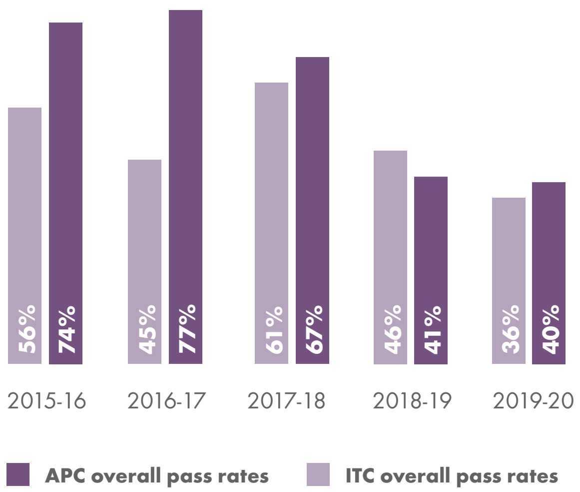
ITC candidates (total for June and January exam)



APC candidates (exam written annually)

Of the AGSA candidates who wrote the ITC exam in January 2020, 36% passed (142 of 400), compared to a pass rate of 41% (126 of 311) in January 2019. We achieved an overall 40% pass rate (149 of 375 passed) in the Saica APC, which is 1% lower than the previous year's pass rate of 41% (111 of 273). The Saica national pass rate decreased from 68% in 2018 to 57% in 2019. The low pass rate, particularly for black African candidates (43% compared to 48% for the previous year), is concerning.

During 2019, we responded to these low pass rates by introducing a variety of new support programmes for our APC candidates. Our results clearly show that these initiatives did not achieve the required outcomes and that a long-term augmented plan is necessary to support our candidates. We are working with Saica and other relevant stakeholders to find a solution that will assist our candidates going forward.



Overall pass rates for ITC and APC exams for trainees and non-trainees

Academic trainees

Every year, as part of our strategy to professionalise the organisation and help to transform South Africa's accounting and auditing professions, we second a group of academic trainees who are doing their first year of articles to various universities. Our secondment supports Saica's strategy of giving trainees the opportunity to develop others within the education space.

After these trainees successfully complete their first year of study, we place them in audit business units as part of the trainee auditor scheme. This model helps us build a sustainable talent pipeline while contributing to, and supporting, academic institutions.

In 2019, we seconded 20 academic trainees to various universities. Nineteen (95%) of the trainees were black African candidates, and 14 of these (74%) were black African female candidates. All 20 academic trainees have been placed in business units to serve their second year of articles and obtain the experience they need in their different audits.

North West University	3
University of Pretoria	1
Rhodes University	2
University of the Western Cape	2
University of Cape Town	1
University of the Witwatersrand	1
University of Fort Hare	5
Walter Sisulu University	3
University of Venda	1
University of Zululand	1

Academic trainees seconded to universities

External bursary

We support 125 university students through our external bursary scheme. We monitor their progress closely to ensure our return on investment. Where students do not progress to the next level the bursary is suspended until they pass.

We have made the following investments:

	2015-16	2016-17	2017-18	2018-19	2019-20
Total bursaries	R12 299 200	R20 426 000	R24 486 234	R21 753 085	R28 375 030
Thuthuka bursary fund*	R2 299 200	R8 000 000	R13 277 670	R15 996 500	R17 596 150
External bursaries	R10 000 000	R12 426 000	R11 208 564	R5 756 585	R10 778 880

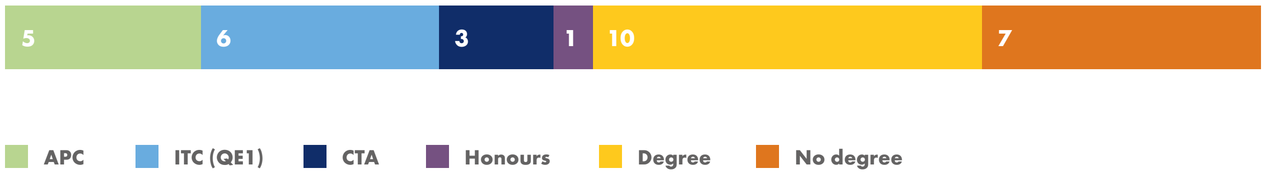
* *Discussed in the next section*

	Total	**Passed**	**Failed**
Undergraduate	**49**	**32 (65%)**	**17 (35%)**
Postgraduate	**78**	**30 (38%)**	**48 (62%)**
Total	**127**	**62**	**65**

Year-end performance

Centenary scholarship fund

In 2011 we created the centenary scholarship project to commemorate 100 years since the AGSA was established. The scholarship fund uses AGSA funding to give young South Africans from previously disadvantaged backgrounds an opportunity to pursue a professional career. We identified 32 deserving people to receive the scholarship, drawn mainly from rural areas in all nine provinces. Students who are awarded these scholarships must work for the AGSA after they complete their qualification or repay all the funds they have received.



Qualification level of 32 centenary scholarship fund beneficiaries

Of the 32 students who received the scholarship, five have passed the APC, eight have passed the ITC, one has passed the CTA and one has passed an honour's degree in accounting. Ten of the beneficiaries hold degrees in accounting, and the other seven are still pursuing their degrees. We currently employ 21 of these beneficiaries, and 15 of them are serving their articles in different business units, well on their way to qualifying as CAs(SA). Two beneficiaries had to repay their scholarships because they chose not to work for the AGSA after successfully completing their qualifications. They are currently under our debtor management system. From 2013 to 2019 we invested R10,6 million in the centenary scholarship project.

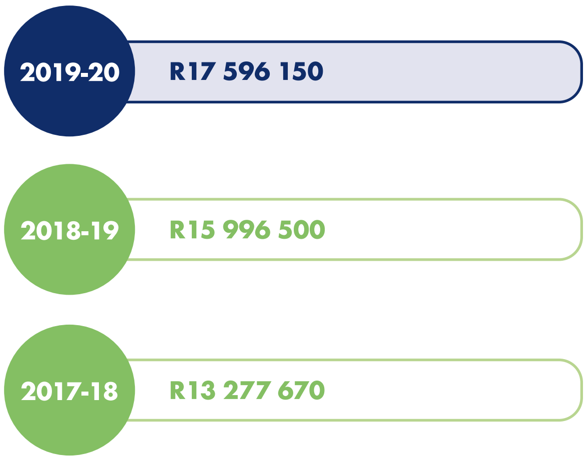
Thuthuka bursary fund

We support the Thuthuka bursary fund, administered by Saica, for students who are studying to become CAs. Our investment in the fund sponsors 230 undergraduate students.

We recruited 60 trainees from Thuthuka against a target of 70. These candidates started their articles in 2020 and count towards the number of trainees we employ who have a CTA. We are discussing how the AGSA and Thuthuka can work together for greater benefit.

Sponsorships

We also contribute to developing the profession by supporting 12 identified universities. The support is mostly in the form of salary top-ups for academic trainees and faculty staff and awards for top performing students.



Thuthuka bursary fund for 230 students

Sponsorship

Sponsorship amounts

Viability objective 2: Attract, develop and retain great talent

Performance measure
Saica risk rating for our training offices

2019-20 target	**2019-20 actual**
Low risk: 6 – 8	Low risk: 7
Medium risk: 7 – 9	Medium risk: 6
High or very high risk: 0	High or very high risk: 2

	Actual outcomes 2017- 18	Actual outcomes 2018- 19	Actual outcomes 2019- 20
Low risk 6 – 8	**4**	**4**	**7**
Medium risk 7 – 9	**10**	**9**	**6**
High risk 0	**0**	**0**	**2**
Very high-risk 0	**0**	**1**	**0**

Saica risk ratings for our training offices over the past three years

As a supreme audit institution, our focus is on being an excellent training institution and nurturing critical skills to contribute to our cause. We have 15 decentralised Saica-accredited training offices. These offices must keep their accreditation for us to fulfil our mandate and vision to professionalise the organisation and contribute to transforming the accounting and audit profession.

While we succeeded in improving the number of offices with a low risk rating, which is the best possible category, two of our training offices received high-risk ratings. We take the accreditation of our training offices very seriously and we have already put in place measures to address the identified shortcomings. We will evaluate our internal office review process to improve and enforce rigorous assessment criteria to address any root causes.

Leadership development and effectiveness

We have implemented a number of leadership development initiatives to build the organisational culture, increase employee engagement and build a healthy leadership talent pipeline.

This year, 15 executives took part in the **Executive Leadership Assessment Development Centre** programme and received personalised development feedback. The outcomes form the basis of the development plans for these individuals.

Executive development programme – We continued to roll out our flagship executive development programme for business executives and deputy business executives, in partnership with the UCT Graduate School of Business. Cohort 1, made up of 19 learning executives who started in the last reporting period, completed their modules and will finish their final assessment block in the next performance year. Cohort 2, also made up of 19 executives, started their modules this year, while eight experienced business executives attended the executive masterclass. In total, 46 executives have attended our executive development programme learning initiatives.

Leadership development programme – The goal of our leadership development programme, offered in partnership with Enterprises University of Pretoria, is to give managers and senior managers the abilities, tools and insights they need to improve their performance and succeed in their roles, in their teams and in the organisation. We implemented the first two phases during the year and 198 delegates attended the programme. In phase two we plan to integrate the leaders-as-coaches programme so that leaders can coach the teams they manage.

Executive coaching programme – We successfully launched and implemented the executive coaching programme in partnership with Henley Business School. A panel of coaches works with our leaders to help them unlock their potential so they can add value and effectively guide their teams.

Organisational development

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

Performance measure

% implementation of culture and staff engagement plan deliverables

2019-20 target	2019-20 actual
80% – 90% implementation of culture plan deliverables for the financial year	80% implementation of culture plan deliverables for the financial year

80%

Our culture and leadership are extremely important for staff engagement and productivity. They have a direct impact on our ability to effectively deliver on our constitutional mandate by attracting and retaining talented staff.

We have reviewed the organisation's values to align them with our desired culture. The values are expected to drive the required behaviour of our leadership and staff. They will also form part of our competency frameworks and other organisational processes, such as performance management, competency assessment, leadership development, learning and development, and talent acquisition.

Occupational health and safety

We have made a commitment to report on our occupational health and safety performance.

KEY OCCUPATIONAL HEALTH AND SAFETY (OHS) CHALLENGES FOR 2019-20

Ensuring an appropriate risk management approach to health and safety

Mitigation

- Regular meetings and presentations across our offices were held to ensure that staff are aware of health and safety measures, comply with the OHS Act 85 of 1993, and implement applicable regulations

Improving the recording, reporting, investigating and processing of compensation claims for accidents/incidents

Mitigation

- We approached the Department of Employment and Labour to help us provide information and training on compensation for occupational injuries and diseases (COID) claim processes and to log claims via the new compensation fund website

Managing the risks that affect our staff (particularly audit staff who work at the auditees'/clients' premises, stay at accommodation facilities and travel as part of their duties)

Mitigation

- We developed a checklist for our audit staff to allow them to identify the safety and security measures that should be available to them when they are at the auditees' premises
- Audit staff was assisted to report any threat or intimidation by the auditee or their staff

Key OHS challenges and mitigations for 2019-20

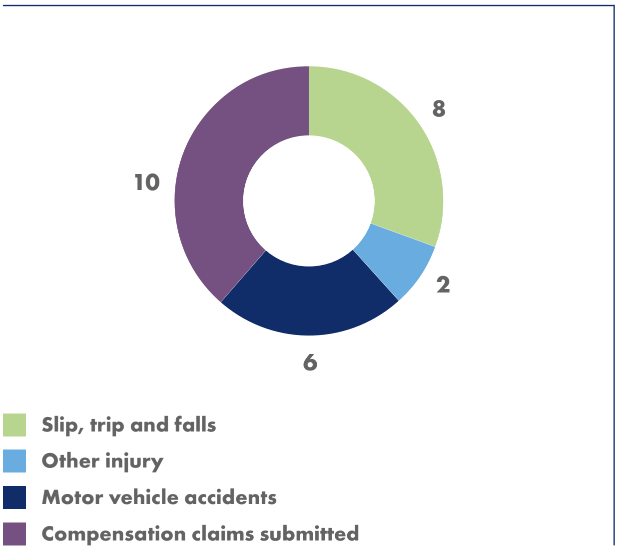
Accident/incident reports

Our employees reported 16 accidents/incidents between 1 April 2019 and 31 March 2020, affecting less than 0,5% of staff, compared to five in the previous year. Ten cases were reported to the Compensation Fund.

Accessibility of our facilities for people with disabilities

We regularly make reasonable changes to our office space to make it easier for people with disabilities to access and move around within these spaces.

All of the buildings we lease are accessible to people with disabilities, and our facilities team makes any extra workplace changes that newly appointed staff may need. The new AGSA headquarters accommodation project also includes provisions for accessibility.



Systems and tools

Viability objective 4: Enable operational effectiveness and efficiencies

Performance measure

% implementation of identified information and cybersecurity initiatives

2019-20 target	2019-20 actual	
80% – 90% of the planned work for the performance year	100% of the planned work for the performance year	100%

Cybersecurity initiatives

We monitor the information and communication technology environment and critical information and communication technology assets using our managed cybersecurity service. We regularly review this process to ensure that the service gives us the appropriate level of assurance.

Performance measure

% implementation of information management framework

2019-20 target	2019-20 actual	
Develop an information management framework	100% complete – information management framework developed and approved in 2019-20	100%

We have revised our information management framework to ensure that we preserve critical knowledge and prevent unauthorised disclosure of, and access to, information in the organisation's custody. This proved to be quite important during the lockdown period when we adapted our audit process to access auditee information remotely.

Enhancing IT solutions and organisational processes

TeamMate optimisation

We upgraded our TeamMate audit management solution from version R11 to R12. This technical upgrade updated the software and the way that the back-end data architecture works with the Microsoft suite of products, such as the database. There were no functionality changes to the user-facing front-end. The upgrade did not negatively affect audit projects, which were finalised on TeamMate version R11. We have significantly improved our audit system from TeamMate version R8 in 2015-16 to the current version R12.

Over the years we have recognised the need for audit software that will allow us to improve the quality and efficiency of audits. The past few months have magnified the need for audit software that is efficient, secure and agile. While we remain determined to acquire such a tool, the timing needs careful consideration given the size of the investment required.

Integrating applications and data sharing

In March 2020, we reacted swiftly to our changing environment and methods of operating required by the national lockdown by migrating our data storage from Dropbox to Microsoft OneDrive. This immediately improved our file storage and sharing capabilities, and addressed our need for virtual collaboration. The associated increase in data cost has been minimised by strictly monitoring the way we use bandwidth.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Conclusion on the performance of the viability strategic goal

Over the past five years we have refined our 4V strategy to respond to our changing circumstances. Our audit environment is becoming more complex, given the amended PAA, section 4(3) audit focus, and our profession has come under serious scrutiny in the recent past.

