



AUDITOR - GENERAL  
SOUTH AFRICA



# **GENERAL REPORT**

ON THE PROVINCIAL AUDIT OUTCOMES

**FREE STATE**  
**PFMA 2011-12**



AUDITOR - GENERAL  
SOUTH AFRICA

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**GENERAL REPORT**  
ON THE PROVINCIAL AUDIT OUTCOMES  
**FREE STATE**  
2011-12

PR08/2013  
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# *Our reputation promise/mission*

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

The information and insights presented in this flagship publication of my office are aimed at empowering oversight structures and provincial 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.

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## **AUDITOR-GENERAL: TERENCE NOMBEMBE**

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



# overview



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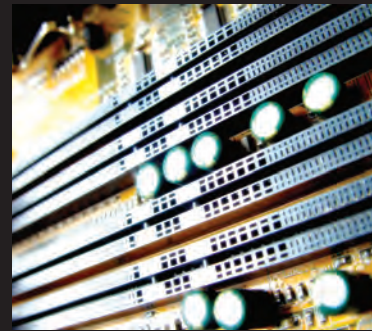
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# FREE STATE CLEAN AUDITS 2011-12

## DEPARTMENT

Free State Provincial Treasury  
Office of the Premier  
Provincial Legislature

## PUBLIC ENTITY

James Robertson Bursary Fund  
Nature Conservation Trust Fund  
Private Patients Fund Trust  
Recreation Fund Trust  
Thomas Robertson Bursary Fund

# FOREWORD



AUDITOR - GENERAL  
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# FOREWORD

It is with pleasure that I present to the Free State Provincial Legislature my 2011-12 general report summarising the audit outcomes of the provincial departments, legislature, provincial revenue fund and public entities for the financial year ended 31 March 2012.

These outcomes show a steady year-on-year improvement towards unqualified audit opinions. It is commendable that three of the leading departments, namely the Office of the Premier, Free State Provincial Legislature and the provincial treasury, received clean audit opinions.



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My message for the 2010-11 financial period confirmed the following commitments – *The MECs committed to be available on a quarterly basis to meet with the AGSA and the audit committee to enhance the continuous dialogue on the obstacles in the path to clean audits. The leadership also committed to ensure that adequate recourse is available and that reliable financial and service delivery reporting is done on a monthly basis. The executive authority and oversight structures have committed to quarterly monitor and evaluate the status of the key controls and commitments ... The engagements will include timely feedback and inputs into the adequacy of the guidance provided by coordinating role players, such as the provincial treasuries.*

The commitment to engage with the AGSA was only honoured to a certain extent as most of the engagements happened towards the end of the audit. This was because clean administration was not prioritised by the executives as they considered audit to be a year-end event, which then resulted in the departments putting an effort into improving the audit outcomes during the last two weeks of the audits after the preliminary results were shared with the

province. In order to eliminate delays during the audit there is also scope for timely and proactive inputs towards the evaluation of the regulatory framework that some of the departments find to be incompatible with their situations.

Although interaction between the portfolio committees and the AGSA was very limited in previous years, continuous interaction between the AGSA and the chair of chairs of the legislature eventually resulted in improved interactions with the portfolio committees towards the latter part of the year.

The province has made little progress in implementing internal controls, which raises a concern regarding the sustainability of the current outcomes. Although the quality of financial information submitted for audit improved slightly, very little was done to improve the area of reporting on predetermined objectives where six departments achieved less than 80% of their predetermined targets and had liabilities/accruals in excess of the current year's voted funds. These are the departments where service delivery is crucial and which command more than 80% of the allocated budget.

My office remains available to support the provincial executive in its renewed commitment to sustain good governance by monitoring the status of internal controls on a monthly basis as a collective, in collaboration with the audit committees and heads of departments. This would also enhance the effectiveness of quarterly oversight by the legislature.

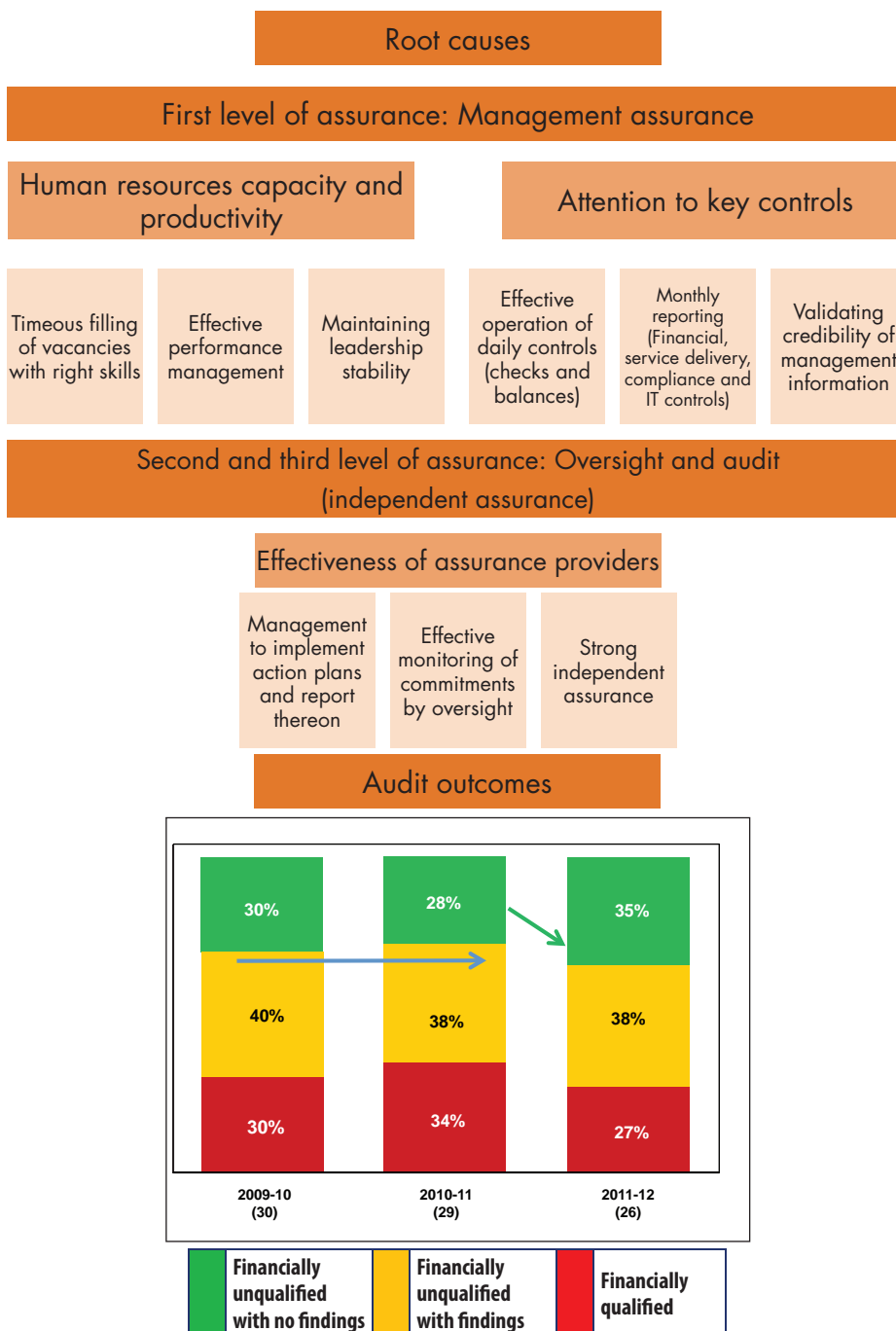
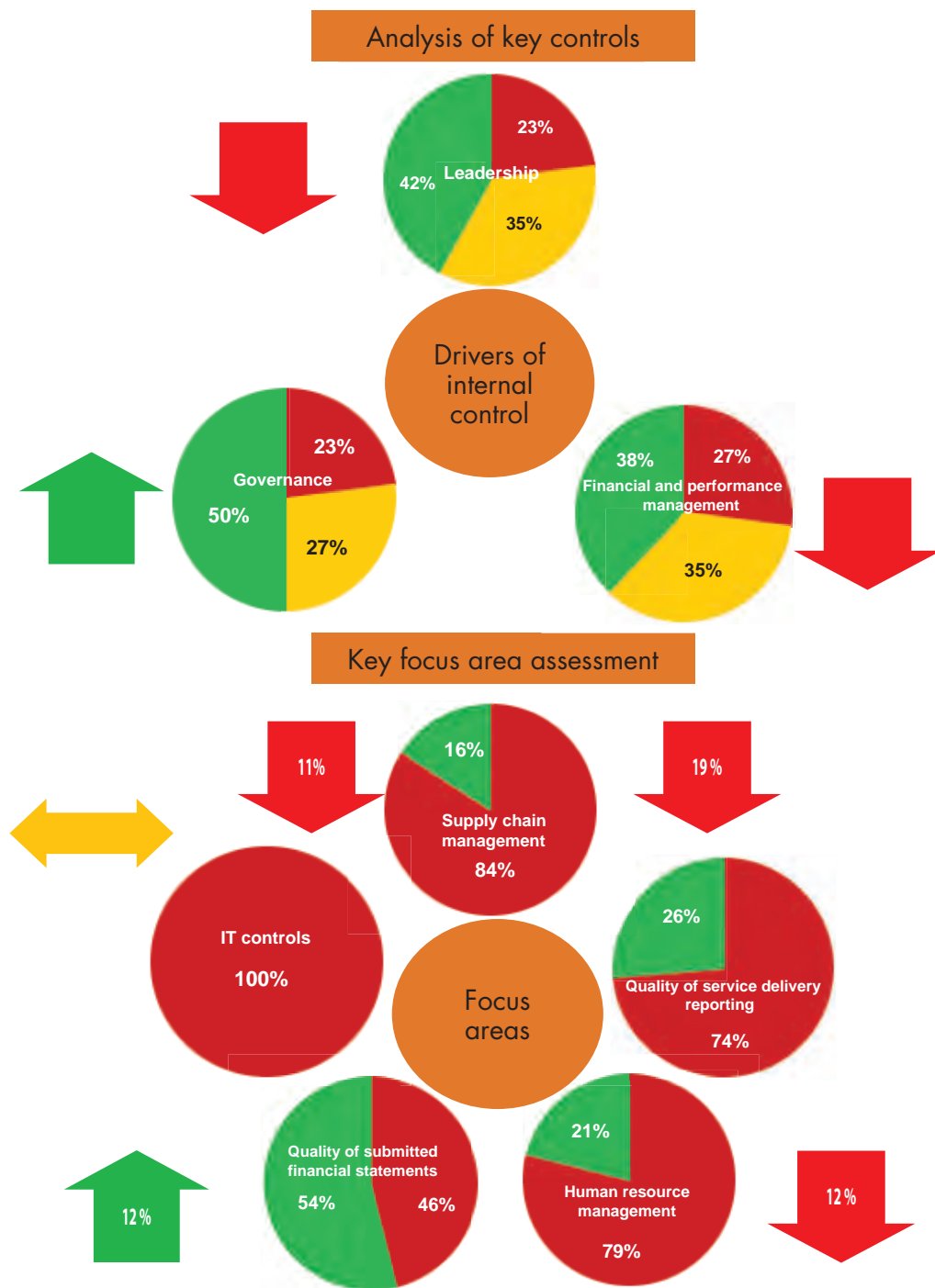
I wish to thank the audit teams from my office and the audit firms that assisted for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership in the province.

