

Free State



AUDITOR - GENERAL
SOUTH AFRICA

General report

on the audit outcomes of provincial government

PFMA 2012-13

Our reputation promise/mission

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



The information and insights presented in this flagship publication of my office are aimed at empowering oversight structures and executive leaders to focus on those issues that will result in reliable financial statements, credible reporting on service delivery and compliance with laws and regulations.

This publication also captures the commitments that leaders have made to improve audit outcomes.

Terence Nombembe
Auditor-General

Our responsibility extends to citizens who trust us to make a contribution towards a better South Africa



AUDITOR - GENERAL
SOUTH AFRICA

Overview

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Message from the auditor-general

Overall there was a slight improvement in audit outcomes (Section 2.1)

Four auditees achieved clean audits (Section 2.1)

Some progress made toward improving reliability and usefulness of annual performance report (Section 2.2)



Material non-compliance with legislation by 78% of auditees (Section 2.3)



Unauthorised and irregular expenditure incurred remained high (Section 2.3)

Qualified opinions avoided by correcting material misstatements identified during audit process (Section 3.1)

The quality of financial statements submitted for audit purposes regressed (Section 3.1)

Findings on supply chain management at 83% of auditees with no improvement (Section 3.2)

Vacancies and instability are affecting audit outcomes (Section 3.3)

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Key role players provided some assurance to improve controls (Section 4.1 and 5)

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FREE STATE **CLEAN AUDITS 2012-13**

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DEPARTMENTS

Free State Provincial Treasury
Premier
Sport, Arts, Culture and Recreation

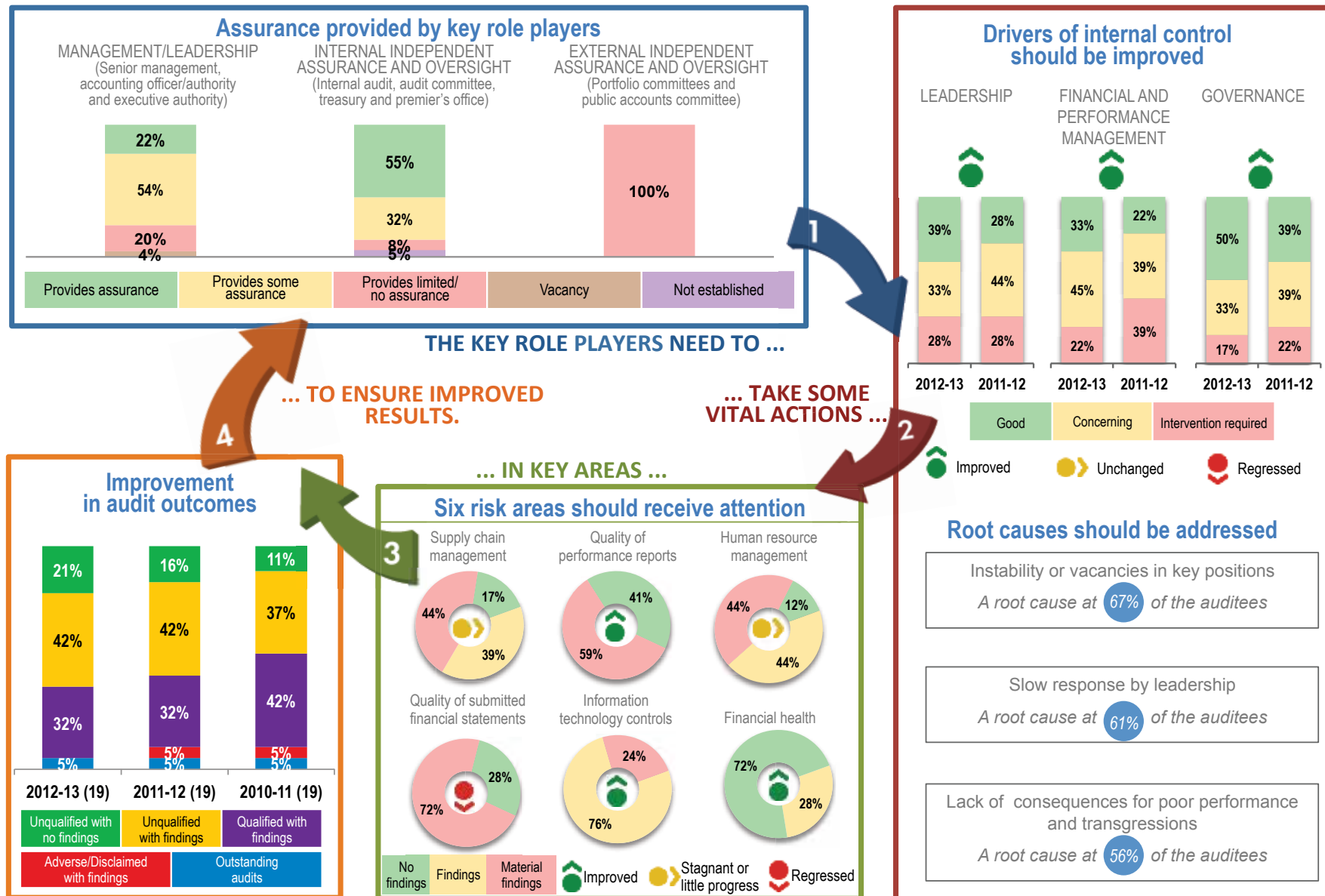


PUBLIC ENTITY

Free State Fleet Management Trading Entity

FOREWORD





FOREWORD

It is with pleasure that I present to the Free State Provincial Legislature my 2012-13 general report summarising the audit outcomes of the provincial government for the financial year ended 31 March 2013.

These outcomes show a steady year-on-year improvement towards clean audit opinions (21%). The audit outcomes of five auditees improved while the audit results of two auditees regressed. Where improvements were noted, the progress was as a result of enhanced oversight by members of the executive council who were actively involved during the quarterly engagements and audit process as committed in the previous year by the premier.

The improvement in the province is as a result of the improvement in key controls, which indicates that the departments and entities have started to implement the basic key controls in their day-to-day operations. Where inadequate key controls still existed it was mainly due to vacancies and instability (67%) in supporting roles to the chief financial officer, head of supply chain management and the manager responsible for the reporting on predetermined objectives. These, together with the slow response by the leadership, resulted in the quality of financial information submitted for auditing regressing as revealed by the number of material adjustments to the financial statements.

Non-compliance with laws and regulations was evident at 14 auditees (78%). Given this, we noted that 56% of auditees had taken no steps to implement consequences for poor performance or non-compliance with legislation. The high occurrence of unauthorised, irregular as well as fruitless and wasteful expenditure in the province is also a cause for concern, which resulted in the supply chain management focus area stagnating.

The province made progress in the area of reporting on predetermined objectives to ensure transparent reporting on the status of implementing undertakings made to the public. However, 35% of auditees made material adjustments to their performance reports during the audit process and 53% of auditees did not achieve 20% or more of the targets which they set to achieve during the year. Furthermore, ineffective oversight on information technology systems and the controls thereto contributed to the lack of progress in the area of information technology.

In the previous year, the provincial executive leadership committed to addressing poor performance; finalising performance contracts for senior management; attraction and retention of officials with relevant skills and competencies; assisting the portfolio committees in fulfilling their oversight responsibilities; meeting with the Auditor-General of South Africa quarterly to discuss the key control matrix; assigning the responsibility for predetermined objectives and compliance



Terence Nombembe
Auditor-General

matters to all auditees; and ensuring that reliable financial and service delivery reports are prepared monthly. The leadership also undertook to investigate and regularise unauthorised and irregular expenditure in the province. Most of these commitments (at 61% of the auditees) were partially implemented, which is due to a lack of monitoring that led to the late implementation of the commitments.

Although interactions between my office and the committees of the legislature (portfolio and public accounts committees) have improved, the resolutions adopted by the committees were finalised too late to have reached the desired outcome (100% of auditees).

At the heart of improved audit outcomes is a leadership tone that must inform the seriousness and urgency with which appropriate action plans and initiatives are implemented and monitored. The first level of combined assurance must improve by ensuring that the leadership responds to my messages and implements monthly key controls and action plans timeously. The leadership should attend to the lack of consequences for poor performance and non-compliance with legislation (56% of auditees). The leadership should also address the vacancies and instability in key positions supporting the chief financial officer, head of supply chain management and the manager responsible for the reporting on predetermined objectives at 67% of the auditees.

I wish to thank the audit teams from my office and the audit firms that assisted for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership in the province.

Auditor-General

**Auditor-General
Pretoria
November 2013**

SECTION 1: EXECUTIVE SUMMARY

1. Executive summary

Our audit and reporting process

We audit every department and eight of the public entities in the province, also called *auditees* in this report, so that we can report on the quality of their financial statements and annual performance reports and on their compliance with legislation. We also assess the root cause of any error or non-compliance, based on the internal control that failed to prevent or detect it. We include these aspects in the following three types of reports:

- We report our findings, the root causes and recommendations in **management reports** to the senior management and accounting officers or authorities of auditees, which are also shared with the members of the executive council and audit committees.
- Our opinion on the financial statements, material findings on the performance report and non-compliance with legislation as well as significant deficiencies in internal controls are included in an **audit report**, which is published with the auditee’s annual report and dealt with by the public accounts committee and portfolio committees as applicable.
- Annually we report on the audit outcomes of all auditees in a provincial **general report** (such as this one), in which we also analyse the root causes that need to be addressed to improve audit outcomes in the province. Before the general reports are published, we share the outcomes and root causes with the provincial leadership, the legislature and key role players in national and provincial government.

Over the past few years, we have intensified our efforts to assist provincial government to improve its audit outcomes by identifying the key controls that should be in place at auditees, assessing these on a quarterly basis and sharing the assessment with members of the executive council, accounting officers or authorities and audit committees.

We further identified the following six key risk areas that need to be addressed to improve audit outcomes and financial and performance management and we specifically audit these so that we can report on the status thereof:

Quality of submitted financial statements	Quality of annual performance reports
Supply chain management	Financial health
Information technology controls	Human resource management

In the audit process we work closely with the accounting officers, senior management, the audit committee and internal audit units as they are key role players in providing assurance on the credibility of the financial statements, performance report as well as the auditees’ compliance with legislation. We also continue to strengthen our relationships with the premier, members of the executive council, the treasury and legislature as we are convinced that their involvement and oversight have played and will continue to play a crucial role in the performance of departments and public entities in the province. We share our messages on key controls, risk areas and root causes with them and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

The rest of the section summarises the audit outcomes for 2012-13 and our key recommendations for improvements.

Audit outcomes improved slightly

Overall, there has been a slight improvement in the provincial audit outcomes. Due to an auditee’s failure to submit financial statements for audit purposes in time, we had not finalised the audit of one auditee, Political Party Fund, by 31 August 2013, which is the cut-off date for inclusion of audit outcomes in this general report. The Free State Housing Fund and the Nature Conservation Trust Fund are also not included in this report as they are dormant. Both funds received clean audit opinions. The significant aspects of the 2012-13 audit outcomes of the remaining 18 auditees are listed below. Furthermore, the findings on predetermined objectives only include 17 auditees as the performance information of the Central Medical Trading Account is included in the annual report of the Department of Health:

- Overall, there has been a slow but steady increase in the number of clean audit opinions over the past five years and a net decrease in the number of qualified and disclaimed opinions.
- Although the number of clean audits increased by 5% from the previous year, the number of auditees with qualified and unqualified opinions with findings remained stagnant over the past two years as these auditees were not able to address all qualifications and findings on predetermined objectives and compliance with laws and regulations.

- Five auditees managed to improve their audit outcomes, of which two progressed to a clean audit, three to unqualified with findings and one from a disclaimer to a qualified opinion. As a result, the province had no disclaimers in the current year.
- Two auditees could sustain their clean audit status of the previous year; however, one auditee was not able to retain its clean audit status and regressed to an unqualified opinion with findings. Another auditee also regressed from an unqualified opinion with findings to a qualified opinion.
- There was no improvement in the audit outcomes of the departments of Education, Health and Public Works, which is of concern as they contributed 75% to the total spending of provincial departments.
- There has been an improvement in the quality of annual performance reports over the past three years; however, the number of auditees with findings remained high at 59%.
- Six auditees (35%) had findings on both the usefulness and reliability of annual performance reports, while 24% had findings in either one of these areas.
- Nine (53%) of the auditees did not achieve 20% or more of the targets which they set to achieve during the year as reported in the annual performance reports, which impacted negatively on service delivery.
- The number of auditees with findings on compliance with legislation remained high at 78% with minimal improvement over the past three years.
- The most common finding on compliance with legislation relates to the material misstatements identified in financial statements submitted for auditing at 72% of auditees, which equates to a significant regression. This is followed by findings on the prevention and follow up on unauthorised, irregular and fruitless and wasteful expenditure at 61% of the auditees.
- Unauthorised expenditure of R252 million was incurred due to overspending of the budget. This expenditure increased significantly by 394% compared to R51 million incurred in the previous year.
- A total of 16 auditees (89%) incurred irregular expenditure of R1,983 billion. This expenditure remains very high despite a decrease compared to the previous year.
- Fruitless and wasteful expenditure decreased from R30 million in the previous year to R16 million in the current year.

The six risk areas should continue to receive attention

Our audit of the six risk areas shows that our recommendations to address the risks to financial and performance management have not yet been implemented.

Significant aspects of five of the risk areas are listed below, while reflections on the quality of performance information have been included as part of the audit outcomes above.

Quality of submitted financial statements

The quality of the financial statements submitted for audit purposes regressed by 16%, with only five (28%) of the auditees submitting financial statements with no material misstatements. Seven auditees (39%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit process. The auditees that could not correct the misstatements received qualified audit opinions. The most common qualification areas were: property, infrastructure, plant and equipment; payables, accruals and borrowings; and irregular expenditure relating to supply chain management.

Supply chain management

Overall, there was stagnation in addressing supply chain management shortcomings. We reported findings on supply chain management in the management reports of 15 auditees (83%). At eight auditees (44%), findings were material enough to be reported in the audit report. The most significant findings relate to uncompetitive or unfair procurement processes which regressed since the previous year.

Human resource management

The majority of auditees (88%) had findings on human resource management compared to 83% in the previous year. The most significant findings relate to the management of vacancies where positions are not filled timeously and persons acting in higher positions for more than 12 months. Instability and vacancies in key positions supporting the chief financial officer, head of supply chain management, manager responsible for the reporting on predetermined objectives as well as vacancies at district level are some of the main root causes of the poor audit outcomes.

Information technology

Information technology controls were assessed in four key focus areas at 13 departments and four entities in the province. The status of information technology controls demonstrates that there have been improvements since the previous financial year. However, some auditees were still experiencing challenges in the focus areas of security management, user access management and information technology service continuity.

Most auditees were in the process of implementing the cabinet-approved information technology governance framework. The implementation would be undertaken in phases over the next three financial years. Phase 1 would be implemented by 31 March 2014.

Financial health

Our audits included a high-level analysis of auditees' financial indicators to provide management with an overview of selected aspects of their current financial management and to enable timely remedial action where the auditees' operations and service delivery may be at risk. There was an overall improvement in the number of auditees without findings on key indicators of financial health. Six departments (46%) underspent their capital budget by more than 10%. Expenditure exceeded revenue after it had been adjusted with accruals not yet paid at year-end at five departments (38%). Collection of outstanding debts and recoverability thereof remained a challenge at 31% of departments. These factors indicate that various auditees face financial challenges and it impacts negatively on service delivery. Overall, the financial health of the public entities in the province has improved since the previous year.

The significant deficiencies in internal controls and the root causes should be addressed to improve audit outcomes

As part of our audits, we assessed internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. Overall, there has been improvement in key controls compared to the previous year. However, the key controls under leadership as well as financial and performance management at more than 60% of auditees are still assessed as "concerning" or "intervention required".

It is evident that the basic daily and monthly controls were not in place or not functioning effectively in all three areas of financial management, performance reporting and compliance with legislation. Leadership oversight was also not effective in these three areas. The slow progress towards clean audits in the province can be directly attributed to this, which brings into question the sustainability of the current audit opinions.

Many auditees did not get a clean audit outcome as their financial and performance reports were of a poor quality and they had high levels of non-compliance with legislation. The most common root causes of the audit outcomes that should be addressed are the following:

- Instability and vacancies in key positions supporting the chief financial officer, head of supply chain management, manager responsible for reporting on predetermined objectives as well as vacancies at district level.

- Slow response by the leadership to address findings raised by the Auditor-General of South Africa.
- Lack of consequences for poor performance and transgressions.

All role players should increase the level of assurance they provide

The management and leadership of the auditee and those that perform an oversight or governance function should work towards improving the key controls, addressing the root causes and ensuring that there is an improvement in the six key risk areas, thereby providing assurance on the quality of the financial statements and performance reports as well as compliance with legislation. Based on our assessment, these role players did not provide the necessary assurance.

Senior management, the accounting officer and executive authority only provided some or limited assurance at the majority of auditees (68%) and this indicates that their impact on creating an effective control environment is not evident.

It is of concern that the portfolio committees and public accounts committee did not provide any assurance and this remained unchanged since the previous year as the resolutions adopted by the committees were finalised too late to have reached the desired outcome (100% of auditees).

The initiatives and commitments of all role players should continue to have a positive impact on future audit outcomes

We had shared our key message on the actions needed to improve audit outcomes with every accounting officer or authority and member of the executive council through our reports and quarterly key control interactions with them. The members of the executive council met with us as committed in the previous year. The engagements were well received, but these interactions have not yet had a significant impact on the audit outcomes. However, the building blocks are now in place for improvements in key controls, which should lead to improved outcomes. The low impact of our interactions with some members of the executive council was due to frequent leadership changes, resulting in the implementation of commitments being disrupted as well as a slow response by the leadership to our message.

During our roadshow on audit outcomes in October 2013, we also shared these with the legislature, premier and members of the executive council. We confirmed the progress of the commitments made by all these role players in response to the previous year's audit outcomes. However, due to a lack of monitoring most of these commitments had either been partially implemented or implemented late in the financial year.

Section 6 of this report provides the audit outcomes of the departments and public entities in the portfolios of the individual members of the executive council. It also includes details of the frequency and impact of our meetings with these members and the status of their prior year and new commitments. We shared these portfolio outcomes with them and include the commitments in this general report to enable and encourage the ongoing oversight and monitoring of their portfolios.

SECTION 2: OVERVIEW OF AUDIT OUTCOMES

Figure 1: Audit outcomes over past five years

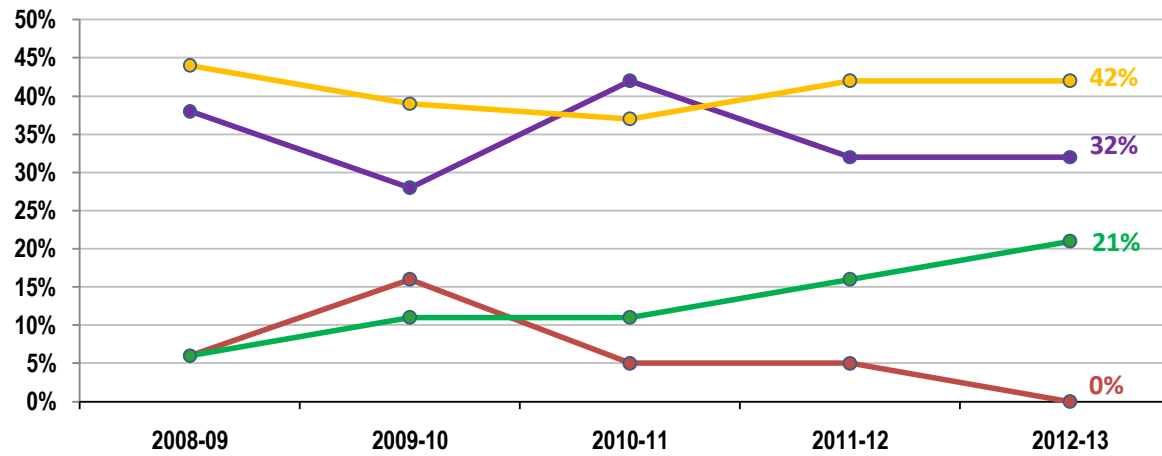


Figure 2:
Audit outcomes for past two years

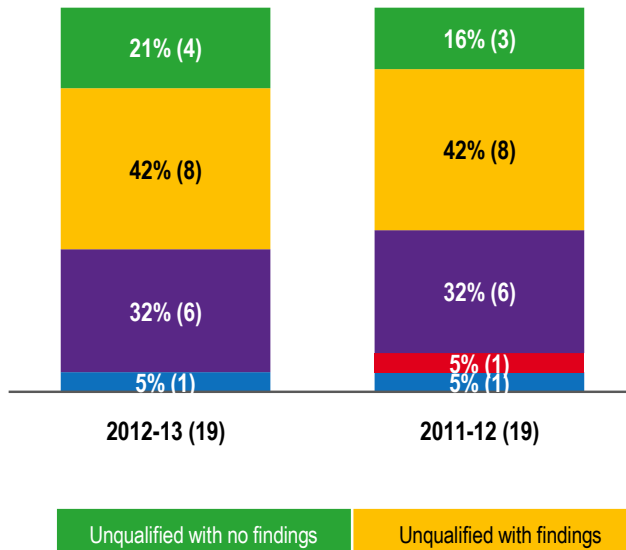
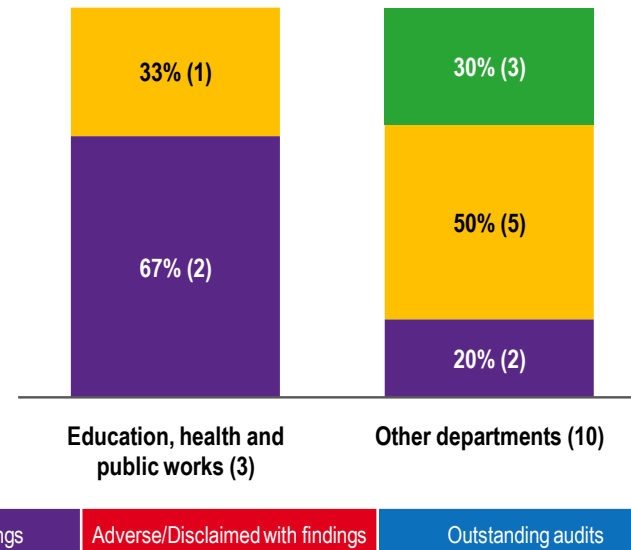


Figure 3:
Education, health and public works vs other departments



2.1 Overall audit outcomes

Provincial government consists of 13 departments and eight public entities. The public entities include three provincial public entities, two trading entities and three other entities that are not subject to the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). The Free State Housing Fund and the Nature Conservation Trust Fund are not included in this report as they are dormant. Both funds received clean audit opinions.

The Political Party Fund submitted financial statements late for the 2008-09 to 2011-12 financial years, with the result that the audits have not yet been finalised. The financial statements for 2012-13 have not yet been submitted.

As a result, we report on the audit outcomes of the 18 completed audits, excluding the two funds, in this report.

The number of public entities has decreased from 13 to eight since the previous year. This is due the incorporation of the Phakisa Major Sport Events and Development Corporation into the Free State Tourism Authority. Furthermore, we did not audit four trust funds (James Robertson Bursary Fund, Thomas Robertson Bursary Fund, Recreation Trust Fund and Private Patients Trust Fund) in the current year as it is not required by their trust deeds.

Please note the following when reading the rest of the report:

- Clean audits are achieved when the financial statements are unqualified and there are no reported audit findings in respect of either predetermined objectives (PDOs) or non-compliance with legislation.
- With findings refers to findings on either reporting on PDOs or non-compliance with legislation, or findings on both these aspects.
- A movement of more than 5% is regarded as an improvement or a regression.

Audit outcomes

Figure 1 shows the five-year audit outcomes of provincial government. Overall, there has been a slow but steady increase in the number of clean audit opinions over the past five years and a net decrease in the number of qualified and disclaimed opinions.

Figure 2 indicates that there has been a slight improvement in audit outcomes since the previous year. Although the number of clean audits increased by 5%, the number of auditees with qualified and unqualified opinions with findings remained

stagnant over the past two years as these auditees were not able to address all qualifications and findings on PDOs and compliance with laws and regulations.

Education, health and public works

In 2012-13, the expenditure of the departments of Education, Health and Public Works contributed 75% of the total spending by provincial departments. Figure 3 shows that the departments of Health and Public Works received qualified audit opinions while only the Department of Education managed to achieve an unqualified audit opinion. This is of concern as these three largest service delivery departments struggle to account for the largest portion of the provincial budget as can be seen from their respective audit outcomes and therefore this ultimately impacts on service delivery and compliance reporting.

Movement in audit outcomes

Figure 4 analyses the movement in the audit outcomes of the different auditees since the previous year that had resulted in the net improvement in the audit outcomes of the province.

It further shows the previous year audit opinions of the audits that had not been completed by 31 August 2013, which is the cut-off date we set for inclusion of audit outcomes in this report.

