



AUDITOR - GENERAL
SOUTH AFRICA



PFMA 2011-12

Glossary of terms

CONSOLIDATED GENERAL REPORT
on NATIONAL and PROVINCIAL audit outcomes



Our reputation promise/mission

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





GLOSSARY OF TERMS | ACRONYMS | ABBREVIATIONS

BACKGROUND TO THE THREE ASPECTS AUDITED BY THE AGSA

THE AUDIT OF FINANCIAL STATEMENTS

Departments, legislatures and public entities (hereafter referred to as auditees) are required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) to compile and submit for audit annual financial statements that fairly present their state of affairs, performance against their budgets, their management of revenue, expenditure, assets and liabilities, their business activities, their financial results, and their financial position as at the end of March, annually.

Financial statements submitted for audit are therefore required to be free from material misstatements (i.e. material errors or omissions).

The objective of an audit of financial statements is to express an opinion on whether the financial statements fairly present the financial position of the auditee at financial year-end and the results of their operations for that financial year.

CLEAN AUDIT:

The financial statements of the auditees are free of material errors or omissions (financially unqualified audit opinion) and there are no material findings on reporting by them on their performance objectives or compliance with laws and regulations.

FINANCIALLY UNQUALIFIED WITH FINDINGS:

The financial statements contain no material misstatements. Unless a clean audit outcome, findings have been raised on predetermined objectives and/or compliance with laws and regulations.

QUALIFIED AUDIT OPINION:

The financial statements contain material misstatements in specific amounts or there is insufficient evidence for the auditor to conclude that specific (identified) amounts included in the financial statements are not materially overstated or understated.

ADVERSE AUDIT OPINION:

The financial statements contain misstatements that are not confined to specific amounts or the misstatements represent a substantial portion of the financial statements.

DISCLAIMER OF AUDIT OPINION:

The auditee provided insufficient evidence (documentation) on which to base an audit opinion. The lack of sufficient evidence is not confined to specific amounts or represents a substantial portion of the information contained in the financial statements.

MISSTATEMENTS

refer to incorrect information in or information omitted from the financial statements. Examples include the incorrect or incomplete classification of transactions or incorrect values placed on assets, liabilities or financial obligations and commitments.

THE AGSA'S 'OTHER REPORTING RESPONSIBILITIES'

are auditing the reporting of the auditees on their predetermined (service delivery) objectives and their compliance with laws and regulations.

THE AUDIT OF AUDITEES' REPORTING ON PREDETERMINED OBJECTIVES

Auditees are required by legislation to report against their predetermined objectives and to submit such annual performance (service delivery) reports for auditing. The objective of the AGSA audit of predetermined objectives is to determine whether the reported performance against auditees' predetermined objectives is useful and reliable (valid, accurate and complete), in all material respects, based on predetermined criteria.

The AGSA has, since the 2005-06 financial year, been phasing in the auditing of predetermined objectives and explaining to leaders within all spheres of government the importance of lending credibility to published service delivery information through the auditing thereof. Since the 2009-10 financial year, a separate audit conclusion, based on the results of the audit of predetermined objectives, was included in management reports. However, these conclusions have not yet been elevated to the level of the audit report.

THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS

Laws and regulations set out the activities public sector entities are charged with in serving the citizens and stipulate any limits or restrictions on such activities, the overall objectives to be achieved and how due process rights of individual citizens are to be protected. Auditees are subject to legislation such as the PFMA whose objectives are proper financial management and Performance management, transparency, accountability, stewardship and good governance.

The Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) requires auditors of public sector entities to audit compliance with laws and regulations applicable to financial matters, financial management and other related matters on an annual basis.

The audit of compliance with laws and regulations, as required by the PAA, is being phased in by the AGSA with a view to ultimately expressing a separate audit

opinion on compliance. Until such an opinion is expressed, material instances of non-compliance are being reported in the auditor's report.

In order to enhance accountability, auditees are required to identify and fully disclose any unauthorised, irregular as well as fruitless and wasteful expenditure incurred. Such expenditure in most part is incurred as a result of non-compliance with laws and regulations.

Specific focus was placed on auditing procurement and contract management.

GLOSSARY OF TERMS

Accounts payable/ accruals/liabilities	Money owed by the entity to those who have supplied goods and services.
Accounts receivable (debtor)	Money owed to the entity by those who have received goods or services from the entity.
Accruals	List of expenses that have been incurred and expensed but not, paid or services rendered but not yet billed.
Adverse audit opinion	The financial statements contain misstatements that are not confined to specific amounts or the misstatements represent a substantial portion of the financial statements.
Asset	Any item belonging to the entity, which may constitute property, plant, cash or debtors.
Asset impairment	The reduction in value of an asset below its normal realisable value.
Balance sheet	Summary of an entity's financial status, including assets, liabilities and equity.
Carrying value	Also referred to as book value - the cost of a plant asset less the accumulated depreciation since the asset was acquired and less any impairment.
Cash flow	The flow of monies from operations: incomings funds are revenue and outgoing funds are expenses.
Clean audit outcome	The financial statements of the auditee are free of material misstatements (financially unqualified audit opinion) and there are no material findings on the report on performance against predetermined objectives or compliance with key laws and regulations.
Commitments (financial)	This represents the cost of goods and services to be received in the next year in respect of which the entity has already entered into an agreement to purchase.
Comparative figures	The figures recorded in the previous year which correspond to the figures for the same item in the current year.