***There are serious challenges facing the Free State Provincial Government and all that is required is for everyone to do what is expected of him/her. The simple things must be addressed.***  
**- Premier Ace Magashule**

*Auditor-General*

**Auditor-General  
Pretoria  
March 2013**







# SECTION 1

## EXECUTIVE SUMMARY



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# SECTION 1

## EXECUTIVE SUMMARY







Significant aspects of audit outcomes are summarised in the table below, while sections 2 to 3 provide a more detailed analysis of findings, trends and root causes. Commitments received from role players are outlined in section 4.





**Table 1: Significant aspects of the audit outcomes**






Aspect	Indicator	Key outcomes and trends
<b>Overall audit outcomes</b>		<ul style="list-style-type: none"> <li>One (4%) auditee progressed to a clean audit, while eight (31%) auditees were able to maintain their clean audit status.</li> </ul>
		<ul style="list-style-type: none"> <li>Three (12%) auditees progressed to financially unqualified with findings.</li> </ul>
		<ul style="list-style-type: none"> <li>Seven (27%) auditees retained their prior financially unqualified audit opinions, but still need to address their findings on predetermined objectives and/or compliance in order to progress to clean audits.</li> </ul>
		<ul style="list-style-type: none"> <li>One (4%) auditee regressed from financially unqualified to qualified. Five (19%) auditees failed to address all their 2010-11 qualification findings.</li> </ul>
		<ul style="list-style-type: none"> <li>Of concern is the fact that Free State Development Corporation retained their disclaimer of audit opinion. This also had a negative impact on the consolidated financial statements due to the size of the Free State Development Corporation in relation to all other public and trading entities, as can be seen in 2.2.4, where the public entities consolidation was disclaimed.</li> </ul>









Aspect	Indicator	Key outcomes and trends
<b>Submission of financial statements and annual performance reports for audit</b>		<ul style="list-style-type: none"> <li>Twenty-five (93%) auditees submitted their financial statements within the legislative time frame.</li> </ul>
		<ul style="list-style-type: none"> <li>The Free State Development Corporation (FDC) did not submit their financial statements within the legislative time frame. The Free State Political Party Fund submitted financial statements late for the 2008-09 and 2009-10 financial years and has not yet submitted financial statements for 2010-11 and 2011-12.</li> </ul>
		<ul style="list-style-type: none"> <li>Sixteen of the auditees that were required to report on predetermined objectives submitted their annual performance reports within the prescribed time frame. The six trust funds and the provincial revenue fund were not required to report on predetermined objectives.</li> </ul>
		<ul style="list-style-type: none"> <li>Three auditees submitted their annual performance reports late for auditing.</li> </ul>
<b>Qualified opinions on financial statements</b>		<ul style="list-style-type: none"> <li>Five (19%) auditees managed to address their qualifications on property, infrastructure, plant and equipment.</li> </ul>
		<ul style="list-style-type: none"> <li>Three (12%) auditees managed to address their prior year qualification on irregular and fruitless and wasteful expenditure.</li> </ul>
		<ul style="list-style-type: none"> <li>Lack of proper record keeping is again the main reason for qualifications on financial statement areas. Five (19%) [2010-11: eight (28%)] auditees were qualified on irregular or fruitless and wasteful expenditure.</li> </ul>
		<ul style="list-style-type: none"> <li>Three (12%) auditees remained qualified on property, infrastructure, plant and equipment.</li> </ul>
		<ul style="list-style-type: none"> <li>Four (15%) auditees were also qualified on other disclosure items.</li> </ul>













Aspect	Indicator	Key outcomes and trends
<b>Reporting on predetermined objectives</b>		<ul style="list-style-type: none"> <li>Five auditees (26%) reviewed, analysed, evaluated and monitored their predetermined objective processes on a regular basis and ensured that information and documentation are readily available.</li> </ul>
		<ul style="list-style-type: none"> <li>The Free State Legislature improved since the prior year and had no findings on predetermined objectives.</li> </ul>
		<ul style="list-style-type: none"> <li>75% of public entities achieved more than 80% of their predetermined objectives for the year.</li> </ul>
		<ul style="list-style-type: none"> <li>A regression in reporting on performance occurred at two (11%) auditees as sufficient and appropriate audit evidence was not available.</li> </ul>
		<ul style="list-style-type: none"> <li>Capacity constraints exist in certain performance information units resulting in poor reporting on predetermined objectives. Furthermore, leadership does not adequately review and monitor information submitted, which resulted in audit findings on predetermined objectives.</li> </ul>
		<ul style="list-style-type: none"> <li>46% of departments achieved less than 80% of their predetermined objectives for the year.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Findings on non-compliance with laws and regulations</b>		<ul style="list-style-type: none"> <li>The Department of the Premier, Free State Legislature and the provincial treasury are leading by example in their commitment to comply with laws and regulations.</li> </ul>
		<ul style="list-style-type: none"> <li>Ten (71%) departments and seven (58%) entities had findings on compliance with laws and regulations. The most findings occurred in the areas of human resource management, procurement management, unauthorised, irregular and fruitless and wasteful expenditure, material misstatements/ limitations in the submitted annual financial statements and asset and liability management.</li> </ul>
<b>Supply chain management</b>		<ul style="list-style-type: none"> <li>Most auditees in the province incurred irregular expenditure. Although there was an improvement in irregular expenditure identified by the auditees themselves, of concern is the big increase in irregular expenditure since not following procurement processes has become the norm in the Free State Provincial Government.</li> </ul>
		<ul style="list-style-type: none"> <li>Irregular expenditure relating to supply chain management (SCM) totalled R3,132 billion (2010-11: R1,073 billion) for the province indicating that staff in SCM units do not adhere to SCM legislation. Consequences for transgressions were also lacking. Lack of properly designed procurement processes also resulted in non-compliance with policies and procedures.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Internal controls</b>		<ul style="list-style-type: none"> <li>The effectiveness of the audit committees and internal audit units has improved although they are not yet functioning as intended at all the auditees.</li> </ul>
		<ul style="list-style-type: none"> <li>Leadership did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance and related internal controls.</li> </ul>
		<ul style="list-style-type: none"> <li>Basic daily and monthly key controls have still not been implemented or are not adequately monitored in the province.</li> </ul>
		<ul style="list-style-type: none"> <li>Leadership does not utilise the performance management process to address poor performance and non-compliance with basic internal control procedures.</li> </ul>
		<ul style="list-style-type: none"> <li>Vacancies and skills in key positions are not conducive to creating stability and impact negatively on the implementation of internal controls, action plans and commitments.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Human resource management</b>		<ul style="list-style-type: none"> <li>Two (15%) of the 13 departments had no findings on human resource (HR) management. HR units effectively managed and monitored policies. Another contributing factor in these departments is stability in key positions.</li> </ul>
		<ul style="list-style-type: none"> <li>Certain key positions were vacant for more than 12 months, with advertisements not being placed soon after positions became vacant. This hampers stability and ownership because officials are appointed in an acting capacity.</li> </ul>
		<ul style="list-style-type: none"> <li>There is inadequate oversight of human resource processes and HR legislation because policies and procedures are not always adhered to.</li> </ul>
		<ul style="list-style-type: none"> <li>At eight (62%) of the departments all the senior managers did not sign their performance agreements as required.</li> </ul>
<b>Management of information technology</b>		<ul style="list-style-type: none"> <li>One (8%) department (provincial treasury) formally documented and implemented all information technology (IT) policies.</li> </ul>
		<ul style="list-style-type: none"> <li>The Provincial Government Information Technology Officers Committee (PGITOC) had been established in the province and meets regularly, but has not yet yielded results.</li> </ul>
		<ul style="list-style-type: none"> <li>Slow progress in addressing IT findings as this is not regarded as being of strategic importance by auditees.</li> </ul>
		<ul style="list-style-type: none"> <li>Lack of adequate skills and knowledge sharing within the province resulted in departments not having designed and implemented various IT policies and procedures.</li> </ul>

Aspect	Indicator	Key outcomes and trends
<b>Audit committees, internal audit and oversight structures</b>		• All departments have audit committees and internal audit units in place.
		• Only two (29%) entities did not have audit committees and internal audit units in place.
		• Capacity constraints in internal audit units hamper effective functioning of the units and effectiveness of the audit committee.
		• Findings and recommendations of audit committees and internal audit are not always prioritised, implemented and monitored by management.
		• The provincial public accounts committee did not table any resolutions during the financial year. The portfolio committees also did not function effectively during the financial year and had no impact towards improving audit outcomes.
<b>Financial health indicators</b>		• In the year under review the Auditor-General of South Africa (AGSA) identified the financial health of auditees as a new focus area, as it has a significant and direct impact on effective and efficient service delivery. The approach to the focus area was developed and implemented in a phased approach in consultation with the National Treasury.
		• There were, however, outstanding accruals (goods and services received but not yet paid) at year-end. As of year-end, six departments had incurred liabilities in excess of available funds and at six departments, more than 10% of their next year's budget would be used to pay off current expenditure.

Aspect	Indicator	Key outcomes and trends
<b>Recommendations / Way forward</b>		• Political and administrative leadership should ensure stability in key positions and take ownership to effectively manage and address financial, performance and governance challenges.
		• There should be consequences for poor performance and transgressions.
		• Leadership should implement and monitor key controls and action plans to ensure that both financial and non-financial reports are reliable.

# SECTION 2

## OVERVIEW OF AUDIT OUTCOMES

- 2.1 OVERALL AUDIT OUTCOMES
- 2.2 FINDINGS ARISING FROM THE AUDIT OF FINANCIAL STATEMENTS
- 2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES
- 2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS



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# SECTION 2

## OVERVIEW OF AUDIT OUTCOMES

This section of the general report provides the province's overall audit outcomes (section 2.1), followed by further details on findings arising from the audit of the financial statements (section 2.2), reporting by auditees against their predetermined objectives (PDOs) (section 2.3) and compliance by auditees with laws and regulations (section 2.4).

