

**PROVINSIALE TESOURIE • PROVINCIAL TREASURY •
UNONDYEBE WEPHONDO**

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TREASURY CIRCULAR MUN 15-2009

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 THE HEAD: BRANCH GOVERNANCE AND ASSET MANAGEMENT (MR TC ARENDSE) (ACTING)
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 THE HEAD: PUBLIC FINANCE (MR H MALILA) (PRO TEM)
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THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: FINANCIAL MANAGEMENT

THE HEAD OF DEPARTMENT: LOCAL GOVERNMENT AND HOUSING

INCREASED AUDIT TARIFFS OF THE AUDITOR- GENERAL SOUTH AFRICA (AGSA) WITH EFFECT FROM 1 APRIL 2009

1. Purpose

- 1.1. To inform municipalities of the increased audit tariffs of the Auditor-General South Africa with effect from 1 April 2009.

2. Background

- 2.1. Attached is the jointly signed communication from the Accountant-General, Mr Freeman Nomvalo (National Treasury) and the Deputy Auditor-General, Mr K Makwethu (Auditor-General South Africa).
- 2.2 The jointly signed communication gives a background, way-forward and the impact as to the increase in the audit tariffs of the AGSA and the agreement between the National Treasury and Auditor-General South Africa (AGSA).
- 2.3 Accompanying the jointly signed communication is the schedule (Appendix A) from Auditor-General South Africa (AGSA), outlining the rates applicable as from 1 April 2009.

3. Enquiries

Any further enquiries in this regard may be directed to:

- **Ms Micheline Fortuin:** Mifortui@pgwc.gov.za - West Coast, Overberg & Central Karoo Districts.
- **Mr Thobelani Madondile:** Tmadondi@pgwc.gov.za - Cape Winelands & Eden Districts and Metro.

N. OLIPHANT


SENIOR MANAGER: LOCAL GOVERNMENT ACCOUNTING

DATE: 17 July 2009



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Ref: Freeman Nomvalo

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All Accounting Officers, Accounting Authorities, Municipal Managers, Chief Executive Officers and Chief Financial Officers

INCREASED AUDIT TARIFFS OF THE AUDITOR-GENERAL SOUTH AFRICA WITH EFFECT FROM 1 APRIL 2009

Introduction

This joint letter serves to set out the background and explanation for the increase in the Auditor-General South Africa (AGSA) audit fees in terms of section 23(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) which become effective on 1 April 2009 after consultation with the oversight mechanism and National Treasury.

The Auditor-General (AG) was requested in October 2007 by the Standing Committee on the Auditor-General (SCoAG) to submit a proposal, which had the National Treasury support, for the committee's consideration detailing its preferred funding model which would address its growing funding challenges and provide a sustainable solution for the future.

The major reasons driving the need for a revised funding model were twofold: firstly, fundamental deficiencies within the existing funding model, such as tariff increases which have effectively been capped since April 2004 at 4% for an increasing percentage of AGSA staff each year which has had the effect that costs have grown at a higher rate than contributions per billable staff member, and the ceiling of a 3% operating surplus and widely reported market-related vacancies resulting in increased contracting work; and secondly, compounding factors which had the effect of exacerbating the model deficiencies such as the introduction of new audit and accounting standards, increasing audit scope and the introduction of the auditing of performance information.

The way forward

As the AGSA historically operates on a near breakeven financial model, a continuation of the existing situation would clearly result in an inability to continue with normal operations. The acceptance of this reality, coupled with three consecutive years of reported deficits, the solution accepted by SCoAG and incorporated into the AGSA revenue budget for 2009 -10 involved the removal of tariff caps, adjustment of standard recoverable hours per band, determination of tariffs based on the adoption of a mark-up factor applied to direct salary costs per band and salary interval and increasing the allowable budgeted net surplus to 3.9%.

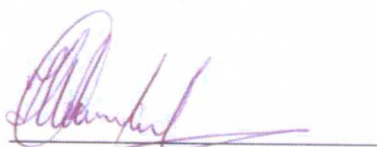
Impact

The impact of this change is that the tariffs have been increased across all bands by an effective 35.1%. With salary CPI pegged at 15% at the time, this increase represents a 20.1% once-off increase to correct the tariff determination deficiencies which have been in operation from 2004-05 financial year onwards.