Two of the four oversight departments, i.e. Premier and provincial treasury, sustained their clean audit status. Of concern was the slow response by the leadership of the legislature with regard to PDOs, which resulted in it regressing from a clean audit to an unqualified opinion with findings as it was not able to address findings. The other governing department, Cooperative Governance and Traditional Affairs (CoGTA), was not able to improve to a clean audit as it still did not address all findings on PDOs and compliance with laws and regulations. It is commendable that the Department of Sport, Arts, Culture and Recreation and Fleet Management Trading Entity managed to achieve clean audits. The Free State Development Corporation also improved from a disclaimer to a qualified opinion. This was overall due to an improvement in the functionality of its daily key controls.

Annexure 1 lists all auditees with their current and prior year audit outcomes, while annexure 2 provides the audit outcomes for the past five years.

Figure 4: Movement of the 18 auditees reported on and outstanding audits

		Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse/Disclaimed with findings
5	Improved	Sport, Arts, Culture and Recreation Fleet Management	Police, Roads and Transport Gambling and Liquor Authority	Free State Development Corporation	
11	Unchanged	Premier Treasury	Agriculture CoGTA Education Social Development Central Medical Trading Account	Economic Development, Tourism and Environmental Affairs Health Human Settlements Public Works	
2	Regressed		Legislature	Tourism Authority	
1	Outstanding audits – previous year opinion *				

* Political Party Fund is outstanding, and therefore not reported on. There is no previously issued audit opinion for this entity.

Figure 5: Status of quality of annual performance reports

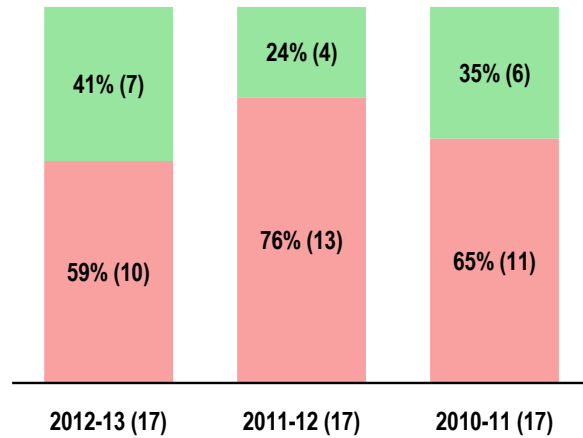


Figure 6: Findings on quality of annual performance reports

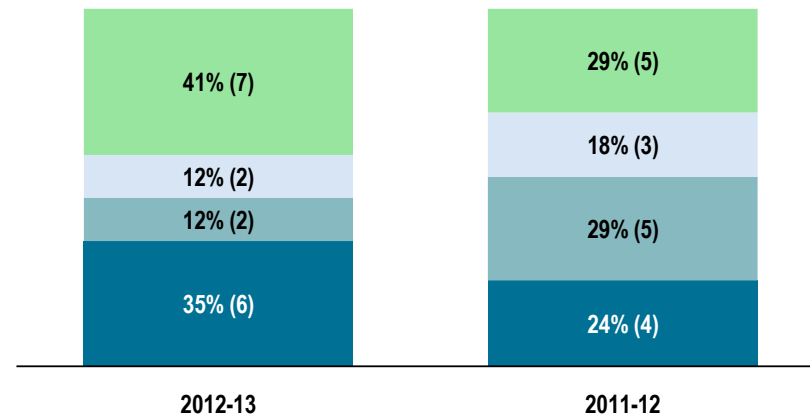


Figure 7: Other performance-related outcomes

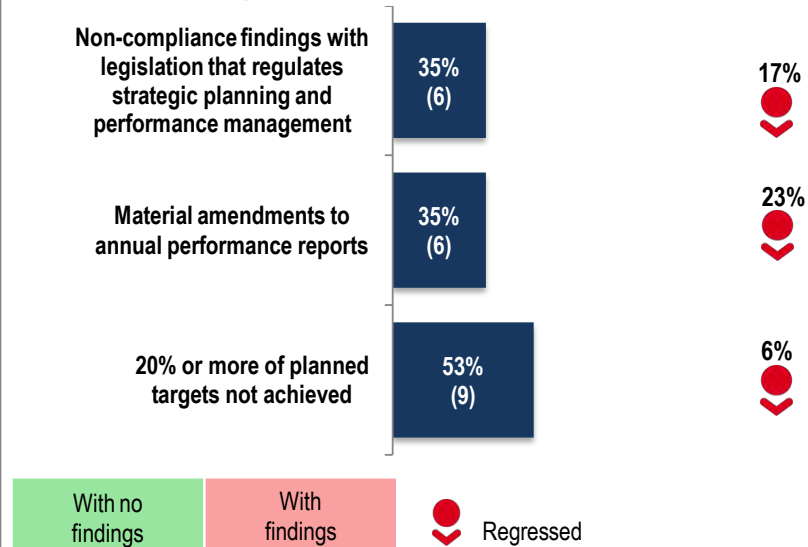
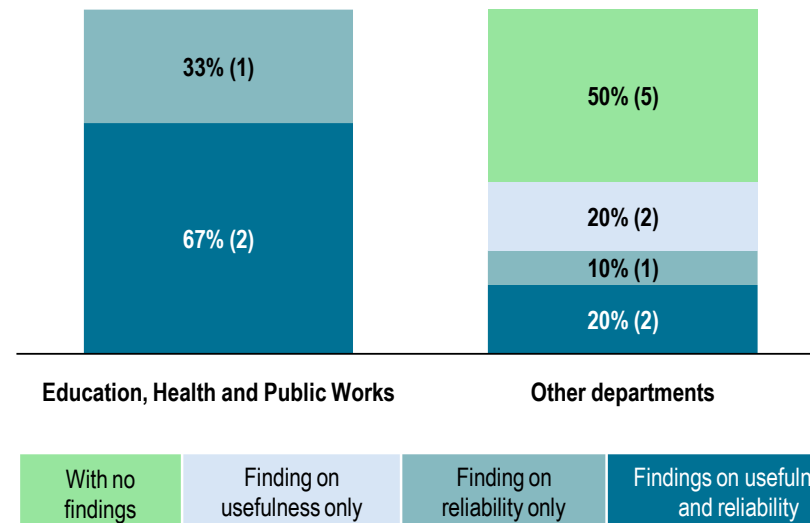


Figure 8: Findings on annual performance report – Education, Health and Public Works vs other departments



2.2 Quality of annual performance reports

Auditees report on their performance against PDOs annually. In the annual performance reports, auditees are required to measure their service delivery against the performance indicators and targets set for each objective.

The Public Audit Act, 2004 (Act No. 25 of 2004) requires us to audit the annual performance reports to determine whether the information in these reports is reliable and useful. In the audit report, we reported findings from the audits that were material enough to be brought to the attention of the persons who read and use the annual performance report.

Figures 5 to 8 do not include the Central Medical Trading Account separately as their performance was reported as part of the Department of Health.

Status of auditees with findings on annual performance reports

Figure 5 shows the number of auditees with material findings in this regard over the past three years. Although the number of auditees with PDO findings remained high, there has been an improvement over the past three years. The Department of the Premier, provincial treasury and Fleet Management again had no findings on PDOs while four auditees managed to improve to no findings on PDOs in the current year. The legislature regressed due to weaknesses in the annual performance plan and the remaining nine auditees still failed to address shortcomings on PDOs.

Findings on the quality of the annual performance reports

Figure 6 shows the nature of the material findings in the current and previous years and the progress made by auditees in addressing the findings.

All auditees submitted annual performance reports in time for auditing compared to three late submissions in the previous year.

The usefulness of reported information is measured against the criteria of presentation, consistency, relevance and measurability. The information contained in the performance reports of eight auditees (47%) was not useful and represents a stagnation compared to the previous year.

The most common findings on usefulness were the following:

- Indicators/measures were not well defined.
- Indicators/measures were not verifiable or not measurable.

- Reasons for variances were not supported by adequate corroborating evidence.

Findings on reliability relate to whether the reported information could be traced back to the source data or documentation and whether the reported information was accurate, complete and valid when compared to the source. The information contained in the performance reports of eight auditees (47%) was not reliable and remains high despite the 6% improvement since the previous year.

The most common findings on reliability were the following:

- Source information for reported performance information was not complete.
- Reported performance information was not valid.
- Reported performance information was not accurate when compared to source information.

As shown in figure 8, 100% of the departments of Education, Health and Public Works had material findings on their annual performance reports in comparison with 50% of the other departments. The prevalence of annual performance reports containing information that is not useful or reliable is a sign of weaknesses in the ability of auditees to adequately plan, manage and report on their performance. If addressed, it will improve the transparency and accountability of provincial government and contribute to improving the service delivery experience of citizens.

Annexure 1 details the auditees with material PDO findings and the nature of the findings.

Other performance-related outcomes

Figure 7 shows the number of auditees in the current and previous years that:

- had material findings in their audit reports on non-compliance with the legislation that regulates strategic planning, performance management and reporting
- made amendments to the annual performance report submitted for auditing to correct material misstatements identified in the audit process
- did not achieve 20% or more of the planned targets reported in their annual performance reports.

Six auditees (35%) had material findings on non-compliance with legislation, mainly due to poor performance management systems.

Six auditees (35%) made material amendments to the annual performance reports, of which four auditees were able to avoid findings on reliability as a result.

Nine auditees (53%) did not substantially achieve all of their targets as reported in the annual performance reports, which impacted negatively on service delivery. This includes seven departments where service delivery is crucial, namely Health, Police, Roads and Transport, Public Works, Agriculture and Rural Development, Social Development, Human Settlements and CoGTA.

Figure 9:
Status of compliance
with legislation

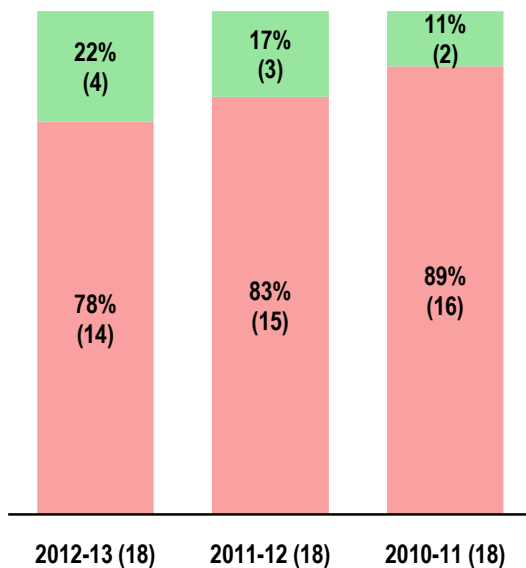


Figure 11:
Unauthorised expenditure

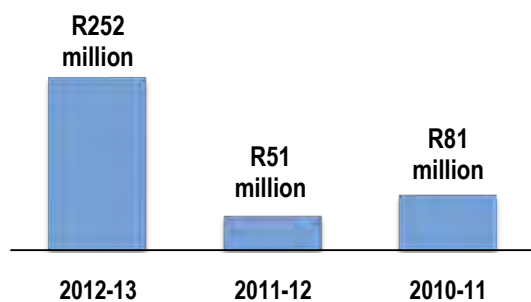


Figure 10:
Findings on non-compliance with legislation

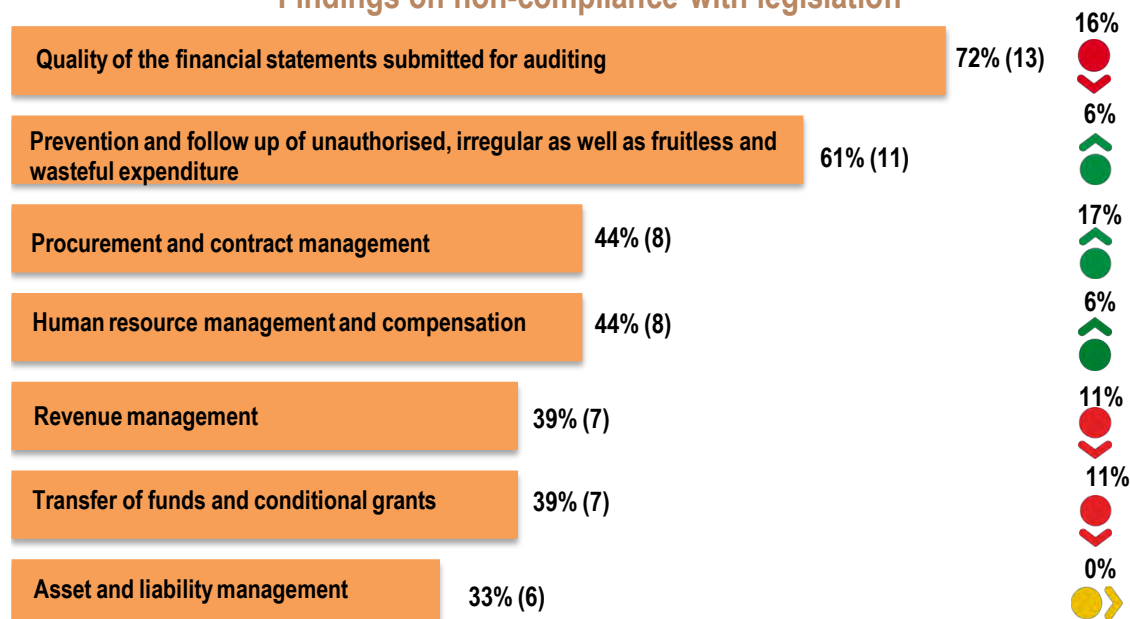


Figure 12:
Irregular expenditure

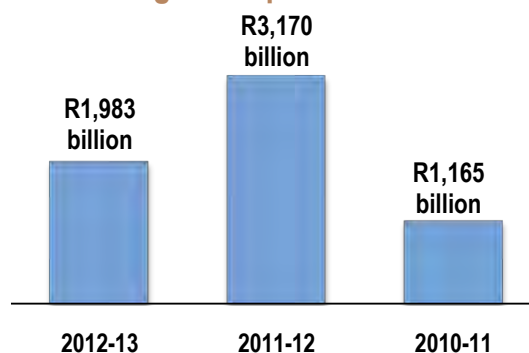
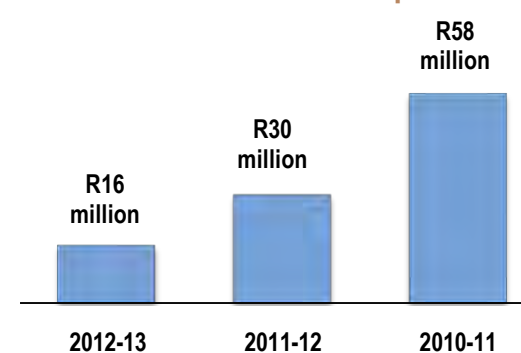


Figure 13:
Fruitless and wasteful expenditure



With no findings

With findings



Improved



Stagnant or little progress



Regressed

2.3 Compliance with legislation

The Public Audit Act requires us to annually audit compliance with legislation applicable to financial matters, financial management and other related matters. We focused on the following areas in our compliance audit:

■ Material misstatements in the submitted annual financial statements ■ asset and liability management ■ audit committees ■ budget management ■ expenditure management ■ unauthorised, irregular as well as fruitless and wasteful expenditure ■ financial misconduct ■ internal audit ■ revenue management ■ strategic planning and performance management ■ annual financial statements and annual report ■ transfer of funds and conditional grants ■ procurement and contract management (in other words, supply chain management [SCM]) ■ Human resource (HR) management and compensation

In the audit report, we reported findings from the audits that were material enough to be brought to the attention of oversight and the public.

Status of auditees with findings on non-compliance with legislation

Figure 9 shows the number of auditees with material findings in this regard over the past three years. This figure indicates that there is a slight improvement in the number of auditees that had findings on compliance. In most instances, however, there were no formal processes in place to monitor compliance with legislation, which resulted in the high number of reported non-compliance issues. This is mainly because provincial leadership did not set the right tone on their commitment to ensure compliance with laws and regulations.

Findings on non-compliance with legislation

Figure 10 shows the compliance areas with the most material findings in the current and previous years and the progress made by auditees in addressing the findings.

This figure also shows a lack of progress in most areas of non-compliance. A total of 13 auditees (72%) had findings in three or more of the top seven areas of non-compliance – an increase from the previous year's nine auditees (50%). The biggest area of concern is the number of auditees (72%) requiring material adjustments to their financial statements due to audit procedures that have been performed.

The most common non-compliance findings across these compliance areas were the following:

- Material misstatements or limitations in the financial statements submitted for auditing (refer to section 3.1 for more detail in this regard).
- Unauthorised, irregular as well as fruitless and wasteful expenditure was not prevented or adequately dealt with.
- The prescribed three quotations or competitive bidding processes were not followed for procurement. Deviations from these processes were not approved or reasons were not justified.
- The required appointment processes for new employees were not followed, such as the prescribed selection, approval and verification processes, as well as advertisements.
- Effective and appropriate steps were not taken to timeously collect all revenue due.
- Appropriate measures were not taken to ensure that transfers made were applied by the receiving entity for the intended purpose.
- Proper control systems were not implemented for the safeguarding and maintenance of assets.

Annexure 1 details the auditees with material non-compliance findings and the nature of the findings.

Unauthorised expenditure

Unauthorised expenditure is expenditure that was not spent in accordance with the approved budget. Figure 11 reflects the three-year trend in unauthorised expenditure. There has been a significant increase of 394% in unauthorised expenditure since the previous year. The main contributors to the increase were the departments of Health, Education and Police, Roads and Transport that incurred a total unauthorised expenditure of R247 million due to overspending of the budget. This mainly happened as a result of a lack of daily and monthly disciplines to monitor the spending against the budget of the departments.

Irregular expenditure

Irregular expenditure is expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money had been wasted or that fraud had been committed. However, it is a measure of an auditee's ability to comply with legislation relating to expenditure and procurement management. Figure 12 reflects the three-year trend in irregular expenditure. Despite a decrease since the previous year, irregular expenditure remained significant in the province at R1,983 billion incurred by 16 (89%) of the auditees.

Most of the irregular expenditure was incurred as a result of non-compliance with SCM legislation. The departments of Human Settlements and Police, Roads and Transport contributed R1,299 billion (66%) to the total irregular expenditure incurred in the province, mainly due to procurement processes that were not followed in the previous years.

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and that would have been avoided had reasonable care been taken. Figure 13 reflects the three-year trend in fruitless and wasteful expenditure. There has been an improvement of 72% in the value of fruitless and wasteful expenditure that has been incurred by auditees over the past two financial years.

SECTION 3: RISK AREAS

27

Figure 14: Status of submitted financial statements

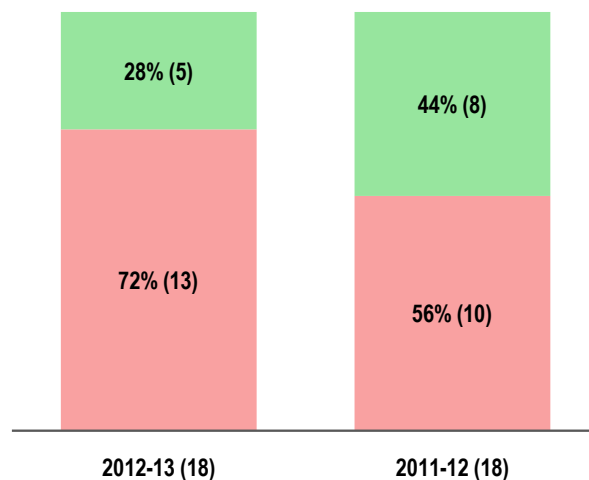


Figure 15: Quality of submitted financial statements

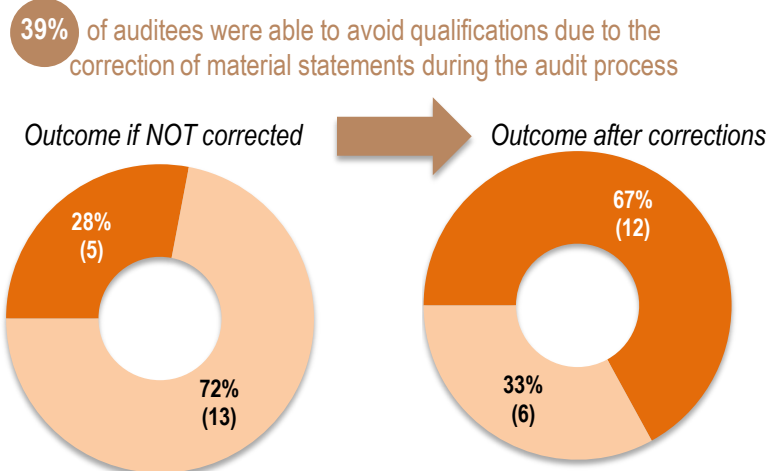
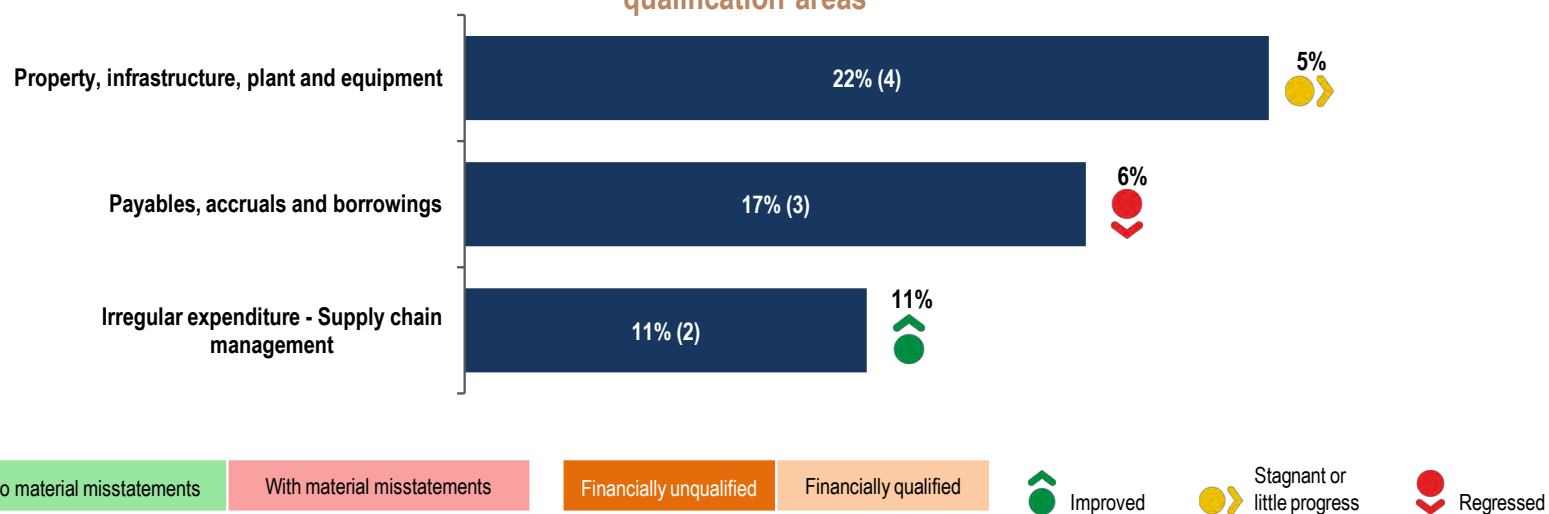


Figure 16: Top three financial statement qualification areas



3. Risk areas

We identified six key risk areas that need to be addressed to improve audit outcomes and financial and performance management. Five risk areas are discussed in this section, while the quality of performance information is included in section 2.2.

3.1 Quality of submitted financial statements

The purpose of the annual audit of the financial statements is to provide the users thereof with an opinion on whether the financial statements fairly present, in all material respects, the financial position (statement of financial position) and results of an auditee's financial performance (statement of financial results) and cash flows for the reporting period, in accordance with the applicable financial reporting framework and the requirements of the applicable legislation.

The audit provides the users with reasonable assurance on the degree to which the financial statements are reliable and credible, on the basis that the audit procedures performed did not identify any material errors or omissions in the financial statements. We use the term *material misstatements* to refer to such material errors or omissions.

The quality of the financial statements submitted for auditing

All auditees, except the Political Party Fund, submitted financial statements for auditing by the legislated deadline of 31 May 2013. However, as can be seen in figure 14, only five auditees (28%) submitted financial statements with no material misstatements, namely the Department of the Premier, provincial treasury, legislature, Department of Sport, Arts, Culture and Recreation and Fleet Management Trading Entity. This is a regression of 16% compared to the previous year.

Figure 15 shows that seven auditees (39%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified

during the audit. The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

Uncorrected material misstatements

Even though we reported the material misstatements to management for correction, six auditees could not make the corrections to the financial statements, which resulted in qualified audit opinions. This was mainly due to lack of sufficient, appropriate audit evidence as well as the extent of the misstatements that could not be determined due to poor record keeping throughout the year.

Figure 16 indicates the three most common financial statement qualification areas and auditees' progress in addressing these since the previous year. The reasons for the qualifications are as follows:

Property, infrastructure, plant and equipment

Auditees did not include all the assets in the asset register or we were unable to physically verify all the assets in the asset register, including the values. This was caused by incorrect and incomplete asset registers and a lack of adequate supporting documentation.

Payables, accruals and other borrowings

Auditees did not have adequate systems in place to accurately account for all accruals.