Consolidated financial statements	Financial statements that reflect the combined financial position and results of a department and those of public entities under its control.
Contingent liability	A potential liability, the amount of which will depend on a future event.
Current assets	Current assets comprise cash and other assets, such as inventory or debtors, which will be traded or consumed or converted to cash in a period not exceeding 12 months. All other assets are classified as non-current and typically include property, plant and equipment and long-term investments.
Disclaimer of audit opinion	There was insufficient appropriate evidence (documentation) on which the auditor could base an opinion concerning the items reported in the financial statements. The lack of sufficient evidence is not confined to specific amounts or represents a substantial portion of the information contained in the financial statements.
Financial and performance management	Management of resources in order to achieve the financial and services delivery objectives of the auditee. This is one of the three key overall drivers of internal control which should be addressed to improve audit outcomes.
Financially unqualified audit opinion	The financial statements contain no material misstatements.
Fruitless and wasteful expenditure	Expenditure that was made in vain and could have been avoided had reasonable care been exercised. This includes penalties and interest on late payments, as well as payments for services not utilised or goods not received.
General ledger	A record of all financial transactions undertaken by an entity.
Governance	In the context of this general report it refers to the governance structures (Audit committees) and processes (Internal audit and risk management) as one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.

Information technology (IT)	Computer systems used for recording and reporting financial and non-financial transactions.
IT service continuity	Processes of managing the availability of hardware, system software, application software and data to enable auditees to recover/establish information system services in the event of a disaster.
IT security management	Controls preventing unauthorised access to the networks, operating systems and application systems that generate and prepare financial information.
IT user access management	Procedures through which the auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system.
Internal control (key controls)	Internal control is the process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with the applicable laws and regulations. Internal controls consist of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adherence to policies, safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial and service delivery information.
Inventory	Goods held for resale or for internal use.
Irregular expenditure	Expenditure incurred without complying with applicable laws and regulations.
Leadership	Leadership refers to the administrative leaders. This is also one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.

Leading department	Leading departments are those auditees that monitor and set an example for other auditees in national and provincial government. Leading departments comprise Parliament, the nine provincial legislatures, the nine Offices of the Premier, National Treasury and the nine provincial treasuries.
Material finding	An audit finding on reporting on predetermined objectives or non-compliance with laws and regulations which is significant enough in terms of value and/or nature to influence the understanding of the reported information.
Material misstatement	Misstatements which are significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of the rand value and/or the nature and cause of the misstatement.
Misstatement	Incorrect information in or information omitted from the financial statements or annual performance report.
Modified opinion	Qualified, adverse or disclaimer of opinion.
Payroll	A list of employees and their wages.
Pervasive findings	Findings that are not confined to specific items in the reported information or that represent a substantial proportion of the reported information.
Property, plant and equipment	Includes land, buildings, leasehold improvements, equipment, furniture, fixtures, delivery trucks, vehicles, etc. that are owned by the entity.
Qualified audit opinion	The financial statements contain material misstatements in specific amounts or there is insufficient evidence for the auditor to conclude that specific amounts included in the financial statements are not materially misstated.
Reconciliation	The process of matching one set of data to another, i.e. the bank statement to the cheque register, the accounts payable journal to the general ledger, etc.
Reporting against predetermined objectives	Reporting by auditees on their actual service delivery achievements against their annual objectives performance plans.

<i>Residual value</i>	The estimated scrap or salvage value at the end of the asset's useful life.
<i>Root causes</i>	The underlying causes or drivers of audit findings, i.e. why the problem occurred. Addressing the root cause helps to ensure that the actions address the real issue or opportunity, thus preventing or reducing incidents of recurrence as opposed to simply providing a one-time or short-term fix.
<i>Supply chain management</i>	Procurement by auditees of goods and services through a tender or quotation process and monitoring the quality and timeliness of goods and services provided.
<i>Transversal findings</i>	Findings that are cross-cutting or occurring in a number of entities.
<i>Unauthorised expenditure</i>	Expenditure that was in excess of the amount budgeted or allocated by government to the entity or that was not incurred in accordance with the purpose for which it was intended.
<i>Useful lives</i>	This is the period of time that it will be economically feasible to use an asset. Useful life is used in calculating the depreciation of an asset.

ACRONYMS AND ABBREVIATIONS

AFS	annual financial statements
AG	auditor-general (the person)
AGSA	Auditor-General of South Africa (the institution)
BAS	Basic Accounting System
BCP	business continuity plan
CEO	chief executive officer
CFO	chief financial officer
CIDB	Construction Industry Development Board
CIO	chief information officer
CoGTA	Department of Cooperative Governance and Traditional Affairs
DLGTA	Department of Local Government and Traditional Affairs
DPSA	Department of Public Service and Administration
DRP	disaster recovery plan
FMS	Financial Management System
GAAP	Generally Accepted Accounting Practice
GITO	government information technology officer
GRAP	Generally Recognised Accounting Practice
HoD	head of department
HR	human resources
IDP	integrated development plan
IT	information technology
Logis	Logistical Information System
MEC	member of the executive council
MFMA	Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

MPAC	municipal public accounts committee
MSA	Municipal Systems Act, 2000 (Act No. 32 of 2000)
NT	National Treasury
PAA	Public Audit Act, 2004 (Act No. 25 of 2004)
PDOs	predetermined objectives
Persal	Personnel and Salary System
PFMA	Public Finance Management Act, 1999 (Act No. 1 of 1999)
PPAC	provincial public accounts committee
PPPPFA	Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)
SALGA	South African Local Government Association
SARS	South African Revenue Service
SCM	supply chain management
SCOPA	Standing Committee on Public Accounts
SDBIP	service delivery and budget implementation plan
SITA	State Information Technology Agency
SLA	service level agreement
VAT	value-added tax