Root causes of audit findings and recommended best practices are also analysed in the respective sections. This should be read together with an analysis of the drivers of audit outcomes in section 3 of this general report. Section 4 records the commitments received from the provincial executive leadership and oversight structures and other national and provincial role players in response to the 2011-12 audit outcomes. Section 5 highlights other current and emerging matters and the financial health of the province requiring attention from the leadership.

### 2.1 OVERALL AUDIT OUTCOMES

Provincial government comprises 27 auditees, 14 departments (which include the legislature and the revenue fund) and 13 public entities. The public entities include four provincial public entities, two trading entities and seven other entities that are not subject to the Public Finance Management Act of South Africa (Act No. 1 of 1999) (PFMA). The number of public entities has decreased from 16 to 13 since the 2010-11 financial year due to the closure of three public entities. The Free State Gambling and Racing Board and the Free State Liquor Authority were merged to establish a new entity, namely the Free State Gambling and Liquor Authority, during 2010-11 and only the new entity is included in the current year. The Free State Investment Promotion Agency was closed and the functions transferred to the Free State Development Corporation.

#### 2.1.1 Summary of overall audit outcomes

The audits of 13 (93%) departments and 11 (85%) public entities that submitted financial statements by 31 May 2012 were completed within the legislated time frame. The legislative deadline for submission of financial statements of the Provincial Revenue Fund is 30 June and the audit must be completed within three months of receipt of financial statements. The audit of one (8%) public entity (Free State Development Corporation) was completed after the legislated time frame due to late submission of the financial statements. The audit of one (8%) public entity (Free State Political Party Fund) had not been finalised as at 15 October 2012, which is the cut-off date set by the AGSA for inclusion of their audit outcomes in this general report, mainly as a result of non-submission of financial statements for audit.

The audit outcomes and outstanding audit reports (current and prior year) are summarised in the following table. 'With findings' denotes findings on PDOs and/or compliance with laws and regulations. Clean audits are achieved when the financial statements are unqualified and there are no reported audit findings in respect of reporting on PDOs or compliance with laws and regulations.

**Table 2: Summary of audit outcomes for current and prior year**

Audit outcomes	Departments*		Public entities		Total	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Financially unqualified with no findings (clean audits)	4	3	5	5	9	8
Financially unqualified with findings	5	4	5	7	10	11
Financially unqualified financial statements	64%	50%	77%	75%	70%	63%
Qualified opinion, with findings	5	7	1	2	6	9
Adverse opinion, with findings	0	0	0	0	0	0
Disclaimer of opinion, with findings	0	0	1	1	1	1
Number of audit reports not issued by 15 October 2012	0	0	1	1	1	1
Outstanding audits and financially qualified financial statements	36%	50%	23%	25%	30%	37%
<b>Total number of audits in the province</b>	<b>14</b>	<b>14</b>	<b>13</b>	<b>16</b>	<b>27</b>	<b>30</b>


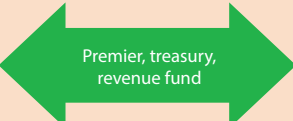




\* Including legislature and provincial revenue fund

Annexure 1 to this report lists the current and prior year audit outcomes of all auditees.

## 2.1.2 Improvements and regressions in audit outcomes

The following figure analyses the overall movement in provincial government audit outcomes between the current and previous financial year.

**Figure 1: Summarised movements in overall audit outcomes of departments**

Movement in audit outcomes from 2011-12 - Departments					
Audit opinion	Improvement	Unchanged	Regressed	Total auditees reported on	Outstanding audits - prior year opinion
Financially unqualified with no findings	 Legislature	 Premier, treasury, revenue fund		4	
Financially unqualified with findings	 Agriculture, CoGTA, Education	 Social Development, Sport		5	
Qualified, with findings		 Economic Development, Health Police, Public Works	 Human Settlements	5	
Adverse/ Disclaimer, with findings					
Prior year audit still outstanding					
<b>Total</b>	<b>4</b>	<b>9</b>	<b>1</b>	<b>14</b>	

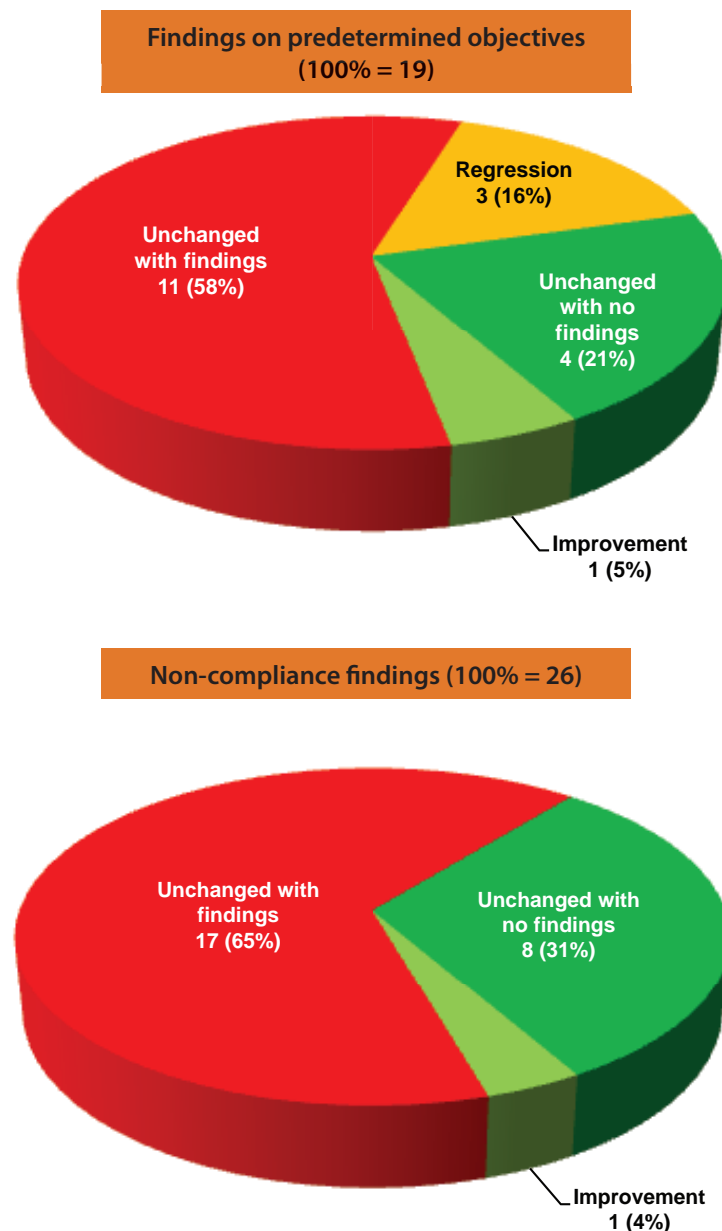
**Figure 2: Summarised movements in overall audit outcomes of public entities**

Audit opinion	Improvement	Unchanged	Regressed	Total auditees reported on	Outstanding audits - prior year opinion
Financially unqualified with no findings		James Robertson, Thomas Robertson, Nature Conservation TF Private Patient TF, Recreation TF		5	
Financially unqualified with findings		MEDPAS, Fleet, Housing Fund Phakisa, Tourism Authority		5	
Qualified, with findings		Gambling and Liquor Authority		1	
Adverse/ Disclaimer, with findings		Free State Development Corporation		1	
Prior year audit still outstanding					1 (Free State Political Party Fund)
<b>Total</b>		<b>12</b>		<b>12</b>	<b>1</b>

\*TF = Trust Fund

The following figure provides an analysis of findings on PDOs and compliance with laws and regulations.

**Figure 3: Summarised movements in findings on predetermined objectives and compliance with laws and regulations**



Refer to annexure 1 for the list of auditees analysed.

The Free State Provincial Legislature improved since the prior year and had no findings on PDOs and non-compliance. The other leading departments, namely the Department of the Premier and Free State Provincial Treasury, maintained their clean audit opinions with no findings on PDOs and non-compliance.

The Phakisa Major Sport Events and Development Corporation as well as the Free State Tourism Authority regressed from no PDO findings in 2010-11 to significant findings in 2011-12. The Phakisa Major Sport Events and Development Corporation was discontinued during the year, which resulted in a lack of management focus on reporting against the strategic plan of the entity. The regression at Free State Tourism Authority was mainly due to the impact that Phakisa's results had on the report after the amalgamation.

The Free State Development Corporation also regressed as they submitted their performance information after the legislated due date.

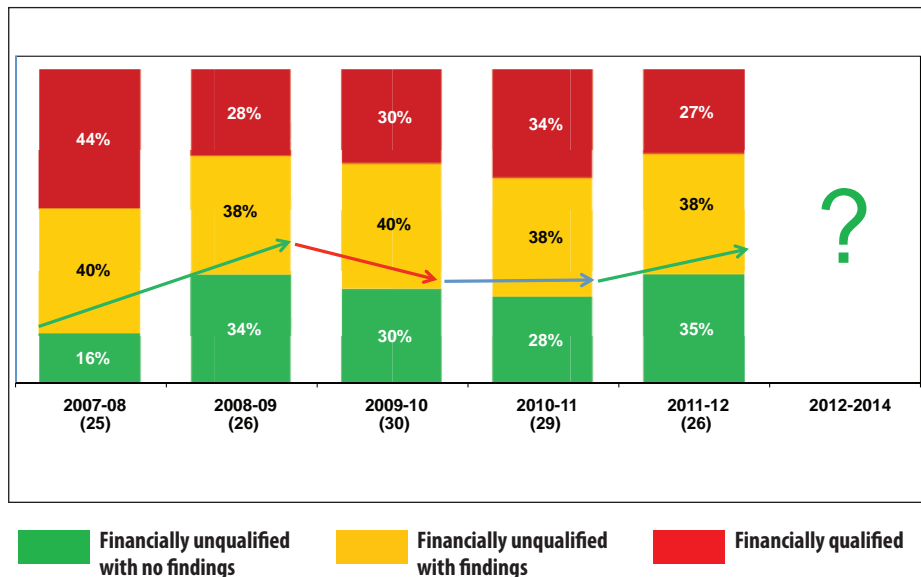
The top three departments with the highest number of findings on compliance with laws and regulations are the Department of Health, followed by the Department of Police, Roads and Transport and Department of Human Settlements. This is due to lack of effective management and leadership oversight, lack of clear roles and responsibilities for compliance between all levels of staff and transgressors not held accountable.