Irregular expenditure – supply chain management

We could not obtain sufficient, appropriate audit evidence regarding irregular expenditure as adequate controls were not in place to identify and record all instances of irregular expenditure incurred or auditees were not able to provide all bid documentation for audit purposes.

Figure 17: Status of supply chain management

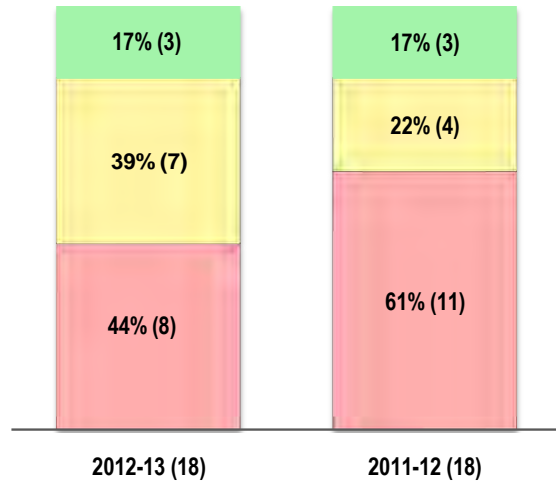


Figure 18: Findings on supply chain management

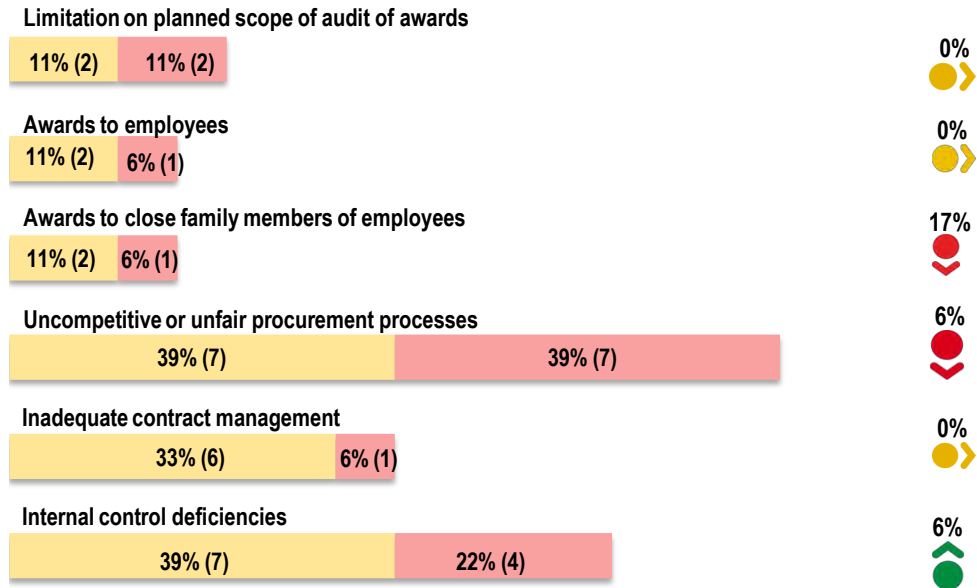
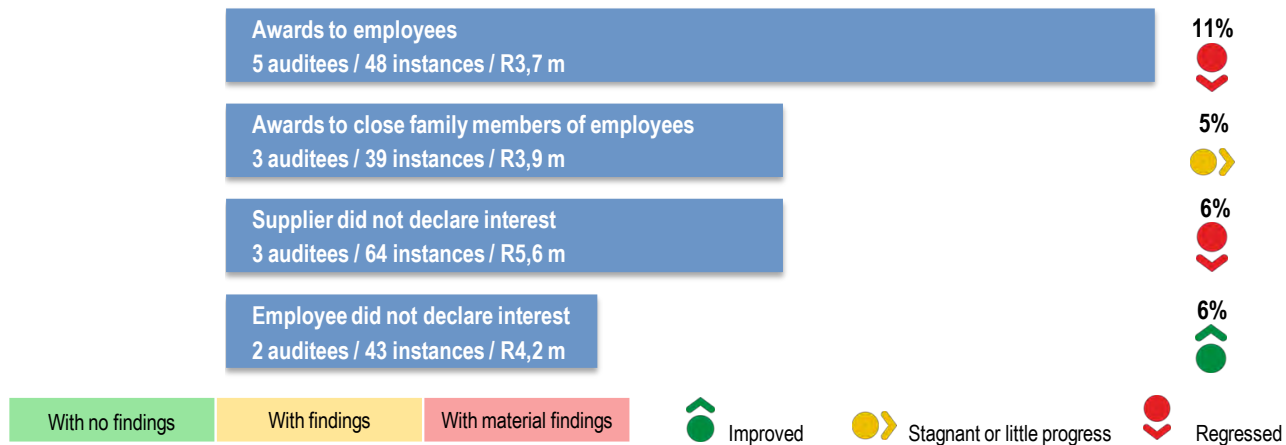


Figure 19: Awards to employees and close family members



3.2 Supply chain management

We tested 292 contracts (with a value of R3,096 billion) and 1 952 quotations (with a value of R196,3 million) (referred to as *awards* in the rest of the report) to determine whether the prescribed procurement processes had been followed to ensure that all suppliers were given equal opportunity to compete and that some suppliers were not favoured above others. We also focused on contract management, as shortcomings in this area result in delays, wastage as well as fruitless and wasteful expenditure, which – in turn – have a direct impact on service delivery.

We further assessed the interests of employees of the auditee and their close family members in suppliers to the auditee. Legislation does not prohibit awards to suppliers in which employees or their close family members have an interest, but requires employees and prospective suppliers to declare the interest in order for safeguards to be put in place to prevent improper influence and an unfair procurement process. Lastly, we assessed whether sufficient internal controls had been implemented to prevent, detect or correct irregularities in the SCM processes.

We reported all the findings from the audit to management in a management report, while we reported the material non-compliance findings in the audit report.

Figure 17 shows the number of auditees that had audit findings and those where we reported material non-compliance findings in the audit report in the current and previous years. There has been a stagnation in the number of auditees with no SCM findings, however, the number of auditees with material findings reported in the audit report decreased by 17% from 11 (61%) in the previous year to eight (44%) in the current year.

Figure 18 indicates the extent of findings in the areas we report on and the movement since the previous year. These findings are discussed in the rest of this section.

Limitations on planned scope of audit of awards

In total, we could not audit awards with a value of R227,2 million at the four auditees that could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation. We could also not perform any alternative audit procedures to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The main reasons for the limitations were due to bid documentation for infrastructure awards made by the Department of Public Works on behalf of other departments not being available, as well as poor record management.

Awards to employees and close family members

Figure 19 shows the extent of awards to employees and family members and whether the required declarations had been made. It is of concern that there has been a regression in the number and value of awards made to employees and their close family members. Furthermore, suppliers did not declare their interest in 64 instances, either by not submitting declarations of interest or submitting false information and this should be investigated by management as it could be indicative of possible fraud.

Uncompetitive or unfair procurement processes

Uncompetitive or unfair procurement processes were identified at 14 auditees (78%), which is a regression of 6% since the previous year.

The following were the most common findings:

- Competitive bids were not invited and deviations were not approved or justified.
- Three written price quotations were not invited and deviations were not approved or not justified.
- Preference point system was not applied.
- Procurement from suppliers without tax clearance from the South African Revenue Service (SARS).
- Service providers did not submit declarations of interest.

Inadequate contract management

We identified inadequate contract management at seven auditees (39%) and remained at the same level as in the previous year.

The following were the most common findings:

- No or inadequate contract performance measures and monitoring.
- Contracts were amended or extended without the approval of a delegated official.
- Construction projects were not registered with the CIDB within 21 working days.

Inadequate supply chain management controls

Inadequate SCM controls improved by 6% since the previous year and were identified at 11 auditees (61%).

The following were the most common findings:

- No or inadequate actions were taken to address SCM risks identified.
- Deviations above R1 million were not reported to the Auditor-General of South Africa (AGSA).
- Inadequate controls in place to ensure interest is declared.
- SCM officials were not adequately trained.
- SCM policies and procedures were in conflict with applicable legislation or did not include all requirements.

Effective management of consultants

Some of the departments and entities appoint consultants/contractors to execute certain projects. SCM regulations contain specific guidelines for the appointment and management of consultants. Our audits identified a number of deficiencies in the management of consultants and the need for decisive corrective actions.

Although most findings were identified with regard to the planning for, and the appointment of, consultants; shortcomings were also identified in the following areas:

- Transfer of skills
- Performance management and monitoring
- Closing and finalisation of projects

Figure 20: Human resource management findings

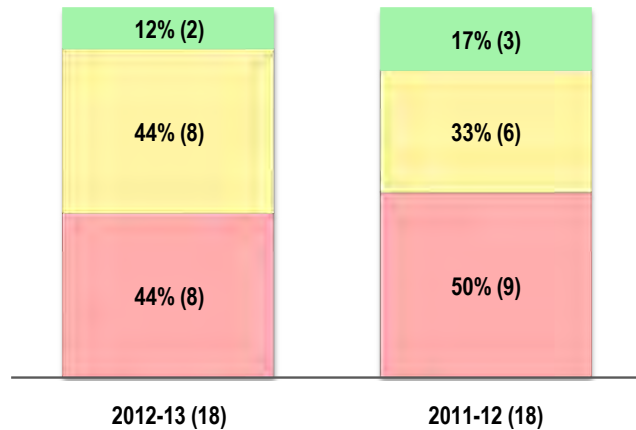
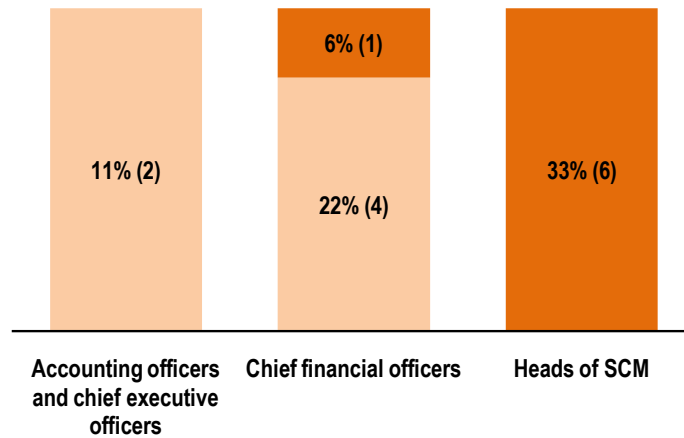


Figure 22: Vacancies in key positions



With no findings

With findings

With material findings

Vacant less than 6 months

Vacant more than 6 months

Figure 21: Weakness in human resource focus areas

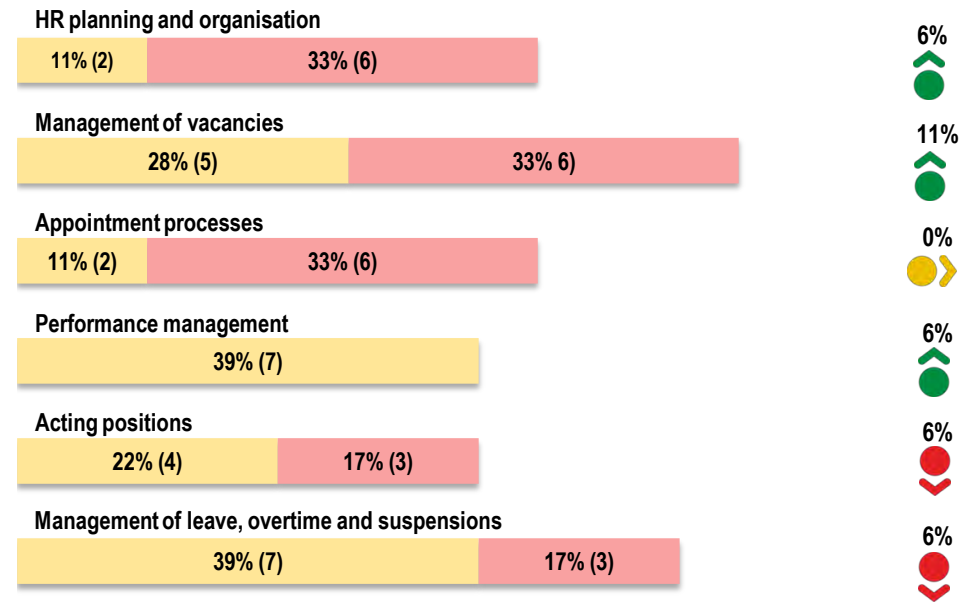


Figure 23: Stability in key positions
(Average number of months filled)



Improved



Stagnant or little progress



Regressed

3.3 Human resource management

HR management is effective if adequate and sufficiently skilled resources (in other words, staff) are in place and if staff performance and productivity are properly managed. Our audits included an assessment of HR management that focused on the following areas:

■ HR planning and organisation ■ management of vacancies ■ appointment processes ■ performance management ■ acting positions ■ management of leave, overtime and suspensions

We reported all the findings from the audit to management in a management report, while we reported the material non-compliance findings in the audit report.

Figure 20 shows the number of auditees that had audit findings and those where we reported material non-compliance findings in the audit report in the current and previous years. The majority of auditees (88%) had findings on HR management compared to 83% in the previous year. Figure 21 indicates the extent of findings in the areas we report on and the movement since the previous year. The figure indicates that matters of concern raised in the previous years have not been addressed and inadequate attention was given to matters relating to HR.

Management of vacancies and acting positions

The average overall vacancy rate in the province was 21% at year-end, while that of senior management was 30% and that of the finance units 30%. Figure 22 shows the vacancy rate at the level of accounting officer or chief executive officer (CEO), chief financial officer (CFO) and head of the SCM unit at year-end and indicates the period in which the positions were vacant. Figure 23 shows the average number of months these key officials have been in their positions.

Although there is no significant instability and vacancies in the positions of accounting officer or CEO, CFO and head of SCM, the vacancies and instability in the positions supporting these individuals are of concern as findings regarding the management of vacancies were raised at 11 (61%) of auditees as indicated in figure 21 above. This was also identified as one of the root causes of audit findings, as further detailed in section 4.2, which resulted in material misstatements to the financial statements, SCM weaknesses and findings relating to the reporting of PDOs.

The most common findings on the management of vacancies and acting positions were employees acting in higher positions for more than 12 months as well as senior management positions that were vacant for more than 12 months.

Performance management

In order to improve the performance and productivity of staff, the leadership should set the correct tone by implementing sound performance management processes, evaluating and monitoring performance, and consistently demonstrating that poor performance has consequences.

Of the seven auditees (39%) which had a performance management finding, at six (33%) of the auditees senior managers did not have performance contracts or the contracts had not been signed early enough.

Consequences for poor performance and transgressions

As can be seen under section 4.2, one of the root causes for the slow progress to clean audit opinions was the lack of consequences for poor performance and transgressions at 10 auditees (56%). The leadership did not always hold staff accountable for poor performance and transgressions and this creates the perception that these results are acceptable and tolerated as can be seen from the outcomes of the following areas:

- Recurring poor quality of annual financial statements, as reported in section 3.1.
- Recurring non-compliance with laws and regulations as well as high numbers of unauthorised and irregular expenditure, as reported in section 2.3.
- High occurrence of findings on PDOs, as reported in section 2.2.
- Recurring non-compliance with SCM regulations, as reported in section 3.2.

Other common human resource findings

The other most common HR findings were the following:

- An HR plan based on the strategic plan was not in place.
- Proper verification processes for new appointments were not always followed.
- Appointments were made in posts that had not been advertised.
- Job descriptions did not exist for each post or group of posts.
- The prescribed selection (e.g. selection committees) and approval processes (e.g. appointment or deviation approvals by delegated official) were not followed for all appointments.

Figure 24:
Status of information
technology controls

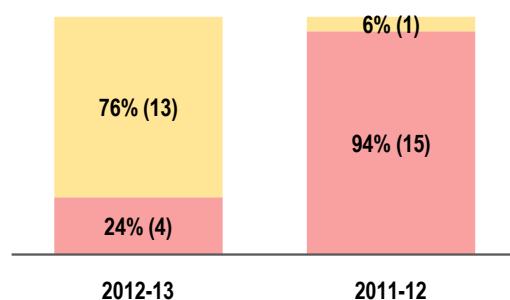


Figure 25: Findings on information technology controls

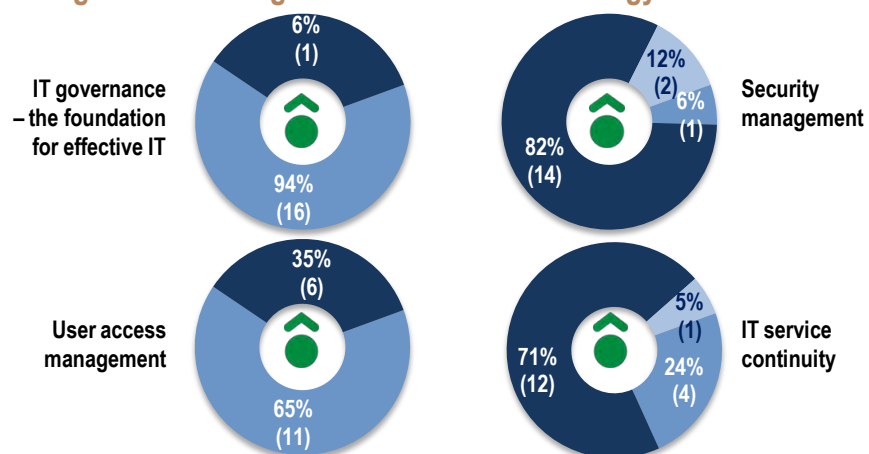


Figure 26: Status of information and controls

	Confidentiality	Integrity	Availability
Status of provincial government information	<p>The necessary level of secrecy is enforced for all provincial government information. This was assessed by auditing the following focus areas:</p> <ul style="list-style-type: none"> Security management IT governance User access controls 	<p>All provincial government information is authentic, remains unaltered until authorised to change, and is complete. This was assessed by performing data analytics and auditing the following focus areas:</p> <ul style="list-style-type: none"> Security management User access controls 	<p>All provincial government information is ready for use when expected. This was assessed by auditing the following focus areas:</p> <ul style="list-style-type: none"> Security management IT service continuity
Status of key enabling controls	Good governance		
	Effective management		
	Secure architecture or infrastructure		

With no findings	With findings	With material findings	IT controls embedded and functioning effectively	IT controls to be implemented	IT controls to be designed	Good	Concerning	Intervention required
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Improved	Stagnant or little progress	Regressed
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3.4 Information technology controls

Information technology (IT) controls ensure the confidentiality, integrity and availability of state information which enable service delivery and promote national security. It is thus essential for good IT governance, effective IT management and a secure IT infrastructure to be in place. In the assessment of the findings on IT controls (figure 25) the criteria are determined by the stage of development reached and are grouped into three categories:

Where IT controls are being designed, management should ensure that the controls would lessen risks and threats to IT systems.

Where IT controls are being implemented, management should ensure that the designed controls are implemented and embedded in IT processes and systems. Particular attention should be given to ensuring that staff are aware of, and understand, the IT controls being implemented, as well as their roles and responsibilities in this regard.

Where IT controls have been embedded and are functioning effectively, management should ensure that the IT controls that have been designed and implemented are functioning effectively at all times. Management should sustain these IT controls through disciplined and consistently performed daily, monthly and quarterly IT operational practices.

The status of IT controls (figure 24) demonstrates that there have been improvements since the previous financial year. However, some auditees are still experiencing challenges in all areas, excluding IT governance, and should therefore prioritise the design and implementation of the required controls.

The analysis in this section is based on 17 auditees as the IT controls of Free State Fleet Management Trading Entity are evaluated as part of Police, Roads and Transport.

Information technology governance

Effective IT governance ensures that the organisation's IT control environment functions well and enables service delivery. Figure 25 shows that most auditees are in process with the implementation of the framework.

All departments and entities are required to adopt and implement the IT governance framework and guidelines within the next three financial years. In the 2013-14 financial year, the implementation of phase 1 should be prioritised. As the legislatures have opted to develop their own IT governance framework, management should prioritise the design and implementation of an alternative governance framework.

Security management

A secure IT environment ensures confidentiality, integrity and availability of critical IT systems and business processes.

While 12% of the auditees had IT controls that are embedded and functioning effectively, figure 25 shows that 82% of the auditees continued to experience challenges with design and 6% with the implementation of security management policies. Management should prioritise the design and implementation of the security management policies to lessen the risk of unauthorised access to, and unavailability of, IT systems.

User access management

User access controls are measures designed by business management to prevent and detect the risk of unauthorised access to, creation or amendment of, financial and performance information stored in the application systems.

The provincial treasury designed the transversal user access policies in the 2011-12 financial period. Figure 25 shows that 35% of the auditees continued to experience challenges with the design of their own policies as they either had not adopted the policies designed by the provincial treasury or had not adequately designed their own policies. Furthermore, 65% of the auditees continued to experience challenges with implementing certain aspects of the policy. As a result, user access rights and controller activities were not consistently monitored.

Information technology service continuity

IT service continuity controls enable institutions to recover the critical business operations and application systems that would be affected by disasters or major system disruptions within reasonable time frames.

While 5% of the auditees had IT controls that are embedded and functioning effectively, figure 25 shows that 71% of the auditees continued to experience challenges with design and 24% with the implementation of appropriate disaster recovery plans. In the case of departments, the data hosted on their transversal systems is available at the disaster recovery (DR) site of the State Information Technology Agency (SITA). However, the risk of non-connectivity to SITA's DR site remains due to departments' lack of participation in SITA's annual DR testing exercise. At the entities, as well as at the legislature, management should prioritise the design and implementation of the IT service continuity controls to lessen the risk of unavailability of systems or lack of completeness of data in the event of major system disruptions or data loss.

Figure 27:
Number of auditees
with indicators of
financial health risks
(all auditees)

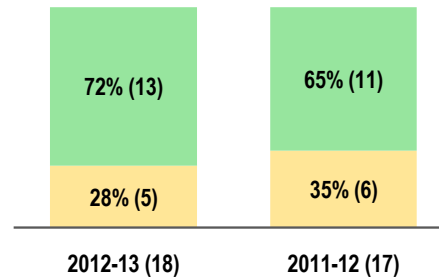
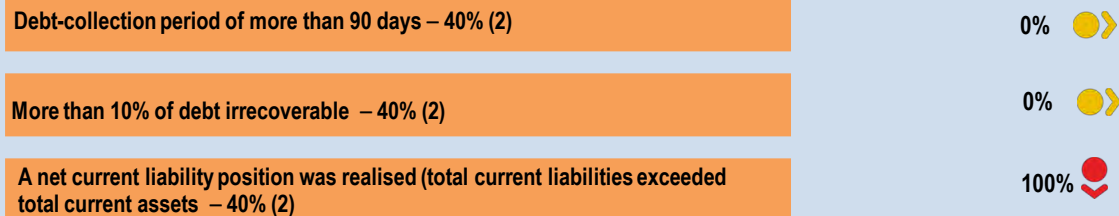
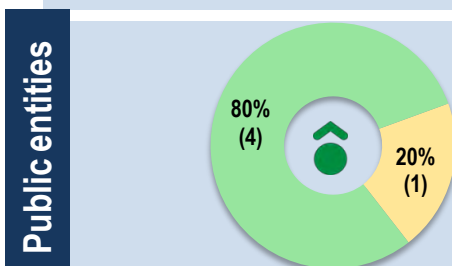
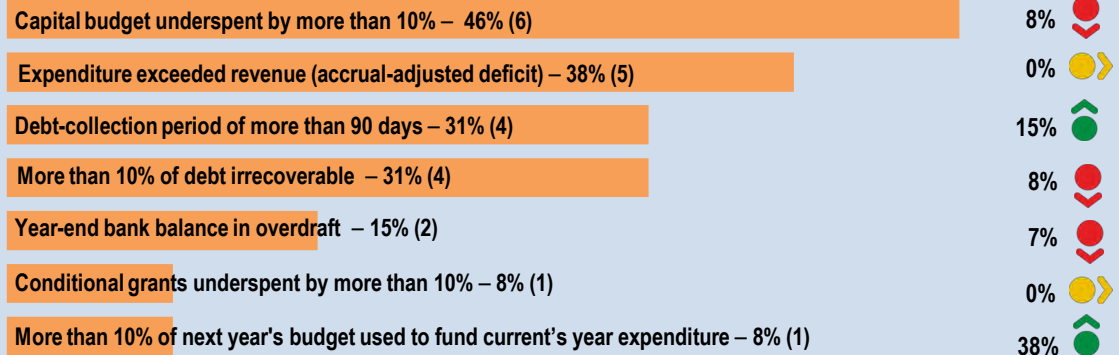
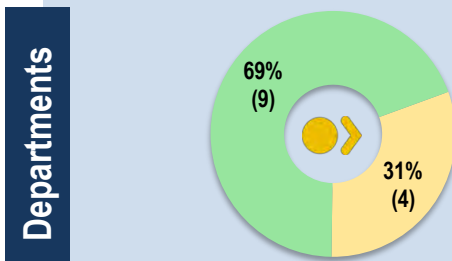


Figure 28: Number of auditees with
indicators of financial health risks



3.5 Financial health

Our audits included a high-level analysis of auditees' financial indicators to provide management with an overview of selected aspects of their current financial management and to enable timely remedial action where the auditees' operations and service delivery may be at risk.