The South African economy is staggering under the devastating effects of the covid-19 pandemic. We have had to change our processes to deal with new challenges and to take advantage of new opportunities in client services, employee morale and financial viability. We can weather this storm by drawing on our built-up reserves, but the covid-19 crisis has taught us that we must plan for uncertainties with our enabling legislation and funding model in mind.

We achieved impressive financial results for the year ended 31 March 2020 by using our resources efficiently, optimising our costs and strictly managing our expenses and working capital. Our management is constantly putting strategies in place to protect our margin of safety.

The 2019-20 year was another milestone for the AGSA. We co-created history by training our staff to carry out our enhanced powers. We also finalised our new organisational culture statement and values, which will lead us into the future.

We continued to implement our information and communication technology strategy. Our cybersecurity capability and end-to-end network assessments will help us to build a stable cybersecurity posture.

It will take years for us to fully implement our plan for safeguarding the AGSA's information. Our key initiatives this year were:

- developing an information management framework and a roadmap for implementing it
- finalising key information and communication technology policies and procedures that had a positive impact on the environment.

We continued to improve the performance and functionality of our ERP software and our TeamMate audit software. We also migrated from Dropbox to OneDrive to enable file storage and collaboration, and we implemented Microsoft Teams to allow the business to operate remotely during the nationwide lockdown.

Key challenges

Over the past 20 years, our trainee auditor scheme has delivered 1 195 CAs(SA). However, the low pass rates are concerning. The CTA, ITC and APC results clearly show that we need a long-term plan to support candidates from as early as CTA through to their APC assessment. We are working with Saica and other relevant stakeholders to find a solution that will specifically assist our candidates.

Due to the nationwide lockdown, our data usage costs rose substantially. We are now constantly monitoring the environment to try and minimise additional costs. We still need to focus on our information and communication technology capacity because we had to delay the infrastructure and data migration centres.

Future outlook

The strategies and initiatives we already have in place will help us to stay financially sustainable. It is vital that we reduce our expenses and strictly manage our cash flow, especially as we move into the uncharted territory of the amended PAA, where our expanded functions and mandate could lead to unforeseen costs.

We cannot predict our financial outlook with any reasonable degree of certainty because of the covid-19 pandemic. The economy will take a long time to recover, and the year ahead will be challenging. Lower interest rates will significantly affect our interest income and impairments are likely to be high. Despite this, we will keep looking for opportunities.

Management will have to closely oversee our business processes from start to finish, and regularly stress test our cash flow to mitigate emerging risk. The state of the economy will likely increase the pressure on our income, and we must control our costs and be more efficient.

Our audit scope is increasing as we take over SOE audits and as the amended PAA expands our mandate, and this will affect the long-term decisions we make about our workforce. We will also need to factor in how the covid-19 lockdown and global trends will affect our business.

Both the work that we do (the "what") and the way that we work (the "how") are changing. Technology is changing incredibly fast. Big data processing and the continually expanding application of algorithms are creating entirely new business models. At the same time, employers need to address demographic shifts, different ways of working, much longer working lives, changing priorities for those starting out in their careers, and new demands for the workplace and working conditions.

We need to ensure that our teams have the strength and skills they need to navigate this new landscape, which is why we have put the following themes at the centre of our people strategy:

- Connecting corporate strategy with the quantity and quality of leadership needed to execute this strategy
- Defining what the employee of the future looks like
- Putting the best talent in every job
- Developing the right skills at every level
- Identifying and aggressively developing high-potential employees as part of a proactive succession management process
- Managing employee performance at all levels to drive bottom-line performance.

We will review our Saica learnership with Saica and find ways to improve our pass rate. This is an important part of our goal to transform the accounting and auditing profession. We will also look at new learnerships to develop the skills we need to deal with the amended PAA.

Covid-19 has forced organisations to embrace virtual work and the business world is unlikely to ever completely return to its pre-pandemic ways. We have to reimagine what collaborating with our colleagues and teams will look like after covid-19. All of us will need to make lasting changes to how we work, and become more agile and productive.

We will be keeping a close eye on our new information and communication technology policies and procedures as they are rolled out over the next three to six months, as they will help us to build a sustainable control environment for the post-pandemic world.

VISION AND VALUES DRIVEN (V4)

Driving transformation

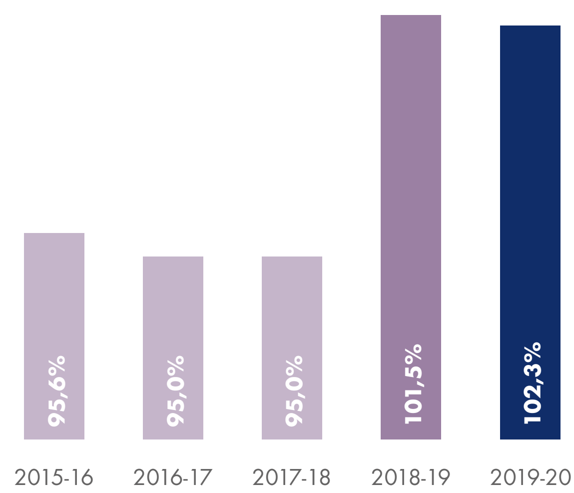
Vision and values driven objective 1: Drive the AGSA's transformation programme

Performance measure
B-BBEE level

2019-20 target	**2019-20 actual**
Level 2	Level 1

The country's transformation objectives continue to underpin our transformation strategy. In their success our transformation initiatives have been guided by the principles of diversity and inclusion that again led to a level 1 B-BBEE contributor status. Our employees' committed support, effective expert collaboration, efficient processes and monitoring plans and strong leadership all contributed to our success.

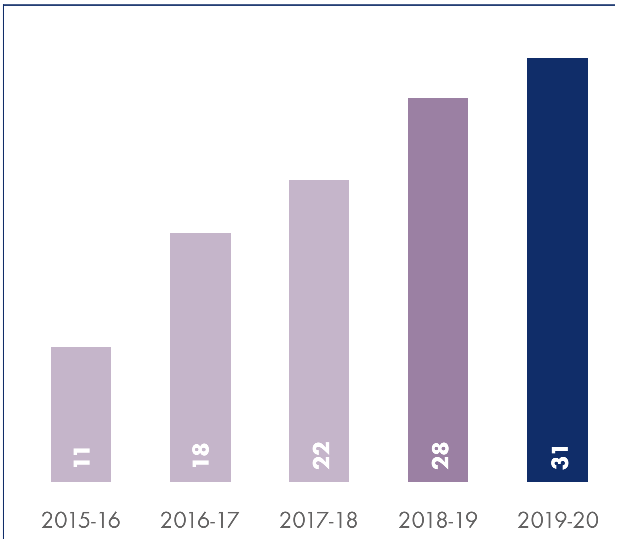
Transformative procurement practices actively promoted inclusive economic growth, skills development programmes, employment practices and initiatives that build our communities. Our organisational targets are based on the *Generic codes of good practice* as the anticipated chartered accountant (CA) charter has not been promulgated.



B-BBEE performance over the past five years

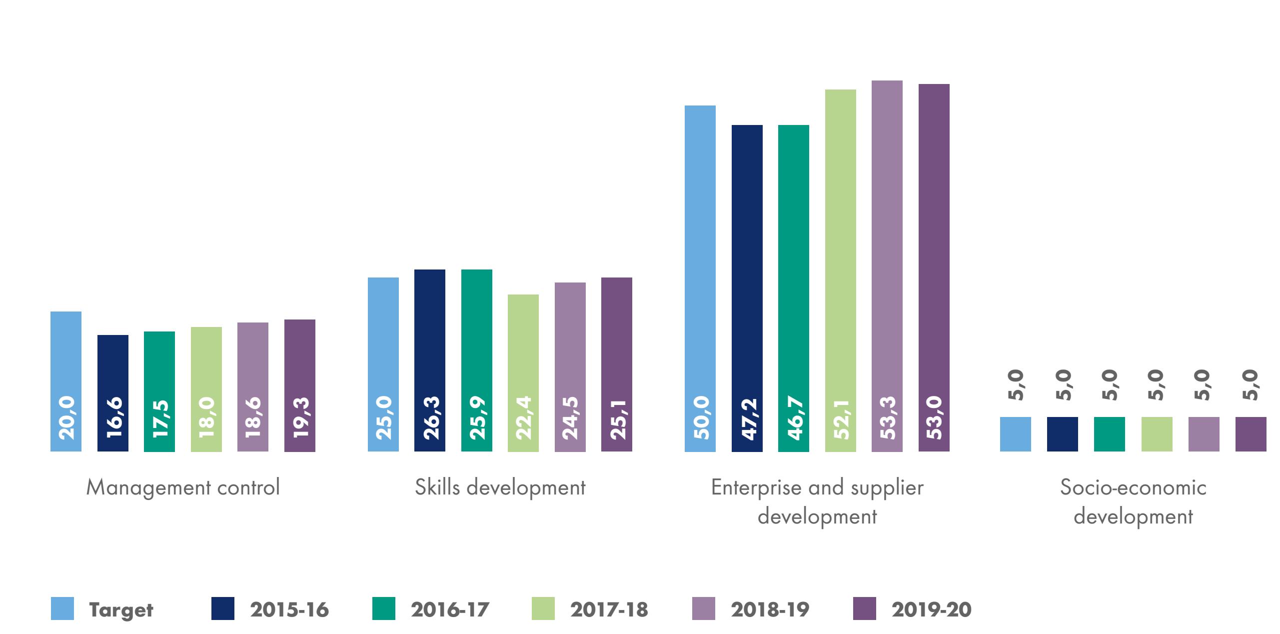
To drive, embed and reward transformative behaviour, our transformation awards ceremony on 3 October 2019 presented 12 awards to business units, six at B-BBEE level 1, one for a greatly improved B-BBEE score and five for overseeing the four B-BBEE elements that had a positive impact on our B-BBEE scorecard.

All 31 of our business units improved their B-BBEE performance over the past five years.



Number of business units at B-BBEE levels 1 and 2

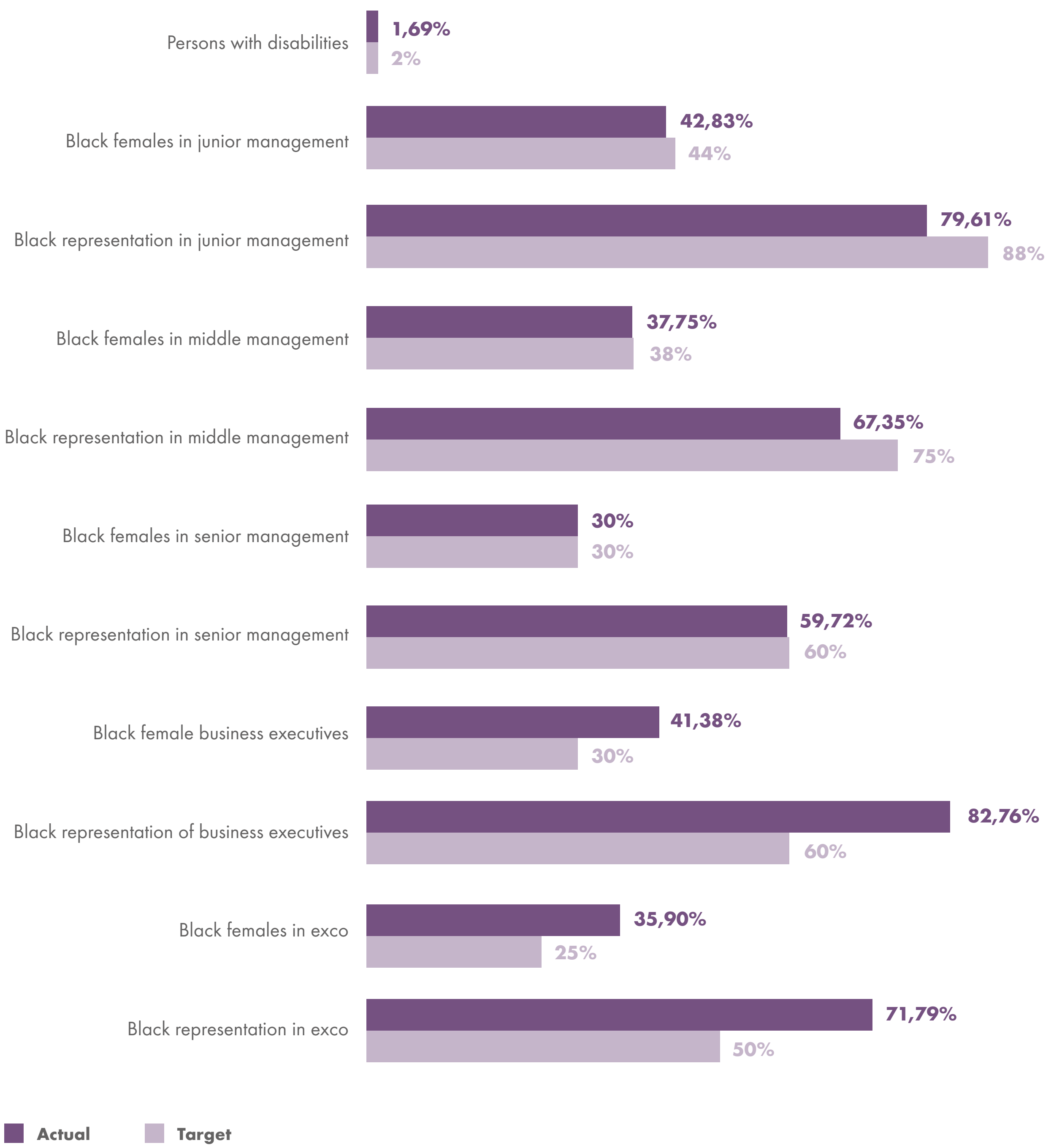
B-BBEE scorecard performance per element



B-BBEE five-year performance for each scorecard element (target is for 2019-20)

Management control

In our drive for equity, diversity and inclusivity we have exceeded our B-BBEE targets on some levels while needing to prioritise others. Of our 3 667 employees, 3 301 (90%) are black and 1 844 (50%) are black females. Exco has a black representation of 72%, of which 50% are black females. Our priority now is to reflect the demographics of the country and people with disabilities in our senior, middle and junior management levels. We have achieved 1,69% against a 2% target for black people with disabilities, and are working hard to attract and retain this demographic.