In attempting to mitigate the impact of the substantial tariff increase the AG has instructed audit management to endeavour to reduce the audit hours spent at each auditee where possible by maximising audit efficiency without increasing the audit risk or sacrificing quality. It is hoped that the savings in hours will to some extent off set the audit fee cost to auditees.

The schedule of AGSA rates applicable from 1 April 2009 is attached as Appendix A.

Yours faithfully



K Makwetu

Deputy Auditor-General

Date: 25/03/2009



F Nomvalo

Accountant-General

Date: 24 March 2009

Appendix A.

AUDITOR-GENERAL		
Salary Interval		Tariff
Lower	Upper	Budget 09/10
Business Executives		
		1,957
	Weighted average	1,957
Operational Leaders		
960,000	980,000	1,500
940,000	960,000	1,469
920,000	940,000	1,438
900,000	920,000	1,407
880,000	900,000	1,376
860,000	880,000	1,345
840,000	860,000	1,314
820,000	840,000	1,283
800,000	820,000	1,253
	Weighted average	1,415
Senior Managers		
940,000	960,000	1,474
920,000	940,000	1,443
900,000	920,000	1,412
880,000	900,000	1,381
860,000	880,000	1,350
840,000	860,000	1,319
820,000	840,000	1,288
800,000	820,000	1,257
780,000	800,000	1,226
760,000	780,000	1,195
740,000	760,000	1,164
720,000	740,000	1,132
700,000	720,000	1,101
680,000	700,000	1,070
660,000	680,000	1,039
640,000	660,000	1,008
620,000	640,000	977
600,000	620,000	946
580,000	600,000	915
560,000	580,000	884
540,000	560,000	853
520,000	540,000	822
0	520,000	791
	Weighted average	1,213

Audit Managers			
	790,000	810,000	1,318
	770,000	790,000	1,285
	750,000	770,000	1,252
	730,000	750,000	1,219
	710,000	730,000	1,186
	690,000	710,000	1,153
	670,000	690,000	1,120
	650,000	670,000	1,087
	630,000	650,000	1,054
	610,000	630,000	1,021
	590,000	610,000	988
	570,000	590,000	955
	550,000	570,000	922
	530,000	550,000	889
	510,000	530,000	856
	490,000	510,000	824
	470,000	490,000	791
	450,000	470,000	758
	430,000	450,000	725
	410,000	430,000	692
	390,000	410,000	659
	370,000	390,000	626
	350,000	370,000	593
	330,000	350,000	560
	Weighted average		921
Auditors			
	450,000	470,000	746
	430,000	450,000	713
	410,000	430,000	681
	390,000	410,000	649
	370,000	390,000	616
	350,000	370,000	584
	330,000	350,000	551
	310,000	330,000	519
	290,000	310,000	486
	270,000	290,000	454
	250,000	270,000	422
	230,000	250,000	389
	210,000	230,000	357
	190,000	210,000	324
	170,000	190,000	292
	150,000	170,000	259
	130,000	150,000	227
	110,000	130,000	195
	100,000	110,000	170
	90,000	100,000	154
	80,000	90,000	138

	70,000	80,000	122
	0	70,000	105
	Weighted average		437
Trainee Accountants			
	360,000	370,000	685
	350,000	360,000	666
	340,000	350,000	648
	330,000	340,000	629
	320,000	330,000	610
	310,000	320,000	591
	300,000	310,000	573
	290,000	300,000	554
	280,000	290,000	535
	270,000	280,000	516
	260,000	270,000	497
	250,000	260,000	479
	240,000	250,000	460
	230,000	240,000	441
	220,000	230,000	422
	210,000	220,000	404
	200,000	210,000	385
	190,000	200,000	366
	180,000	190,000	347
	170,000	180,000	329
	160,000	170,000	310
	150,000	160,000	291
	140,000	150,000	272
	130,000	140,000	253
	120,000	130,000	235
	110,000	120,000	216
	100,000	110,000	197
	90,000	100,000	178
	80,000	90,000	160
	70,000	80,000	141
	60,000	70,000	122
	50,000	60,000	103
	0	50,000	84
	Weighted average		202