Figure 27 indicates the number of auditees that had more than two of the indicators discussed in this section and figure 28 indicates the split between departments and public entities. The Free State Development Corporation is excluded from this analysis for 2011-12 as they had received a disclaimer of opinion in the previous year.

The number of auditees without financial health risk indicators improved by 7% compared to the previous year.

Figure 29 shows the areas of financial health concerns for departments and public entities and the movement since the previous year. The indicators are discussed in the rest of this section.

Financial management by departments on the modified cash basis of accounting

Departments prepare their financial statements on the modified cash basis of accounting. This means that the expenditure disclosed in the financial statements is only what was paid during the year and does not include accruals (the liabilities for unpaid expenses) at year-end. As part of the financial health analyses, we reconstructed the financial statements to determine whether the departments' surpluses at year-end would also be evident in an accrual-based environment. We also assessed the impact of the unpaid expenses at year-end on the following year's budget.

Five departments (38%) incurred an accrual-adjusted deficit (expenditure exceeded revenue), namely Agriculture, CoGTA, Education, Human Settlements and Social Development. This indicates that these departments might not be able to settle their liabilities in the normal course of business and the amount of unauthorised expenditure incurred could have been significantly higher had accruals been paid before year-end.

For one department (8%) more than 10% of the next year's budget was required to fund current year expenditure and therefore less budget would be available for next year's service delivery. This is however a significant improvement of 38% since the previous year. The year-end bank balances were in overdraft at two auditees (15%), namely departments of Agriculture and Education.

As a result, the above analysis poses service delivery risks, including the following:

- Cash flow problems impact directly on service delivery and infrastructure projects.
- Contractors and suppliers are not paid in time so services and goods might not be supplied.

The negative indicators above are as a result of inadequate budget planning and management, as well as the timing of debt and creditor payments,

Underspending by departments of capital budgets and conditional grants received

The capital budget was underspent by more than 10% at six departments (46%), namely Agriculture, CoGTA, Health, Human Settlements, Premier and provincial treasury. Conditional grants were underspent by more than 10% at one department (8%), Health. This is a matter of concern as spending on conditional grants and infrastructure directly impacts on service delivery. An even greater concern is that there has been a regression of 8% from the previous year with regard to the underspending of capital budgets as it results in a continually growing backlog in service delivery and infrastructure. This is fuelled by the cash constraints currently being experienced by departments.

Debt management

Various auditees are experiencing cash flow constraints. This is, in part, due to the poor debt collection of amounts owed to both the departments and public entities. Although there has been an improvement since the previous year, four departments (31%) and two public entities (40%) still take longer than 90 days to collect outstanding amounts and more than 10% of the debt is considered irrecoverable, respectively. This is due to a lack of effective and appropriate steps to collect all money due to the auditees mentioned above.

Financial health risks at public entities

Overall, the financial health of the public entities in the province has improved since the previous year. A net current liability position was realised at two public entities (40%). However, none of the public entities had bank balances in overdraft, were in a net liability position (total liabilities exceeded total assets) or realised a deficit (total expenditure exceeded total revenue). The entity with findings in all three areas was the Free State Tourism Authority, which is of concern.

SECTION 4: INTERNAL CONTROLS AND ROOT CAUSES OF AUDIT OUTCOMES

Figure 30: Movement in drivers of internal control

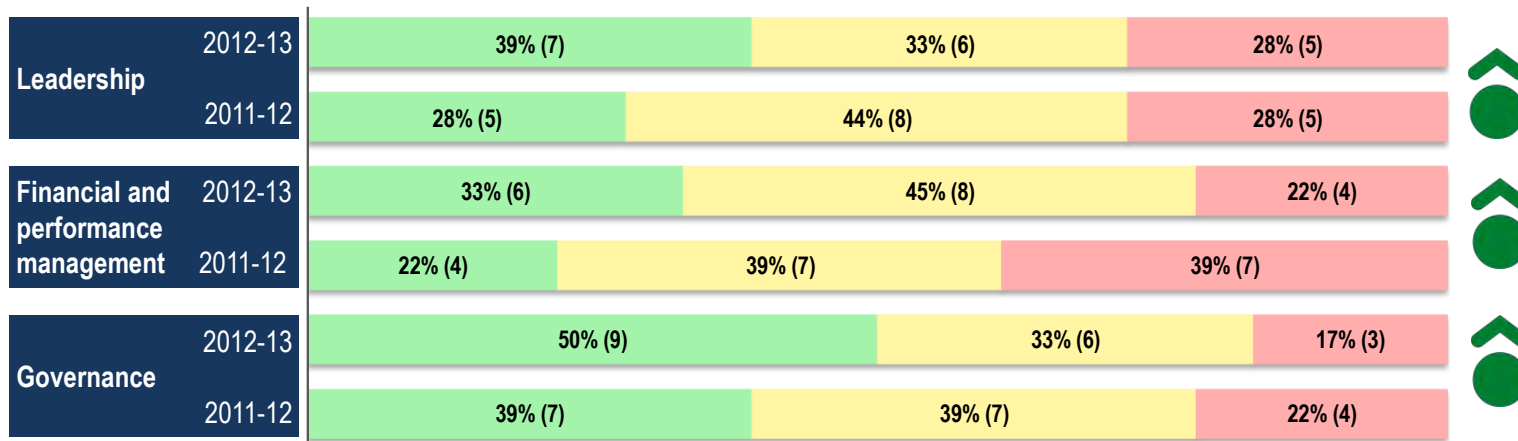
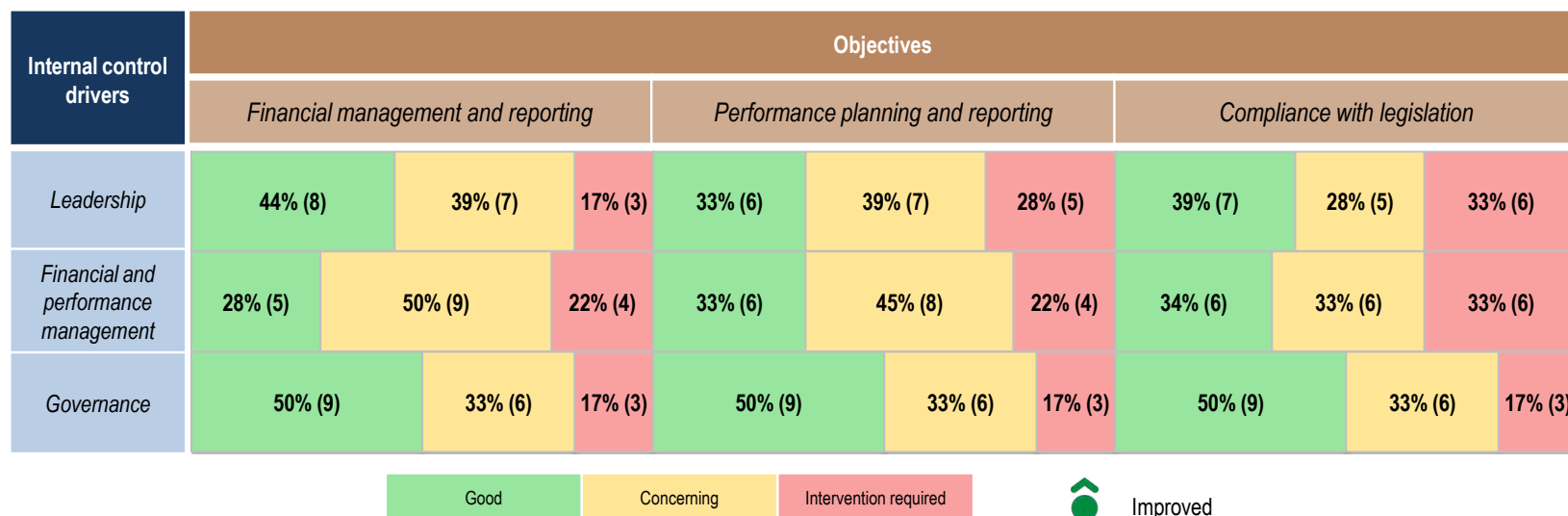


Figure 31: Objectives on which drivers of internal control have an impact



4.1 Significant deficiencies in internal controls

A key responsibility of accounting officers and authorities, senior managers and officials is to implement and maintain effective and efficient systems of internal control. As part of our audits, we assessed the internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. To make it easier to implement corrective action, we have categorised the principles of the different components of internal control under leadership, financial and performance management, and governance. We call these *the drivers of internal control*. This section provides more information on these drivers of internal control.

Status of drivers of internal control

Figure 30 provides an overall assessment of the drivers of internal control and the movement since the previous year, based on the significant internal control shortcomings identified during the audits that had resulted in material misstatements in the submitted financial statements, performance reports of a poor quality as well as findings on non-compliance with legislation.

Figure 31 assesses financial management and reporting, performance planning and reporting, and compliance with legislation.

Based on this assessment, we highlight the following:

- Overall, there has been an improvement in key controls compared to the previous year. However, the key controls under leadership as well as financial and performance management at more than 60% of auditees are still assessed as “concerning” or “intervention required”.
- It is evident that the basic daily and monthly controls were not in place or not functioning effectively in all three areas of financial management, performance reporting and compliance with legislation. Leadership oversight was also not effective in these three areas. The slow progress towards clean audits in the province can be directly attributed to this. This brings into question the sustainability of the current audit opinions.

Auditees should attend to the following elements of internal control in order to improve their internal controls.

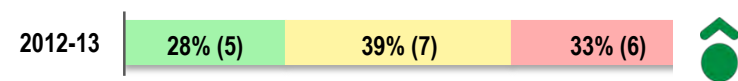
Leadership oversight responsibility falls under the leadership driver in figure 30 above, while regular, accurate and complete reports as well as review and monitoring of compliance with laws and regulations falls under the financial and performance management driver.

Leadership exercise oversight responsibility



Political and administrative leadership should accept responsibility to ensure that a strong control environment is in place and should take immediate action in instances of identified non-compliance with legislation or failure to perform duties by management and staff. Oversight responsibility was only effective at five (28%) of auditees, which equates to a stagnation.

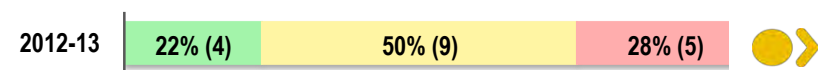
Prepare regular, accurate and complete reports



Management’s responsibility to account for finances and performance of auditees is not limited to the annual financial statements and performance report. Management should also prepare regular (monthly and quarterly), accurate and complete financial and performance reports for the accounting officer or authority, the member of the executive council (MEC), where required, and monitoring institutions such as the treasuries. In-year reporting helps to prevent misstatements in the year-end reports and to detect non-compliance with legislation.

Only five (28%) of the auditees have successfully implemented this key control and there has been slight improvement since the previous year. Although auditees were carrying out quarterly performance reporting and monthly financial reporting, the performance reports and financial statements of most auditees were inaccurate or incomplete, resulting in material amendments to the annual performance report and financial statements.

Review and monitor compliance with laws and regulations



Auditees should have mechanisms that assess the requirements of legislation and implement processes to ensure compliance with legislation. As detailed in section 2.3, many auditees did not comply with legislation and significant irregular expenditure was again incurred in the province. This is linked to the inadequate key controls existing at 78% of auditees, which is a stagnation.

Management should introduce compliance checklists; and monitoring should take place at monthly intervals by dedicated staff members to prevent non-compliance.

Annexure 3 details the status of auditees' key controls and the movement since the previous year.

4.2 Summary of root causes

Our audits included an assessment of the root causes of audit findings, based on identifying the internal controls that had failed to prevent or detect the error or non-compliance. The root causes had been confirmed with management and reported in the management report issued to the accounting officer and shared with the MEC. We also included the root causes of material findings reported in the audit report as internal control deficiencies in the audit report, classified under the key drivers of leadership, financial and performance management, or governance.

As reported in section 2, many auditees did not get a clean audit outcome as their financial and performance reports were of a poor quality and they had high levels of non-compliance with legislation. The information that follows summarises the three most common root causes of the audit outcomes, provides recommendations to address the root causes and identifies the role players responsible for addressing such root causes.

Instability and vacancies in key positions supporting the chief financial officer, head of supply chain management and manager responsible for predetermined objectives, as well as vacancies at district level

Detail of root cause

We identified instability and vacancies in key positions supporting the CFO, head of SCM, manager responsible for PDOs, as well as vacancies at district level, to be root causes of poor audit outcomes at 12 (67%) of the auditees. We had also identified them as root causes last year, but there has been little improvement in this regard. Prolonged vacancies and instability at the finance unit made it difficult for some departments to produce accurate financial statements. Instability at SCM units affected the pace at which the action plans to address SCM weaknesses and prevent irregular expenditure could be implemented. Furthermore, instability and vacancies also negatively impacted on service delivery and the reporting thereof.

This root cause stems from the number of auditees with findings on the management of vacancies as reported in section 3.3 to this report. The most common findings on the management of vacancies and acting positions were employees acting in higher positions for more than 12 months as well as senior management positions that were vacant for more than 12 months.

Recommendations

The following actions should be taken to address the root cause:

- The leadership should ensure stability in key positions.
- The leadership should prioritise the filling of key positions with people that have the necessary qualifications, experience and competency levels to fulfil their responsibilities and exercise their powers effectively.

Slow response by leadership

Detail of root cause

There was a slow response by the leadership and management to address previous year audit findings at 11 auditees (61%). We had also identified this as a root cause last year, however, adequate progress has not been made in this regard.

This is evidenced by the fact that the basic daily and monthly key controls, as well as the monitoring thereof, had still not been implemented effectively at more than 60% of auditees, as detailed in section 4.1. Refer also to section 5 where it is indicated that the different assurance providers did not provide the required level of assurance at all auditees.

Recommendations

The following actions should be taken to address the root cause:

- The leadership should create a control environment that is conducive to accountability and oversight, while decisive action plans with clear time frames should be in place to address the root cause of findings.
- The leadership should ensure that regular internal controls, such as daily, weekly, monthly and quarterly reporting and reviews by senior management and internal audit units are functioning effectively in areas of financial management, compliance and performance reporting.

- The leadership should review and report on non-compliance to the accounting officer/authority on a monthly basis. Instances of non-compliance must be effectively investigated and addressed.

Lack of consequences for poor performance and transgressions

Detail of root cause

There was a lack of consequences for poor performance and transgressions at 10 auditees (56%). We had also identified this as a root cause last year, however, adequate progress has not been made in this regard.

The leadership did not always hold staff accountable for poor performance and transgressions and this creates the perception that these results are acceptable and tolerated. This is evidenced by the following:

- Material misstatements were identified in the financial statements submitted for auditing, as detailed in section 3.1.
- Significant non-compliance findings were reported with limited improvement since the previous year, as detailed in section 2.3, and the majority of auditees again had findings on SCM (section 3.2).
- The province also incurred significant irregular expenditure (refer to section 2.3).
- Staff were not always held accountable for poor service delivery in the province. This is evidenced by the fact that many auditees did not achieve 20% or more of their planned targets, as indicated in section 2.2.

Recommendations

The following actions should be taken to address the root cause:

- The leadership should set a tone showing a willingness to accept accountability for financial and performance management throughout the year.
- The leadership should instil a culture of ethical behaviour and ensure that everyone understands, respects and adheres to laws and regulations.
- Performance should be actively and continuously monitored and action taken where poor performance and transgressions are detected.

4.3 Formal control over information technology systems

Most common root causes

A lack of skills to appropriately design and implement controls for IT systems to regulate security management, user access management and IT service continuity remained a challenge. This challenge was worsened by the following inefficiencies:

- Budget constraints prevented the upskilling of staff to enable them to develop and implement the required policies and procedures.
- The respective roles and responsibilities of the Free State departments and the provincial treasury, in terms of the user account review processes, were not clear.
- Business continuity plans (BCP) had not been established to drive the development and testing of the disaster recovery plan (DRP).

- The Department of Public Service and Administration (DPSA) presented on the implementation guidelines to the IT provincial leadership in early October 2013 to further explain the requirements of the framework and the deliverables to be implemented per phase.
- The provincial treasury has developed guidelines for user access management on the transversal systems.

The following actions should be taken to address the root causes:

- Management should reallocate the budget to ensure the availability of funds for the upskilling of IT staff to enable the implementation of key controls, such as the development of policies and procedures and the implementation of DRPs.
- Management should enforce consequence management for the non-resolution of repeat IT findings.
- The PGITOC should track the transversal audit findings in the province and facilitate the discussion and tracking of resolutions by this forum to eliminate such findings.
- The heads of department (HoDs) should ensure that their respective departments formally adopt and comply with the transversal policies and procedures developed by the provincial treasury. Consequence management or zero tolerance of non-adherence to policies and procedures should be introduced as part of the performance management process.
- Management should develop the BCP as the DRP is dependent on it. The annual mainframe disaster recovery tests for transversal systems undertaken by SITA should be properly communicated and there should be consequences for not participating in these tests.

Recommendations

The following actions have been recommended to address the root causes and have subsequently been implemented after the management reports were issued:

- The provincial government information technology officer council (PGITOC) forum (chaired by the Department of the Premier) is responsible for facilitating knowledge sharing within the provincial departments. The IT governance framework, IT security policy and DRP templates have been placed on the provincial website for adoption and adaptation by the departments.

SECTION 5: IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

Figure 32: Assurance provided by key role players

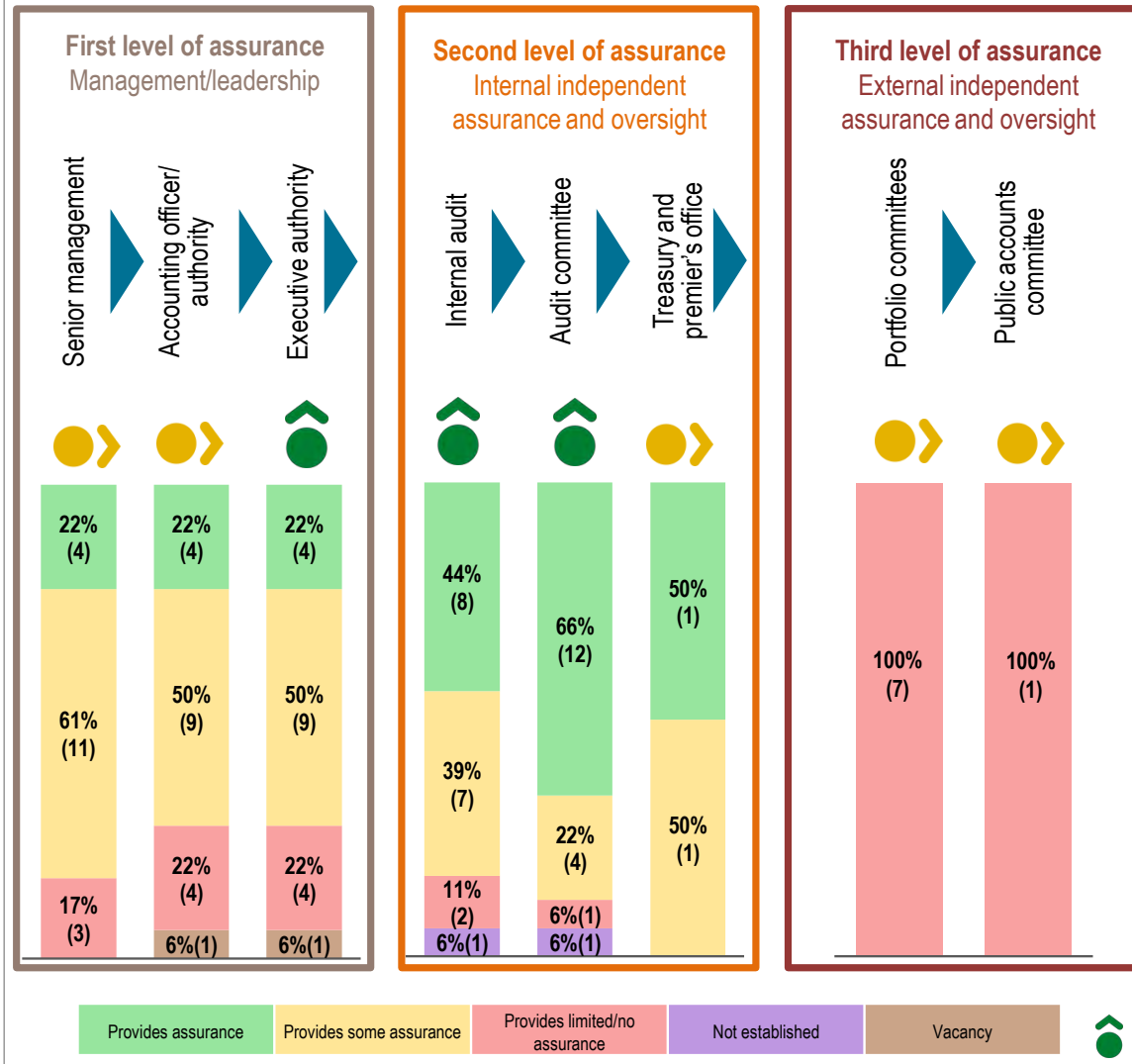
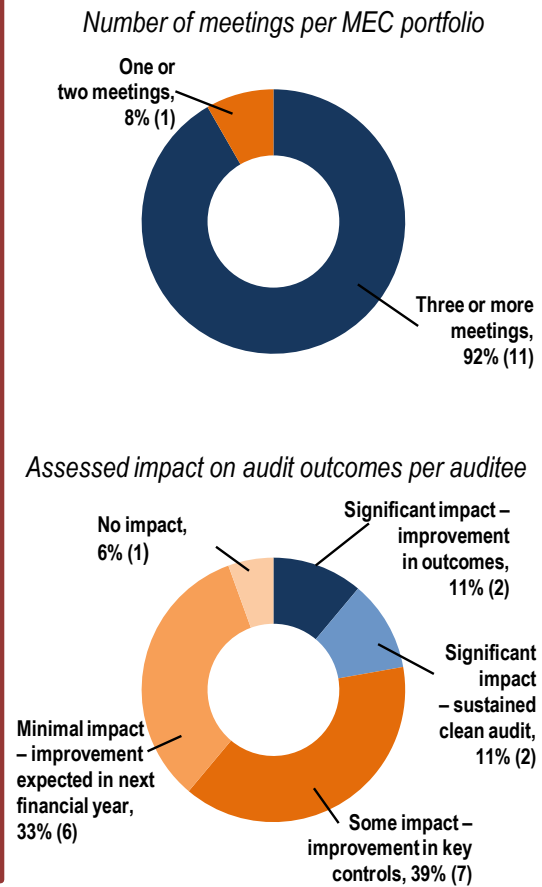


Figure 33: Interactions with MECs and assessed impact thereof



5. Initiatives and impact of key role players on audit outcomes

MECs and accounting officers use the annual report to report on the financial position of auditees, their performance against PDOs and overall governance, while one of the important oversight functions of legislatures is to consider auditees' annual reports. To perform their oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report also includes our audit report, which provides assurance on the credibility of the financial statements and the annual performance report as well as the auditees' compliance with legislation.

In addition to the AGSA, other role players also contribute to the credibility of reported financial and performance information and compliance with legislation, by ensuring that adequate internal controls are implemented.

These role players are discussed in the rest of this section and have been categorised as follows: (1) those directly involved with the management of the auditee (management/leadership assurance); (2) those that perform an oversight or governance function, either as an internal governance function or an external monitoring function (internal independent assurance and oversight); and (3) the independent assurance providers that give an objective assessment of the auditee's reporting (external independent assurance and oversight).

We assessed the level of assurance provided by the role players based on the status of internal controls of auditees and the impact of the different role players on these controls. In the current environment, which is characterised by inadequate internal controls, corrected and uncorrected material misstatements in financial and performance information, and widespread non-compliance with legislation, all role players should provide an extensive level of assurance.

Figure 32 shows the assessed level of assurance provided by key role players. An overview of the assurance provided by each of the three levels of assurance providers follows.

First level of assurance: Management/leadership

Senior management

Only four role players at the first level of assurance fully provided the required level of assurance, namely the Department of the Premier, provincial treasury, legislature and Fleet Management Trading Entity. The majority of senior

management only provided some assurance and significant strides will have to be made if the required level of assurance is to be provided for credible decision-making. Accounting officers and MECs are relying on senior management, which includes the CFO, chief information officer (CIO), performance manager and head of the SCM unit, for implementing basic financial and performance management controls. These controls include the following:

- Ensure proper record keeping so that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with applicable laws and regulations.
- Design and implement formal controls over IT systems.

The poor status of these internal controls, as reported in section 4.1, shows that inadequate assurance was provided. It is of concern that senior management's representations to us at the start of each audit, including those relating to the quality of the financial statements submitted for auditing, continue to be unreliable. It highlights the risk that decisions taken by accounting officers and MECs could be based on incomplete and incorrect information provided by senior management.

The HR management challenges outlined in section 3.3 should be addressed to strengthen the assurance provided by senior management. Vacancies need to be filled and senior management members should be held accountable for the execution of their responsibilities through a strict and proper system of performance management.