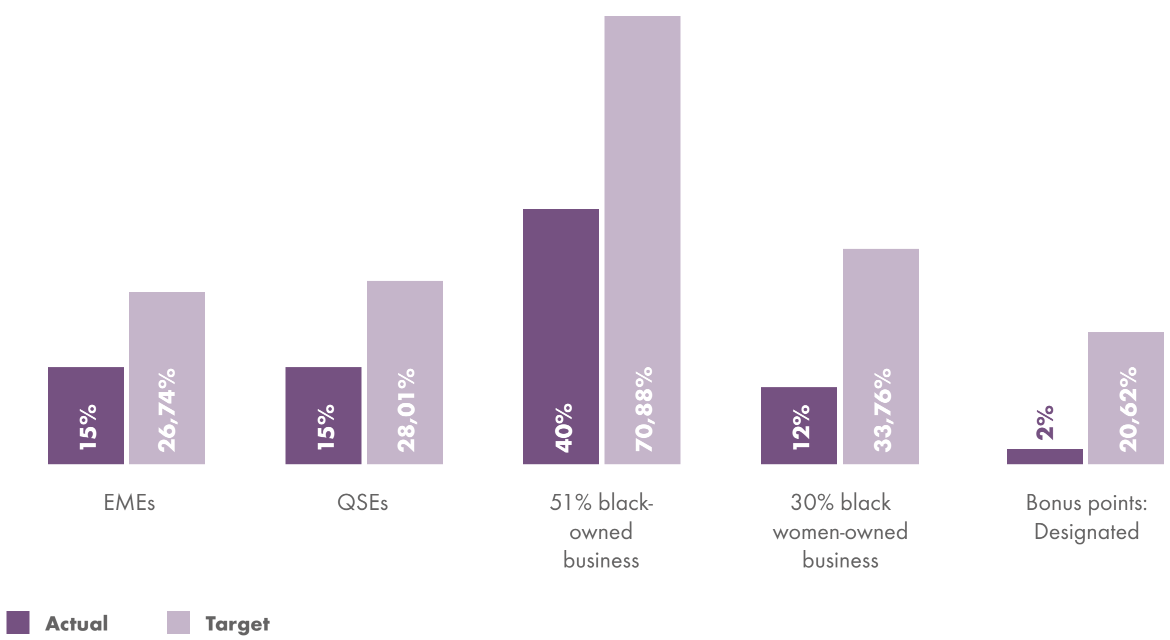
Management control year-end results

Skills development

We achieved our B-BBEE target on skills development, using the R22,6 million skills development levy on formal and informal training programmes. Black participants made up 1 235 of the 1 250 trainee auditors (98,8%) in our learnership schemes and we awarded bursaries to 125 new learners who will study towards a career in the auditing profession. Our skills development programmes are large contributors to youth employment in our country.

Enterprise and supplier development programme

We piloted our enterprise and supplier development (ESD) programme in 2015-16 with just three small black firms (two female-owned and one male-owned). Since then, our intake has grown to 27 black-owned audit firms with representation across all nine provinces. The first 24 beneficiary firms reflected our primary regularity audit mandate, but given their successes, we soon introduced three beneficiary firms to a programme supporting information systems auditing.



Enterprise and supplier development performance against B-BBEE targets

Consistent successes in developing and supporting small black businesses continue to maximise their economic opportunities.

A key objective of the ESD programme is to empower ESD firms to grow and become AGSA suppliers through our outsourced audit work process.

We reached an important milestone when ESD beneficiaries shared 23% of our total outsourced audit-related allocations against a target of 15%.

	2016-17	2017-18	2018-19	2019-20
Outsourcing baseline (including audit-related ad hoc work)	R3 347 434	R17 763 315	R66 710 918	R149 535 622
Total allocated to outsourced audit-related work	R485 001 532	R448 355 798	R443 783 922	R648 898 784
Percentage of the outsourced audit work allocation to ESD firms	1%	4%	15	23

Outsourcing allocation to ESD firms as a percentage of outsourced work

The programme also aimed to grow beneficiaries' businesses into professional firms. We invested R11,9 million since the pilot programme, R2,08 million of this in 2019-20, assisting beneficiaries to:

- rent professional office spaces
- purchase office furniture, laptops and servers
- pay professional fees
- upskill their owners and trainees
- source the software required to provide audit and accounting services.

In addition to financial support, we helped our ESD firms by:

- encouraging high-quality audit work
- building capacity using various training initiatives aimed at improving the audit quality offered by these firms. This resulted in almost no quality concerns being raised throughout the year
- prioritising payments to ESD firms as delays in payments have a negative effect on their cash flow.

A primary challenge for small black firms is to obtain accreditation from professional bodies Saica and the IRBA, which enables the firm to operate and participate in mainstream economic activities in the auditing industry. Our ESD beneficiaries were not exempt from this challenge. We successfully assisted all our regularity audit beneficiaries to obtain accreditation and increase their allocated quota of trainees. Three of these, MMFAS Chartered Accountants and Auditors Inc, Thamani Assurance Inc, and MNB Chartered Accountants, were assisted in 2019-20 and received positive results from Saica, with a minimum of four trainees at the audit firm.

We provided our ESD beneficiaries with work allocations of R237 357 289 over the course of the programme, which led to 12 beneficiaries expanding their footprint to other regions and opening 47 offices across the country. Of these 47 offices, 24 are accredited by Saica to operate as training offices. This also led to job creation, with 372 jobs created during the course of the programme. In 2019-20, 11 firms graduated from our ESD programme, opened new branches and created 81 jobs.

	2016-17	2017-18	2018-19	2019-20	Total
Financial support to beneficiaries	R1 500 000	R4 188 951	R4 140 179	R2 083 388	R11 912 518
Work allocated	R3 347 434	R17 763 315	R66 710 918	R149 535 622	R237 357 289
Jobs created	N/A	131	160	81	372

Outsourcing allocation to ESD firms

Outsourced work

We spent R685 745 128 on outsourced work in 2019-20.

FIRM SIZE	EME	QSE	Generic	Total
No. of firms	88	10	6	104
Allocations	R197 663 687	R105 637 052	R345 598 045	R648 898 784
% allocated	31	16	53	100
Actual paid	R190 086 558	R298 300 859	R197 357 709	R685 745 128
% paid	28	43	29	100

2019-20 contract work expenditure per firm size

Of this amount, we paid R614 million (90%) to B-BBEE levels 1 and 2 firms, although we had allocated R581 million (90%) of our outsourced audit work to these firms.

Firm B-BBEE level

	No. of firms	Allocations	% allocated	Actual paid	% paid
Level 1	45	R435 737 121	67	R449 806 006	66
Level 2	14	R145 526 267	23	R164 116 470	24
Level 3	3	R9 400 969	1	R9 924 402	1
Level 4	19	R31 864 125	5	R30 962 576	5
Level 5	2	R4 495 832	1	R4 867 927	1
Level 6	3	R4 814 984	1	R5 624 313	1
Level 7	4	R2 887 482	0	R3 558 220	0
Level 8	8	R11 588 379	2	R13 328 391	2
Non-compliant	6	R2 583 624	0	R3 556 823	0
Total	104	R648 898 784	100	R685 745 128	100

Payments to firms at the various B-BBEE levels

Preferential procurement

We contributed to the country's economic growth by strengthening our support to EMEs and QSEs that are 51% black and 30% black women-owned businesses.

Our tender processes continue to be open to subcontracting and partnering opportunities for small businesses.

FIRM SIZE

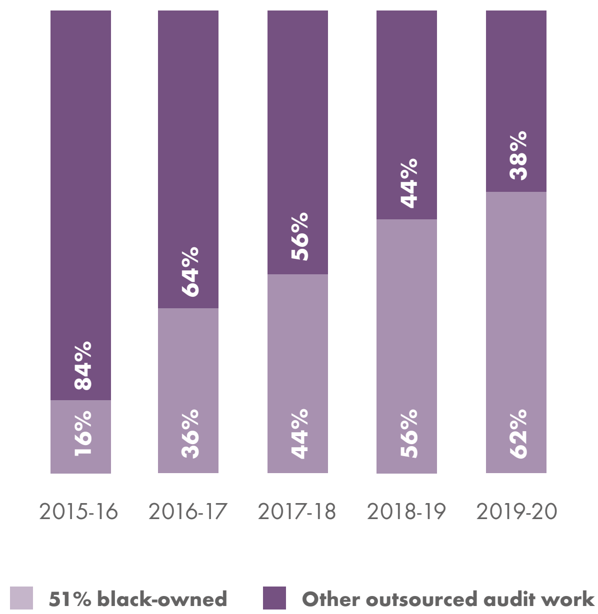
	EME – small	QSE – medium	Generic – large
No. of firms	**35**	**7**	**0**
Amount paid	**R162 762 294**	**R260 063 131**	**R0**
%	**24**	**38**	**0**

Expenditure on 51% black-owned firms

We increased our expenditure on outsourced audit work to 51% black-owned firms from 16% in 2015-16 to 62% in 2019-20.

For 2019-20, our actual expenditure was R423 million against an allocation of R346 million.

During the same period, we increased our expenditure on outsourced audit work to 30% black women-owned firms from 9% in 2016-17 to 21% in 2019-20. While our allocation for 2019-20 was R125 million, we spent R145 million.

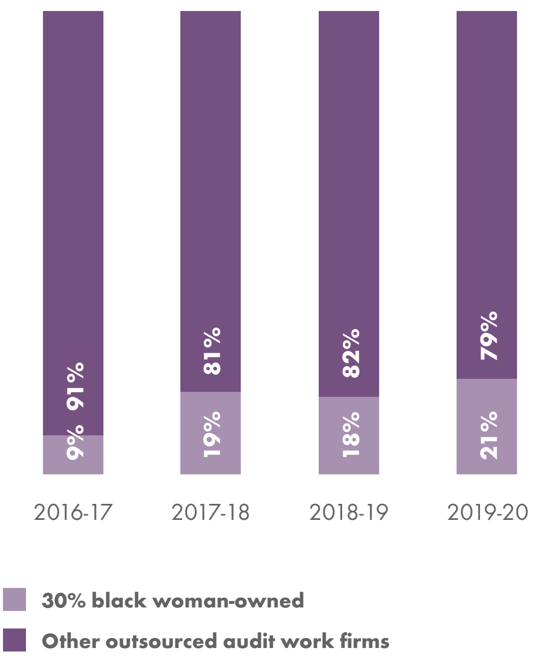


Spending on 51% black-owned firms compared to other firms receiving outsourced audit work

FIRM SIZE

	EME – small	QSE – medium	Generic – large	Total
No. of firms	**13**	**7**	**2**	**22**
Amount paid	**R8 039 022**	**R72 911 543**	**R64 132 892**	**R145 083 457**
%	**6**	**50**	**44**	**100**

Expenditure on 30% black women-owned firms

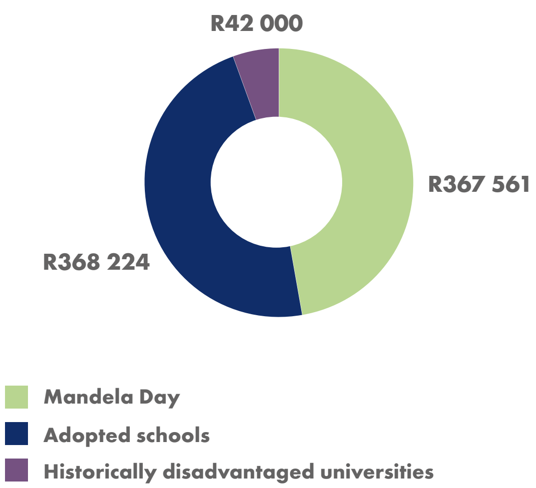


Spending on 30% black women-owned firms compared to other firms receiving outsourced audit work

We will intensify our contribution to youth-owned and peri-urban businesses in response to the high rate of youth unemployment in the country.

Socio-economic development

We have successfully created value by growing communities through our socio- economic development initiatives. Our budget of R778 000 for socio-economic development (SED) initiatives was spent.



Socio-economic initiatives

Adopted schools initiatives progress

Our audit business units continued their three-year partnership with the 11 rural, semi-urban and special needs schools adopted across the nine provinces, spending R368 000. Implementation plans included:

- highlighting the AGSA's role and mandate
- providing learners with stationery and study materials
- providing extra maths lessons to adopted learners
- assisting learners with transport and applications for writing the National Benchmark Test
- assisting learners to apply for AGSA bursaries
- assisting learners with university applications
- Mandela Day activities to uplift the school.

The offices of the auditor-general and deputy auditor-general continued to support the Filadelfia Secondary School for learners with disabilities. We awarded six learners from the adopted schools AGSA bursaries for the 2020 academic year, an improvement on three learners in the previous year.

Mandela Day initiatives

In 2019, our celebration of Nelson Mandela's 100th year led with the theme *Taking action against poverty in all forms.* Our business units spent R368 000 to support a number of non-governmental organisations in various spheres:

- Disadvantaged schools
- Homes for people with disabilities
- Homes for the aged
- Orphanages
- Homes for abused women and children

Historically disadvantaged universities

To help grow the chartered accountancy profession, we sponsored accounting students affiliated to Abasa and Awca. Our total contribution of R42 000 was divided among the following previously disadvantaged universities to support students' induction and mentorship events:

- University of Fort Hare – Alice branch
- University of Fort Hare – East London
- University of Venda
- University of Limpopo
- University of KwaZulu-Natal
- University of South Africa

At these events, we created awareness about our role and mandate, and showcased our bursary scheme and its benefits.

During August, we motivated students by profiling women in leadership positions, giving them insight into the journey of our female leaders.

Flood relief donations

Cyclone Idai affected Mozambique and the southern hemisphere, causing catastrophic damage that left thousands dead, missing or destitute. At the same time, KwaZulu-Natal experienced severe flooding caused by torrential rain. In line with our ethos of improving lives through community initiatives, our workforce mobilised a flood relief drive to support the survivors in both Mozambique and KwaZulu-Natal. This initiative successfully donated 148 boxes of the following items:

- Non-perishable food items
- Blankets
- Clothing
- Baby nappies and adult hygiene items.

Our contribution to transformation in the public sector

During the 2018-19 national and provincial audit cycle, we introduced B-BBEE as a value-adding focus area to align our audit work with the needs of the country. On 13 March 2020, we were presented with the B-BBEE commissioner's special award for auditing public sector institutions' compliance with the reporting requirements for B-BBEE prescribed in section 13G. We are humbled and encouraged by this recognition of our contribution to transformation in the country.

Demonstrate clean administration

Vision and values driven objective 2: Demonstrate clean administration

Performance measure
External audit opinion

2019-20 target	2019-20 actual
Clean audit	Clean audit

Continuously enhance business process ownership and accountability

Combined assurance

The combined assurance model brings together a combination of people and bodies whose collective function is to provide assurance of an effective control environment by expressing their view of the integrity of information that oversight committees use for decision-making.

The AGSA's combined assurance model comprises

- management as the first line of defence
- risk management, ethics and quality control functions as the second line of defence
- internal and external audit, as well as other external assurance providers such as the IRBA as a third line of defence.

