BACKGROUND TO THE THREE ASPECTS WE AUDIT

- FINANCIAL STATEMENTS
- REPORTING ON PREDETERMINED OBJECTIVES
- COMPLIANCE WITH LEGISLATION

THE AUDIT OF FINANCIAL STATEMENTS

The Municipal Finance Management Act requires municipalities and municipal entities to compile and submit annual financial statements for auditing by 31 August (or 30 September in the case of consolidated financial statements) of each year.

The financial statements submitted for auditing must be free from material misstatements. ***Misstatements*** refer to incorrect or omitted information in 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 objective of an audit of financial statements is to express an audit opinion on whether the financial statements fairly present the financial position of auditees at financial year-end and the results of their operations for that financial year.

We can express one of the following audit opinions:

CLEAN AUDIT OUTCOME:

The financial statements are free from material misstatements (in other words, a financially unqualified audit opinion) and there are no material findings on reporting on performance objectives or non-compliance with legislation.

FINANCIALLY UNQUALIFIED AUDIT OPINION:

The financial statements contain no material misstatements. Unless we express a clean audit outcome, findings have been raised on either reporting on predetermined objectives or non-compliance with legislation, or both these aspects.

QUALIFIED AUDIT OPINION:

The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.

ADVERSE AUDIT OPINION:

The financial statements contain material 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 in the form of 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.

Apart from auditing the financial statements, our ***other reporting responsibilities*** include auditing auditees' reporting on their predetermined objectives and auditing auditees' compliance with legislation.

THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES

Legislation requires auditees to report against their predetermined objectives and to submit such annual performance reports for auditing. The objective of our audit of predetermined objectives is to determine whether the reported performance against auditees' predetermined objectives in the annual performance report is useful and reliable in all material respects, based on predetermined criteria. This means that the reported performance information must be valid, accurate and complete.

Since the 2005-06 financial year, we have 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, we have included a separate audit conclusion, based on the results of the audit on predetermined objectives, in management reports. However, these conclusions have not yet been elevated to the level of the audit report.

THE AUDIT OF COMPLIANCE WITH LEGISLATION

Legislation sets out the activities that auditees 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 Municipal Finance Management Act and the Municipal Systems Act, of which the objectives are proper financial management and performance management, transparency, accountability, stewardship and good governance.

The Public Audit Act requires us to audit compliance with legislation applicable to financial matters, financial management and other related matters each year.

Material instances of non-compliance are reported in the audit report.

To enhance accountability, auditees must identify and fully disclose any unauthorised, irregular as well as fruitless and wasteful expenditure incurred. In most part, such expenditure is incurred as a result of non-compliance with legislation.