Accounting officer or accounting authority

The level of assurance provided by the accounting officers (heads) of departments and the accounting authorities of public entities is similar to that of senior management; and their impact on creating an effective control environment was not evident at most auditees. As reported in section 4.1, there was an improvement in the status of those internal controls for which accounting officers and authorities are responsible, but their leadership, planning, risk management, oversight and monitoring should further improve to result in sustainable practices that translate into improved audit outcomes.

Although accounting officers and authorities depend on senior management for designing and implementing the required financial and performance management controls, they should create an environment that helps to improve such controls by focusing on the following:

- Provide effective and ethical leadership, and exercise oversight of financial and performance reporting and compliance with legislation.
- Implement effective HR management to ensure that adequate and sufficiently skilled staff are employed and that performance is monitored.
- Establish policies and procedures to enable sustainable internal control practices, and monitor the implementation of action plans to address internal control deficiencies.
- Establish an IT governance framework that supports and enables the achievement of objectives, delivers value and improves performance.
- Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
- Ensure that the internal audit units are adequately resourced and functioning and that internal audit reports are responded to by implementing their recommendations.
- Support the audit committee and ensure that its reports are responded to by implementing their recommendations.

Executive authority

The executive authorities in the province are the MECs. The level of assurance provided by the executive authority is similar to that of accounting officers (heads) of departments and the accounting authorities of public entities and their impact on creating an effective control environment was not evident at most auditees. They have a monitoring and oversight role in their portfolios and play a direct role at departments, as they have specific oversight responsibilities in terms of the PFMA and the Public Service Act. They therefore need to ensure that strategies and budgets are aligned to the mandate and that objectives are achieved. They can bring about improvements in the audit outcomes by becoming more actively involved in key governance matters and by managing the performance of the accounting officers and authorities. Our assessment that most MECs did not provide the required level of assurance is based on the poor status of the leadership controls (as detailed in section 4.1) and the impact of MECs on audit outcomes as observed through our regular interactions with them.

In the past three years, we have increasingly engaged with MECs on how they can bring about improvements in the audit outcomes of their portfolios. At these interactions, we discuss the status of key controls and MECs' commitments to improve audit outcomes, while also sharing identified risks. The meetings improve MECs' understanding of the audit outcomes and messages and also address the progress of interventions to ensure a positive impact on these audit outcomes.

As shown in figure 33, the MECs met with us as committed. The engagements were well received, but these interactions have not yet had a significant impact on the audit outcomes. However, the building blocks were in place for improvements in key controls, which should lead to improved outcomes. The low impact of our interactions with some MECs was due to frequent leadership changes, resulting in the implementation of commitments being disrupted as well as a slow response by the leadership to our message. (Section 6 provides more detail on the interactions with the MECs.)

On the other hand, it could also mean that our conversation has not been compelling and persuasive enough. We therefore undertake to continue with the quarterly engagements, but with greater emphasis on quality conversations with an increased impact.

Second level of assurance: Internal independent assurance and oversight

Internal audit

Internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation. Internal audit units were in place at all auditees, except for the Free State Tourism Authority. Although most were not yet providing the extensive assurance required, there has been some improvement since the previous year. The operations of only 18% (Health, Central Medical Trading Account and Gambling and Liquor Authority) of the internal audit units were not fully compliant with the requirements of the PFMA, while the work of most of the units covered all the required aspects. However, exceptions are the 29% of the units that did not evaluate reliability of financial information and the 24% that did not evaluate information systems.

In some instances, well-resourced and effective internal audit units have helped to improve internal controls, but overall the impact of these units on audit outcomes was fairly limited. Only 47% had a positive impact on audit outcomes, while the

lack of impact of 53% of the units was as a result of management not addressing the internal audit findings.

Internal audit units can only be effective if they are adequately resourced, audit committees oversee and support their operations and accounting officers and senior management cooperate and respond to their advices and recommendations.

Audit committee

An audit committee is an independent body that advises the accounting officer or authority, senior management and the MEC on matters such as internal controls; risk management; performance management as well as the evaluation of, and compliance with, legislation. The committee is further required to provide assurance on the adequacy, reliability and accuracy of financial reporting and information.

Audit committees were in place at all auditees, except Free State Tourism Authority. The operations of only 18% (Agriculture, Health and Central Medical Trading Account) of the audit committees were not fully compliant with the requirements of the PFMA, while the work of most of the committees covered all the required aspects. This is mainly as a result of the cluster audit committees addressing shortcomings reported in the previous year. However, exceptions were noted at one audit committee (6%) in each of the following instances as they did not evaluate: compliance with legislation (Central Medical Trading Account), information systems (CoGTA) and reliability of financial and performance information (Agriculture). Overall, 76% of the audit committees had a positive impact on the audit outcomes, as can be seen from the high levels of assurance provided in the current year.

For audit committees to provide the required level of assurance as second-level assurance providers, they depend on the reliability of the assurance provided by senior management and internal audit units. The lower the assurance level provided by these two role players, the more difficult it is for audit committees to accurately assess the control environment of the auditee, including being assured that all significant risks are being reduced.

Provincial treasury and premier's office

The provincial treasury continued to focus on its core functions and responsibilities emanating from the PFMA by:

- facilitating effective and efficient management of provincial assets, liabilities and financial management systems

- promoting accountability and transparency through substantive reflection of financial activities of the province as well as effective compliance with prevailing financial norms and standards
- promoting the use of government service delivery as a catalyst for enhanced economic growth and development and social equity.

The provincial treasury managed to effectively discharge its responsibilities and also assisted departments in equipping them with the required skills to ensure that key controls are supervised. As in the previous year, the provincial treasury provided assurance during the year under review.

The Department of the Premier once again provided some assurance, however, this can be improved if the premier's office fully complies with its mandate by providing adequate oversight.

The premier's office and the provincial treasury should continue fulfilling their functions to ensure sustainable improvements by continuing to assist, guide and monitor departments.

Key role players	Commitment	Progress	Impact
Provincial executive leadership	2010-11 commitments		
	Address non-performance and ensure performance contracts of senior management		
	Attraction and retention of skills and competencies		
	Assist the portfolio committees in fulfilling their oversight responsibilities		
	Quarterly meetings with the AGSA on the key control matrix		
	Assign the responsibility for predetermined objectives and compliance matters		
	2011-12 commitments		
	Reliable financial and service delivery reporting will be done monthly		
	2012-13 commitments		
	Departments will not be allowed to incur irregular expenditure		

Key role players	Commitment	Progress	Impact	
Provincial Treasury	2010-11 commitments			
	Enhanced support and guidance to departments and entities in follow-up of audit outcomes			
	Effective utilisation of the key control matrix to promote and enforce compliance			
	2011-12 commitments			
	Monthly departmental reporting on the progress of investigations into irregular and fruitless and wasteful expenditure			
	An integrated support plan (capacity building) will be developed in conjunction with National Treasury			
Progress	Complete	In progress	Not implemented	New commitment
Impact	Significant impact	Limited impact	No impact	Impact not assessed yet

Third level of assurance: External independent assurance and oversight

Portfolio committees and public accounts committees

None of the portfolio committees met on a regular basis to fulfil their mandated role to monitor, investigate and make recommendations relating to any aspect of

the legislative programme, budget, rationalisation, restructuring, functioning, organisational structure, personnel, policy formulation or any other matter which they may consider relevant, of the government department or departments falling within the category of affairs assigned to the department.

The portfolio committees should meet on a regular basis, issue resolutions to departments, follow up on these resolutions and, where needed, exercise accountability and get to the bottom of why resolutions are not implemented.

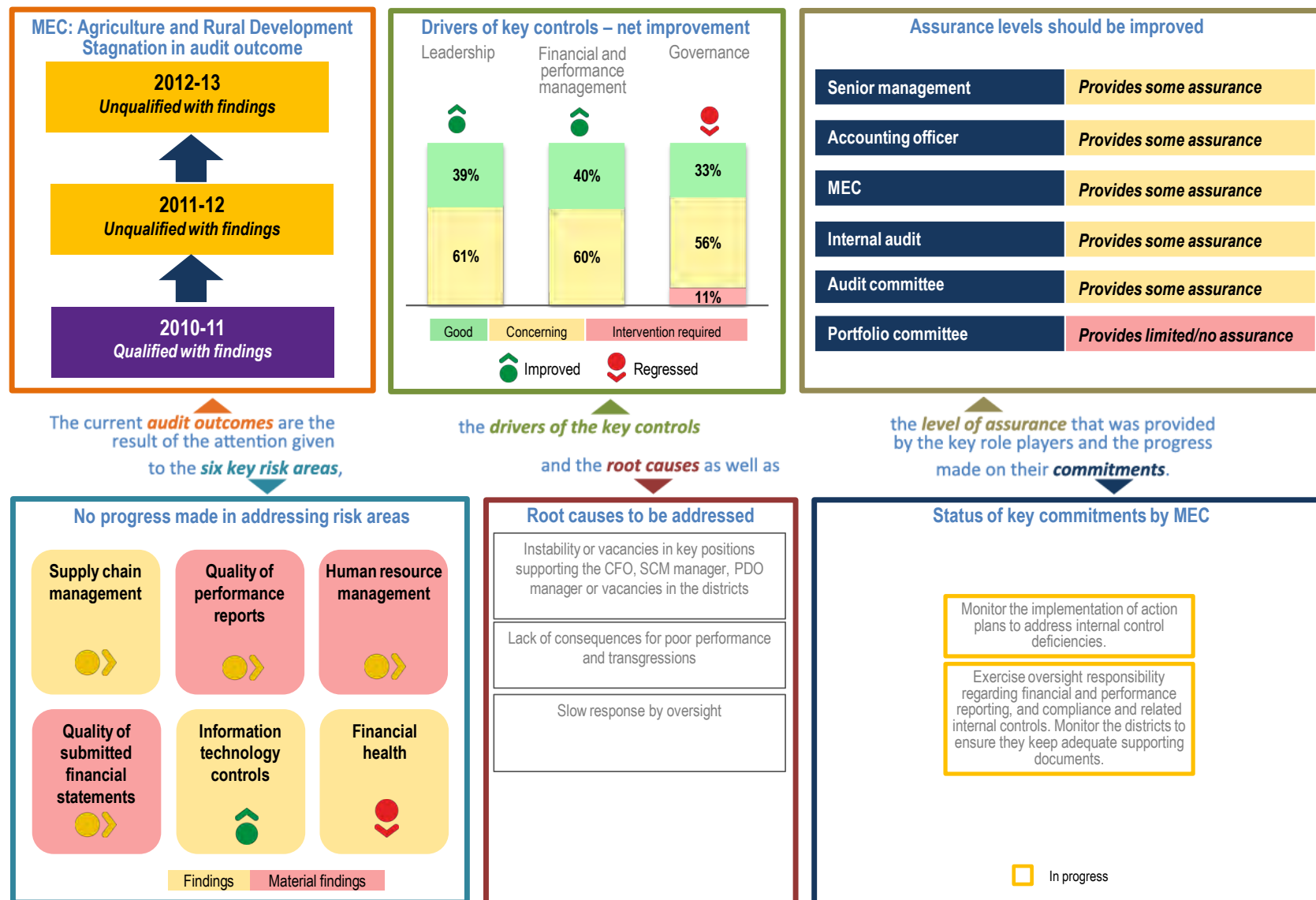
The public accounts committee is a legislative committee that is mandated to hold government accountable for its spending of public funds and its stewardship over public resources. The public accounts committee examines audit reports and summons government officials to answer to audit queries. In the province, the public accounts committee did not develop its recommendations in a timely manner and table its reports in the Free State Provincial Legislature. Of concern is that the public accounts committee met too late, therefore the resolutions were issued too late for implementation and oversight from their side.

The level of assurance provided by the portfolio committees and the public accounts committee remains unchanged from the previous year and the resulting low impact on audit outcomes continues.

Key role player	Commitment	Progress	Impact
Provincial public accounts committees	2010-11 commitments		
	Arrange IT workshop for attendance by relevant provincial staff		
	Monitoring of performance information	Late finalisation and issuing of resolutions	
	Conflict of interest follow-up		
Progress	Not implemented	Impact	No impact

SECTION 6: AUDIT OUTCOMES OF INDIVIDUAL PORTFOLIOS

6.1 Agriculture and rural development



Auditees included in the portfolio

■ Department of Agriculture and Rural Development

Stagnation in audit outcome

The stagnation in the audit outcome of the Department of Agriculture and Rural Development was caused by not addressing the prior year findings on non-compliance matters and performance information. We identified additional findings on non-compliance in respect of liability management, budget and revenue management. In respect of performance information, we identified a new finding relating to the usefulness of information.

Six key risk areas

The department maintained its audit outcome due to lack of progress in addressing the key risk areas, most notably in areas of HR management, quality of performance reports and the quality of the submitted financial statements where repeated material findings had been reported in the audit report. Although improvement has been noted in the area of IT controls, SCM is still a concern even though these findings were limited to the management report matters. Financial health showed a regression due to findings reported on more than two indicators that we focused on during the analysis.

Going forward, the department should focus on improving the usefulness and reliability of performance information from its district offices, non-compliance with laws and regulations, monitoring and evaluation of the implementation of IT controls. Verification and reporting on assets, if not properly addressed, could result in regression due to limited effort being made during the year to address the accuracy of the asset register.

Key controls and root causes

The stagnation in key controls was caused partly by lack of willingness from senior management to address the governance weaknesses and to positively respond to the internal audit findings, especially in the areas of performance reporting and non-compliance matters. The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Strengthen controls over financial and performance reporting as well as compliance with laws and regulations.

- Prioritise the establishment of documented processes on performance information reporting at the district offices to enhance collection, verification and collation of information.
- Speedy appointment of an audit committee to promote accountability and service delivery.

The MEC, accounting officer, senior management and audit committee should address the root causes of inadequate controls as follows:

- Enhance oversight through regular monitoring and evaluation of supporting evidence for financial and performance reporting throughout the financial year.
- Develop a documented operating system and take remedial action against transgressors and poor performer.
- Adequately capacitate the internal audit unit, together with the appointment of the audit committee, to effectively monitor the risks and internal control deficiencies at the department.

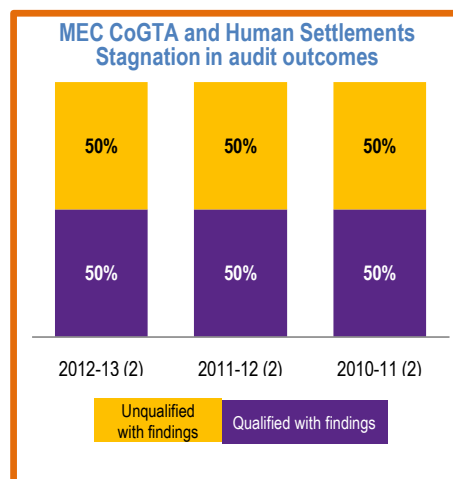
Impact of key role players on audit outcomes

The assurance levels should be improved by ensuring stability at the level of accounting officer and senior management, implementing the recommendations of internal audit and directing the work of the audit committee towards evaluating performance information.

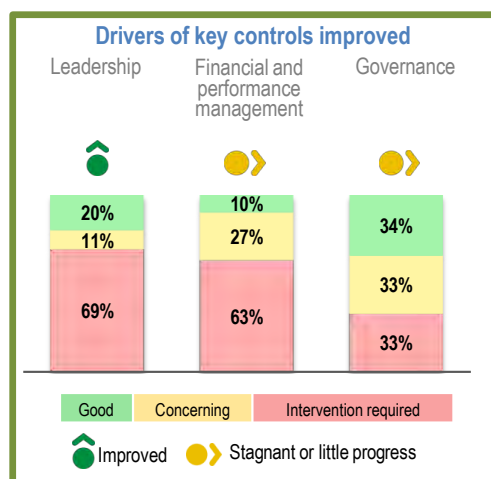
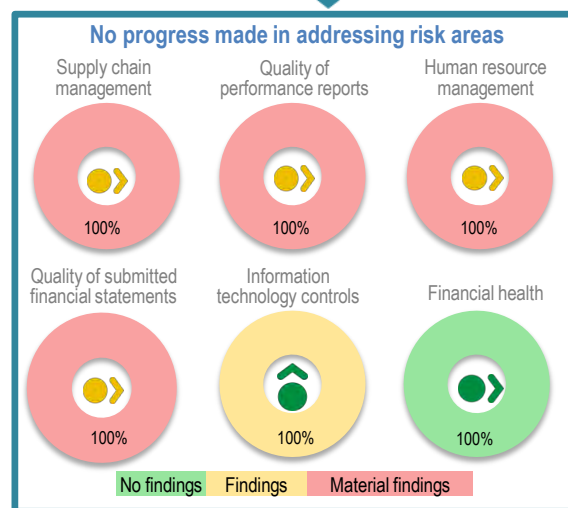
We met with the MEC four times in the past year and these interactions had some impact on the audit outcomes. The reason for our assessment was the limited improvement found in the quality of the performance information after the MEC had discussions with the various district managers. The asset management, however, did not improve at all and the impact on the outcome did not yield positive results.

Assurance provided through oversight by the portfolio committee should be improved. Although interactions with the portfolio committee improved, this did not have any impact on the audit outcomes due to lack of concentrated effort in the tabling and following up of the resolutions.

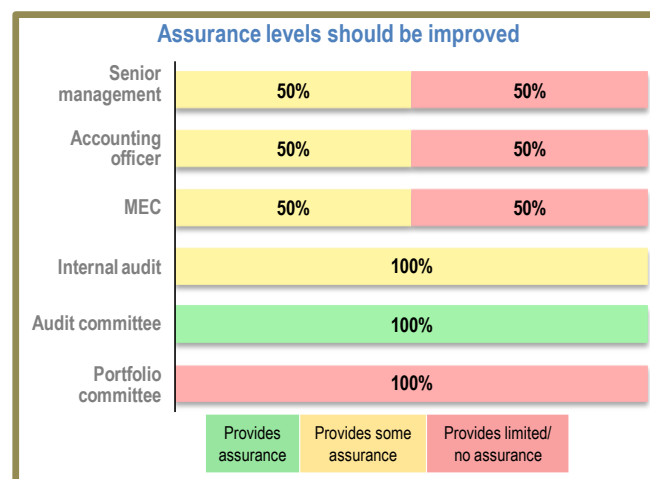
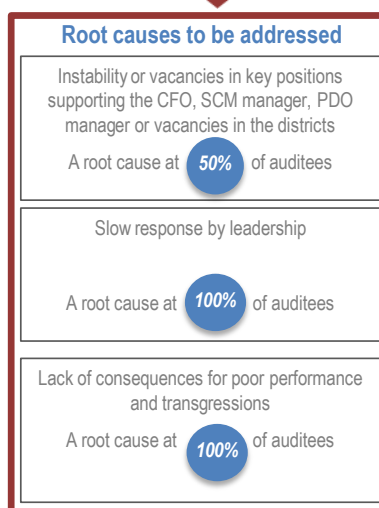
6.2 Cooperative governance and traditional affairs, and human settlements



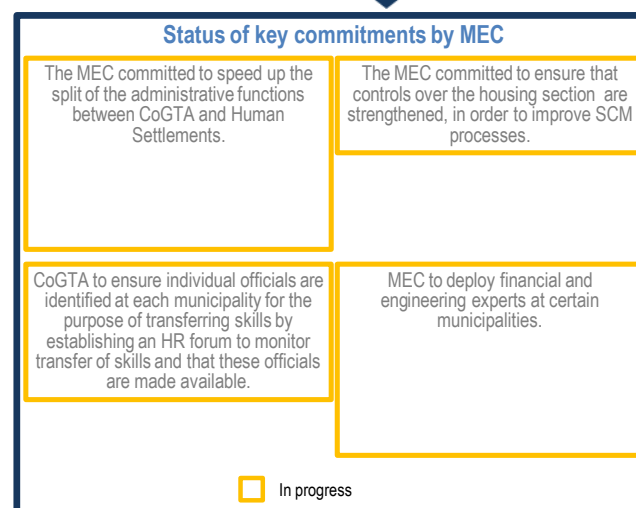
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



the **drivers of the key controls** and the **root causes** as well as



the **level of assurance** that was provided by the key role players and the progress made on their **commitments**.



Auditees included in the portfolio

- *Department of Cooperative Governance and Traditional Affairs (CoGTA)*
- *Department of Human Settlements*
- *Free State Housing Fund*

Stagnation in audit outcomes

The Free State Housing Fund received a clean audit opinion. The entity is dormant pending its dissolution, and was therefore excluded from this analysis.

The stagnation in the audit outcome of the portfolio was caused by not addressing the previous year qualification on irregular expenditure and accruals as well as non-compliance matters and the performance information findings that were reported in the previous year. Although the auditees in the portfolio addressed the findings relating to lack of supporting documentation, internal audit and expenditure, this did not have an impact on the overall audit outcome due to a significant effect of prior year findings that were not addressed.

Six key risk areas

No progress has been made in addressing key risk areas at the departments, except for an improvement of controls in the IT environment at CoGTA.

The departments have not improved on key SCM processes and the amount of irregular expenditure is still material. There were no consequences for officials responsible for not adhering to SCM processes.

The departments' planning and performance monitoring unit did not adequately monitor and evaluate performance information and thus has resulted in inaccurate and unverifiable information being disclosed in the performance report.

The quality of the financial statements submitted is a cause for concern as there were material adjustments made to all the financial statements in the portfolio.

Although the departments initiated processes for the splitting of the administration programme, this was not adequately funded. This created capacity constraints at both departments. Disciplinary processes involving senior management at Human Settlements that began in June 2012 are still ongoing and have not been resolved, which has created a vacuum in supervisory and managerial function.

Concerted effort should be made to address the deficiencies reported in these areas if improved audit outcomes are to be achieved.

Key controls and root causes

The leadership did not address HR capacity constraints, mainly at supervisory and operational levels, due to inadequate budget allocation that prevented the two departments to fully split the administration programme. Senior management did not exercise adequate oversight responsibility over financial and performance reporting and compliance with laws and regulations due to the supervisory and managerial vacuum created by prolonged suspensions and inadequate capacity.

Senior management also did not appropriately implement recommendations of internal audit and the audit committee due to lack of capacity. The auditees should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Address human resource capacity.
- Implement stringent control measures to perform regular supervisory and managerial reviews over financial and performance reporting and compliance with laws and regulations.
- Advocate the spirit of proper record keeping and the discipline of daily processing and reconciling controls.

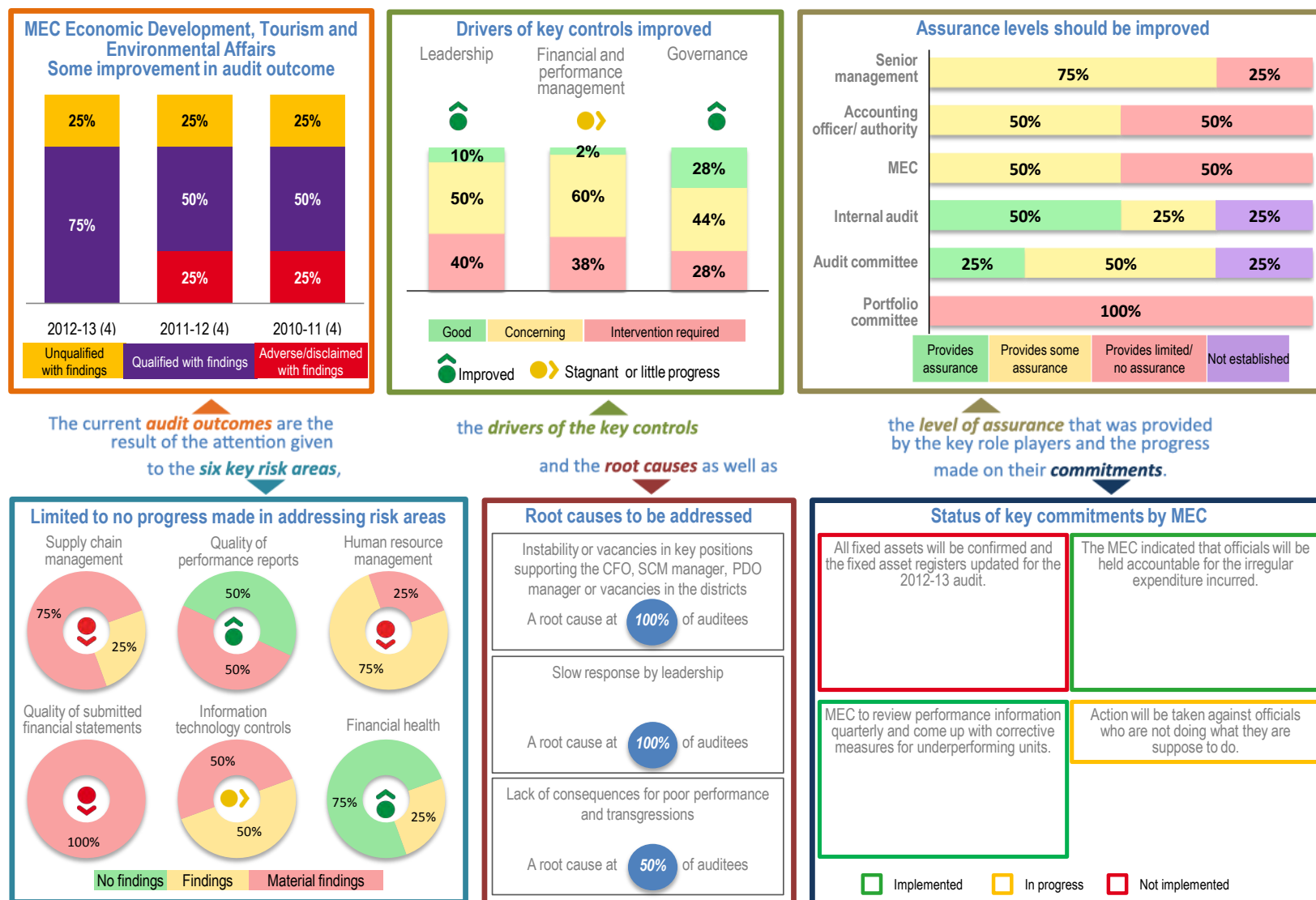
Impact of key role players on audit outcomes

The assurance levels should be improved by ensuring adequate capacity to address internal control weaknesses in the quality of financial and performance reporting. Senior management should ensure timely implementation of recommendations of internal audit and should direct the work of the audit committee towards evaluating significant risks to achievement of improved audit outcomes.