Going forward, the audit committee will form a fourth line of defence as it oversees some of the second and third level assurance providers.

In the 2019-20 combined assurance matrix, we mapped the assurance providers against specific risks, ranging from strategic to operational risks, contained in our risk management framework.

We are satisfied with their assurance on the state of our internal control environment from the adequacy and effectiveness of our controls to how we managed our risks and ensured compliance with applicable laws and regulations. The audit committee report on pages 158 to 159 supports this assertion.

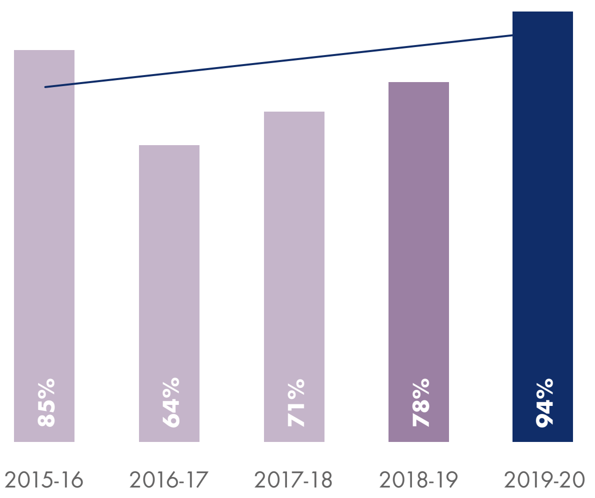
Ensure relevant processes and controls for our operational environment

Our operating environment continues to change, particularly as we implement the amended PAA. To ensure that our processes keep pace with these changes, we need to review and modify the policies and procedures affected by the changes. We updated all the relevant policies, which included the material irregularity, section 4(3) and investigations policies.

Information technology is a fast-paced environment requiring a continuous review of its functional preparedness to manage emerging risks and trends. We reviewed and revised several policies and procedures to address a number of the control gaps identified by both our business and the auditors (internal and external).

We closed 94% of our audit findings, an improvement from 78% in the previous year, by making a significant effort to address the control gaps. Our findings by both external and internal auditors also decreased by 30%, from 33 in 2019 to 23 in 2020, assisted by the reviews that we undertook in 2020.

The significant resources required to address eight of the 23 findings mean that they will only be implemented in the 2020-21 financial year.



Rate of closure

Our goal is to comply with all the laws, codes, standards and best practices relevant to us, in a way that aligns to our strategic objectives, vision and values.

We achieve this by maintaining a compliance regulatory universe that not only outlines all regulatory requirements, but also prioritises them using a risk-based approach.

Our compliance regulatory universe was assessed in 2019-20 and our controls proved adequate. In 2020-21, we will review the effectiveness of the controls developed to meet our compliance requirements as a complement to the independent assurance provided by internal and external auditors, and other assurance providers.

Our risk management framework informs our risk management activities, some of which include business and operational risk assessments to support our business processes, and is a complement to our strategic risk management.

Monitor control performance and promptly resolve failures

Monitoring and evaluating our key controls remain important to us. Focus areas within our key controls are those business and sub-business processes that expose the organisation to significant risk. The objectives of this close scrutiny are to assess the strength of our controls, and identify and correct any control deficiencies.

Focus areas

- Assets
- Billing
- Debtors monitoring
- Expenses
- Timesheet management
- Overtime
- Petty cash
- Staff debt monitoring
- Terminations
- Supply chain management

All our business units completed self-assessments on their internal controls process, confirming that their internal controls environment continues to strengthen and improve across all ten focus areas. They resolved a majority of the exceptions reported, although these were mainly issues of the timing of specific functions to fulfil control requirements rather than policy breaches.

The Risk and Ethics business unit supplemented the self-assessment with its annual independent assessment as a second line of defence in line with the combined assurance model. We enhanced root cause descriptions and classifications to identify areas requiring attention.

Some audit findings remain unaddressed primarily because of inadequate capacity and capabilities within information technology, which continue to receive leadership attention and support. We initiated discussions with process owners to strengthen the control environment, primarily in information security and information technology project management.

We are optimistic that the number of control gaps identified during audits will reduce significantly in the future.

SDG 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Cultivate an environment that enables the desired ethical behaviour

Vision and values driven objective 3: Safeguard the ethical character of the organisation

Performance measure

% decisive and timely action against reported ethical breaches

2019-20 target	2019-20 actual
100%	100%

Strengthen leaders' ownership of driving ethical behaviour

Our commitment to the highest standards of ethics and integrity is grounded in our visions and values strategic goal. We drive ethical behaviour as a priority within the organisation and adopt approaches to support this priority.

We used platforms such as the corporate executive ethics refresher sessions to have structured conversations with leaders. At these sessions, we discussed ethics in the different portfolios, observed trends and risk mitigation. We also shared knowledge and insight to empower leaders to take action and to lead by example in their portfolios.

In 2018-19, we had introduced leadership-led ethics engagements at all business units as a performance measure. In 2019-20, performance on this measure showed immense growth, with business units demonstrating ownership, creativity and innovation in their methods, and extensive depth in their topics and overall engagements. The initiative has made a meaningful contribution to a shared appreciation of, and commitment to safeguard, our employees' ethical character.

Ethics Monitor, an ethics monitoring and management consultancy, conducted our independent ethics maturity assessment. The objective was to provide our leaders and the audit committee with an independent view of whether our ethics management programme is adequate, the degree to which our processes are institutionalised and recommendations for improvement. The assessment included an anonymous survey in which all employees participated.

With an 87% response rate, we received an "AA" rating on the ethical boundary axis.

The rating scale ranges from D to AAA where AAA is the best result and D is the worst. This represents a very sound result relative to the majority of surveys across various industries that score an A rating.

This testament to the success and impact of the various ethics initiatives will ensure that our focus and strategy in 2020-21 are relevant and responsive to our environment.

Ensure that complaints and matters reported through whistle-blowing mechanisms are managed promptly

We launched an internal whistle-blowing mechanism in June 2019 to reflect our commitment to continuously improving our ethical environment while ensuring the safety of our staff. By 31 March 2020, 23 of the 63 complaints recorded by the organisation were received via the whistle-blowing mechanism. Recognising that 25 of the 63 complaints were beyond our scope, we held the remaining 38 for investigation. Six complaints were concluded and 32 are at various stages of investigation.

	2017-18		2017-18		2019-20	
	Lodged	Not concluded	Lodged	Not concluded	Lodged	Investigation ongoing
Category 1 Complaints not in the policy	7	0	19	0	19	0
Category 2 Audit-related complaints	5	1	3	0	3	3
Category 2 + 3 Audit and conduct complaints	5	0	4	1	4	4
Category 3 Conduct and administration complaints	10	0	11	1	37	25
Category 4 Complaints about the auditor-general, not the institution	0	0	0	0	0	0
Category 5 Complaints related to the Protected Disclosures Act	0	0	0	0	0	0
	Total **27**	Total **1**	Total **37**	Total **2**	Total **63**	Total **32**

Summary of the complaints received per category, in line with our complaints policy
Note: Investigations not concluded during a financial year are carried forward into the next year.

We launched the whistle-blowing mechanism internally to allow us to develop efficient processes before extending the facility to external stakeholders. Since the launch, complaints have increased to a level that compromises our ability to process all cases within a reasonable time frame.

To address these challenges, we appointed an additional person to bolster our capacity to resolve complaints. In the coming year, we will explore introducing a case management system to automate our current manual processes.

The organisation's ethical principles, standards and norms

The foundations of our ethical culture are the fundamental principles of the IESBA *Code of ethics* and the ISSAI 30 *Code of ethics, Principle on political neutrality.*

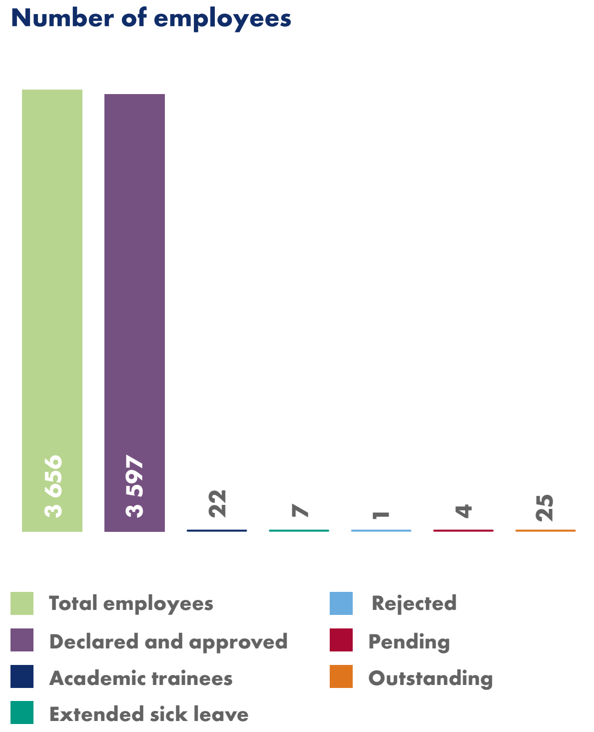
Employees commit to the IESBA and ISSAI 30 codes of ethics, our ethical standards and our ethics policy and procedure by completing an annual declaration.

The 2019-20 declaration cycle achieved a 98% declaration rate, a slight decline from 99% in the previous year. The remaining 2% were:

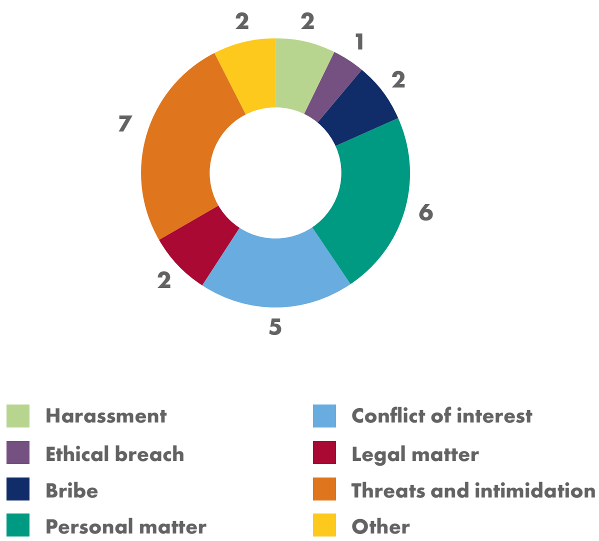
- academic trainee auditors who were not permanent employees
- employees who were on extended sick leave
- employees who did not comply with the declaration requirements. These cases have been escalated for corrective action.

Addressing concerns about ethical threats

We use the ethics register as a tool to track reported ethical threats, instances of non-compliance with the fundamental principles of behaviour and potential ethical risks. In 2019-20, 27 ethical threats were reported, up from the 18 reported the previous year. We use these reports to assess and mitigate ethical threats. Mitigation can include escalation or referrals to the relevant senior authority.



Annual ethics declarations



Issues reported on the ethics register

Promoting awareness and appreciation of the AGSA's ethical principles

In our ongoing effort to promote ethical behaviour, we held a number of events throughout the year to raise awareness of our ethical principles.

- Business unit ethics engagements – our executives led the ethics engagements that form part of each business unit's performance measure. The objective is to safeguard the ethical character of the organisation and encourage employees to comply with ethical standards.
- International Honesty Day – on 30 April the auditor-general and deputy auditor-general led the celebration and spoke about the importance of adhering to the ethics policy.
- Saica ethics training for trainee auditors – addressed the ethical challenges to the profession. Saica requires trainees to undergo ethics training at least once in their training contract, applicable after 31 March 2019. We therefore created an in-house ethics training session that trained 375 trainees.
- Global Ethics Day – celebrated on 16 October under the banner *Ethics in action*. Our employees affirmed their commitment to ethics and to the value of accountability being clear and personal by adding their handprints to the canvas that was later framed and displayed in their business units. Our executive expressed their commitment to the initiative in recorded messages of support and commitment to building an ethical environment.

Demonstrate quality and transparency in our accountability instruments

Our *2018-19 integrated annual report* was tabled in Parliament on 26 September 2019. The report includes the AGSA business model to articulate the inputs, processes, outputs and outcomes of our business. The increased accuracy of our environmental information and our conscious effort to reduce our impact on the environment had contributed to a reduced carbon footprint in 2018-19 of 14 456 metric tonnes of CO_2, which is 29 840 metric tonnes less that in 2017-18. In 2019-20 our carbon footprint reduced even further to 13 733 metric tonnes of CO_2.

Conclusion on the performance of the vision and values driven strategic goal

The continued shift in our environment, specifically in response to implementing the amended PAA, led us to develop or revise a number of policies to ensure that our processes are adequately equipped to address the changes.

We also implemented the whistle-blowing mechanism to report on unethical conduct. In line with best practices across the world, the platform is independently managed by an external service provider. This shows our commitment to enabling employees while protecting whistle-blowers in line with the Protected Disclosures Act.

Driving ethical behaviour is paramount to the organisation. We appointed an independent service provider to assess our ethics maturity, evaluate our ethics management programme and the degree to which we institutionalised ethics processes, and to ascertain areas of development.

We continued to embed and enhance an awareness of ethical behaviour using various initiatives such as ethics business unit engagements, International Honesty Day, Saica ethics training for trainee auditors and Global Ethics Day. Our executives and employees drive the ethical behaviour in the organisation.

For the second consecutive year, we retained our B-BBEE level 1 contributor status. Thank you to our employees for their support, dedication and commitment to this achievement. The growing recognition that transformation goes beyond numbers to addressing the country's socio-economic challenges means that diversity and inclusion remain at the centre of our recruitment, skills development, procurement and community initiatives.

- Our human capital flagships are learnership programmes, skills development and recruitment initiatives in which we strive to reflect the demographics of the country.
- Our ESD programme has grown over the past four years, enrolling 27 black-owned audit firms with representation across all nine provinces. In 2019-20, 11 of these firms created 81 jobs.
- We have successfully grown communities through our socio-economic development initiatives and achieved consistent success in developing and supporting small black businesses.

Key challenges

Audit findings from internal and external auditors sometimes took a while to resolve, particularly in information technology. The lag in addressing these findings was caused by inadequate capacity and capabilities.

The volume of complaints on the whistle-blowing mechanism led to delays in resolving them because we lacked the capacity. We resolved this challenge by appointing an additional person to enable responses to complaints within a reasonable time frame.

The mobility of senior, middle and junior management makes meeting our B-BBEE targets for this level of employees challenging, as is our efforts to recruit, develop and retain persons with disabilities.

Future outlook

As a complement to the independent assurance provided by the internal and external auditors, we will continue to review the effectiveness of our current controls, address challenges in internal controls and introduce additional interventions to strengthen the internal control environment to meet compliance requirements. We will also continue to monitor and evaluate business and sub-business processes that carry a significant risk exposure to the organisation.