### 2.1.3 Province's progress towards producing unqualified financial statements

Obtaining financially unqualified audit reports is an important milestone towards clean audits. The province's five-year progress towards producing unqualified financial statements is depicted in the following figure.

**Figure 4: Five-year progress towards financially unqualified audit reports**



As the percentage of financially qualified audit outcomes is decreasing, the percentage of financially unqualified audit outcomes with findings is improving. The reasons why auditees failed to progress to financially unqualified with no findings were lack of stability and ownership by political and administrative leadership and lack of consequences to address poor performance and transgressions. Leadership also does not adequately implement and monitor key controls, action plans and commitments.

The improvement in the audit outcome of the Free State Legislature can be attributed to decisive action taken by the leadership to address matters and provide proactive and effective oversight.

By obtaining clean audit opinions the majority of the governing departments, i.e. Free State Legislature, Department of the Premier and Free State Provincial Treasury, are leading by example. However, although the Department of Cooperative Governance and Traditional Affairs (CoGTA) managed to obtain an unqualified audit opinion, they still have not addressed all findings on PDOs and compliance with laws and regulations.

### 2.1.4 Province's rate of addressing findings on predetermined objectives and compliance with laws and regulations

The progress made by the province over the past three years in addressing audit findings on PDOs and compliance with laws and regulations is depicted below.

**Table 3: Three-year progress in addressing predetermined objective and compliance findings**

All auditees	2011-12	2010-11	2009-10
PDO findings only	0 (0%)	0 (0%)	2 (7%)
Compliance with laws and regulations findings only	3 (11%)	9 (31%)	5 (17%)
Findings on both PDOs and compliance with laws and regulations	14 (54%)	12 (41%)	13 (43%)
No findings on PDO or compliance with laws and regulations	9 (35%)	8 (28%)	10 (33%)
<b>Total</b>	<b>26 (100%)</b>	<b>29 (100%)</b>	<b>30 (100%)</b>

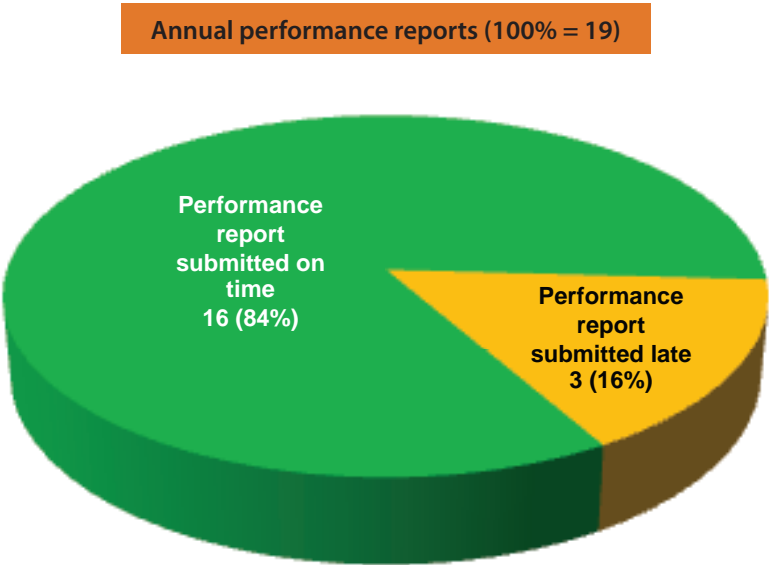
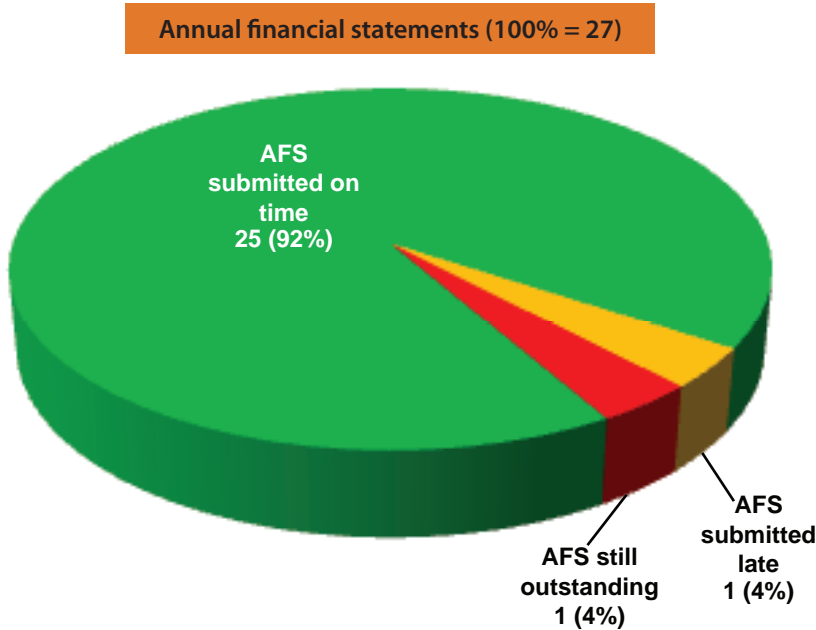
The Phakisa Major Sport Events and Development Corporation and the Free State Tourism Authority have regressed since the prior year and now have findings on both PDOs and compliance with laws and regulations.

The Free State Legislature had addressed their findings on both focus areas in the prior year and attracted no findings in 2011-12.

2.1.5 Status and outcomes of audits not finalised by 15 October 2012

The timeliness of completion of audits is primarily influenced by the date on which the AGSA receives auditees’ financial statements and the efficiency with which the audits proceed thereafter. As can be seen in the following figure, two (8%) auditees were still unable to meet the legal requirement for timely submission of financial statements, with three (15%) in the case of performance reports.

Figure 5: Timeliness of submission of financial statements and annual performance reports for audit



The financial statements for the Free State Development Corporation was submitted after the legislated time frame and the Free State Political Party Fund has not yet submitted financial statements for auditing. The annual performance reports of the Department of Human Settlements, CoGTA and Free State Development Corporation were submitted late for auditing after the due date of 31 May 2012.

Between 15 October 2012, the date set by the AGSA for inclusion of audit outcomes in the general report, and the date of this report, no further audits were finalised. Details of the prior year audit outcomes are presented in the following table.

**Table 4: Outcomes of audits finalised after 15 October 2012**

Auditee	2011-12 Audit opinion	2010-11 Audit opinion
<b>Public entities</b>		
Free State Political Party Fund	Financial statements outstanding	Financial statements outstanding

The following table depicts the reasons for the remaining audits being outstanding at the date of this report. The table further indicates the prior year outcomes of these audits.

**Table 5: Prior outcomes of audits outstanding at the date of this report**

Auditee	Reason not finalised			Audit outcome of audit last finalised (2010-11)				
	AFS not yet received	Late receipt of AFS	Audit in progress for other reasons	Adverse/ Disclaimer	Qualified	Financially unqualified with findings	Financially unqualified with no findings	Previous audits not finalised
<b>Public entities</b>								
Free State Political Party Fund	.							.
<b>Total</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>

The Free State Political Party Fund submitted financial statements late for the 2008-09 and 2009-10 financial years, with the result that the audits have not been finalised. The financial statements for 2010-11 and 2011-12 have not yet been submitted.

## 2.2 FINDINGS ARISING FROM THE AUDIT OF 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 operations (statement of financial results) and cash flows for the period in accordance with the applicable accounting framework and the requirements of the applicable legislation. The audit provides the users with assurance on the degree to which the financial statements are reliable and credible.

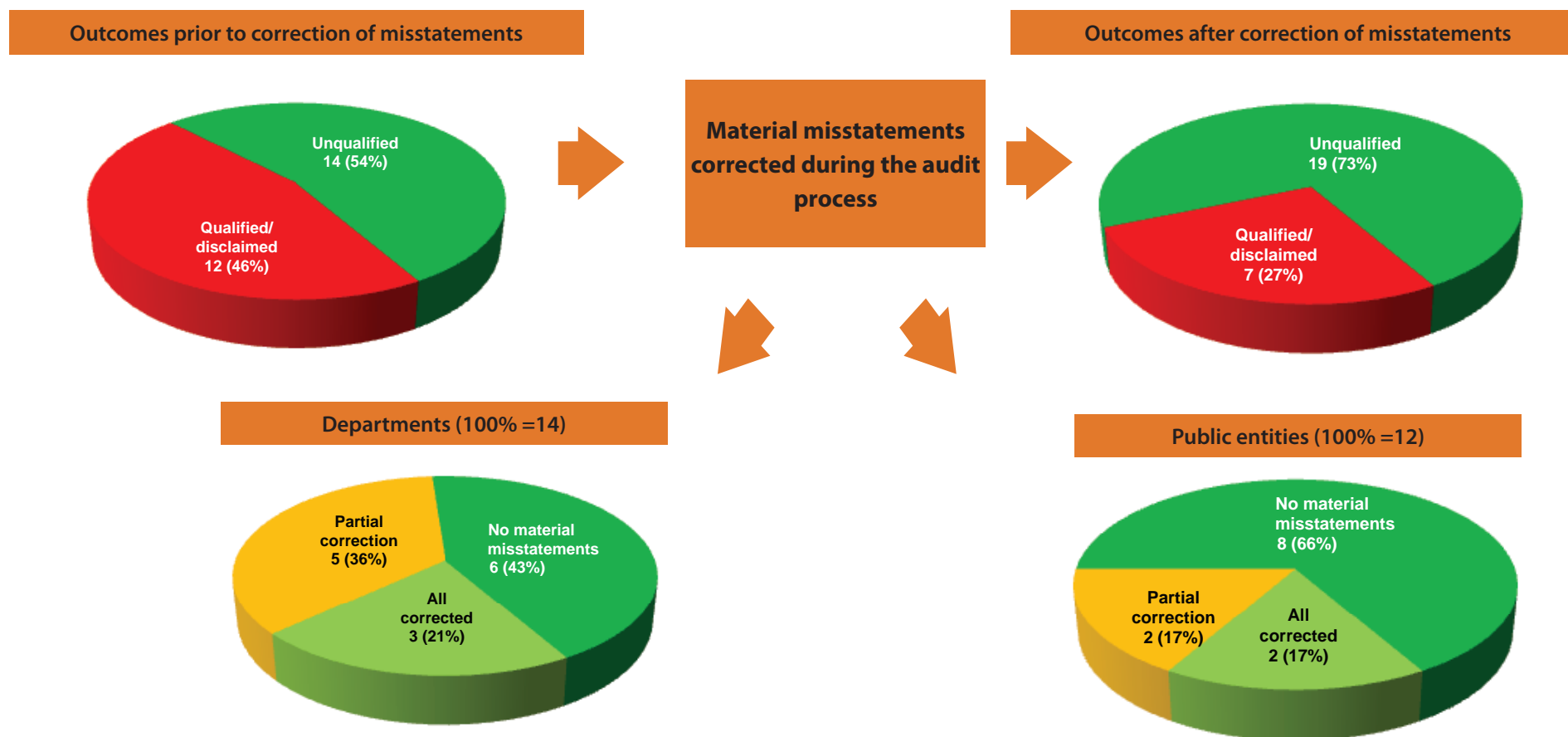
### 2.2.1 The quality of financial statements submitted for audit

Fourteen (54%) auditees submitted financial statements that did not require material adjustments, compared to nine (31%) auditees in the prior year. The number of auditees that submitted financial statements containing material misstatements in one or more areas is still unacceptably high.