We met twice with the MEC. These interactions, however, had a minimal impact on the audit outcomes as commitments made were still in process of implementation at the reporting date.

The assurance provided through the oversight of the portfolio committee should be improved. Although interactions with the portfolio committee improved, this did not have any impact on the audit outcomes because we were not invited to portfolio meetings and could not confirm that resolutions were issued and followed up for implementation.

6.3 Economic development, tourism and environmental affairs



Auditees included in the portfolio

- *Department of Economic Development, Tourism and Environmental Affairs (DETEA)*
- *Free State Development Corporation (FDC)*
- *Free State Gambling and Liquor Authority (FSGLA)*
- *Free State Tourism Authority (FSTA)*
- *Nature Conservation Trust Fund*

Significant movement in audit outcomes

The overall audit outcomes in the portfolio reflected an improvement with one auditee sustaining clean audit, two improvements, one stagnation and one regression.

The movements in the audit outcome of the portfolio were caused by the following:

- The FDC audit outcome improved due to increased involvement and stronger oversight from the board and management. Management demonstrated greater commitment in addressing prior year audit findings relating to capital and reserves, disclosure notes, revenue, expenditure and performance information by ensuring that sufficient and appropriate audit evidence is submitted for audit purposes, and that all audit findings are responded to.
- The FSGLA audit outcome improved due to increased involvement of the chairperson of the board and the CEO to address prior year audit findings relating to irregular expenditure and non-compliance relating to audit committee and the internal audit unit.
- The DETEA audit outcome remained unchanged because the department did not sufficiently address prior year audit findings relating to assets, irregular expenditure, performance information and non-compliance due to instability and vacancies in key position in the asset management.
- The Nature Conservation Trust Fund sustained clean audit, however, it must be noted that the fund was dormant during the period under review.
- Regression in FSTA's audit outcome was caused by not addressing findings relating to revenue, performance information and non-compliance due to compromised controls on the records management system in the revenue function, inadequate oversight, vacancies in key positions and a lack of consequences for poor performance.

Six key risk areas

In general, auditees in the portfolio demonstrated limited/no progress in addressing the key risk areas. Most notably there were regressions in areas of SCM, HR management and the quality of submitted financial statements where repeated material findings were reported in the audit report. Although improvement was noted in the quality of performance reporting, material findings were reported at 50% of the entities. Financial health also reflected an improvement with 25% of the entities receiving limited findings on more than two of the indicators we focused on during the analysis. IT controls were stagnant with 50% of the auditees having material findings.

Regression in the portfolio in respect of key SCM processes remains unsatisfactory mostly as a result of the auditees not complying with the requirements to obtain three quotations in many instances, which has resulted in material irregular expenditure. However, no action has been taken against the officials responsible for not adhering to SCM processes. Of the total amount of R62,3 million reported in the portfolio in respect of irregular expenditure, 48% relates to DETEA and 41% to the FDC.

HR management also regressed as a result of repeated findings on compliance with laws and regulations.

Material misstatements in the portfolio negatively impacted the quality of the financial statements and can be attributed to vacancies in certain key positions as well as insufficient staff with adequate competencies to deal with the technical aspect of compiling GRAP-compliant financial statements in respect of the public entities which are mostly highly technical in nature.

Although DETEA and the FDC have addressed prior year findings on performance reporting, the FSGLA and FSTA – being smaller entities in the portfolio – had repeated findings due to lack of system in collecting, verifying and collating the performance information to eliminate inaccurate and unverified information being disclosed in the performance reports.

Key controls and root causes

Overall, there was an improvement in implementation of key controls as a result of improved controls in leadership and governance. However, financial management and performance reporting remained stagnant as a result of poor record management at the FSGLA and inadequate progress in addressing, processing and reconciling controls as well as compliance with laws and regulations at all the entities. The auditees should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with laws and regulations:

- Leadership stability should be a top priority on the agenda of driving clean administration for all auditees, together with filling of vacancies in key positions with specialists and technically competent staff, especially at the FDC.
- Improve controls in IT environment.
- Increased effort in implementing and monitoring the action plans.

The efforts made by the province in establishing the cluster audit committee have assisted in strengthening the governance structures for the department.

The MEC, in conjunction with the accounting officers and senior management, should address the root causes of inadequate controls as follows:

- The MEC should ensure stability of leadership within the portfolio to ensure continuous oversight of financial management and performance reporting.
- The board, accounting officers and senior managers should ensure that the action plans are implemented and monitored on a continuous basis and the feedback is provided to the MEC.
- The accounting officers should ensure that officials are held accountable for poor performance and that consequences are implemented where transgressions have been identified.
- The appointment of technically competent finance staff members, especially at the FDC, who are experienced in applying the technical requirements of the accounting standards.
- Enhanced oversight through regular monitoring and evaluation of supporting evidence for physical verification and updating of asset register for DETEA throughout the financial year to avoid further qualification.

outcome. The newly established board at the FDC appointed an audit committee and a new CEO to improve leadership and governance weaknesses.

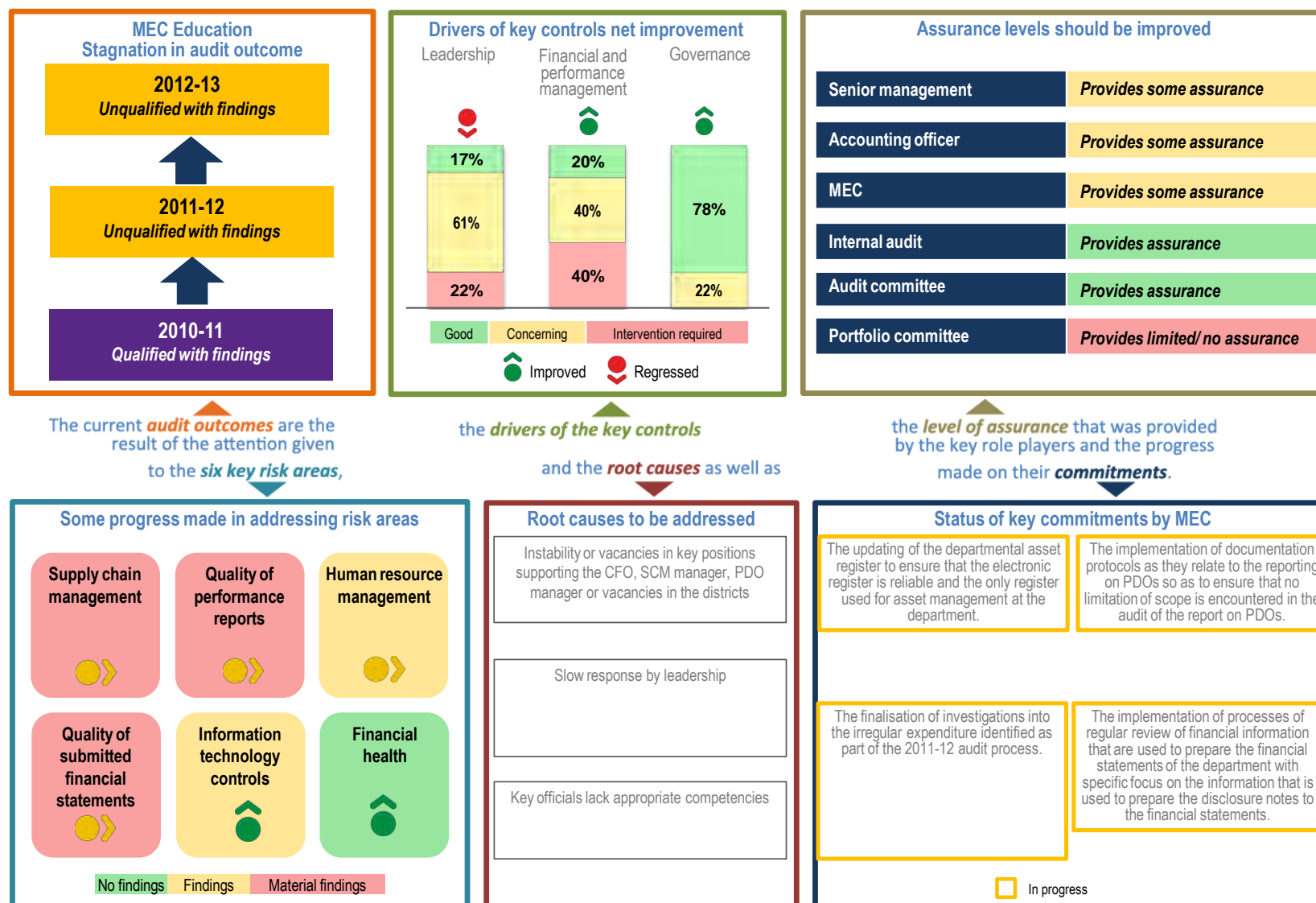
Only two portfolio meetings were attended during the year. Although the audit outcome of the FDC and FSGLA improved, the portfolio committee had limited or no impact on the audit outcome of the department and FSTA, due to lack of concerted effort in tabling, and following up on, the resolutions.

Impact of key role players on audit outcomes

The assurance levels should be improved by ensuring stability at the level of accounting officers and senior management to continuously address the internal control weaknesses and to pay attention to the implementation of the recommendations of internal audit and the action plan as well as directing the work of the audit committee towards evaluating performance information.

In total, we met with the MEC five times in the past year and these interactions had limited impact on the audit outcomes, however, improvement is expected in the next financial year. The newly appointed MEC assisted during the audit process with obtaining outstanding information from the department. The MEC, through the appointment of a new board at the FDC, influenced the improved audit

6.4 Education



Auditees included in the portfolio

■ Department of Education

Stagnation in audit outcome

The stagnation in the audit outcome of the Department of Education was caused by not addressing the non-compliance matters and the performance information findings that were reported in the previous year. Although the department addressed findings relating to non-compliance on the annual report and financial misconduct, there were new findings relating to non-compliance on budget, expenditure management as well as transfers and conditional grants.

Six key risk areas

Progress has not been made in addressing the key risk areas, most notably in the areas of SCM, quality of performance reports and the quality of the submitted financial statements where material findings were again reported in the audit report. Although improvement has been noted in the area of IT controls and the HR management being stagnant, there were still findings that were reported in the management report. Serious cash flow constraints were experienced as the department used R265 million of next year's budget due to high accruals at year-end, which could have a rolling effect on its financial management.

The status of SCM remains unsatisfactory, which has resulted in increased amount of irregular expenditure without taking remedial action against the officials responsible for non-adherence to the SCM processes. To address the key risk areas, the department should implement adequate processes to address material adjustments to the financial statements, appoint officials with the necessary technical skills and competencies to collect, verify and collate the performance information to eliminate inaccurate and unverified information being disclosed in the performance reports.

The department's monitoring and evaluation unit has not been fulfilling its responsibilities, especially in the evaluation of performance information. Effective performance management system should be prioritised, taking into account the developmental needs of personnel and enforcement of consequences for poor performance.

Key controls and root causes

The departmental key controls showed a slight improvement due to improved controls in financial management to address the qualification areas, while remarkable improvement was noted in addressing governance weaknesses. The

department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with laws and regulations:

- Strengthen proper record management and controls over financial and performance reporting, especially in the areas of disclosure notes to the financial statements, such as assets, accruals and commitments.
- Prioritise the establishment of documented processes on performance information reporting to enhance collection, verification and collation of information.
- Strengthen the department's performance management processes by acknowledging good performance and ensuring that there are consequences for poor or non-performance.

Senior management should address the root causes and ensure that the implementation is consistently sustained to attain improved audit outcomes and to address inadequate controls as follows:

- Improve leadership controls through enhanced oversight responsibility by implementing consequences for poor performance.
- Ensure that financial and performance information that is being reported is accurate and verifiable.
- Ensure that finance officials at the district offices have the required level of technical skills, competence and qualifications to perform their functions.

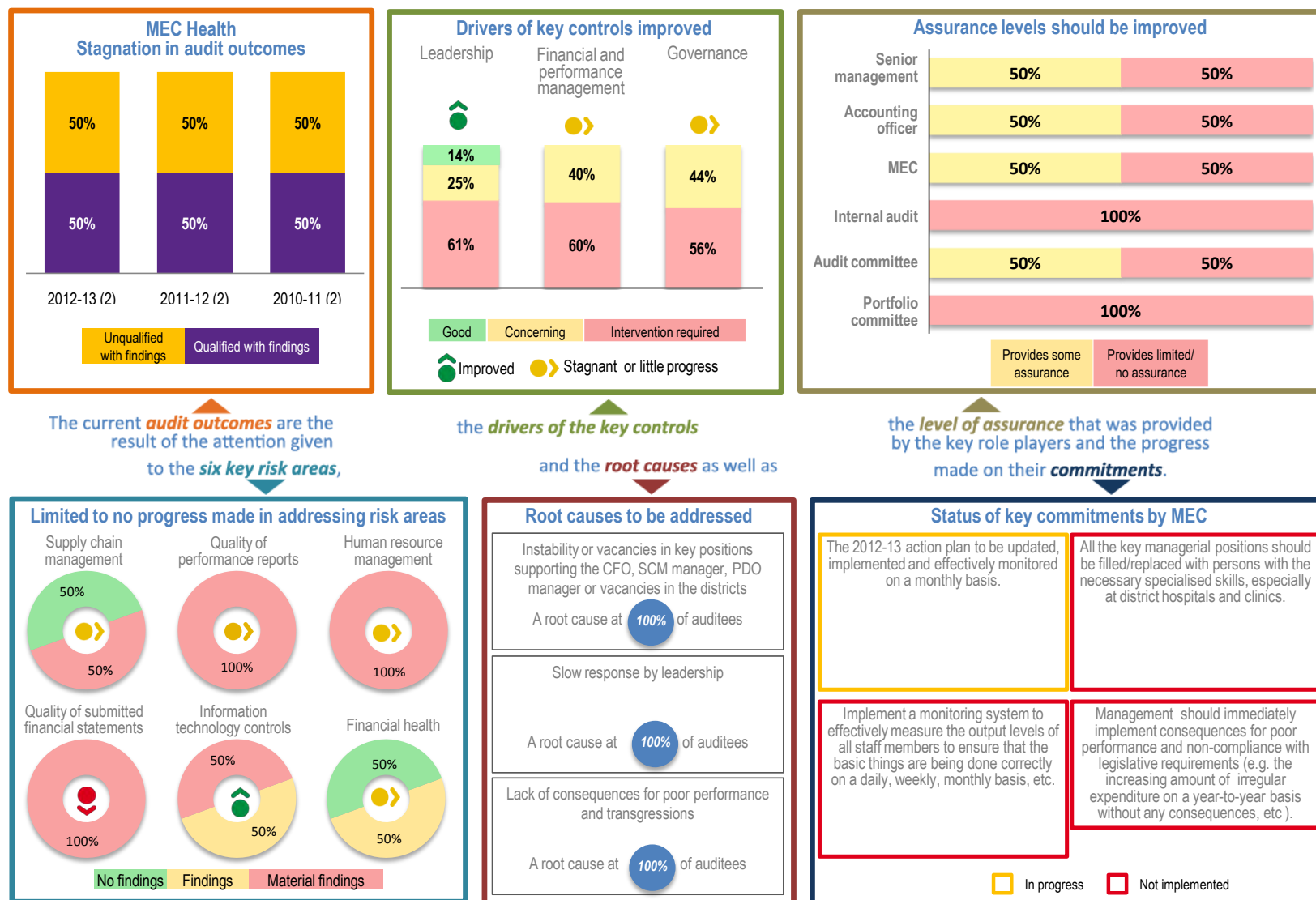
Impact of key role players on audit outcomes

The assurance level should be improved by ensuring that adequate and skilled resources are available to address internal control weaknesses and the document management system.

We met with the MEC four times during the year and there was no impact on the audit outcome. The MEC's main focus was on the financial information but findings on the performance information and compliance with laws and regulations were not addressed timeously.

The assurance provided through the oversight of the portfolio committee, with whom we met twice, should be improved. Although interactions with the portfolio committee improved, this did not have any impact on the audit outcomes due to lack of specific commitments by the portfolio committee.

6.5 Health



Auditees included in the portfolio

- *Department of Health*
- *Central Medical Trading Account*

Significant movement in audit outcome

The audit outcomes of the portfolio stagnated as none of the prior year qualifications, performance information and non-compliance findings were addressed. Additional qualification areas at the Department of Health were identified on liabilities, other disclosures and aggregate misstatements, as well as non-compliance in respect of liability management and strategic planning and performance management.

Six key risk areas

In general, the auditees in the portfolio demonstrated limited or no progress in addressing the key risk areas. The only improvement in the portfolio is in respect of IT controls although 50% of the auditees still had material findings. We, however, noted regression in the quality of financial statements submitted for auditing, which required corrections. Material findings were reported at both auditees in respect of HR management and the quality of performance reports. In respect of SCM, 50% of the auditees had material findings and the Department of Health had findings on the financial health analyses.

Material misstatements and inadequate supporting records negatively impacted on the quality of the financial statements. This is due to the resignation of the CFO earlier this year, vacancies in certain key positions as well as inadequate skilled staff members responsible for the compilation of the financial statements. However, attracting candidates with financial skills to the facilities is a challenge that the department needs to address.

The status of SCM at the department did not improve. This is the area where the department needs to put stringent control measures in place and hold people accountable by implementing zero tolerance in all instances of non-compliance with SCM regulations.

Material findings were also reported in HR management mostly as a result of not filling vacancies timely and not recording leave or recording leave late.

The department experienced serious cash flow problems during the year under review and used conditional grants to fund voted expenditure. As the accruals disclosed in the financial statements are qualified, the extent in the next year's budget could not be quantified.

Key controls and root causes

The drivers of key controls remained unsatisfactory at all levels, which can be attributable to leadership instability within the department. The fundamentals of key controls in the areas of financial management and performance reporting, as well as governance, remained stagnant. The slight improvement in leadership controls at the Central Medical Trading Account can be attributable to an improved leadership culture and HR management. In order to regain stability, auditees should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Strengthen leadership effectiveness by demonstrating visible monitoring and evaluation of their respective line functions.
- Advocate the spirit of proper record keeping and the discipline of daily processing and reconciling controls.
- Strengthen governance structures by directing their work to the high priority risk areas for the portfolio.

The MEC and accounting officer, together with senior management, should address the root causes of poor audit outcomes and inadequate controls as follows:

- Improve effective leadership culture through enhanced oversight responsibility by implementing consequences for poor performance.
- Strengthen proper record management and controls over financial and performance reporting.
- Prioritise capacitating the audit committee through speedy appointment of highly competent members and capacitating the internal audit unit to support the work of the audit committee.

Impact of key role players on audit outcomes

The assurance levels should be improved by ensuring stability at the level of the accounting officer, CFO and senior management. The newly appointed HoD should implement measures to support and improve the effectiveness of the internal audit unit in an effort to assist the audit committee to promote accountability and service delivery. It is also imperative to fill the vacancy of the chief audit executive.

The newly appointed MEC developed a clear plan in moving the portfolio forward by introducing measures to monitor and implement commitments to improve the

operational effectiveness of all staff members, thereby promoting their accountability as well as improved service delivery of the portfolio.

The assurance provided through the oversight function of the portfolio committee should be improved. Although interactions with the portfolio committee improved, this did not have any impact on the audit outcomes due to lack of commitments made by the portfolio committee.

6.6 Premier



Auditees included in the portfolio

■ Department of the Premier

Stability in audit outcome

The department maintained a clean audit for the third year in a row. The main contributing factor for this is the leadership tone as well as the committed and competent employees within the department in ensuring that the Department of the Premier leads by example.

Six key risk areas

The department has made remarkable progress in addressing the key risk areas, most notably in the areas of performance information and quality of submitted financial statements.

Despite the improvement on key risk areas, repeat findings limited to the management report were still reported in the areas of SCM, financial health and IT controls. The management report also reflected a slight regression in HR management. Concerted effort will need to be made to ensure consistent progress in these four areas to sustain a clean audit. The reporting against PDOs should mature to a level where the performance objectives can become more output driven and where the efficiency and effectiveness of oversight can be further enhanced.

A session is planned involving the provincial treasury, legislature, Department of the Premier and the AGSA to align the annual performance plans to their strategic plans and legislated mandate. This is done to ensure that all relevant objectives are included in the annual performance plan.

Key controls and root causes

The improvement in the key controls was due to management's implementation of AGSA recommendations made in the previous financial year. It was also clear that senior management was committed to maintaining the clean audit opinion. The effort made by the cluster audit committee assisted in strengthening the governance structures for the department.

The following key controls should, however, be improved to create an environment that supports sustainable clean audit outcome:

- Effective oversight role by the leadership.
- Proper record keeping to ensure complete, relevant and accurate information.

- Review and monitor compliance with laws and regulations.

Impact of key role players on audit outcomes

The assurance levels should be maintained by continuous evaluation of key controls by management to ensure that these controls function effectively.

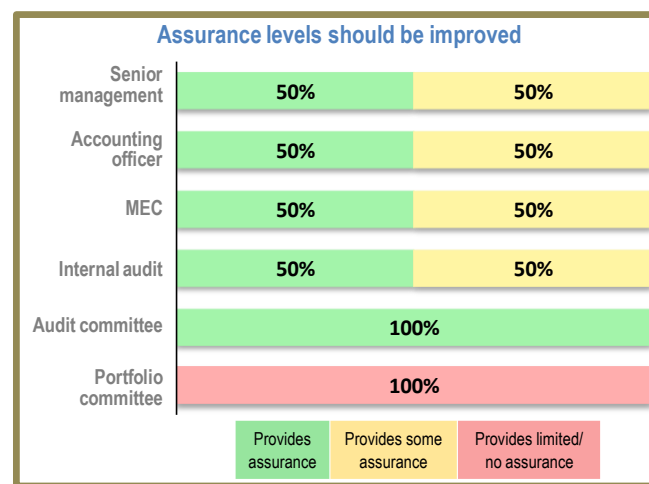
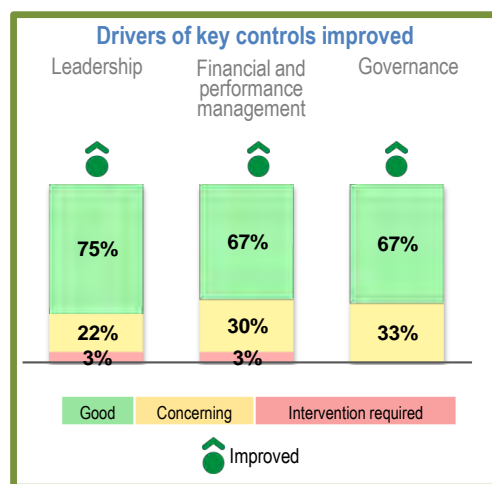
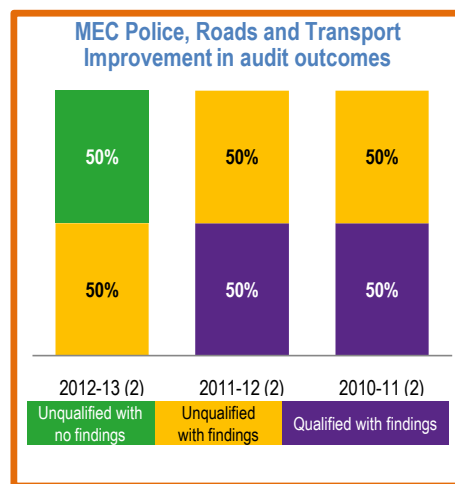
The assurance levels obtained from the department should also be improved by improving executive oversight and monitoring of other departments in the Free State.

We met with the director-general seven times in the past year and these interactions had a significant impact on the audit outcomes. The reason for our assessment is that the clean audit status was maintained for yet another year.

We met with the premier twice in the past year and these interactions had some impact on the audit outcomes of departments and entities in the Free State. The reason for our assessment is that there were some improvements in the audit outcomes of the PFMA audits.

The assurance provided by the portfolio committee should be improved through issuing resolutions as well as the following up on issued resolutions, especially concerning the oversight and monitoring of other departments. Although interactions with the portfolio committee improved, this did not have any impact in the audit outcomes due to lack commitments made by the portfolio committee.