In 2020-21, we will explore using a complaints case management software to assist in automating our current manual processes.

The outcome of the ethics maturity assessment will be used to strengthen our ethics processes and ethics management to adequately respond to our operating environment.

We are currently developing an ESD booklet aimed at creating awareness about our ESD programme. We are also working on developing ESD criteria for new intakes.

Our contribution to youth-owned and peri-urban businesses will intensify in response to the high rate of youth unemployment in the country. We will continue to support, and prioritise payments to small firms during the covid-19 pandemic to ensure their survival.

The recent covid-19 pandemic will magnify current socio-economic challenges such as unemployment and the survival of small businesses. These challenges will have an impact on poverty levels in the country. Our transformation strategy will continue to focus on recruitment, skills development, support for small businesses and our SED initiatives. The budget allocated for our SED programmes and our staff's active participation in our community initiatives could be affected during the pandemic; however, we will continue to explore creative ways to manage challenges without risking the safety of our staff.

SECTION SIX

THE REPORTS AND STATEMENTS BELOW COMPRISE THE FINANCIAL STATEMENTS

AUDIT COMMITTEE'S **REPORT**

The audit committee (the committee) is a statutory oversight structure, constituted in terms of section 40 of the Public Audit Act 25 of 2004 as amended (PAA). The committee is accountable to the auditor-general (AG) and the Standing Committee on the Auditor-General (Scoag). The committee takes pleasure in presenting this report in respect of the 2019-20 financial year to Scoag and all other stakeholders of the Auditor-General of South Africa (AGSA).

All the members of the committee are independent of the AGSA and sign a conflict of interest register at each meeting; and recuse themselves if necessary.

Responsibilities of the committee

The responsibilities of the committee are outlined in its terms of reference, which drive the activities of the committee according to an annual work plan. The terms of reference and the work plan are reviewed on an annual basis. On a macro level the committee received and considered information and explanations provided by management, independent assurance providers and any other relevant sources to enable it to conclude that for the reporting period:

- the system of internal control over financial reporting is adequate and is operating effectively
- risk management processes are adequate and effective
- the organisation has the necessary resources and financial expertise to perform its duties.

Activities of the committee

In line with the PAA, the committee met at least three times during the financial year in order to carry out the necessary activities to meet its responsibilities. Details of the activities are summarised under the headings set out below.

Internal audit

As was reported in the prior year report of the audit committee, Ngubane & Co (Ngubane) were appointed as the internal auditors of the AGSA for a period of three years with effect from the current financial year. The internal audit plan operates on a three-year rolling basis so that all functions of the organisation are covered at least once during a three-year period, depending on their respective risk exposure.

The committee:

- reviewed and approved the internal audit strategy
- reviewed and approved the annual internal audit plan
- reviewed and approved the internal audit charter
- received reports from Ngubane on the internal audit work performed and considered the reports and conclusions reached
- 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. We also received assurance from Ngubane that no scope restrictions were placed on their work, nor was pressure brought to bear on them to suppress any findings
- evaluated the independence, effectiveness and performance of the internal audit function and the chief audit executive
- considered the annual written assessment from Ngubane, which took into account work performed by other service providers and their follow up of matters reported in the prior year. Their conclusion is that *the overall control environment and risk management processes is satisfactory which means the system of internal controls at* [the] *AGSA is adequate and effective to provide reasonable assurance that business objectives will be met; however, some control deficiencies were identified.* The deficiencies were largely of an administrative nature and were not considered high risk or critical.

External audit and evaluation of the annual financial statements

Taking into consideration guidance received from the audit committee, Scoag appoints the external auditors for a period of five years, which term may be extended for a further five years, and the appointment is confirmed each year. The audit committee is satisfied that Crowe JHB (Crowe) is independent and not conflicted in any way as required by section 39(2) of the PAA. Scoag confirmed the appointment of Crowe to conduct the external audit for the 2019-20 financial year under the direction of the engagement partner, Raakesh Khandoo.

The committee:

- considered the audit approach, audit risks, key audit matters and fee budget as set out in the external audit plan, and resolved to approve the plan and authorised the signature of the engagement letter
- considered and agreed with management that the AGSA is a going concern
- considered the appropriateness of the accounting policies, accounting treatments, any significant unusual transactions and judgment areas
- reviewed compliance with the International Financial Reporting Standards and the PAA
- considered the management report received from Crowe
- reviewed the audit report on the annual financial statements
- reviewed the audit report on performance against predetermined objectives
- ensured that non-audit services are not material 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. We also received assurance from Crowe that no scope restrictions were placed on their work, nor was pressure brought to bear on them to suppress any findings
- reviewed the management representation letters addressed to Crowe and recommended to the deputy auditor-general (DAG) that she sign the letters
- reviewed the summary of unadjusted differences
- reviewed and provided input on the annual financial statements and recommended to the DAG that she sign the financial statements
- Considered all factors and risks that may impact on the integrity of information in the integrated annual report (IAR) and that it presents the economic, social and environmental performance of the AGSA, and recommended to the AG and DAG that they sign the IAR.

Risk management

The Risk and Ethics business unit (R&E) is responsible for coordinating the risk management function in the AGSA.

The committee:

- had oversight of the strategic risks of the organisation, where it monitored 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 2020-21 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 2020-21 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. Acting upon guidance from R&E, the audit committee agreed to bring in a fourth level of assurance, being assurance gained from the independent audit committee. Furthermore, the committee approved the combined assurance model and matrix for application in the 2020-21 performance period
- reviewed issues raised by the internal audit function 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.

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.
We have been informed that appropriate succession planning is in place as a key member of the finance team approaches retirement age.

Conclusion

The committee believes it has complied with its terms of reference, including in particular its statutory obligations. It can thus conclude on the three key areas of responsibility as set out earlier in this report, namely, that the system of internal control and risk management processes are adequate and effective and that the chief financial officer and her finance team have the necessary financial expertise to fulfil their responsibilities.

In closing, this is the last IAR during the term of the current AG, Mr Kimi Makwetu. The committee thanks him for the role he played with the committee during his tenure as the DAG but really wants to acknowledge the most significant contribution he has made to the AGSA as AG. He carried on the sterling work of his predecessor and leaves the organisation in a far stronger position than the one he inherited seven years ago. We wish him good health and much success in the future.

REMUNERATION **COMMITTEE'S REPORT**

1. Brief introduction and 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 issues, while the final decision making rests with the auditor-general.

The AGSA's 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 so as to promote the achievement of strategic objectives.

The organisation has 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 implementation of the policy principles is executed in accordance with the provisions of the organisation's management approval framework (MAF).

2. Internal and external factors that influenced remuneration

Remuneration considerations and decisions are always based on the following combination of external and internal factors:

- Sustainability of the organisation, including affordability/ability to pay
- Overall economic climate measured by the Consumer Price Index (CPI), current and the future CPI
- Market relativity / movement in market pay rates, including public services movement
- Individual employee performance
- Attraction, retention and employee-engagement considerations
- Strengthening the performance culture / pay-for-performance

3. Key areas of focus by the remuneration committee

On 25 June 2020 the remco meeting discussed the subject of salary increases and performance bonuses for August 2020.

The committee debated the internal and external environment at length and the possible implications on salary increases and performance bonuses. It is acknowledged that there are headwinds that lie ahead, and the possibility of reducing the establishment and/or pay cuts. The committee resolved to recommend not to pay any salary increases and performance bonuses, given all the issues impacting the financial position of the organisation, and how the organisation would be impacted currently and in the future.

Should there be a need due to changed circumstances for a special meeting to discuss these matters, management should reach out to members who will avail themselves. If the special meeting is not necessary, the matter will be discussed at the November 2020 meeting.

4. 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 reports were used due to the nature of benchmarking 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.

5. Remuneration awarded to individual members of the governing body and executive management during the reporting period

Members of the governing body are remunerated as per the rate in the *Guideline on fees for audits done on behalf of the Auditor-General of South Africa (AGSA)*. This translates currently into R3 119 per hour.

The AGSA remunerates its executives in terms of the AGSA remuneration policy and the details of executives' remuneration are reported in the financial statements of this integrated annual report.

6. Areas of focus

A significant milestone has been achieved by the organisation 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.

6.1 Auditor-general remuneration

The Independent Remuneration of Public Office Bearers Commission were required, in terms of the amended PAA to consult the committee on the remuneration for the auditor-general.

The AGSA remco will meet with the commission to share the auditor-general's remuneration philosophy and past practices with the commission.

6.2 In addition, a key focus area will be the readiness of the employee wellness policy guide in terms of responding to covid-19, and the readiness strategy for the organisation.

DEPUTY AUDITOR-GENERAL'S **RESPONSIBILITIES AND APPROVAL**

As the deputy auditor-general I am required by the Public Audit Act 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. 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, changes in equity and cash flows for the year then ended. The financial statements conform to the International Financial Reporting Standards (IFRS) and the PAA, and are based on 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 properly delegating responsibilities within a clearly defined framework, effective accounting procedures and adequately segregating 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 to ensure the AGSA's business is conducted in a manner that, in all reasonable circumstances, is above reproach.

The AGSA's risk management focus is to identify, assess, manage and monitor all known forms of risk across the organisation. While operational risk cannot be eliminated, we try to minimise it by defining our risk appetite and 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 provided by management, that the system of internal control provides reasonable assurance that the financial records may be relied on to prepare 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 2021 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 162 to 207, prepared on the going concern basis, were approved and signed by me on 31 August 2020 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 162 to 207, which comprise the statement of financial position as at 31 March 2020, 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 2020, 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 25 of 2004 (PAA).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA's). 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impact of adoption of IFRS 16 Leases IFRS 16 replaces the existing standard IAS 17 and specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The implementation of IFRS 16 is considered a key audit matter due to the judgments needed in establishing the underlying key assumptions and the large number of lease agreements present in the Auditor-General of South Africa (AGSA).	We have evaluated the application of IFRS 16 and tested the resulting impact on the balance sheet and income statement. We have assessed whether the accounting regarding leases is consistent with the definitions of IFRS 16 including factors such as lease term, discount rate and measurement principles. Furthermore, we have assessed the retrospective application and verified whether this is consistent with the definition and expedients of IFRS 16. The Auditor-General of South Africa (AGSA) disclosed its adoption of IFRS 16 including key assumptions, in the notes to the financial statements.

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 and the remuneration committee'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 International Standards on Auditing (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

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that Crowe JHB has been the auditor of the AGSA for three years.

Report on predetermined objectives

Introduction

We have audited the report on performance against predetermined objectives of the AGSA for the year ended 31 March 2020, as set out on pages 76 to 155 of the integrated annual report 2019-2020.

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

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

Usefulness of information

Presentation: Performance against predetermined objectives is reported using the relevant provisions from the Public Audit Act.

Consistency: Objectives, indicators and targets are consistent between the 2019-2022 Strategic plan and budget and the 2019-2020 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 2019-2022 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

RAAKESH KHANDOO
Registered Auditor
Partner, Crowe JHB
Sandton
31 August 2020

INDEPENDENT ASSURANCE PRACTITIONER'S LIMITED **ASSURANCE REPORT TO PARLIAMENT**

ON SELECTED KEY PERFORMANCE INDICATORS

Report on selected key performance indicators

We have undertaken a limited assurance engagement on selected key performance indicators, as described below, and presented in the 2019-20 Sustainability Report of the Auditor-General of South Africa (AGSA) for the year ended 31 March 2020 (the Report).

Subject matter

We have been engaged to provide a limited assurance conclusion in our report on the following selected key performance indicators, prepared in accordance with the Global Reporting Initiative (GRI) Standards.

Category	Key Performance Indicators	Scope of Coverage
Economic	Application of the funding model. Amounts and initiatives in respect of: • Trainee auditors scheme • Preferential procurement • Corporate social investment	Republic of South Africa
Social	Amounts and initiatives in respect of: • Bursaries and scholarships • Rural schools programme • Social responsibility programmes • Enterprise and supplier development	Republic of South Africa

Category	Key Performance Indicators	Scope of Coverage
Cultural	Disclosures in respect of: • Employee profile • Diversity • Staff turnover • Ethics training initiatives • Employee wellness programmes • Employee relations	Auditor-General of South Africa
Stakeholder engagements	Disclosures in respect of: • Employees • Auditees • Constitutional stakeholders • Contract firms • Media • Professional bodies • Regulatory bodies • Citizenry • International stakeholders	Republic of South Africa

Deputy auditor-general's responsibilities

The deputy auditor-general (DAG) is responsible for the selection, preparation and presentation of the selected key performance indicators in accordance with the GRI Standards. This responsibility includes the identification of stakeholders and stakeholder requirements, material issues, commitments with respect to sustainability performance and design, implementation and maintenance of internal control relevant to the preparation of the Report that is free from material misstatement, whether due to fraud or error.

The DAG is also responsible for determining the appropriateness of the measurement and reporting criteria in view of the intended users of the selected key performance indicators and for ensuring that those criteria are publicly available to the Report users.

Our independence and quality control

We have complied with the independence and all other ethical requirements of the *Code of professional conduct for registered auditors*, issued by the Independent Regulatory Board for Auditors (IRBA), that is consistent with the International Ethics Standards Board for Accountants *Code of ethics for professional accountants* (Parts A and B), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Crowe JHB applies the International Standard on Quality Control 1, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's responsibility

Our responsibility is to express a limited assurance conclusion on the selected key performance indicators based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance engagements other than audits or reviews of historical financial information*, issued by the International Auditing and Assurance Standards Board. That Standard requires that we plan and perform our engagement to obtain limited assurance about whether the selected key performance indicators are free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3000 (Revised) involves assessing the suitability in the circumstances of the AGSA's use of GRI Standards as the basis of preparation for the selected key performance indicators, assessing the risks of material misstatement of the selected key performance indicators whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the selected key performance indicators.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. The procedures we performed were based on our professional judgement and included inquiries, observation of processes followed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

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

- Interviewed management and senior executives to obtain an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process;
- Inspected documentation to corroborate the statements of management and senior executives in our interviews;
- Tested the processes and systems to generate, collate, aggregate, monitor and report the selected key performance indicators;
- Performed a controls walkthrough of identified key controls;
- Inspected supporting documentation on a sample basis and performed analytical procedures to evaluate the data generation and reporting processes against the reporting criteria;
- Evaluated the reasonableness and appropriateness of significant estimates and judgments made by the DAG in the preparation of the selected key performance indicators; and
- Evaluated whether the selected key performance indicators presented in the Report are consistent with our overall knowledge and experience of sustainability management and performance at the AGSA.

The procedures performed in a limited assurance engagement vary in nature and timing, and are less in extent than for a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether the AGSA's selected key performance indicators have been prepared, in all material respects, in accordance with GRI Standards.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the selected key performance indicators as set out in the subject matter paragraph above for the year ended 31 March 2020 are not prepared, in all material respects, in accordance with GRI Standards.