Five (19%) auditees were able to achieve a financially unqualified audit outcome because they used the opportunity provided by the AGSA to correct all misstatements identified during the audit. Some auditees were not willing and/or able to correct all of the misstatements and therefore could not avoid the qualification of their financial statements.

The extent of material misstatements in financial statements submitted for audit for the year under review is depicted in the following figure.

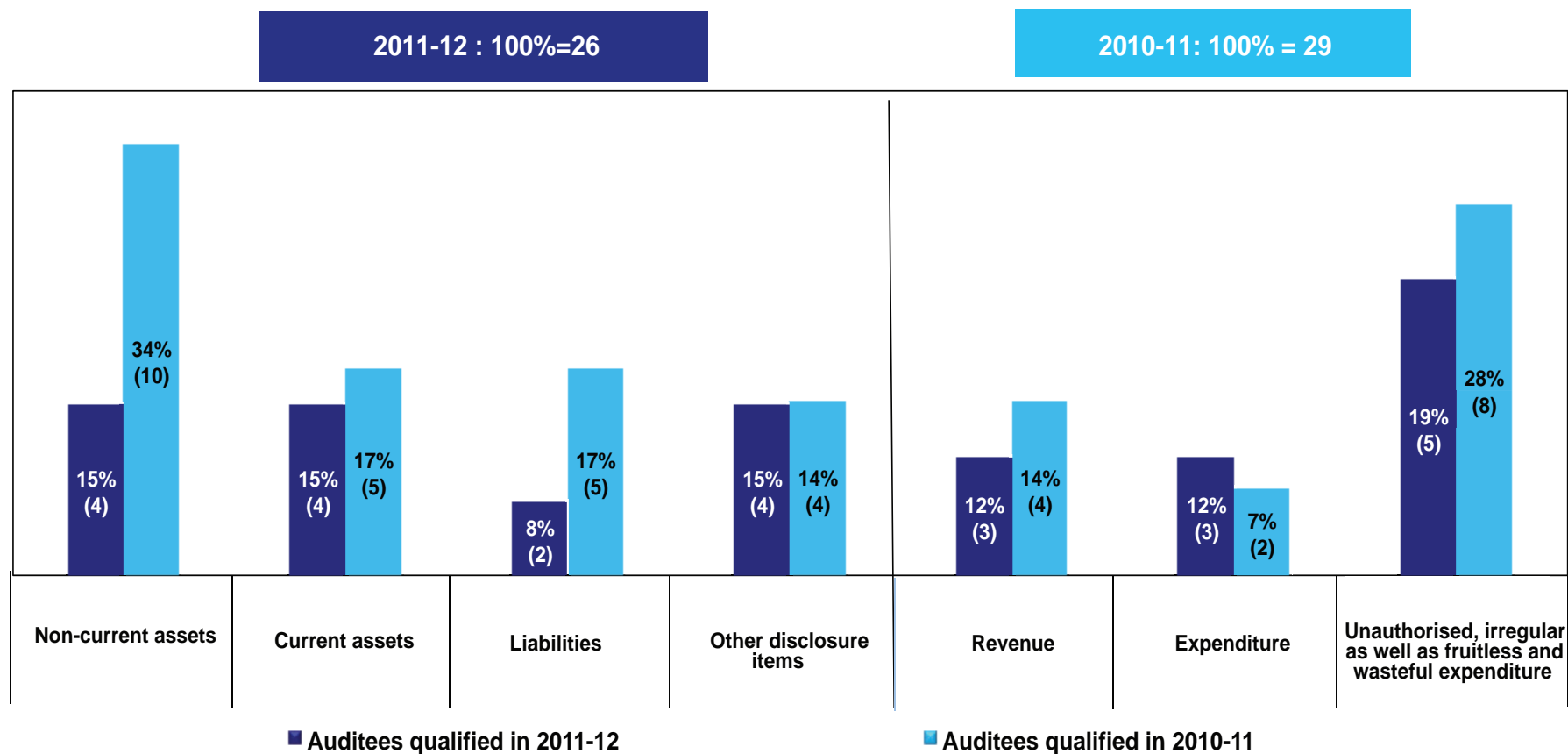
**Figure 6: Material misstatements in financial statements submitted for audit**



## 2.2.2 Financial statement qualification findings

The following figure depicts the areas that were materially misstated (qualified) in the financial statements of the seven (27%) auditees [2010-11: 10 (35%)] that received modified audit opinions. In order to avoid a possible distortion in the comparative figures, the prevalence of qualifications in audits outstanding is also depicted. The figure includes both the departments and public entities.

**Figure 7: Financial statement qualification areas**



The table that follows depicts the progress, or lack thereof, made by auditees in addressing their prior year financial statement qualifications. Only completed audits are included.

**Table 6: Progress made by auditees in addressing prior year financial statement qualifications**

Auditee	2010-11 audit opinion	Movement in addressing 2010-11 financial statement qualification areas							2011-12 audit opinion
		Non-current assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	
Departments									
Department of Agriculture and Rural Development	Qualified	Addressed						Addressed	Financially unqualified with findings
CoGTA	Qualified	Addressed							Financially unqualified with findings
Department of Economic Development, Tourism and Environmental Affairs	Qualified	Repeat			Repeat			Repeat	Qualified
Department of Education	Qualified	Addressed							Financially unqualified with findings
Department of Health	Qualified	Repeat	Repeat			Addressed	New	Repeat	Qualified
Department of Human Settlements	Financially unqualified with findings			New	New		New	New	Qualified
Department of Police, Roads and Transport	Qualified	Addressed	Repeat	Addressed	Repeat	New		Repeat	Qualified
Department of Public Works	Qualified	Repeat	Repeat	Addressed		Repeat		Addressed	Qualified
Public entities									
Free State Development Corporation	Disclaimer	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Addressed	Disclaimer
Free State Gambling and Liquor Authority	Qualified	Addressed		Addressed	Addressed	Addressed		Repeat	Qualified

The table that follows provides detail of the financial statement qualification areas, the basis for qualifications and the reason for qualifications.

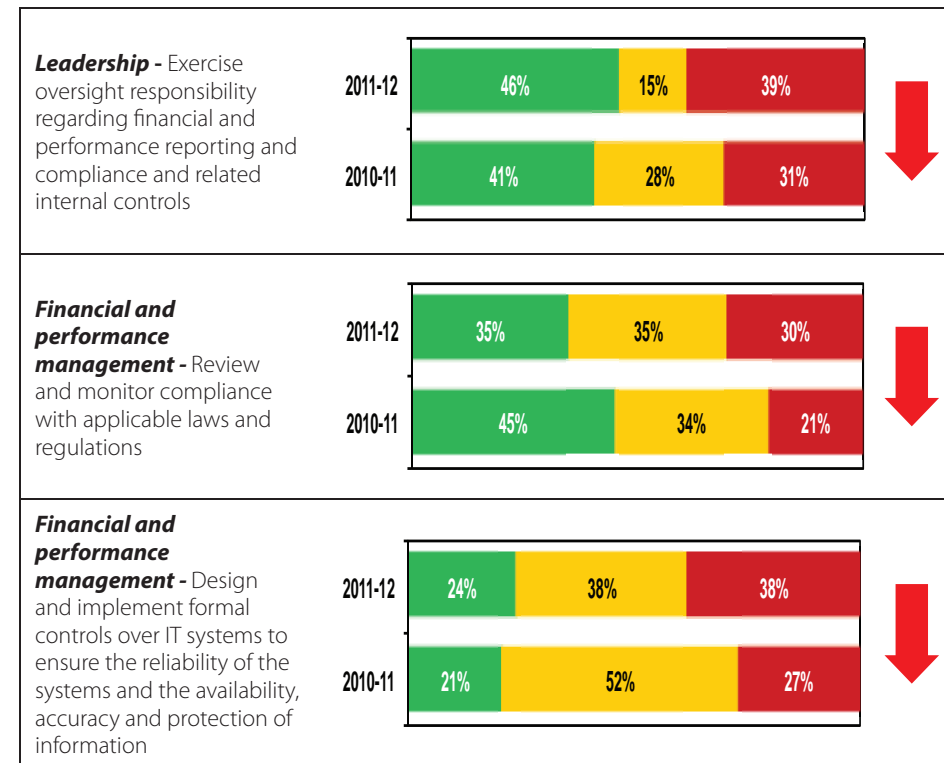
**Table 7: Nature of qualifications**

Financial statement qualification areas	Basis for qualification	Reason for qualification
<b>Non-current assets</b> <ul style="list-style-type: none"> <li>Property</li> <li>Infrastructure</li> <li>Machinery and equipment</li> </ul>	Completeness of assets reflected in financial statements	<ul style="list-style-type: none"> <li>Incomplete asset registers</li> <li>Asset registers not updated on a timely basis</li> </ul>
	Values at which assets are reflected	<ul style="list-style-type: none"> <li>No/inadequate supporting evidence</li> </ul>
	Existence	<ul style="list-style-type: none"> <li>Existence of assets could not be confirmed due to weaknesses in the asset register</li> </ul>
	Rights and obligations	<ul style="list-style-type: none"> <li>No/inadequate supporting evidence</li> </ul>
<b>Irregular expenditure</b>	Completeness	<ul style="list-style-type: none"> <li>No/incomplete disclosure of irregular expenditure</li> <li>No/inadequate supporting evidence</li> <li>Inadequate processes to identify irregular expenditure</li> </ul>
	Valuation and existence	<ul style="list-style-type: none"> <li>No/inadequate supporting evidence</li> </ul>
<b>Other disclosure items</b> <ul style="list-style-type: none"> <li>Commitments</li> <li>Lease commitments</li> </ul>	Completeness	<ul style="list-style-type: none"> <li>Inadequate systems and controls over disclosure items</li> <li>Inadequate processes to identify and report items for disclosure</li> </ul>
	Valuation/ Accuracy of amounts	<ul style="list-style-type: none"> <li>No/inadequate supporting evidence</li> </ul>

### 2.2.3 Root causes and best practice recommendations

The ability of auditees to produce financial statements that are free from material misstatement is influenced by the existence of a sound system of internal control. The key drivers of these controls are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

The figure that follows indicates the significant deficiencies in internal control that require attention from leadership to improve the audit outcomes.