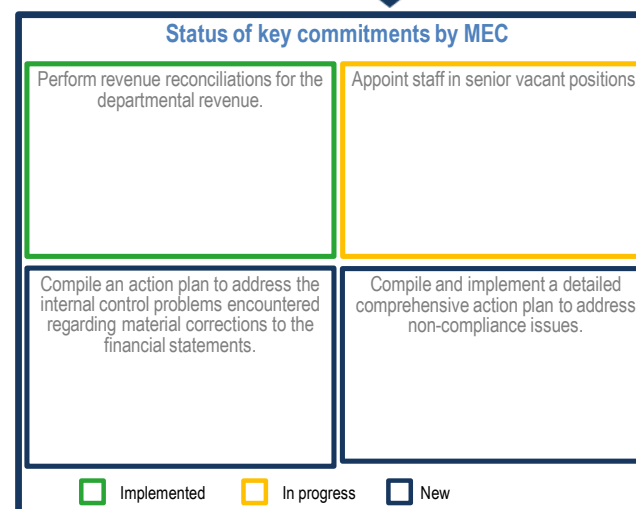
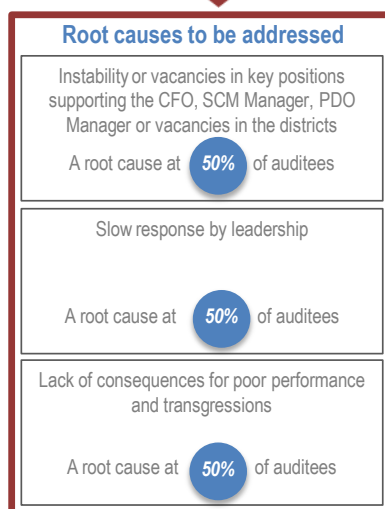
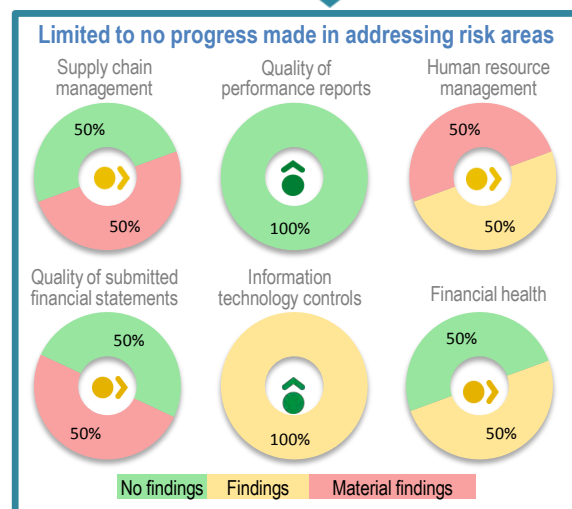
6.7 Police, roads and transport



The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

the **drivers of the key controls** and the **root causes** as well as

the **level of assurance** that was provided by the key role players and the progress made on their **commitments**.



Auditees included in the portfolio

- *Department of Police, Roads and Transport*
- *Free State Fleet Management Trading Entity*

Significant movement in audit outcome

The improvement in the audit outcome of the portfolio was achieved by addressing prior year qualifications on current assets, other disclosure items, revenue and irregular expenditure as well as usefulness of performance information and non-compliance findings on audit committee, internal audit unit and revenue management. However, there were two new non-compliance findings relating to budget as well as transfers and conditional grants that did not limit the auditees in the portfolio from improving.

Six key risk areas

Progress has been made in addressing the key risk areas, most notably in the area of performance reporting by both entities. However, the department made limited progress in the areas of SCM, HR management and the quality of submitted financial statements compared to the trading entity which addressed these areas. Although the entity addressed HR management, limited findings were still reported in the management report. IT controls improved at both entities but we still reported limited findings. The department had findings on our financial health analyses.

Although the quality of the annual performance reports has improved, the department should focus on the measurability of the performance information to address the material corrections that had to be made on its performance report. The status of SCM remains unsatisfactory – to improve the department should ensure that it complies with all relevant SCM policies and procedures. HR management remained unchanged due to vacancies not being filled timeously. This has, however, improved after year-end where appointments have since been made in some key positions.

The quality of the financial statements is also a cause for concern as there were material adjustments made to the financial statements which were submitted for auditing. The department should ensure that there is a comprehensive and complete review performed on the financial statements before submission.

Key controls and root causes

Although the portfolio reflected an improvement in the key control environment, there is still room for improvement at the department. The department should

strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Enhance daily disciplines by ensuring that the processing and reconciling controls are implemented, especially at the district offices.
- Develop a documented process for collection, verification and collocation of performance information to enhance accuracy of performance reporting on a quarterly basis.
- Implement the principle of zero tolerance on non-compliance with laws and regulations and take corrective action against transgressors.

The efforts made by the province in establishing the cluster audit committee assisted in strengthening the governance structures for the department.

The executive authority and senior management of the department should address the root causes of the audit outcomes and inadequate controls as follows:

- Enhance oversight responsibility through regular monitoring and reviews of daily disciplines.
- Perform a comprehensive quarterly review of all performance information to ensure that the information is accurately reported.
- A comprehensive and complete review of all applicable laws and regulations and how the department has complied with them.

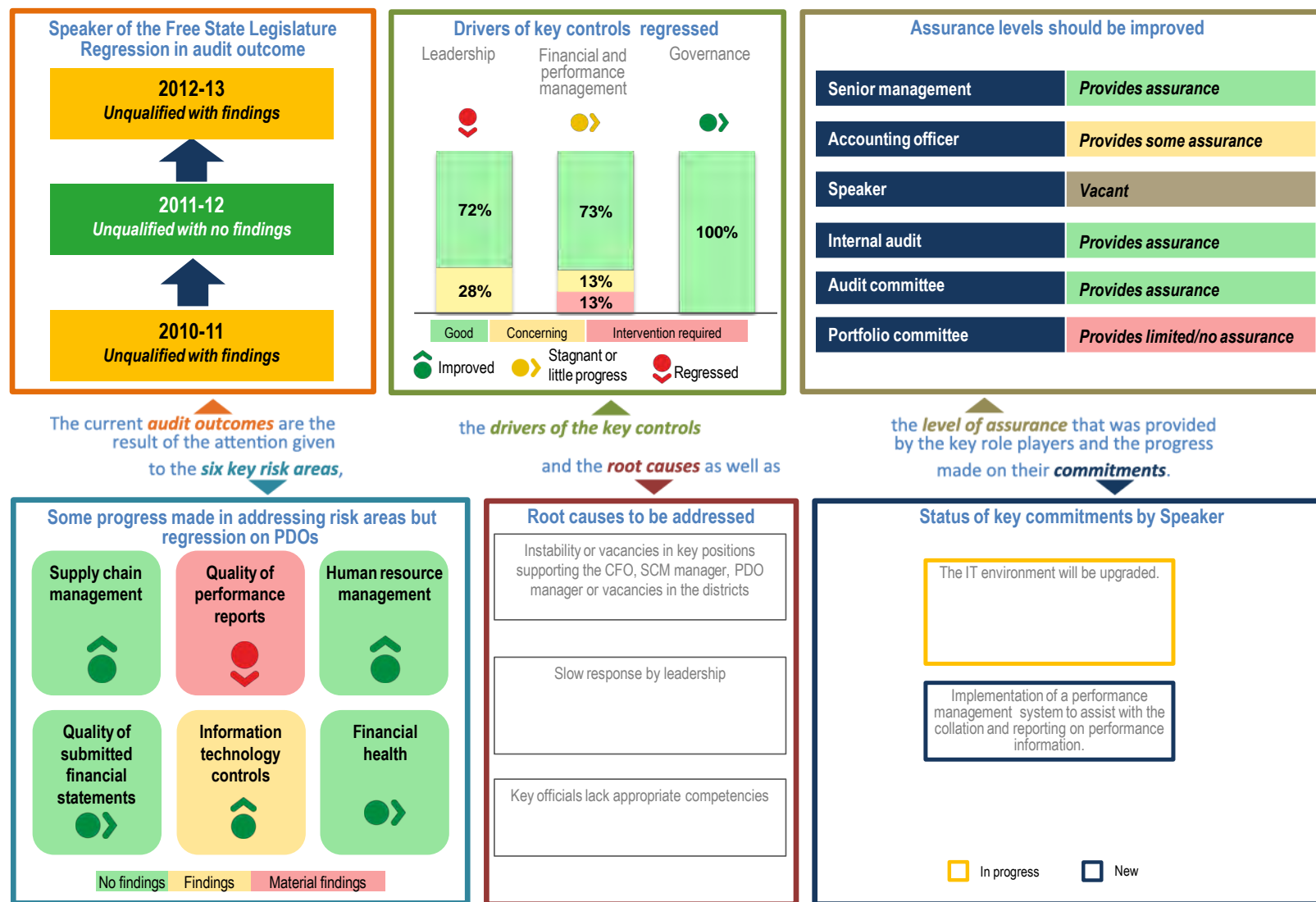
Impact of key role players on audit outcomes

The assurance levels at the department should be improved by ensuring stability at the level of accounting officer and senior management. Furthermore, senior management should ensure timely implementation of recommendations of internal audit. Senior management should also direct the work of the audit committee towards evaluating significant risks threatening the sustainability for the entity and achievement of clean audit for the department.

We met with the MEC three times in the past year and these interactions had a significant impact on the audit outcomes. The reason for our assessment is the improvement in the audit outcomes within the portfolio.

The assurance provided through the oversight of the portfolio committee should be improved. Although interactions with the portfolio committee improved, this did not have any impact on the audit outcomes due to lack commitments made by the portfolio committee.

6.8 Provincial legislature



Auditees included in the portfolio

■ Free State Provincial Legislature

Regression in audit outcome

The regression in the audit outcome at the Free State Provincial Legislature was caused by new findings on usefulness of performance information and non-compliance in respect of strategic planning and performance management.

Six key risk areas

Progress was made in addressing the key risk areas, most notably the sustainability in the areas of the quality of financial statements submitted for auditing and financial health, where the legislature had no findings. We also noted an improvement with regard to SCM and HR management in addressing the limited findings that had been reported in the management report of the previous year. IT controls also improved but there were limited findings which the legislature still needs to focus on. However, there was a regression in respect of the performance reporting, which resulted in the overall regression of the audit outcome due to compromised controls on PDOs mainly as a result of lack of competencies in collecting, verifying and collating performance information.

In order to reclaim its clean audit outcome, the legislature must take immediate steps to capacitate officials working on performance information and must also address the weaknesses on IT controls as reported in the management report.

Key controls and root causes

The regression in the key controls was caused by a lapse in the performance management controls, which was mainly due to lack of timely oversight in ensuring that the annual performance report is properly aligned to the annual performance plan. The legislature should strengthen the following controls to create a control environment that supports a sustainable clean audit outcome:

- Continuous induction of newly appointed officials appointed for the management and control of performance measures with specific focus on the legislative requirements.
- Revision of performance targets and regular preparation of accurate and complete performance reports that are supported by appropriate supporting information.
- Prioritising IT controls in addressing weaknesses reported in the management report.

The efforts made by the province in establishing the cluster audit committee assisted in strengthening the governance structures for the department.

The executive authority, accounting officer and senior management should address the root causes of inadequate controls as follows:

- Ensure consistent reporting between strategic, quarterly and annual performance plans and reports.
- Ensure that the legislature is capacitated with appropriately skilled staff and an induction is conducted on legislature-specific requirements.

A session is planned involving the provincial treasury, legislature, Department of the Premier and AGSA to align the annual performance plans to their strategic plans and legislated mandate. This is done to ensure that all relevant objectives are included in the annual performance plan and consistently reported.

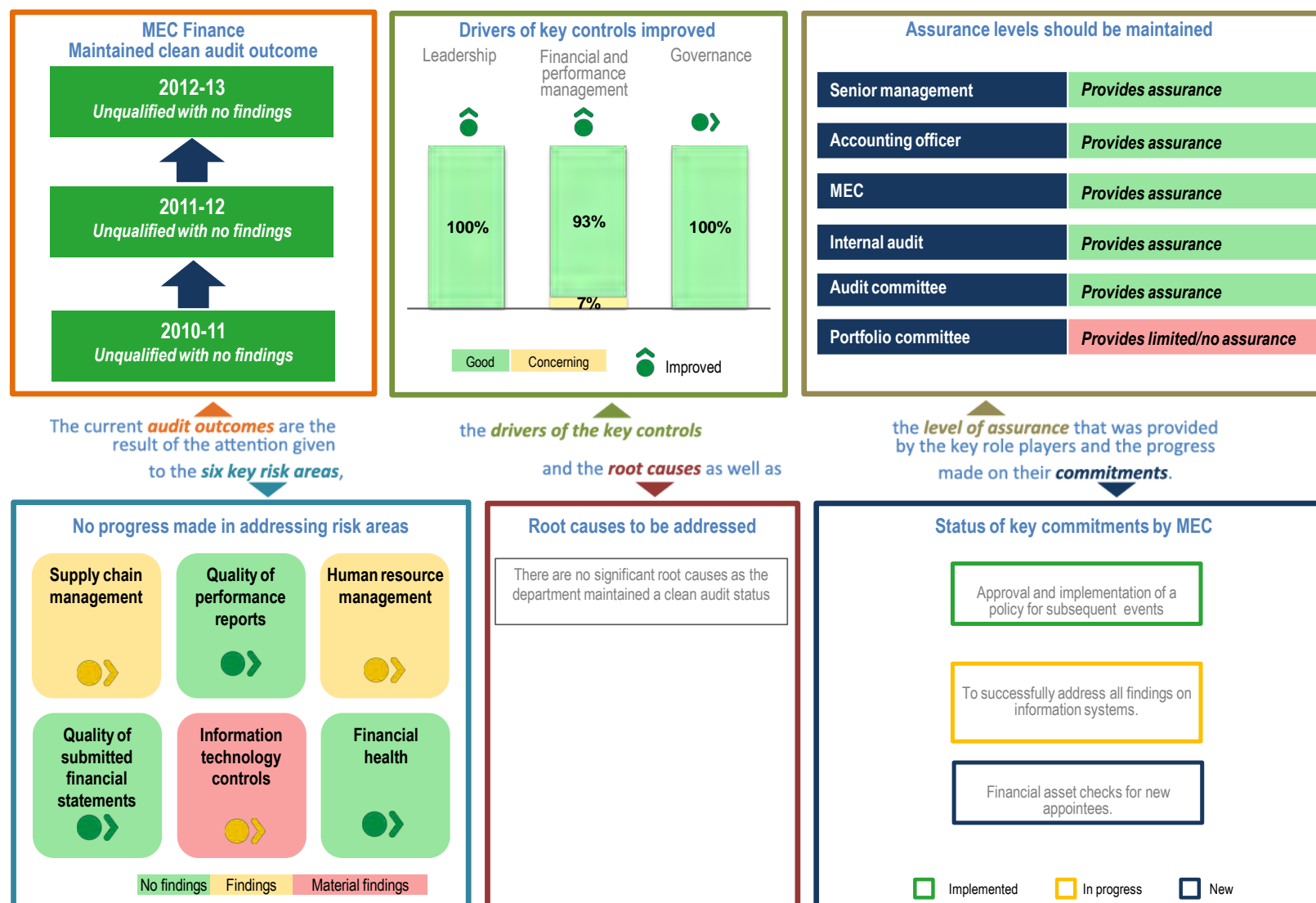
Impact of key role players on audit outcomes

The assurance levels should be improved by ensuring stability at the level of senior management. The accounting officer did not provide adequate assurance due to not implementing the recommendations of the external audit in addressing the shortcomings in the performance management system. Senior management should direct the work of the audit committee towards evaluating performance information.

We met with the speaker four times in the past year and these interactions had minimal impact on the audit outcomes. The reason for our assessment is mainly the vacancy in the position of the speaker for the major part of the year.

The assurance provided through the oversight of the portfolio committee should be improved. Although the portfolio committee met on a quarterly basis we were not invited to attend the sessions. Due to a lack of documented resolutions the effectiveness of the committee to fulfil its oversight role could not be determined. No commitments were made by the portfolio committee.

6.9 Provincial treasury



Auditees included in the portfolio

■ Free State Provincial Treasury

Stability in audit outcome

The Free State Provincial Treasury maintained a clean audit for the fourth year in a row. Committed and competent staff members contributed to this achievement.

Six key risk areas

The department made limited progress in addressing the matters under the respective key risk areas. However, it is commendable that the department has sustained a record of high regard for stringent controls in the areas of financial health, quality of performance report and the quality of submitted financial statements. However, in the areas of SCM and HR management there are repeated limited findings reported in the management report. Of great concern are the repeated material findings on IT controls which the department needs to focus on to sustain its clean audit. Weaknesses on IT controls include the design findings on user account management as well as securing management. Although the LOGIS user account management policy was customised, all the monitoring requirements were not included.

It is recommended that the department should focus their reporting on actual outcomes instead of reporting on actual outputs only. This will assist the department with its oversight function to evaluate its interventions with departments, public entities and municipalities.

A session is planned involving the provincial treasury, legislature, Department of the Premier and AGSA to align the annual performance plans to their strategic plans and legislated mandate. This is done to ensure that all relevant objectives are included in the annual performance plan.

Key controls and root causes

A culture of high performance as well as competent and committed staff contributed to the sustainability of continuous implementation of key controls; however, the department should strengthen the following controls to create the environment that supports the sustainability of clean audit:

- Ensure that there is consequence management through implementation of an effective performance management system.
- Ensure stability in key positions and continuous appointment of competent staff.

- Ensure effective oversight role to enhance the supporting role in accordance with its mandate.

The efforts made by the province in establishing the cluster audit committee assisted in strengthening the governance structures for the department.

Impact of key role players on audit outcomes

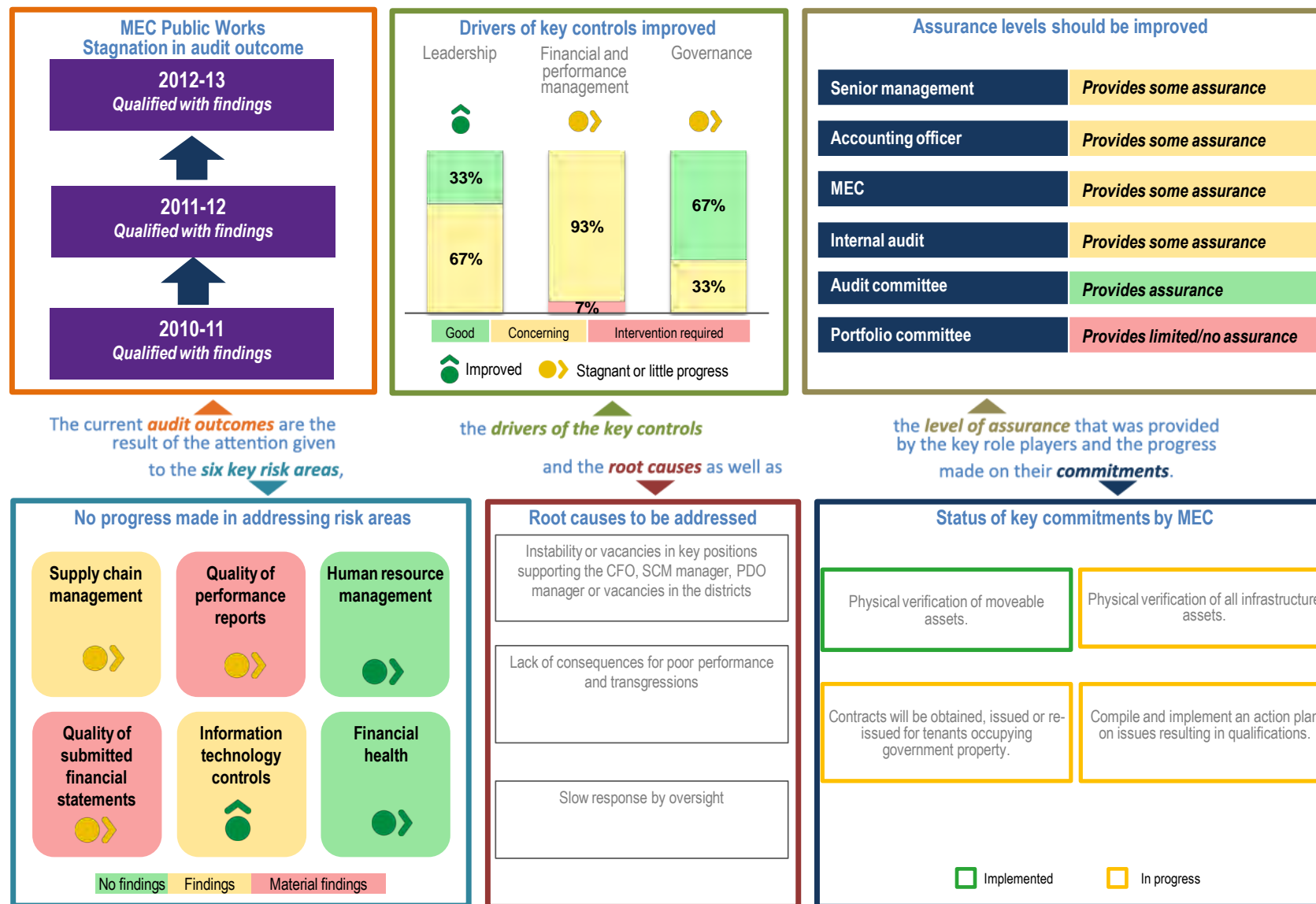
The assurance levels should be maintained by continuously evaluating key controls in ensuring that controls always function effectively.

The department should continue to research on the outcomes and the impact of the interventions and performance indicators it has set. This will assist the department to determine the effectiveness of interventions and to strengthen its oversight role.

We met with the MEC three times in the past year and these interactions had a positive impact on the audit outcomes. The reason for our assessment is that the commitments previously made were all being implemented.

The assurance provided through the oversight of the portfolio committee should be improved. Although interactions with the portfolio committee improved, this did not have any impact in the audit outcomes due to lack commitments made by the portfolio committee.

6.10 Public works



Auditees included in the portfolio

■ Department of Public Works

Stagnation in audit outcome

The stagnation in the audit outcome of the Department of Public Works was caused by not addressing the prior year qualification on assets, non-compliance matters and the performance information findings. Although the department addressed the prior year qualification on revenue and findings on non-compliance with procurement management, there was a new finding relating to usefulness of performance information. Significant risks threatening the department are the slow action in verifying all land and building assets and lack of valid lease contracts for some of the rentable properties.

Six key risk areas

The department made limited progress in addressing the key risk areas, most notably a sustainable record in the areas of financial health and HR management. However, in the management report, the department had repeat findings in the areas of SCM and findings in the area of IT controls. Of concern is lack of progress in the quality of performance reports and the quality of financial statements submitted for auditing where repeat material findings had been reported in the audit report.

For the department to progress in the implementation of key risk areas, it should document stringent control measures and communicate them to all staff. This will assist the department to enforce performance management, hold people accountable for their actions and take remedial actions against the transgressors.

Key controls and root causes

The improvement in the key controls was caused by the change in the leadership of the department which have, since its appointment, prioritised leadership controls and is in the process of addressing the financial management and performance management controls that were neglected in the past. Proper record keeping controls were implemented to ensure complete, relevant and accurate information is easily accessible and available to support financial and performance reporting.

The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Strengthen effective leadership culture through enhanced oversight responsibilities in consistently monitoring the implementation of daily discipline of processing and reconciling controls.
- Enhance record keeping controls.
- Implement a culture of zero tolerance on non-compliance with laws and regulations.

The efforts made by the province in establishing the cluster audit committee assisted in strengthening the governance structures for the department.

The accounting officer should address the root causes of poor audit outcomes and inadequate controls as follows:

- Regularly monitor milestones to ensure all land and buildings are physically verified and correctly recorded in asset registers promptly.
- Prepare and file lease contracts for all rentable properties.
- Ensure that the revenue management unit has adequate capacity to address internal control weaknesses.