Other matters

The maintenance and integrity of the AGSA's website is the responsibility of the AGSA's management. Our procedures did not involve consideration of these matters and, accordingly, we accept no responsibility for any changes to either the information in the Report or our independent limited assurance report that may have occurred since the initial date of its presentation on the AGSA's website.

Restriction of liability

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

Crowe JHB

RAAKESH KHANDOO
Registered Auditor
Partner, Crowe JHB
Sandton
31 August 2020

STATEMENT OF FINANCIAL POSITION

	Notes	2020 R'000	2019 R'000
ASSETS			
Non-current assets		420 556	137 431
Property, plant and equipment	2	99 889	102 845
Intangible assets	3	27 753	34 586
Right-of-use assets	4	292 914	–
Current assets		1 481 927	1 366 435
Trade and other receivables	5	807 490	642 981
Cash and cash equivalents	6	674 437	723 454
Total assets		**1 902 483**	**1 503 866**
RESERVES AND LIABILITIES			
Reserves		1 121 330	907 735
General reserve	7	926 412	831 318
Special audit services reserve	8	4 964	4 964
Accumulated surplus	9	189 954	71 453
Liabilities			
Non-current liabilities		294 072	66 939
Lease liabilities	10	251 214	–
Retirement benefit obligations	11	42 858	51 745
Straight-lining of lease liabilities	12	–	15 194
Current liabilities		487 081	529 192
Lease liabilities	10	64 305	–
Retirement benefit obligations	11	2 837	2 684
Straight-lining of lease liabilities	12	–	8 448
Trade and other payables	13	419 939	518 060
Total reserves and liabilities		**1 902 483**	**1 503 866**

STATEMENT OF SURPLUS OR DEFICIT AND OTHER COMPREHENSIVE INCOME

	Notes	2020 R'000	2019 R'000
Revenue			
Local services rendered	14	3 784 043	3 463 507
Direct audit cost		(2 425 630)	(2 189 822)
Recoverable staff cost	15	(1 557 219)	(1 424 165)
Contract work	16	(685 745)	(595 389)
Subsistence and travel	17	(182 666)	(170 268)
Gross surplus		**1 358 413**	**1 273 685**
Other income		1 168	1 315
Contribution to overheads		**1 359 581**	**1 275 000**
Non-recoverable staff cost	15	(773 437)	(846 451)
Depreciation expense – property, plant and equipment	2	(47 032)	(29 254)
Depreciation expense – right-of-use assets	4	(85 281)	–
Amortisation expense	3	(6 844)	(4 862)
Other operational expenditure	18	(306 834)	(385 173)
Retirement benefit obligations – current service costs	11	(547)	(700)
Operating surplus before finance charges		**139 606**	**8 560**
Interest income	19	79 173	58 694
Interest expense	19	(40 994)	(5 234)
Surplus for the year		**177 785**	**62 020**
Other comprehensive income			
Items that will not be reclassified to surplus or deficit			
Retirement benefit obligations – actuarial gains	11	12 169	9 433
Total comprehensive surplus for the year		**189 954**	**71 453**

STATEMENT OF CHANGES IN EQUITY

	General reserve R'000	Special audit services reserve R'000	Accumulated surplus R'000	Total R'000
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 as published	**831 318**	**4 964**	**71 453**	**907 735**
Decrease in straight-lining of lease liabilities due to application of IFRS 16			23 641	23 641
Restated balance at 31 March 2019	**831 318**	**4 964**	**95 094**	**931 376**
Transfer of accumulated surplus to reserves	95 094		(95 094)	–
Total comprehensive surplus			189 954	189 954
Surplus for the year			177 785	177 785
Other comprehensive income				
– Actuarial gains			12 169	12 169
Balance at 31 March 2020	**926 412**	**4 964**	**189 954**	**1 121 330**
Notes	7	8	9	

STATEMENT OF CASH FLOWS

	Notes	2020 R'000	2019 R'000
Cash flows from operating activities			
Cash receipts from auditees	20.1	3 603 532	3 363 644
Total direct audit cost payments	20.2	(2 382 039)	(2 169 798)
Operational expenditure payments	20.3	(1 204 488)	(1 164 281)
Interest received	19	60 401	55 091
Interest paid	19	(35 336)	–
Net cash inflow from operating activities		**42 070**	**84 656**
Cash flows from investing activities			
Additions to property, plant and equipment	2	(30 545)	(26 454)
Additions to intangible assets	3	(11)	(456)
Proceeds from sale of property, plant and equipment	2	2 146	2 086
Net cash outflow from investing activities		**(28 410)**	**(24 824)**
Cash flow from financing activities			
Payment of lease liabilities	10	(62 677)	–
Net cash outflow from financing activities		**(62 677)**	**–**
Net (decrease)/increase in cash and cash equivalents		**(49 017)**	**59 832**
Cash and cash equivalents at the beginning of the year		723 454	663 622
Cash and cash equivalents at the end of the year	6	**674 437**	**723 454**

1. Presentation of financial statements

The financial statements have been prepared on the going concern basis in accordance with the 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 otherwise stated. The financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at amortised cost or unless otherwise stated, 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 AGSA's operations not yet effective and not early adopted:

Standard/ interpretation	Effective date	Details	Impact
IAS 1 – *Presentation of financial statements*	1 Jan 2020	Definition of material: 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 the IFRS.	No impact on the AGSA financial statements
	1 Jan 2022	Classification of liabilities as current or non-current: Narrow-scope amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current.	No impact on the AGSA financial statements
IAS 8 – *Accounting policies, changes in accounting estimates and errors*	1 Jan 2020	Definition of material: 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 the IFRS.	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. Using available information and applying judgement is inherent in forming 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 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 debt owed and due to the AGSA.

In determining the collectability of amounts recorded as revenue, management has taken into account the payment history of the related auditees over the past 2 – 3 years when no payments have been received, or whether 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.

1.1 Significant judgements and accounting estimates (continued)

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 be allowed for impairment of receivables requires the use of estimates and judgements (refer to note 1.5).

The AGSA 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 2019-20

	Current	30 days	60 days	90 days	120 days	150 days	180 days	181+ days
National	0%	0%	0%	0%	0%	0%	0%	100%
Provincial	0%	0%	1%	4%	8%	11%	13%	100%
Local								
Local municipality	10%	17%	23%	26%	32%	38%	49%	100%
District	1%	2%	4%	7%	13%	19%	25%	100%
Metro	0%	0%	0%	0%	0%	0%	0%	100%
Statutory	1%	2%	5%	7%	9%	10%	12%	100%
Other debtors	4%	9%	20%	27%	32%	40%	48%	100%
Non-audit debtors	29%	44%	61%	67%	72%	73%	73%	100%

AGSA expected credit loss rates 2018-19

	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).

Renewal options of leases

For lease contracts that include an option to renew the lease for a further period, management considers all facts and circumstances to determine whether it is likely that an extension option will be exercised. Extension options are only included in the lease term if the lease is reasonably certain to be extended. The AGSA applies judgement in assessing whether it is reasonably likely that extension options will be exercised. Factors considered include past history of renewing leases, how far in the future an option occurs and the AGSA's business plan.

The assessment is reviewed if a significant event or a significant change in circumstances occurs that affects this assessment and that is within the control of the AGSA.

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:

Item	Useful life (current and comparative period)
Computer equipment	8 years
Notebooks	3 years
Motor vehicles	7 to 10 years
Furniture and fittings	6 to 19 years
Office equipment	5 years
Leasehold improvements	Over the period of the lease

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

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

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

1.3 Intangible assets

Computer software

Acquired computer software licences are carried at cost less any accumulated amortisation and any impairment losses. Estimates relating to useful 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:

Item	Useful life (current and comparative period)
Enterprise resource management system – PeopleSoft	14 years
Other software	8 years

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

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 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.

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

In the current year, the AGSA has applied IFRS 16, *Leases*, for the first time using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17. The details of accounting policies under IAS17 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in note 29.

At inception of a contract, the AGSA assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the AGSA assesses whether:

1.6 Leases (continued)

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified
- the AGSA has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use and
- the AGSA has the right to direct the use of the asset. The AGSA has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the AGSA has the right to direct the use of the asset if either:
    - the AGSA has the right to operate the asset, or
    - the AGSA designed the asset in a way that predetermined how and for what purpose it will be used.

The AGSA elected the practical expedient that permits an entity not to reassess whether a contract is, or contains, a lease at the date of initial application.

Some lease contracts include both lease and non-lease components. The AGSA has not elected the practical expedient to account for non-lease components as part of its lease liabilities and right-of-use assets. Therefore, non-lease components are accounted for as operating expenses and are recognised in surplus or deficit as they are incurred.

This policy is applied to contracts entered into, or changed, on or after 1 April 2019.

The AGSA recognises a right-of-use asset and a lease liability at the lease commencement date for most leases. However, the AGSA has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets (e.g. office equipment) and for short-term leases (leases that at commencement date have lease terms of 12 months or less). The AGSA recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the AGSA's incremental borrowing rate. The incremental borrowing rate is the rate that the AGSA would have to pay to borrow the funds to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Generally the AGSA uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the fixed payments specified in the lease contracts.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in rate or if the AGSA changes its assessment of whether it will exercise a renewal option.

Interest costs are charged to the statement of surplus or deficit and other comprehensive income over the lease period so as to produce a constant periodic interest on the remaining balance of the liability for each period.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in surplus or deficit if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets

The right-of-use assets are presented as a separate line in the statement of financial position. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date. The AGSA has elected to exclude initial direct costs from measuring the right-of-use asset at the date of initial application.

1.6 Leases (continued)

Right-of-use assets (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

Policy applicable before 1 April 2019

In the comparative period, a lease was classified as a finance lease if it transferred substantially all the risks and rewards incidental to ownership to the lessee. A lease was classified as an operating lease if it did not transfer substantially all the risks and rewards incidental to ownership to the lessee.

Operating leases were not recognised in the statement of financial position. Operating lease payments were 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 was recognised as an operating lease liability. This liability was 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 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. With respect to 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 their retirement age of 65 (or when reaching 50 in the case of early retirement) and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using the projected unit credit method. Actuarial gains and losses arising from experience adjustments are 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.

1.7 Employee benefits (continued)

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

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 generates revenue by rendering audit services to the public sector. The AGSA has three main revenue streams:

- Own hours – audit services performed by the AGSA
- Contracted work recoverable – audit services contracted out to third parties and performed on behalf of the AGSA
- Subsistence and travel – amounts recovered from auditees for the costs of the AGSA audit staff's subsistence and travelling while performing their duties.

Revenue is recognised for all the 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.

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.

As discussed in note 1.8, the AGSA generates revenue by rendering audit services to the public sector. These revenue streams are not considered to be related party transactions.

2. Property, plant and equipment

2020	Cost R'000	Accumulated depreciation R'000	Carrying amount R'000
Computer equipment	163 441	(96 180)	67 261
Motor vehicles	6 975	(4 509)	2 466
Office equipment	3 353	(2 945)	408
Furniture and fittings	64 225	(44 800)	19 425
Leasehold improvements	44 654	(34 325)	10 329
	282 648	**(182 759)**	**99 889**

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	62 325	45 028	(2 824)	(37 268)	67 261
Motor vehicles	2 615	40	–	(189)	2 466
Office equipment	939	224	(264)	(491)	408
Furniture and fittings	22 075	1 060	(133)	(3 577)	19 425
Leasehold improvements	14 891	947	(2)	(5 507)	10 329
	102 845	**47 299**	**(3 223)**	**(47 032)**	**99 889**

	2020 R'000
Proceeds on disposal of property, plant and equipment	**2 146**

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**

2. Property, plant and equipment (continued)

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 R16 754 000 (2019: R56 000) accrued at year end but not yet paid.

	2019 R'000
Proceeds on disposal of property, plant and equipment	**2 086**

3. Intangible assets

2020
Computer software – purchased

	Cost R'000	Accumulated amortisation R'000	Carrying amount R'000
Enterprise resource management system – PeopleSoft	17 288	(5 727)	11 561
Other software	54 059	(37 867)	16 192
	71 347	**(43 594)**	**27 753**

The carrying amounts are reconciled as follows:

Computer software – purchased	Opening carrying amount R'000	Additions R'000	Disposals R'000	Amortisation charge R'000	Closing carrying amount R'000
Enterprise resource management system – PeopleSoft	12 655	–	–	(1 094)	11 561
Other software	21 931	11	–	(5 750)	16 192
	34 586	**11**	**–**	**(6 844)**	**27 753**

3. Intangible assets (continued)

2019 Computer software – purchased	Cost R'000	Accumulated amortisation R'000	Carrying amount R'000
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:

Computer software – purchased	Opening carrying amount	Additions	Disposals R'000	Amortisation charge R'000	Closing carrying amount R'000
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**

4. Right-of-use assets

	2020 R'000	2019 R'000
Carrying amount at the beginning of the year	–	–
Additions	378 195	–
Depreciation for the year	(85 281)	–
Carrying amount at the end of the year	**292 914**	**–**

The AGSA leases all the premises occupied by its head office and regionally-based staff in the major centres of the country. In the comparative period, the leases were accounted for as operating leases under IAS 17.

The AGSA leases multifunctional devices that is deemed to be low-value assets. The lease payments are recognised in surplus or deficit on a straight-line basis over the period of the lease (refer to note 10).

5. Trade and other receivables

	2020 R'000	2019 R'000
Trade receivables (refer to note 25.2)	931 023	744 323
Allowance for impairment of receivables [2]	(160 180)	(137 959)
Net trade receivables	770 843	606 364
Staff debtors	12 362	11 456
Prepayments	24 072	24 955
Other debtors	213	206
Balance at the end of the year (refer to note 25.3)	**807 490**	**642 981**
[2] Allowance for impairment of receivables		
Balance at the beginning of the year	(137 959)	(87 144)
Adjustment of opening balance due to IFRS 9	–	(9 885)
Restated balance at the beginning of the year	(137 959)	(97 029)
Used during the year	12 583	1 511
Adjustment of allowance for impairment of receivables (refer to notes 18 and 20.3)	(34 804)	(42 441)
Balance at the end of the year (refer to note 25.2)	**(160 180)**	**(137 959)**

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.

6. Cash and cash equivalents

	2020 R'000	2019 R'000
Investment reserved for specific liabilities [3]	181 813	168 465
Call account at Public Investment Corporation	–	85 388
Notice deposit	181 813	83 077
Overnight call account	6 234	1 948
Notice deposit	250 734	319 879
Current bank account	235 656	233 162
Balance at the end of the year (refer to note 25.4)	**674 437**	**723 454**

6. Cash and cash equivalents (continued)

	2020 R'000	2019 R'000
[3] Investment reserved for specific liabilities		
The liabilities covered by this investment include the following:		
Post-retirement benefits: medical care contributions (refer to note 11) [4]	45 695	54 429
13th cheque accrual (refer to note 13)	9 501	8 792
Leave pay accrual (refer to note 13) [5]	154 916	115 853
Repayment to former TBVC states employees – deductions of salary over-payments	195	195
	210 307	**179 269**

[4] The future service liability for post-retirement benefit: medical care contributions totalling R2 626 355 (2019: R3 968 000) 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.