**Figure 8: Assessment of key drivers of internal control over financial reporting**

Identified root causes which gave rise to this assessment and the recommended way forward are summarised as follows:

**Table 8: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Monitoring by leadership</b>	<p><u>Root cause</u></p> <ul style="list-style-type: none"> <li>Inadequate implementation and monitoring of basic key controls, action plans and commitments by leadership to ensure that identified control deficiencies are addressed and financial reports are reliable. This resulted in a high number of adjustments to the financial statements and year-end effort to address the prior year qualifications.</li> <li>Unauthorised, irregular and fruitless and wasteful expenditure is not prevented and detected by leadership. As a result four departments (Economic Development, Tourism and Environmental Affairs, Health, Human Settlements and Police, Roads and Transport) and one entity (Gambling and Liquor Authority) had qualifications on irregular and fruitless and wasteful expenditure.</li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>Leadership should monitor the implementation of their commitments and audit improvement action plans.</li> <li>It is the leadership's responsibility to ensure that adequate internal controls are in place. They should also ensure that controls are in place to prevent and detect unauthorised, irregular and fruitless and wasteful expenditure.</li> </ul>

Aspect	Identified root causes and way forward
<b>Information and processes relied on by leadership</b>	<p><u>Root cause</u></p> <ul style="list-style-type: none"> <li>The implementation, review and monitoring of key controls did not take place on a daily, weekly and monthly basis.</li> <li>Fixed asset counts are not performed on a monthly basis. The Departments of Health, Public Works and Economic Development, Tourism and Environmental Affairs still have qualifications on fixed assets. Four departments (Agriculture, CoGTA, Education and Police, Roads and Transport) and one entity (Gambling and Liquor Authority) managed to address their prior year qualification on fixed assets, but this outcome may not be sustainable as consultants were used to update the asset registers or significant effort was required during July 2012 to correct the findings raised on fixed assets.</li> <li>Improper record keeping and the absence of record management processes are still a concern.</li> <li>Inadequate systems, processes and controls for disclosure notes resulted in qualifications on disclosure notes at three departments and significant adjustments to the disclosure notes in the financial statements of the departments of Education, Health and Public Works.</li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>Establish effective processes for the monitoring and review of key controls, which includes an adequate level of supervision.</li> <li>Fixed asset counts should be performed on a monthly basis to ensure sustainable audit outcomes.</li> <li>Proper record management processes should be implemented and monitored.</li> <li>Formal processes should be developed, implemented and monitored for disclosure notes on a monthly basis. Financial statements to be compiled on a monthly basis should include the information for the disclosure notes.</li> </ul>



Aspect	Identified root causes and way forward
<b>Commitment to obtain financially unqualified reports</b>	<p><u>Root cause</u></p> <ul style="list-style-type: none"> <li>• Lack of stability and ownership by political and administrative leadership to effectively manage and address financial, performance, governance challenges and to fill critical vacancies: <ul style="list-style-type: none"> <li>– At the Department of Economic Development, Tourism and Environmental Affairs a new accounting officer was appointed in November 2011, while the member of the executive council (MEC) for CoGTA and Human Settlements was transferred to the department in February 2012.</li> <li>– The MEC for the Department of Police, Roads and Transport had been in office since June 2011. The department had three accounting officers during the financial year (the current accounting officer was appointed during November 2011).</li> <li>– At the Department of Public Works the chief financial officer (CFO) was moved to CoGTA at the beginning of June 2012. As a result the financial statements were not properly reviewed by the CFO.</li> </ul> </li> <li>• The instability in leadership at CoGTA and the Department of Human Settlements resulted in a delay in splitting the two departments. A new MEC was appointed in April 2012 after the previous MEC was transferred as indicated above. A new accounting officer was appointed in January 2012. The shared services between the two departments were not effective due to inadequate capacity to perform the financial functions of both departments at the same time.</li> <li>• There was a lack of ownership by the Department of Public Works to address issues relating to immovable assets in the province and a lack of assistance from the respective departments in the process of identifying and transferring all assets.</li> <li>• There was instability in the accounting authority of the Free State Development Corporation as several changes were made to the composition of the board during the financial year and therefore they did not fulfil their oversight role.</li> </ul>

Aspect	Identified root causes and way forward
<b>Commitment to obtain financially unqualified reports</b>	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• The executive authority should create stability in leadership positions, while both political and administrative leadership should primarily take responsibility for addressing findings in order to improve to clean audits.</li> <li>• The Department of the Premier, provincial treasury and the Department of Public Works should coordinate a process with all other departments to identify all immovable assets in the province and ensure proper handover of immovable assets from other departments to the Department of Public Works.</li> <li>• The accounting authority at the Free State Development Corporation needs to stabilise and should fulfil their oversight role to improve the audit outcomes.</li> </ul>

Aspect	Identified root causes and way forward
<b>Performance management and skills acquisition</b>	<p><u>Root cause</u></p> <ul style="list-style-type: none"> <li>• Performance management systems are not working effectively. Findings on performance agreements were identified at eight of the 13 departments.</li> <li>• Lack of consequences to address poor performance and transgressions.</li> <li>• Capacity constraints and vacancies in key positions in certain departments: <ul style="list-style-type: none"> <li>– CoGTA and Human Settlements shared a CFO and other key functions, resulting in capacity constraints and too much reliance placed on key personnel. These two departments also have a high vacancy rate.</li> <li>– At the Department of Police, Roads and Transport key vacancies include the CFO, head of internal audit, HR director, chief directors and other key functions, resulting in various employees acting in higher positions for prolonged periods. Vacancies were not filled during the 2011-12 financial year due to cash flow problems that resulted from unauthorised expenditure incurred in prior years and inadequate budget management. The National Treasury and provincial treasury intervened during the year to address these issues.</li> <li>– The Department of Economic Development, Tourism and Environmental Affairs had vacancies in key positions, including the SCM director.</li> <li>– The Department of Health did not have sufficient capacity to compile the financial statements and too much reliance is placed on key personnel, resulting in material adjustments to the financial statements.</li> <li>– Consultants were used to perform financial functions at certain auditees due to capacity constraints.</li> </ul> </li> </ul>

Aspect	Identified root causes and way forward
<b>Performance management and skills acquisition</b>	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• Under-performance must be addressed through the use of adequately monitored action plans which specify the desired outcomes, assign responsibilities and set specific target dates.</li> <li>• Staff must be held accountable for under-performance through an effective employee performance management system. Appropriate action should be taken against transgressors.</li> <li>• It is important that all critical vacancies be filled to ensure effective functioning of the departments.</li> </ul>
<b>Limitations of information systems used by auditees</b>	<p><u>Root cause</u></p> <ul style="list-style-type: none"> <li>• IT is not regarded as being of strategic importance, with the result that no effort is made to address the findings. This is also evident in the reporting structure where IT falls within the portfolios of officials who are not proficient in IT.</li> <li>• Lack of adequate skills and knowledge sharing within the province resulted in departments not having designed and implemented various IT policies and procedures.</li> </ul> <p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• An action plan should be developed, implemented and monitored to ensure that weaknesses in controls over IT systems are addressed.</li> <li>• Training of IT officials and knowledge sharing within the province should be prioritised to assist in developing IT policies and procedures and to enhance IT controls.</li> </ul>

Aspect	Identified root causes and way forward
<b>Monitoring by audit committees and internal audit</b>	<u>Root cause</u> <ul style="list-style-type: none"> <li>Capacity constraints in internal audit units.</li> <li>Findings and recommendations of internal audit are not always addressed, prioritised and monitored by management.</li> <li>Recommendations made by audit committees are not taken seriously by leadership.</li> </ul>
	<u>Way forward</u> <ul style="list-style-type: none"> <li>Internal audit units must be fully capacitated with skilled resources and appropriate training.</li> <li>Leadership should create an environment where the internal audit function can operate more effectively. Furthermore, findings and recommendations of internal audit should be effectively addressed by leadership.</li> <li>Audit committees should actively track the implementation of action plans and monitor the auditees' progress towards clean audits.</li> </ul>

### 2.2.4 Consolidated financial statements

For accountability purposes the PFMA requires each province to prepare and publish a consolidated financial report on the utilisation of its resources to achieve its objectives. To this end, the provincial treasury is required to prepare consolidated financial statements for each financial year in respect of (i) departments, (ii) public entities under the ownership control of the provincial executive of the province, and (iii) the provincial legislature. The PFMA further requires that the Auditor-General audit the consolidated financial statements and submit an audit report on the statements to the provincial treasury of the province concerned within three months of receipt of the financial statements.

Due to the difference in the basis of accounting, modified cash vs. accrual, however, this was not feasible. By September 2012 the Minister of Finance had not approved a deviation from this requirement of the PFMA. This matter is therefore reported in the AGSA's audit reports as non-compliance with the PFMA.

**Table 9: Status of the audit of consolidated financial statements for the province**

Departments		Public entities	
2011-12	2010-11	2011-12	2010-11
Qualified	No audit opinion; agreed-upon procedures were performed	Disclaimer	No audit opinion; agreed-upon procedures were performed

The consolidated financial statements of departments and public entities for the 2011-12 year were received on 30 June 2012. The audit for the departmental consolidation was finalised on 17 October 2012 and the public entity consolidation was finalised on 26 November 2012. The main reason for missing the legislative deadline of 30 September 2012 for the completion of consolidated audits was the high number of material corrections that had to be made to the individual financial statements for departments and public entities, as indicated under section 2.2.1. These corrections resulted in adjustments to the consolidated financial statements for departments and public entities.

Of concern is the fact that the Free State Development Corporation (FDC) retained their disclaimer of audit opinion. This had a negative impact on the consolidated public entity's financial statements due to the size of the FDC in relation to all other public and trading entities. The FDC consolidated financial statements are made up of 15 subsidiaries and three associates, and FDC has a turnover of R210 million and total assets of R566 million. Due to their size, the consolidated public entity financials were also disclaimed.