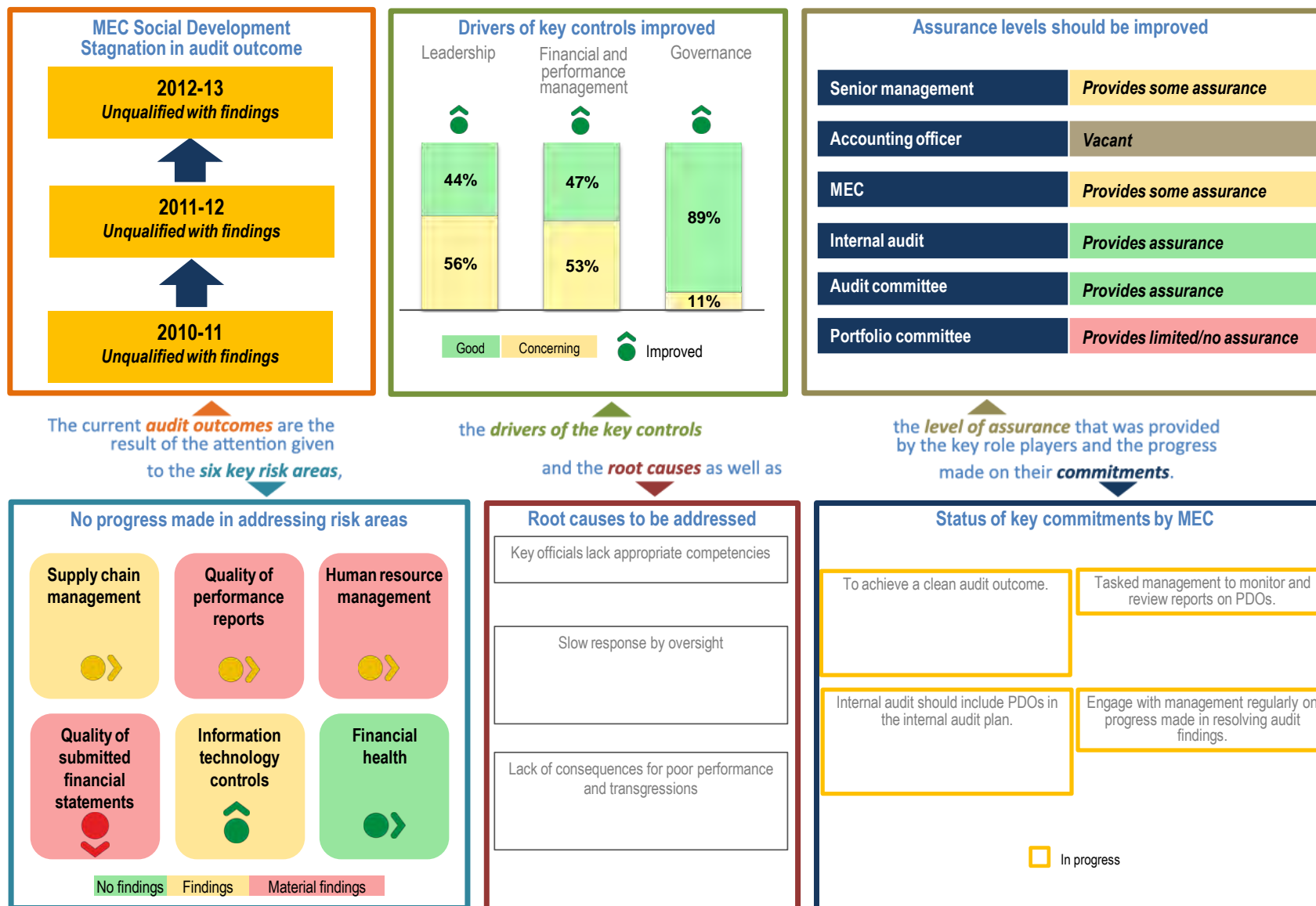
Impact of key role players on audit outcomes

Since the change in leadership of the department, there is a positive change in assurance levels provided by management, which the department should maintain to improve the audit outcomes.

The MEC supported her management team and was also realistic and aware of the challenges to rectify land and buildings. Of the four commitments that were made, one was implemented and the other three are in progress. We met with the MEC four times during the past year and this had some impact on the audit outcome.

The assurance provided through the oversight of the portfolio committee should be improved. Although interactions with the portfolio committee improved, this did not have any impact in the audit outcomes due to lack commitments made by the portfolio committee.

6.11 Social development



Auditees included in the portfolio

■ Department of Social Development

Stagnation in audit outcome

The stagnation in the audit outcome of the Department of Social Development was caused by not addressing non-compliance relating to transfers and conditional grants, HR management and usefulness of performance information. Although the department addressed findings relating to material misstatements or limitations in submitted annual financial statements, this did not have an impact on the overall audit outcome.

Six key risk areas

The department made no progress in addressing risk areas, most notably in the areas of HR management, quality of performance reports and the quality of submitted financial statements. Despite various interactions and the workshops held with the department on performance reporting, the performance output on the indicators still lacked appropriate supporting evidence. To refine the processes, management should develop validation mechanisms in order to ensure accuracy of the reported performance information.

Active steps should further be taken to ensure that issues with regard to non-compliance with laws and regulations in relation to HR are cleared. Risk areas in respect of SCM remain unchanged with limited findings reported in the management report. Although we noted improvements in IT controls, there were still findings included in the management report. The financial health remained unchanged without any findings.

Key controls and root causes

The improvement in key controls was caused by improvement in leadership controls, financial management and governance controls. These controls partly addressed financial management with little effort made in addressing performance reporting. The department should strengthen the following controls to create an environment that supports reliable financial and performance reporting and compliance with laws and regulations:

- Enhance leadership culture by implementing zero tolerance on non-compliance and taking remedial action against the transgressors.
- Prioritise implementation of HR practices and ensure compliance with laws and regulations.

- Implement stringent control in the collection, verification and collation of performance information by ensuring that adequate supporting documents are prepared to avoid inaccurate reporting in the performance reports.

The efforts made by the province in establishing the cluster audit committee assisted in strengthening the governance structures for the department.

The MEC and accounting officer should address the root causes of poor audit outcomes and inadequate controls as follows:

- There should be consequences where repetitive audit findings that could have been avoided are being raised.
- Prioritise the critical vacancies in the component that deals with monitoring of compliance by the non-profit organisations.
- Train officials involved in the reporting on service delivery so as to enhance their understanding.

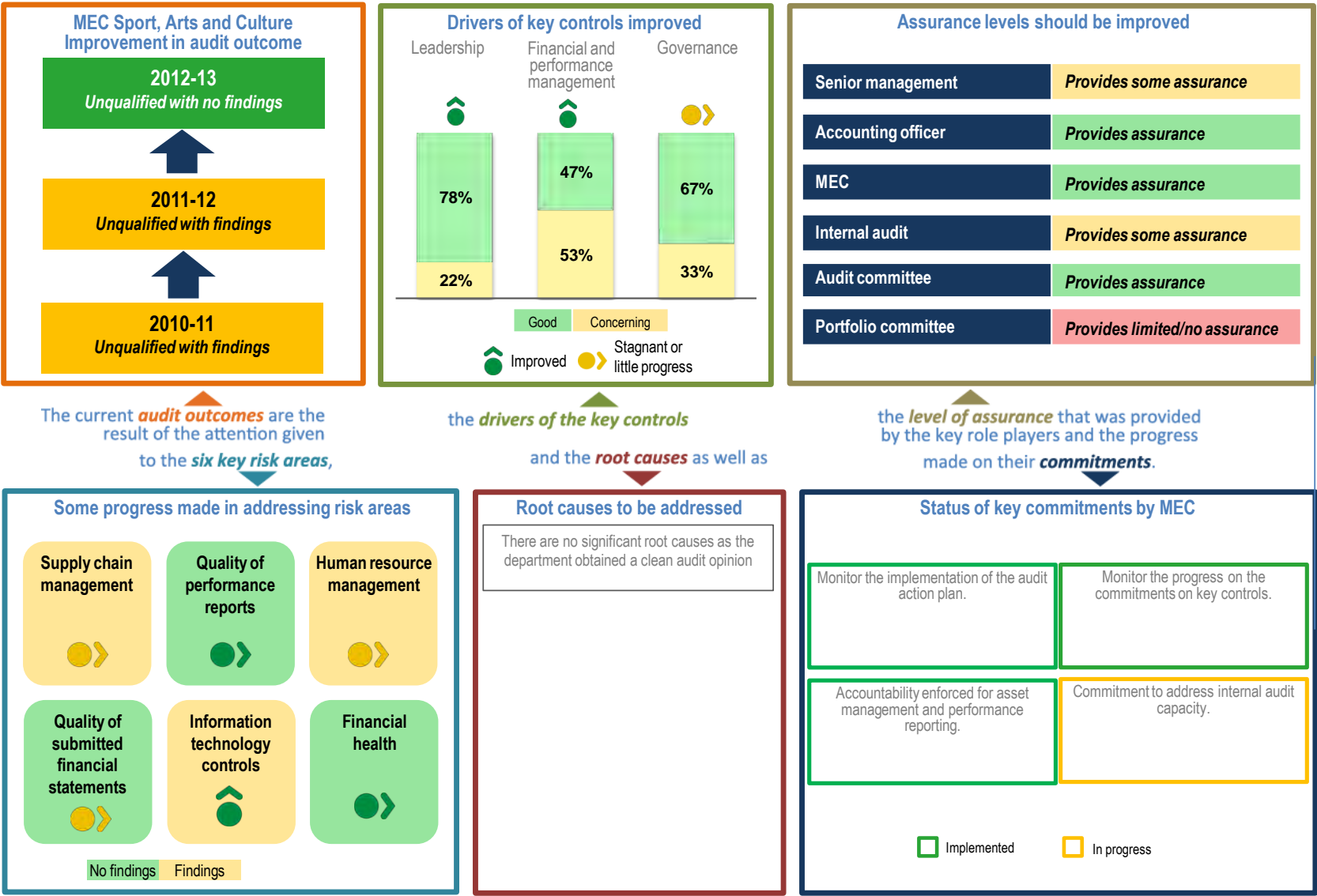
Impact of key role players on audit outcomes

The assurance levels should be improved by ensuring that adequate and skilled resources are available to address internal control weaknesses.

We met with the MEC twice during the past year and these interactions had some impact on the audit outcomes. The reason for our assessment is that progress has been made to address some findings on PDOs and compliance with legislation and undertakings given by executive directors to a focused approach to move to a clean audit.

The assurance provided through the oversight of the portfolio committee should be improved. Although interactions with the portfolio committee improved, this did not have any impact in the audit outcomes due to lack commitments made by the portfolio committee.

6.12 Sport, arts, culture and recreation



Auditees included in the portfolio

■ Department of Sport, Arts, Culture and Recreation

Significant movement in audit outcome

The improvement in the audit outcome of the Department of Sport, Arts, Culture and Recreation to a clean audit was as a result of dedicated leadership effort. A significant risk that threatened the department in progressing towards a clean audit was the reporting of library books as PPE, which the department took upon themselves to address by appointing consultants to assist the department to physically verify the library materials and its valuation.

Six key risk areas

The department made remarkable progress in improving the quality of the annual performance reports. Going forward, the department should focus on the reliability of reporting to ensure sustainability of the clean audit because significant efforts are needed to ensure that reported information is substantiated. Verification and reporting on assets, if not properly addressed, could easily hamper the progress made by the department to clean audit due to year-end effort needed to address the accuracy of the asset register.

Despite the notable improvement in key controls, findings limited to the management report were still raised in the areas of SCM, HR management and information technology controls. Some of these findings were consistent with the matters raised in the previous year. Concerted effort should be made to ensure consistent progress in these three areas to sustain a clean audit.

Key controls and root causes

The improvement in the key controls was achieved through enhanced oversight by the MEC, together with the HoD, in improving the controls over reporting on quality of performance reports, asset management as well as monitoring compliance with laws and regulations. The effort made by the province in establishing the cluster audit committees assisted in strengthening the

governance structures; however, the department still needs to ensure that the internal audit unit is adequately capacitated to provide adequate assurance in support of the audit committee.

The department should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Safeguarding of information and the controls over assets.
- Leadership overview of internal controls.

Senior management should address the following root causes timeously and ensure the implementation is sustained to prevent a regression in audit outcome:

- Empower officials involved in performance reporting in order to enhance their competencies and understanding.
- Increase oversight of asset management progress throughout the year.

Impact of key role players on audit outcomes

The assurance levels should be improved by ensuring that adequate capacity is created to address internal control weaknesses in the quality of performance reporting and that regular verifications are conducted on its asset management.

We met with the MEC three times in the past year and these interactions had a significant impact on the audit outcomes. The reason for our assessment is the improvement in the audit outcomes which the MEC set as a target for the department since the issuing of the audit report for the previous year. This assessment, the impact of the MEC and HoD on the controls of the auditee, as well as the status and impact of the commitments, contributed to the improved assurance provided by the MEC.

The assurance provided through the oversight of the portfolio committee, with whom we met twice, should be improved. Although interactions with the portfolio committee improved, this did not have any impact on the audit outcomes due to lack commitments made by the portfolio committee.

ANNEXURES

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Annexure 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives, non-compliance and specific focus areas

Auditee	2012-13 audit outcomes			2011-12 audit outcomes			Financial statement qualification areas							Findings on predetermined objectives			Findings on non-compliance															Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure							
	Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Financial health	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R
Departments																																										
Agriculture and Rural Development		R	R		R	R										N	R			R	R		R	N	N	R		R		N		R	A	R		R	R	R	N	5,1 m	2,5 m	0,58 m
Cooperative Governance and Traditional Affairs		R	R		N	R										R		A		R	R		R						A			R	R		R	R	R			32,1 m	0,03 m	
Economic Development, Tourism and Environmental Affairs		A	R		R	R	R				A			R			A			R	R		N						N		R	R	R		R	R	R			29,8 m	6,1 m	
Education		R	R		R	R										R	R			R	R	A			N	N	A			R		N	R	A		R	R	R	A	79,4 m	361,8 m	0,13 m
Health		R	R		R	R	R	R	N		N		R	R	N		R			R	R		R	N	R	R	R	R	R	N	R	R	R	N	R	R	R	R	135,8 m	143,7 m	3,2 m	
Human Settlements		R	R		R	R			R		R		A	A		R	R	A		R	R		R			R			A			R	R	R		R	R	R		0,03 m	630,2 m	1,1 m
Premier																																			R	N	R	R			1,5 m	0,002 m
Police, Roads and Transport		A	R		R	R		A			A	A	A			A				R	R				N	R			A	A	A	R	N	R	R		R	R	R	31,3 m	669 m	0,45 m
Free State Provincial Legislature		N	N		A	A										N															N					A	A	R				
Free State Provincial Treasury																																				R	R	R				0,17 m
Public Works		R	R		R	R	R	R				A				N	R			R	R		R							R			A			R		R			71,7 m	0,01 m
Social Development		R	R		R	R											R			N	A											R	A	R		R	R	R			0,5 m	
Sport, Arts, Culture and Recreation		A	A		R	R										A						A	A											A		R	R	R			2,4 m	2,4 m
Public entities																																										
Central Medical Trading Account		X	R		X	R										X	X	X	X	N	A					R		R	R	N				N			R	R			5 m	0,02 m
Free State Development Corporation		A	R		N	R	R	R	R	A	A	A	A		R			A		R	N	R								R	R					N	R	N			25,4 m	1,2 m
Free State Fleet Management Trading Entity			A			R																						A	A							R				0,16 m	-	
Free State Political Party Fund																																										
Free State Gambling and Liquor Authority		R	R		R	R							A			R	R			R	R				R			A	A		R		R		N	R	R	R	A		2,5 m	0,04 m
Free State Tourism Authority		R	R		N	R						N				R	R			N	R				A			R	R		N		R			R	N	N	R		4,6 m	0,28 m
Legend (audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date		New auditee											Legend (findings)	Addressed (A)	New (N)	Repeat (R)	Not analysed (X)												Legend (expenditure)	Improved	Regressed					

Annexure 2: Auditees' five-year audit opinions

Auditee	Audit opinions				
	2012-13	2011-12	2010-11	2009-10	2008-09
Departments					
Agriculture and Rural Development					
Cooperative Governance and Traditional Affairs					
Economic Development, Tourism and Environmental Affairs					
Education					
Health					
Human Settlements					
Premier					
Police, Roads and Transport					
Free State Provincial Legislature					
Free State Provincial Treasury					
Public Works					
Social Development					
Sport, Arts, Culture and Recreation					
Public entities					
Central Medical Trading Account					
Free State Development Corporation					
Free State Fleet Management Trading Entity					
Free State Political Party Fund					
Free State Gambling and Liquor Authority					
Free State Tourism Authority					

Legend (audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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Annexure 3: Assessment of auditees' key controls at the time of the audit

Auditee	Leadership															Financial and performance															Governance													
	Effective leadership culture			Oversight responsibility			HR management			Policies and procedures			Action plans			IT governance			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT system controls			Risk management			Internal audit			Audit committee				
	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C								
Departments																																												
Agriculture and Rural Development																																												
Cooperative Governance and Traditional Affairs																																												
Economic Development, Tourism and Environmental Affairs																																												
Education																																												
Health																																												
Human Settlements																																												
Premier																																												
Police, Roads and Transport																																												
Free State Provincial Legislature																																												
Free State Provincial Treasury																																												
Public Works																																												
Social Development																																												
Sport, Arts, Culture and Recreation																																												
Public entities																																												
Central Medical Trading Account																																												
Free State Development Corporation																																												
Free State Fleet Management Trading Entity																																												
Free State Gambling and Liquor Authority																																												
Free State Tourism Authority																																												

Legend (root causes)	Good	Concerning	Intervention required
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F = Financial P = Performance C = Compliance

GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

Glossary of terms

Accounts payable (also referred to as creditors)

Money owed by the auditee to companies, organisations or persons who have supplied goods and services.

Accounts receivable (also referred to as debtors)

Money owed to the auditee by companies, organisations or persons who have received goods or services from the auditee.

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 auditee, including property, plant, cash, and debt.

Asset impairment

The reduction in value of an asset below its normal value at which it can be converted into cash through sale or other means.

Assurance

A positive declaration that is intended to give confidence. Through the audit report, we provide assurance on the credibility of auditees' financial and performance information as well as auditees' compliance with legislation. Other role players in the public sector also contribute to assurance and confidence by ensuring that internal controls are implemented. Such assurance providers include various auditee officials, committees and internal audit units, oversight structures as well as coordinating or monitoring departments.

Audit outcome

The audit opinion on an auditee's financial statements, together with any material findings on that auditee's annual performance report and/or material findings on non-compliance by the auditee with applicable legislation.

Capital budget

The estimated amount planned to be spent on capital items in a particular financial period; for example, fixed assets such as land and buildings with long expected lives and that produce income or support operations.

Cash flow

The flow of money from operations: incoming funds are revenue and outgoing funds are expenses.

Clean audit outcome

The financial statements of the auditee are free of 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.

Commitments (from role players)

Initiatives communicated to us by role players to improve audit outcomes.

<i>Commitments (in financial statements)</i>	The cost of goods and services to be received in the following year, which the auditee has already contractually agreed to purchase in the current year.
<i>Conditional grants</i>	Money transferred from one sphere of government to another, subject to certain services being delivered or on compliance with specified requirements.
<i>Consolidated financial statements</i>	Financial statements that reflect the combined financial position and results of a department and those of the entities under its control.
<i>Contingent liability</i>	A potential liability, the amount of which will depend on the outcome of a future event.
<i>Current assets</i>	These assets are made up of cash and other assets, such as inventory or debt, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, plant and equipment as well as long-term investments.
<i>Disclaimer of audit opinion</i>	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.
<i>Financial and performance management</i>	The management of resources to achieve the financial and service delivery objectives of the auditee. (This is one of the three key overall drivers of internal control that should be addressed to improve audit outcomes or to sustain good audit outcomes.)
<i>Financially unqualified audit opinion</i>	The financial statements contain no material misstatements. Unless we express a clean audit opinion, material findings have been raised on either reporting on predetermined objectives or non-compliance with legislation, or both these aspects.
<i>Fruitless and wasteful expenditure</i>	Expenditure that was made in vain and could have been avoided had reasonable care been taken. This includes penalties and interest on late payments as well as payments for services not utilised or goods not received.
<i>General ledger</i>	A record of all the financial transactions of the auditee.
<i>Going concern</i>	The presumption that an auditee will continue to operate in the foreseeable future, and will not go out of business and liquidate its assets. For this to happen, the auditee must be able to raise enough resources to stay operational.
<i>Governance</i>	The governance structures (audit committees) and processes (internal audit and risk management) of an auditee. (This is one of the three key overall drivers of internal control that is required to improve audit outcomes or to sustain good audit outcomes.)
<i>Human resource (HR) management</i>	The management of an auditee's employees, or human resources, which involves adequate and sufficiently skilled resources as well as the adequate management of employee performance and productivity.
<i>Information technology (IT)</i>	The computer systems used for recording, processing and reporting financial and non-financial transactions.

<i>IT governance</i>	The leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its business strategies and objectives.
<i>IT security management</i>	The controls preventing unauthorised access to the computer networks, computer operating systems and application systems that generate and prepare financial information.
<i>IT service continuity</i>	The processes of managing the availability of computer hardware, system software, application software (computer programmes) and data to enable auditees to recover or establish information system services in the event of a disaster.
<i>IT user access management</i>	The procedures through which auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the information systems.
<i>Internal control (also referred to as key controls)</i>	The process designed and implemented by those charged with governance, management and other employees to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable legislation. It consists of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information.
<i>Inventory</i>	Goods held for resale or for internal use.
<i>Irregular expenditure</i>	Expenditure incurred without complying with applicable legislation.
<i>Key drivers of internal control</i>	The three components of internal control that should be addressed to improve audit outcomes, namely leadership, financial and performance management, and governance. (These three components are also defined individually in this glossary.)
<i>Leadership</i>	The administrative leaders of an auditee, such as accounting officers and senior management. (This is one of the three key overall drivers of internal control required to improve audit outcomes and to sustain good audit outcomes.) It can also refer to the political leadership (including the members of the executive council) or the leadership in the province (such as the premier).
<i>Liability</i>	Short-term and long-term debt owed by the auditee.
<i>Material finding</i>	An audit finding on reporting on predetermined objectives or non-compliance with legislation that is significant enough in terms of its value, its nature or both its value and its nature that it requires to be reported in the audit report.
<i>Material misstatement</i>	A misstatement that is significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of either the rand value or the nature and cause of the misstatement, or both these aspects.
<i>Misstatement</i>	Incorrect or omitted information in the financial statements or annual performance report.

<i>Modified opinion</i>	A qualified, adverse or disclaimer of opinion.
<i>Net current liability</i>	The amount by which the sum of all money owed by an auditee and due within one year exceeds amounts due to the auditee within the same year.
<i>Net deficit</i>	The amount by which an auditee's spending exceeds its income.
<i>Operational budget</i>	A short-term budget, usually prepared annually, based on estimates of income and expenses associated with the auditee's operations, such as administration and salaries.
<i>Payroll</i>	Data relating to employees' earnings.
<i>Property, plant and equipment</i>	Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.
<i>Qualified audit opinion</i>	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.
<i>Reconciliation</i>	The process of matching one set of data to another; for example, the bank statement to the cash book or the accounts payable balances to the corresponding general ledger account balance.
<i>Reporting against predetermined objectives (PDOs)</i>	Reporting by auditees in their annual performance plans on their actual achievements against the performance objectives they had set at the beginning of the period. The performance objectives relate mostly to service delivery.
<i>Root causes</i>	The underlying causes or drivers of audit findings; in other words, why the problem had occurred. Addressing the root cause helps to ensure that the actions address the real issue, thus preventing or reducing the incidents of recurrence, as opposed to simply providing a temporary or short-term fix.
<i>Supply chain management (SCM)</i>	Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.
<i>Unauthorised expenditure</i>	Expenditure that was in excess of the amount budgeted or allocated by government to the auditee, or that was not incurred in accordance with the purpose for which it was intended.

Acronyms and abbreviations

AFS	<i>annual financial statements</i>
AG	<i>auditor-general (the person)</i>
AGSA	<i>Auditor-General of South Africa (the institution)</i>
APAC	<i>Association of Public Accounts Committees</i>
bn (after an amount)	<i>R'billion (rand)</i>
BAS	<i>Basic Accounting System</i>
BCP	<i>business continuity plan</i>
CEO	<i>chief executive officer</i>
CFO	<i>chief financial officer</i>
CIDB	<i>Construction Industry Development Board</i>
CIO	<i>chief information officer</i>
CoGTA	<i>Department of Cooperative Governance and Traditional Affairs</i>
DoRA	<i>Division of Revenue Act</i>
DPSA	<i>Department of Public Service and Administration</i>
DRP	<i>disaster recovery plan</i>
FMS	<i>Financial Management System</i>
GAAP	<i>Generally Accepted Accounting Practice</i>
GITO	<i>government information technology officer</i>
GRAP	<i>Generally Recognised Accounting Practice</i>
HoD	<i>head of department</i>
HR	<i>human resources</i>

IDP	<i>integrated development plan</i>
IT	<i>information technology</i>
K (after an amount)	<i>R'thousand (rand)</i>
Logis	<i>Logistical Information System</i>
m (after an amount)	<i>R'million (rand)</i>
MEC	<i>member of the executive council of a province</i>
NCOP	<i>National Council of Provinces</i>
NT	<i>National Treasury</i>
PAA	<i>Public Audit Act, 2004 (Act No. 25 of 2004)</i>
PDO	<i>predetermined objective</i>
Persal	<i>Personnel and Salary System</i>
PFMA	<i>Public Finance Management Act, 1999 (Act No. 1 of 1999)</i>
PPPFA	<i>Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)</i>
PSA	<i>Public Service Act, 1994 (Act No. 103 of 1994)</i>
SALGA	<i>South African Local Government Association</i>
SARS	<i>South African Revenue Service</i>
SCM	<i>supply chain management</i>
SCOPA	<i>Standing Committee on Public Accounts</i>
SITA	<i>State Information Technology Agency</i>
SLA	<i>service level agreement</i>
VAT	<i>value-added tax</i>



AUDITOR - GENERAL
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