[5] Only R105 721 469 (2019: R83 777 773) of the leave pay accrual is ring-fenced through the investment reserved for specific liabilities. The balance of R49 194 389 (2019: R32 075 094) is covered through the current account as this can be encashed within the current year.

7. General reserve

	2020 R'000	2019 R'000
Balance at the beginning of the year	831 318	781 086
Transfer of accumulated surplus to general reserve (refer to note 9)	95 094	50 232
Balance at the end of the year	**926 412**	**831 318**

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.

8. Special audit services reserve

	2020 R'000	2019 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 whose costs the AGSA may not be able to recover from a specific auditee. The former audit commission instructed that the reserve should not be increased before further guidance is provided by Scoag, established in terms of section 55(2)(b)(ii) of the Constitution.

9. Accumulated surplus

	2020 R'000	2019 R'000
Balance at the beginning of the year	71 453	67 344
Adjustment of opening balance due to IFRS 9	–	(9 885)
Adjustment of opening balance due to IFRS 15	–	(7 227)
Adjustment of opening balance due to IFRS 16	23 641	–
Restated balance at the beginning of the year	95 094	50 232
Transfer of accumulated surplus to general reserve (refer to note 7)	(95 094)	(50 232)
Total comprehensive surplus for the year	189 954	71 453
Balance at the end of the year	**189 954**	**71 453**

10. Lease liabilities

Maturity analysis of future lease payments (undiscounted)	2020 R'000	2019 R'000
Due within one year	96 069	–
Between one and five years	189 868	–
More than five years	203 978	–
Total future lease payments	**489 915**	–
Total future finance costs	(174 396)	–
Lease liabilities	**315 519**	–
Non-current portion	251 214	–
Current portion	64 305	–
Expenses related to leases		
Low-value lease expense – recognition exemption	**3 741**	–

The AGSA elected the recognition exemption on low-value leases of office equipment.

	2020 R'000	2019 R'000
Total cash outflows relating to leases		
Presented under financing activities		
Cash payments for capital portion of lease liabilities	62 677	–
Presented under operating activities		
Cash payments for interest portion of lease liabilities	35 336	–
Cash payments for low-value leases	3 741	–
Total cash outflow relating to leases	**101 754**	**–**

The AGSA elected to use the practical expedient of applying a single discount rate to a portfolio of leases with reasonably similar characteristics. The incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application is 11,15%. In the comparative period, the leases were accounted as an operating lease under IAS 17.

11. Retirement benefit obligations

	2020 R'000	2019 R'000
Post-retirement benefits: medical care contribution	**45 695**	**54 429**
The liability is reconciled as follows:		
Balance at the beginning of the year	54 429	60 572
Current year provision	(5 964)	(3 499)
Current service costs	547	700
Actuarial gains	(12 169)	(9 433)
Remeasurements due to experience adjustments	(2 995)	(3 048)
Remeasurements due to financial assumptions	(9 174)	(6 385)
Interest expense adjustment on retirement benefit obligations (refer to note 19)	5 658	5 234
Less: Payments made	(2 770)	(2 644)
Balance at the end of the year (refer to note 6)	**45 695**	**54 429**
Non-current portion	42 858	51 745
Current portion	2 837	2 684
	45 695	**54 429**

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 2020 by Independent Actuaries & Consultants (Pty) Ltd using the projected unit credit method.

	2020	2019
The valuation is based on the following principal actuarial assumptions:		
The discount rate reflects the timing of benefit payments and is based on market bond yields	13,5%	10,5%
Subsidy increase rate (based on the inflation rate)	8,0%	6,7%
Expected retirement age	63/65	63/65
Number of continuation members	222	219
Average age of continuation members	70,7	70,0
Percentage continuation members married	75%	76%
Number of in-service members	121	125
Average age of in-service members	54,5	53,9
Average years of past service of in-service members	29,7	29,2

11. 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

2020

Discount rate

	Assumption 13,50%	-1%	+1%
Accrued liability 31 March 2020 (R'000)	45 695	50 848	41 373
% change		11,3%	-9,5%

Subsidy increase rate

	Assumption 8,00%	0%
Accrued liability 31 March 2020 (R'000)	45 695	22 710
% change		-50,3%

Expected retirement age

	Assumption 63/65 years	1 year younger	1 year older
Accrued liability 31 March 2020 (R'000)	45 695	46 684	44 685
% change		2,2%	-2,2%

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%

12. Straight-lining of lease liabilities

	2020 R'000	2019 R'000
Non-current portion	–	15 194
Current portion	–	8 448
Total straight-lining of lease liabilities	**–**	**23 642**

13. Trade and other payables

	2020 R'000	2019 R'000
Trade payables	102 506	58 981
Accruals	59 277	55 261
13th cheque accrual (refer to note 6)	9 501	8 792
Leave pay accrual (refer to note 6)	154 916	115 853
Performance bonus accrual	–	192 918
Staff creditors	7 726	7 694
VAT and PAYE	86 013	78 561
Balance at the end of the year (refer to note 25.3)	**419 939**	**518 060**

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
2020						
Trade payables	**102 506**	**36 796**	**37 421**	**12 651**	**1 926**	**13 712**

	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**

14. Revenue [6]

	2020 R'000	2019 R'000
Local services rendered		
Own hours	2 932 266	2 708 606
Contract work recoverable (refer to note 16)	669 781	585 339
Subsistence and travel recoverable (refer to note 17)	181 996	169 562
	3 784 043	**3 463 507**

[6] The amount of revenue invoiced but not recognised for the current period is R40 855 000 (2019: R22 765 000) and R20 018 000 income previously not recognised was recovered and included in the revenue in the current period.

15. Staff cost

	2020 R'000	2019 R'000
Management salaries (refer to note 24.1)	40 930	45 766
Other non-recoverable staff salaries	497 820	450 953
Other staff expenditure	42 511	227 582
Performance bonus	(2 090)	188 108
Group life scheme	34 290	31 151
Other employer contributions	10 311	8 323
Course fees and study assistance	108 734	85 087
Adjustment of leave pay accrual	83 442	37 063
Total non-recoverable staff cost	**773 437**	**846 451**
Recoverable staff cost (part of direct audit cost)	1 557 219	1 424 165
Total staff cost	**2 330 656**	**2 270 616**
Average number of staff	**3 612**	**3 508**

16. Contract work

	2020 R'000	2019 R'000
Contract work recoverable (refer to note 14)	669 781	585 339
Contract work non-recoverable	15 964	10 050
	685 745	**595 389**

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.

17. Subsistence and travel

	2020 R'000	2019 R'000
Subsistence and travelling recoverable (refer to note 14)	181 996	169 562
Subsistence and travelling non-recoverable	670	706
	182 666	**170 268**

This represents subsistence and travel cost of AGSA staff while performing their duties. No mark-up is applied to subsistence and travel.

18. Other operational expenditure

	2020 R'000	2019 R'000
Auditors' remuneration – statutory audit services	4 896	3 831
Adjustment of allowance for impairment of receivables (refer to notes 5 and 20.3)	34 804	42 441
Governance costs	1 323	1 184
ICT services	68 626	69 617
Internal audit fees	2 067	3 499
Legal costs	7 004	7 585
Loss on disposal of property, plant and equipment (refer to note 20.3)	836	1 185
Operating leases – land and buildings	36 025	118 098
Operating leases – equipment	4 865	4 890
Other operational expenses (excluding staff cost)	21 473	24 363
Outsourced services	19 512	11 501
Receivables written off as uncollectable	–	1 142
Recruitment costs	22 393	14 511
Stakeholder relations	26 684	26 333
Stationery and printing	6 952	6 874
Subsistence and travelling non-audit	37 373	37 804
Telephone and postage	12 001	10 315
	306 834	**385 173**

19. Interest

	2020 R'000	2019 R'000
Interest income		
Interest income – bank, investments and debtors		
Interest income on bank and investments	49 468	45 057
Interest on overdue debtors accounts – received	10 933	10 034
	60 401	55 091
Interest on overdue debtors accounts – accrued	18 772	3 603
	79 173	**58 694**
Interest expense		
Interest on lease liabilities	(35 336)	–
Interest expense adjustment on retirement benefit obligations (refer to note 11)	(5 658)	(5 234)
	(40 994)	**(5 234)**

20. Notes to the cash flow statement

	2020 R'000	2019 R'000
20.1 Cash receipts from auditees		
Revenue	3 784 043	3 463 507
Net increase in trade receivables	(180 511)	(99 863)
	3 603 532	**3 363 644**
20.2 Total direct audit cost payments		
Direct audit cost	(2 425 630)	(2 189 822)
Net increase in trade payables	43 591	20 024
	(2 382 039)	**(2 169 798)**
20.3 Operational expenditure payments		
Operational expenditure	(1 168 459)	(1 202 232)
Adjusted for:		
Operating leases	–	(12 653)
Interest income	(79 173)	(58 694)
Interest expense	40 994	5 234
Depreciation – property, plant and equipment	47 032	29 254
Depreciation – right-of-use assets	85 281	–
Amortisation	6 844	4 862
Increase in allowance for impairment of receivables (refer to notes 5 and 18)	34 804	42 441
Increase/(decrease) in 13th cheque accrual	709	(325)
Increase in leave pay accrual	39 063	4 519
(Decrease)/increase in performance bonus accrual	(192 918)	12 823
Decrease in liability for post-retirement medical aid benefits	(14 392)	(11 377)
(Decrease)/increase in accruals	(12 157)	2 658
Loss on the disposal of property, plant and equipment (refer to note 18)	836	1 185
	(1 211 536)	(1 182 305)
Other working capital changes	7 048	18 024
(Increase)/decrease in other receivables	(30)	2 853
Increase in other payables	7 078	15 171
	(1 204 488)	**(1 164 281)**

21. Notebook losses

	2020 R'000	2019 R'000
141 (2019: 175) notebook computers stolen and written off at the carrying amount	**943**	**1 229**

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

22. Commitments

	2020 R'000	2019 R'000
22.1 Operating lease commitments		
The future minimum commitments are as follows:		
Due within one year	**2 609**	**81 680**
Land and buildings	–	79 482
Office equipment	2 609	2 198
Between one and five years	–	**136 305**
Land and buildings	–	136 305
More than five years	**–**	**35 232**
Land and buildings	–	35 232
	2 609	**253 217**

In the current year, the leases are accounted as right-of-use assets and lease liabilities under IFRS 16. In the comparative period, the lease of office premises were accounted as an operating lease under IAS 17.

The office premises are leased for periods between two and thirteen years. The average lease payments are R6 623 485 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 one year. The average lease payments are R217 400 (2019: R366 250) per month. The lease agreement is not renewable at the end of the lease term and the AGSA does not have the option to acquire the office equipment.

22.2 Other commitments

Thuthuka

The AGSA has committed to fund 230 undergraduate students for a period of three 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 R19 355 658 (230 students x R84 155 per student).

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 are 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 at 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 R7 742 260 for approximately 68 students for the 2020-21 financial year.

22.3 Capital commitments

	2020 R'000	2019 R'000
Approved and contracted [8]	76 282	32 012
Approved but not yet contracted	53 005	100 398
Total approved	**129 287**	**132 410**
Source of funding		
Internal financing	129 287	132 410
	129 287	**132 410**

[8] Property, plant and equipment approved and contracted for in 2019-20 but for the 2020-21 financial year.

23. 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 presiding judge has subsequently converted the application into a trial, given the numerous disputes of facts and opinions in the matter. The AGSA's legal advisors believe that the AGSA has a strong defence against the claim and that the probability of loss will be unlikely. Accordingly, no provision has been made in the annual financial statements. The matter was in progress at the time of finalising the financial statements.

24. Related parties

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

24.1 Key management personnel compensation

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

2020				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 [9]	T Makwetu	1 Dec 2013		5 233	–	1 570	6 803
Deputy Auditor-General	T Maluleke	1 Apr 2014		4 259	–	–	4 259
National Leader	AH Muller (acting)	1 Feb 2019		3 363	–	–	3 363
Corporate Executive	OH Duda (acting)	1 Feb 2019		2 445	–	–	2 445
Corporate Executive	JH v Schalkwyk	1 Nov 2010		3 094	–	–	3 094
Chief Financial Officer	SS Ngoma	1 Nov 2012		3 095	–	–	3 095
Corporate Executive	MS Segooa	1 Aug 2014		3 094	–	–	3 094
Corporate Executive	MM Sedikela	1 Jan 2016		3 094	–	–	3 094
Chief People Officer	MM Mabaso	1 Aug 2016		2 848	–	–	2 848
Corporate Executive	SL Lubambo	1 Aug 2017		2 814	–	–	2 814
Corporate Executive	V Maharaj	1 Aug 2017		2 810	–	–	2 810
Corporate Executive	SL Ndaba	1 Jul 2018		3 211	–	–	3 211
Total management compensation (refer to note 15)				**39 360**	**–**	**1 570**	**40 930**

24.1 Key management personnel compensation (continued)

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 [9]	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 15)				**37 920**	**6 322**	**1 524**	**45 766**

[9] 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 2019 financial year, the auditor-general received an interest free loan of R860 000. This loan was granted with the understanding that the auditor-general had 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. As 2020 is the auditor-general's final year of his seven-year term, it is envisaged that the loan will be repaid in the 2021 financial year.

25. 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.

25.1 Market risk

25.1.1 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

	2020		
Current and investment accounts interest rates	**Current balance**	**+1%**	**-1%**
Net surplus (R'000)	189 954	197 392	182 514
% change		3,9%	-3,9%
Current bank and investment accounts balances (R'000)	674 437	681 288	667 581
% change		1,0%	-1,0%

	2019		
Current and investment accounts interest rates	**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%

25.2 Credit risk

Financial assets that potentially subject the AGSA to concentrations of credit risk consist principally of cash and short-term deposits placed with financial institutions that have the following national short-term credit ratings (in the previous year the short-term bank deposit credit ratings were used for some institutions):

Financial institution	2020 (2019)					
	Fitch		Moody's		S&P	
Standard Bank	F1+	(F1+)	P-1	(P-1)	A-1+	(B)
Investec	F1+	(F1+)	P-1	(P-1)	A-1+	(A-1)
Nedbank	F1+	(F1+)	P-1	(P-3)	A-1+	(B)
First National Bank	F1+	(F1+)	P-1	(P-3)	A-1+	(B)
ABSA	F1+		P-1		A-1+	

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:

R446 546 000 (2019: R339 849 000) of receivables, comprising 48,0% (2019: 45,7%) of total receivables, are in arrears. Local government debtors' arrears is R347 607 000 (2019: R268 061 000), which is 77,8% (2019: 78,9%) of total arrears and 37,3% (2019: 36,0%) of total receivables.