It was determined that Hlasela (now called "Friends of the Poor") is not a public entity but a private entity. This entity receives no direct funding from the Department of the Premier and a management representation letter was received from the Department of the Premier in this regard. Project Hlasela is an initiative to expedite service delivery. The activities form part of the normal budgeting processes of departments and the funds were spent accordingly. Therefore Hlasela was not consolidated into the public entity consolidation.

## 2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES

The Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) requires the AGSA to audit annually the reported information relating to the performance of the auditees against their PDOs. This audit did not focus on the economic, efficient and effective use of resources in achieving service delivery or the quality of service delivery.

### 2.3.1 Overall outcomes from the audit of reporting on predetermined objectives

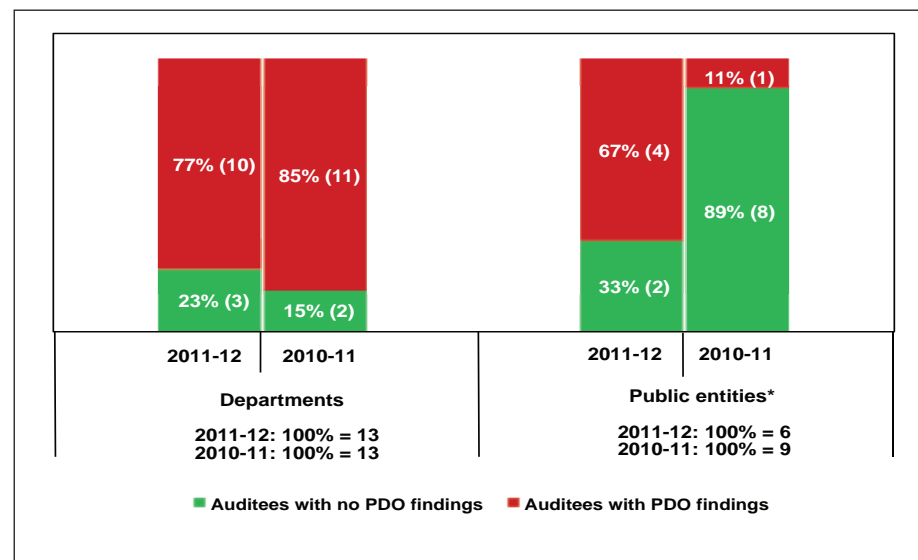
Auditees are required to submit their performance report for auditing by 31 May annually. Two (15%) departments (CoGTA and the Department of Human Settlements) and one entity (17%), the Free State Development Corporation, did not submit their reports for audit in time, compared to the prior year when all auditees submitted in time.

Ten (77%) departments and three (50%) public entities submitted performance reports that contained material misstatements in one or more areas. The performance reports of three (23%) departments and three (50%) public entities required no material adjustments.

Two (15%) of the departments that had material misstatements in their performance reports (CoGTA and the Department of Police, Roads and Transport) were able to avoid certain PDO findings because they had made material corrections to the annual performance report.

Movements in the number of auditees with PDO findings are depicted in the following figure. The figure below excludes the revenue fund and six trust funds which do not require reporting on PDOs.

**Figure 9: Overall movements in number of auditees with PDO findings**



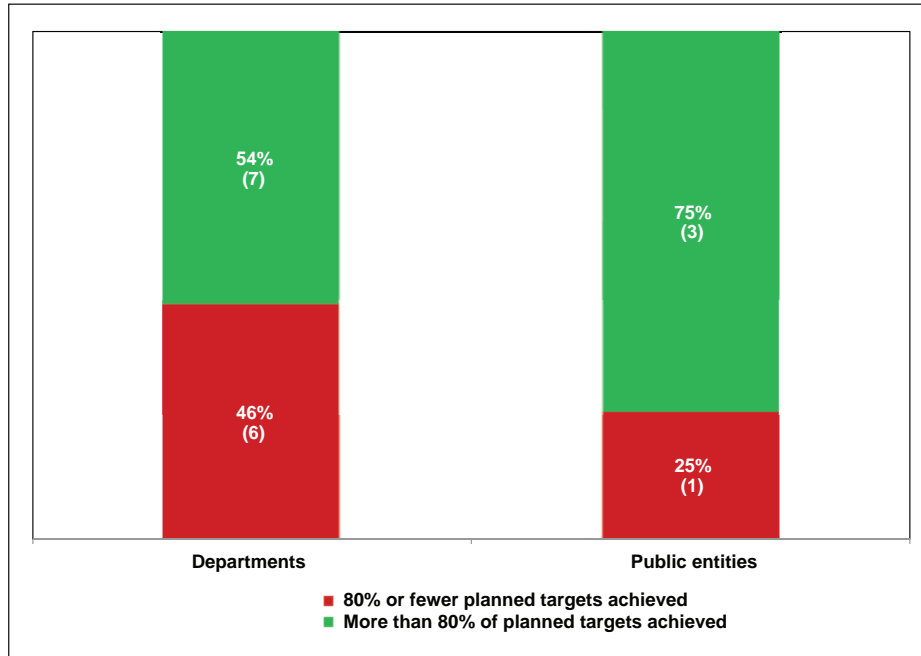
\* Movement in number of entities: Three entities closed in prior year not included in 2011-12

Best practices include the Free State Legislature's review and monitoring of the strategic plan and PDO processes to ensure that performance objective information was readily available. The Department of the Premier and the provincial treasury had processes in place to ensure the review, analysis and evaluation of monthly reports and supporting documentation.

The Central Medical Trading Account and Free State Fleet Management Trading Entity were again able to avoid PDO findings.

The Phakisa Major Sport Development Corporation and the Free State Tourism Authority regressed with regard to reporting on PDOs due to performance information not being useful (i.e. time bound, specific, measurable, well defined and verifiable) and source information for reported performance information not being complete.

The following figure depicts auditees where more than 20% of the planned targets were not achieved during the financial year:

**Figure 10: Planned targets not achieved**

Six (46%) departments and one (25%) entity did not substantially achieve all of their targets as reported in the annual performance reports, which impacted negatively on service delivery. This includes the following departments where service delivery is crucial: Health, Police, Roads and Transport, Public Works, Human Settlements, CoGTA, Economic Development, Tourism and Environmental Affairs. The entity is the Free State Development Corporation. There is a lack of consequences for poor performance of staff involved in service delivery and in service delivery reporting.

The above figure excludes the Gambling and Liquor Authority and the Phakisa Major Events and Development Corporation as the reliability and usefulness of the reported performance information could not be confirmed.

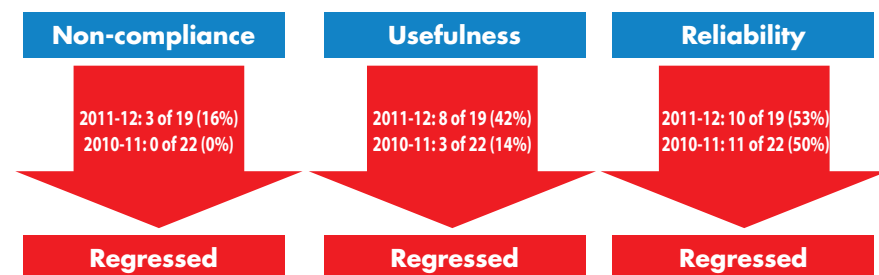
### 2.3.2 Findings on predetermined objectives

PDO findings are classified under the main audit areas of non-compliance, usefulness and reliability of information.

<b>Non-compliance</b>	Findings on non-compliance in this section relate to performance information not submitted by the legislative deadline.  Audit work was also focused on compliance with laws and regulations relevant to performance planning, management and reporting and is included under section 2.4.
<b>Usefulness</b>	The usefulness of reported information is measured against the criteria of presentation, consistency, measurability and relevance. Findings relate to: <ul style="list-style-type: none"> <li>• reported performance information not being consistent with the objectives and targets</li> <li>• targets not clearly linked to the mandate and objectives of the institution</li> <li>• targets not being specific, clearly identifying the nature and required level of performance, and not measurable and time bound.</li> </ul>
<b>Reliability</b>	Findings on whether the reported information on performance against PDOs could be traced back to the source data or documentation and whether the reported information was accurate, complete and consistent in relation to the source data, evidence or documentation.

The following figure depicts overall movements in the different areas of PDO findings.

**Figure 11: Overall movements in findings on predetermined objectives [19 auditees reported on (2010-11: 22)]**



The table that follows depicts the progress, or lack thereof, made by auditees in addressing their prior year PDO findings. It does not include the non-compliance findings which are detailed in section 2.4.

**Table 10: Progress made by auditees in addressing prior year findings on predetermined objectives**

Auditee	Movement in addressing 2010-11 findings on predetermined objective		
	Reported information not useful	Reported information not reliable	Non-compliance
<b>Departments</b>			
Department of Agriculture and Rural Development		Repeat	
CoGTA	New		New
Department of Economic Development, Tourism and Environmental Affairs		Repeat	
Department of Education	New	Repeat	
Department of Health	Addressed	Repeat	

Auditee	Movement in addressing 2010-11 findings on predetermined objective		
	Reported information not useful	Reported information not reliable	Non-compliance
<b>Departments</b>			
Department of Human Settlements	New	Repeat	New
Department of Police, Roads and Transport	New	Addressed	
Free State Legislature	Addressed	Addressed	
Department of Public Works		Repeat	
Department of Social Development		Repeat	
Department of Sport, Arts, Culture and Recreation	New	Addressed	
<b>Public entities</b>			
Free State Development Corporation			New
Free State Gambling and Liquor Authority	Repeat	Repeat	
Phakisa Major Sport Events and Development Corporation	New	New	
Free State Tourism Authority	New	New	

The table that follows details the nature of the most common PDO findings.