2020 Debtor type	Total R'000	Current R'000	30 – 120 R'000	120 – 180 R'000	180+ R'000
National	74 558	74 558	–	–	–
Provincial	163 473	156 043	3 354	1 817	2 259
Local	425 174	77 567	181 679	63 654	102 274
Statutory	71 158	48 387	3 691	3 635	15 445
Other [10]	196 660	127 922	9 082	18 748	40 908
Total trade receivables (refer to note 5)	**931 023**	**484 477**	**197 806**	**87 854**	**160 886**

25.2 Credit risk (continued)

2019 Debtor type	Total R'000	Current R'000	30 – 120 R'000	120 – 180 R'000	180+ R'000
National	69 747	68 750	94	–	903
Provincial	139 669	132 529	6 051	321	768
Local	320 780	52 719	183 645	57 314	27 102
Statutory	42 035	23 664	2 215	756	15 400
Other [10]	172 092	126 812	10 750	7 620	26 910
Total trade receivables (refer to note 5)	**744 323**	**404 474**	**202 755**	**66 011**	**71 083**

Financial assets subject to credit risk

2020 Debtor type	Trade receivables R'000	Expected credit loss R'000	Net trade receivables R'000
National	74 558	(49)	74 509
Provincial	163 473	(2 578)	160 895
Local	425 174	(91 398)	333 776
Statutory	71 158	(15 159)	55 999
Other [10]	196 660	(50 996)	145 664
	931 023	**(160 180)**	**770 843**

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 [10]	172 092	(31 905)	140 187
	744 323	**(137 959)**	**606 364**

[10] Other receivables include unlisted public entities, municipal entities and utility agency corporations.

25.3 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.

	2020 R'000	2019 R'000
Maturity profile of financial instruments	**1 year or less**	**1 year or less**
Assets		
Trade and other receivables (refer to note 25.4)	783 418	618 026
Total trade and other receivables (refer to note 5)	807 490	642 981
Prepayments	(24 072)	(24 955)
Cash	674 437	723 454
Current account	235 656	233 162
Overnight call account	6 234	1 948
Notice deposits	432 547	402 956
Call account – PIC	–	85 388
Total financial assets	**1 457 855**	**1 341 480**
Liabilities		
Trade and other payables (refer to note 25.4)	179 010	323 646
Total trade and other payables (refer to note 13)	419 939	518 060
Leave pay accrual	(154 916)	(115 853)
VAT and PAYE	(86 013)	(78 561)
Total financial liabilities	**179 010**	**323 646**
Net financial assets	**1 278 845**	**1 017 834**

All financial assets and liabilities mature in less than one year.

25.4 Classification of financial instruments

Line items presented in the statement of financial position summarised per category of financial instrument

2020	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 25.3)	783 418	24 072	807 490
Cash and cash equivalents (refer to note 6)	674 437	–	674 437
	1 457 855	24 072	1 481 927

	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 25.3)	179 010	240 929	419 939
	179 010	**240 929**	**419 939**

2019	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 25.3)	618 026	24 955	642 981
Cash and cash equivalents (refer to note 6)	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 25.3)	323 646	194 414	518 060
	323 646	**194 414**	**518 060**

26. 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 58 of 1962.

27. Professional indemnity insurance

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

28. Events after the reporting period

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

29. 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 16, *Leases* with a date of initial application of 1 April 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 April 2019. Therefore, the comparative information has not been restated and continues to be reported under IAS 17. On transition to IFRS 16, an additional R378 million of right-of-use assets and lease liabilities was recognised (refer to note 4).

The AGSA previously classified leases as either operating leases or finance leases depending on the assessment whether significant risk and rewards incidental to ownership has been transferred to the AGSA. Under IFRS 16, the lease portfolio comprising buildings has been capitalised on the statement of financial position, with underlying leases recognised as right-of-use assets with a corresponding lease liability in respect of future rental obligations.

The AGSA elected to apply the practical expedient to low-value assets.

The AGSA recognised lease liabilities at the date of initial application for leases previously classified as an operating lease under IAS 17. The AGSA measured the lease liability at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The AGSA recognised right-of-use assets at the date of initial application for leases previously classified as an operating lease under IAS 17. The AGSA elected to measure the right-of-use assets at the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date.

The AGSA used the following practical expedients:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics and
- using hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

The quantitative impact of the changes are set out below.

Impact on financial statements

The following tables summarise the impact of adopting IFRS 16 on the AGSA's financial statements for the year ending 31 March 2019.

29. Change in accounting policies (continued)

Statement of financial position	As reported 31 March 2019 R'000	Adjustments R'000	Restated R'000
ASSETS			
Non-current assets	137 431	350 255	487 686
Property, plant and equipment	102 845	–	102 845
Intangible assets	34 586	–	34 586
Right-of-use assets	–	350 255	350 255
Current assets	1 366 435	–	1 366 435
Trade and other receivables	642 981	–	642 981
Cash and cash equivalents	723 454	–	723 454
Total assets	**1 503 866**	**350 255**	**1 854 121**
RESERVES AND LIABILITIES			
Reserves	907 735	(817)	906 918
General reserve	831 318	36 295	867 613
Special audit services reserve	4 964	–	4 964
Accumulated surplus	71 453	(37 112)	34 341
Liabilities			
Non-current liabilities	66 939	44 001	110 940
Lease liabilities	–	59 195	59 195
Retirement benefit obligations	51 745	–	51 745
Straight-lining of lease liabilities	15 194	(15 194)	–
Current liabilities	529 192	307 071	836 263
Lease liabilities	–	315 519	315 519
Retirement benefit obligations	2 684	–	2 684
Straight-lining of lease liabilities	8 448	(8 448)	–
Trade and other payables	518 060	–	518 060
Total reserves and liabilities	**1 503 866**	**350 255**	**1 854 121**

29. **Change in accounting policies** (continued)

Statement of surplus or deficit and other comprehensive income	As reported 31 March 2019 R'000	Adjustments R'000	Restated R'000
Revenue			
Local services rendered	3 463 507	–	3 463 507
Direct audit cost	(2 189 822)	–	(2 189 822)
Recoverable staff cost	(1 424 165)	–	(1 424 165)
Contract work	(595 389)	–	(595 389)
Subsistence and travel	(170 268)	–	(170 268)
Gross surplus	**1 273 685**	**–**	**1 273 685**
Other income	1 315	–	1 315
Contribution to overheads	**1 275 000**	**–**	**1 275 000**
Non-recoverable staff cost	(846 451)	–	(846 451)
Depreciation expense	(29 254)	(78 165)	(107 419)
Amortisation expense	(4 862)	–	(4 862)
Other operational expenditure	(385 173)	80 819	(304 354)
Retirement benefit obligations – current service costs	(700)	–	(700)
Operating surplus before finance charges	**8 560**	**2 654**	**11 214**
Interest income	58 694	–	58 694
Interest expense	(5 234)	(39 766)	(45 000)
Surplus for the year	**62 020**	**(37 112)**	**24 908**
Other comprehensive income			
Items that will not be reclassified to surplus or deficit			
Retirement benefit obligations – actuarial gains	9 433	–	9 433
Total comprehensive surplus for the year	**71 453**	**(37 112)**	**34 341**

29. Change in accounting policies (continued)

Statement of cash flows	As reported 31 March 2019 R'000	Adjustments R'000	Restated R'000
Cash flow from operating activities			
Cash receipts from auditees	3 363 644	–	3 363 644
Total direct audit cost payments	(2 169 798)	–	(2 169 798)
Operational expenditure payments	(1 164 281)	93 472	(1 070 809)
Interest received	55 091	–	55 091
Interest paid	–	(39 767)	(39 767)
Net cash inflow from operating activities	**84 656**	**53 705**	**138 361**
Cash flow from investing activities			
Additions to property, plant and equipment	(26 454)	–	(26 454)
Additions to intangible assets	(456)	–	(456)
Proceeds from sale of property, plant and equipment	2 086	–	2 086
Net cash outflow from investing activities	**(24 824)**	**–**	**(24 824)**
Cash flow from financing activities			
Payment of lease liabilities	–	(53 705)	(53 705)
Net cash outflow from financing activities	**–**	**(53 705)**	**(53 705)**
Net increase in cash and cash equivalents	**59 832**	**–**	**59 832**
Cash and cash equivalents at the beginning of the year	663 622	–	663 622
Cash and cash equivalents at the end of the year	**723 454**	**–**	**723 454**

The following table reconciles the AGSA's operating lease obligation at 31 March 2019, as previously disclosed in the financial statements, to the lease obligations recognised on initial application of IFRS 16 at 1 April 2019:

	R'000
Minimum lease payments under operating leases at 31 March 2019	253 217
Adjustment – understatement of operating lease requirements	51
Recognition exemption for low-value assets	(2 198)
Effect of discounting at the incremental borrowing rate as of 1 April 2019	(54 886)
Extension periods after 31 March 2019 included in lease contracts, discounted at the incremental borrowing rate as of 1 April 2019	182 011
Liabilities recognised based on the initial application of IFRS 16 at 1 April 2019	**378 195**

30 Impact of covid-19

The national lockdown due to the covid-19 pandemic on 26 March 2020 resulted in all our employees being asked to work from home. To respond to the covid-19 challenges, the deputy auditor-general established a covid-19 nerve centre (CNC). One of the the CNC's objectives is to consider business continuity plans that will ensure the AGSA's sustainability during and after the covid-19 pandemic.

The CNC has worked hard to preserve the organisation's productivity level and sustainability, including a positive cash position. It also established and implemented measures to ensure the safety and well-being of our staff, contractors and visitors to our premises. These plans include monitoring the status of our employees and infection rates to ensure that we are able to assess the availability of our staff and manage potential risks.

We have no indicators of a prolonged negative financial impact as debtors have not requested extended payment terms or discounts as a result of covid-19. However, we notice that the local government debt and other debtors over 180 days have slightly deteriorated from the previous year. This has been taken into account when calculating the revised credit risk ratings for the impairment provision (refer to note 1.1).

SECTION SEVEN

ABBREVIATIONS AND ACRONYMS

Acronym	Defined
Abasa	Association for the Advancement of Black Accountants of South Africa
Acca	Association of Chartered Certified Accountants
Afrosai-e	African Organisation of English-speaking SAIs
APC	Assessment of Profession Competence
ASB	Accounting Standards Board
AUC	African Union Commission
Awca	African Women Chartered Accountants
B-BBEE	broad-based black economic empowerment
BRRR	budget review and recommendations reports
CA(SA)	Chartered accountant of South Africa
CAATs	computer-assisted audit techniques
CBC	capacity building committee
CFAS	committee for auditing standards
CNC	covid-19 nerve centre
CoD	certificates of debt
Cogta	Cooperative Governance and Traditional Affairs
CSOs	civil society organisations
CTA	Certificate in the theory of accounting
EME	exempted micro enterprises
ERP	enterprise resource planning
ESD	enterprise and supplier development
exco	executive committee
GRI	Global Reporting Initiative
IBU	Investigation business unit
IDI	Intosai Development Initiative
IESBA	International Ethics Standards Board for Accountants
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
Intosai	International Organisation of Supreme Audit Institutions
IRBA	Independent Regulatory Board for Auditors
ISA	Information Systems Audit business unit
<IR>	International Integrated Reporting framework
ISAE 3000	International Standard on Assurance Engagements 3000

Acronym	Defined
ISQC 1	International Standard on Quality Control
ISSAI	International Standards of Supreme Audit Institutions
ITC	Initial Test of Competence
MIC	MI committee
MIs	material irregularities
MPACs	municipal public accounts committees
MTSF	Medium-Term Strategic Framework
NCoP	National Council of Provinces
NDP	National Development Plan 2030
NSFAS	National Student Financial Aid Scheme
OHS	occupational health and safety
PAA	Public Audit Act 25 of 2004
Prasa	Passenger Rail Agency of South Africa
PSACF	Public Sector Audit Committee Forum
PSSC	public sector standing committee
QCAC	quality control assessment committee
QSE	qualifying small enterprises
remco	remuneration committee
RRT	rapid response team
SAI	Supreme audit institution
Saica	South African Institute of Chartered Accountants
SAN	Social Audit Network
SCM	supply chain management
Scoa	Standing Committee on Appropriations
Scoag	Standing Committee on the Auditor-General
Scopa	Standing Committee on Public Accounts
SED	socio-economic development
Setas	Sector Education and Training Authorities
SOE	state-owned enterprise
SoRR	status-of-records review
TFIAP	Task Force on Intosai Auditor Professionalisation
TVET	technical and vocational education and training

AGSA STRATEGIC **OBJECTIVES**

The *2019-22 strategic plan and budget* outlines the performance and financial plan based on our long-term strategy and creates the foundation for the information reported in this integrated annual report.

2019-20 GRI CONTENT INDEX

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

GRI	Description	Page #
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	GRI 102 2016: General standard disclosures – organisational profile	
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GRI	Description	Page #
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GRI	Description	Page #
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INTERNATIONAL INTEGRATED **REPORTING INDEX**

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Organisational overview and external environment	• The auditor-general's message • The deputy auditor general's Overview of performance • Who we are • Value creation process • Strategic risks • Conditions under which we operate
Governance	• Corporate Governance Framework • 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 • In the conclusion of each of the strategic goals: – Value-adding auditing – Visibility for impact – Viability – Vision and values driven
Basis of preparation and presentation	• Reporting profile

SUSTAINABLE **DEVELOPMENT GOALS**

The sustainable development goals (SDGs) aim to ensure economic prosperity and an improvement in human well-being. Achieving these goals takes sound governance structures.

Our awareness of the SDG priorities in our own reporting is highlighted to demonstrate areas that are influenced by these goals.

Zero hunger
Refer to page 147

Good health and well-being
Refer to pages 78, 81, 123 & 134

Quality education
Refer to pages 126, 130 & 132

Gender equality
Refer to pages 120, 140 & 145

Decent work and economic growth
Refer to pages 115, 120, 124, 126, 130, 133, 138 & 141

Industry, innovation and infrastructure
Refer to pages 135 & 141

Reduced inequalities
Refer to pages 119, 120, 125, 126, 133, 138, 140, 141 & 145

Sustainable cities and communities
Refer to page 135

Responsible consumption and production
Refer to page 154

Peace, justice and strong institutions
Refer to pages 66, 76, 100, 104, 110, 111, 115, 116, 124, 132, 133, 134, 135, 138, 148, 151 & 154

Partnerships for the goals
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