**Table 11: Nature of finds on predetermined objectives**

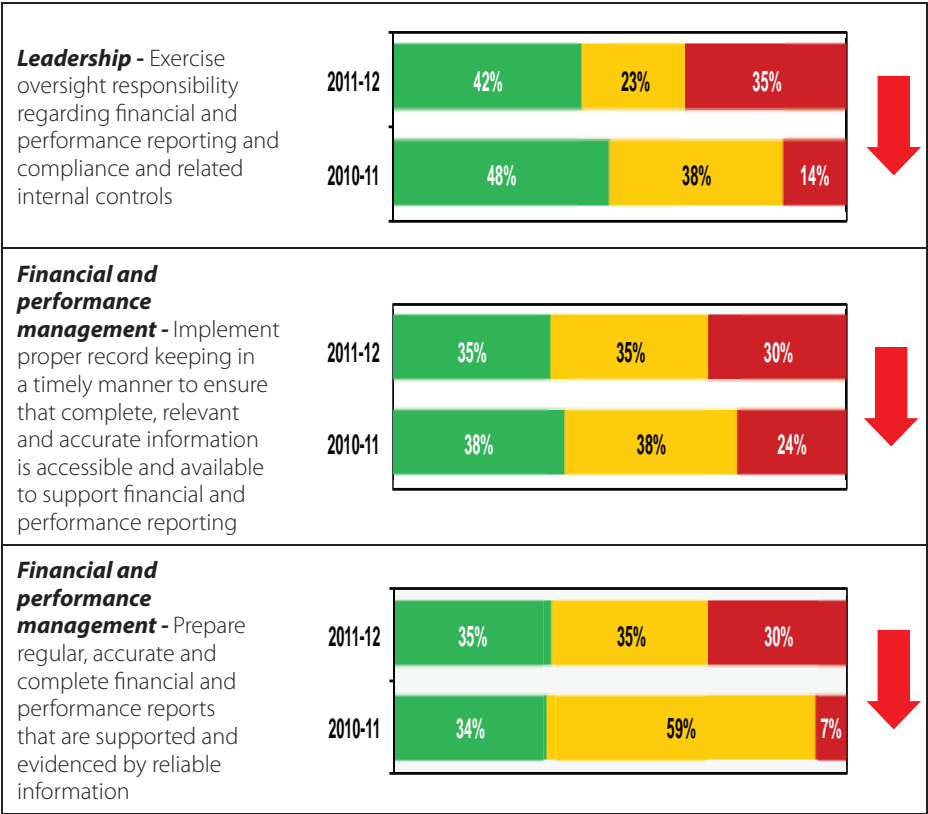
PDO findings category	Specific PDO findings	Nature of findings
<b>Reported information not useful</b>	<ul style="list-style-type: none"> <li>Consistency</li> <li>Relevance</li> <li>Measurability</li> </ul>	<ul style="list-style-type: none"> <li>Performance targets not time bound, specific and measurable</li> <li>Indicators/measures not well defined</li> <li>Reasons for major variances not supported by adequate corroborating evidence</li> </ul>
<b>Reported information not reliable</b>	<ul style="list-style-type: none"> <li>Accuracy</li> <li>Completeness</li> <li>Validity</li> </ul>	<ul style="list-style-type: none"> <li>Source information for reported performance information not complete</li> <li>Reported performance information not valid – no/inadequate supporting source information</li> <li>Reported performance information not accurate when compared to source information</li> </ul>

### 2.3.3 Root causes and best practice recommendations

The ability of auditees to meet the legislated requirements and satisfy the prescribed criteria related to reporting on PDOs (service delivery) is influenced by the existence of a sound system of internal control. The key drivers of these control are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

The figure that follows indicates the significant deficiencies in internal control that require attention from leadership to improve the audit outcomes.

**Figure 12: Assessment of drivers of internal control – reporting on predetermined objectives**



Identified root causes which gave rise to this assessment and the recommended way forward are summarised in the table below.

The root causes and findings on reporting against predetermined objectives of the province are consistent with the findings of the transversal performance audit on the readiness of government to report against predetermined objectives which will be released soon.



**Table 12: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Monitoring by leadership</b>	<p><u>Root cause</u></p> <ul style="list-style-type: none"> <li>• Lack of regular review and monitoring by leadership of the information submitted for quarterly and annual reporting.</li> <li>• Provincial treasury, the Department of the Premier and national sector departments did not always assist departments to address under-performance by recommending corrective actions and by assisting and guiding the departments to implement the recommendations and monitor implementation thereof.</li> <li>• The performance of staff responsible for collating information and reporting thereon was not reviewed, while staff were not held accountable for not doing what was required of them.</li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• Leadership should review the information to ensure that accurate, complete and valid performance information is reported on a quarterly and annual basis. Provincial treasury, the Department of the Premier and national sector departments should assist departments to address under-performance by recommending corrective actions and by assisting and guiding the departments to implement the recommendations and monitor the implementation thereof. Departments should monitor performance continuously and hold staff accountable for poor performance.</li> </ul>

Aspect	Identified root causes and way forward
<b>Formal planning for service delivery and performance reporting</b>	<p><u>Root cause</u></p> <ul style="list-style-type: none"> <li>• It is a concern that reported performance information was not useful at eight of the 19 auditees that reported on performance information: <ul style="list-style-type: none"> <li>– At the departments of Education, CoGTA, Human Settlements and Police, Roads and Transport the major variances between the planned and reported targets were not explained in the annual performance report or the explanations could not be supported by reliable evidence. This is due to adequate systems and processes not being in place to report on performance information.</li> <li>– At the Department of Sport, Arts, Culture and Recreation the indicators were not all well defined due to the fact that the relevant national department's review of the customised indicators had not been finalised.</li> <li>– The Free State Gambling and Liquor Authority's reported targets and indicators were not consistent with the planned objectives and not well defined. This was mainly because indicators and targets were not suitably developed during the strategic planning process</li> <li>– The Free State Tourism Authority and the Phakisa Major Sport Event and Development Corporation had findings on usefulness. This was because the Phakisa Major Sport Events and Development Corporation was discontinued during the year, which resulted in a lack of management focus on reporting against the strategic plan of the entity. The regression at Free State Tourism Authority was mainly due to the impact that Phakisa's results had on the report after the amalgamation.</li> </ul> </li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• Management should revisit their strategic planning processes for performance reporting to ensure that all indicators and targets are useful.</li> </ul>

Aspect	Identified root causes and way forward
<b>Systems and processes</b>	<p><u>Root cause</u></p> <ul style="list-style-type: none"> <li>• Senior management did not ensure that policies, systems and processes for performance information were properly documented and that the responsibilities and review processes were formalised. Manual records to collate information are still used to a large extent.</li> <li>• Poor record keeping resulted in unavailability of audit evidence to confirm the reliability of the information reported on. The late submission of performance information at CoGTA and the Department of Human Settlements is due to the shared services between the two departments that are not working effectively, inadequate capacity in the performance information unit and over-reliance on certain key personnel.</li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• Policies, systems and processes for performance information should be properly documented and responsibilities and review processes should be formalised.</li> <li>• A proper documentation protocol must be in place and documents must be standardised.</li> <li>• Leadership should implement, monitor and review action plans to ensure that accurate, reliable and complete information is submitted on time for quarterly and annual reporting.</li> </ul>

Aspect	Identified root causes and way forward
<b>Performance management and skills acquisition</b>	<p><u>Root cause</u></p> <ul style="list-style-type: none"> <li>• Capacity constraints exist in certain performance information units.</li> <li>• There are still officials who have an insufficient understanding of requirements and therefore do not submit the relevant source documentation.</li> <li>• Staff are not always held accountable for under-performance through effective employee performance management systems. Guidance from the Department of Public Service Administration on how performance information management should be linked to individual performance management systems was not provided at some departments.</li> <li>• Under-performance by auditees and their staff is also not always addressed in a timely manner through quarterly and midyear performance reviews and subsequent corrective action to ensure that all shortcomings are addressed.</li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• Each department and entity should identify staff who are responsible for the collection of information for performance reporting and the reporting thereof. Officials should receive training to improve their understanding of the performance information processes and requirements.</li> <li>• Staff must be held accountable for under-performance through an effective employee performance management system and corrective action must be agreed on and adequately monitored by the supervisor.</li> </ul>

Aspect	Identified root causes and way forward
<b>Monitoring by audit committees and internal audit</b>	<u>Root cause</u> <ul style="list-style-type: none"> <li>Internal audits did not include reviews of performance information systems and management or the internal audit reviews performed were limited as they did not focus on the usefulness and reliability of reported performance information.</li> <li>Audit committees and/or executive authorities did not evaluate the internal audit findings or monitor the implementation of recommendations.</li> </ul>
	<u>Way forward</u> <ul style="list-style-type: none"> <li>The performance of the departments in ensuring that their mandate is achieved should be actively overseen by the audit committee. It is therefore important that the internal audit plans include a review of the internal controls of the reported information.</li> <li>It is also recommended that the legislature oversight committees pay special attention to the usefulness of the performance targets before they approve the strategic plans of auditees.</li> </ul>

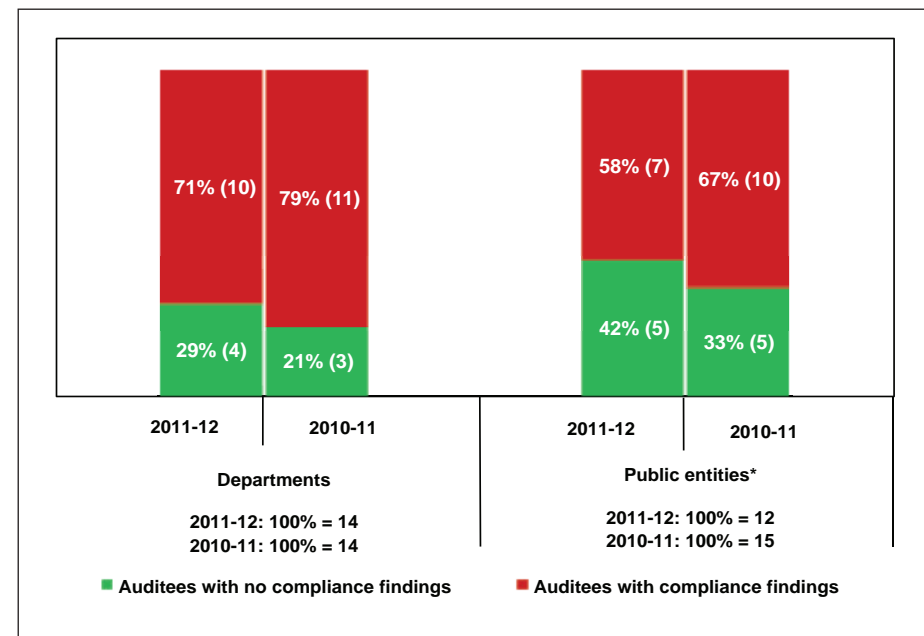
## 2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS

The PAA requires auditors of public sector entities to audit on an annual basis compliance with laws and regulations applicable to financial matters, financial management and other related matters.

### 2.4.1 Overall outcomes from the audit of compliance with laws and regulations

Movements in the number of auditees with findings on compliance with laws and regulations are depicted in the following figure.

**Figure 13: Overall movements in the number of auditees with compliance findings**



\* Movement in number of public entities: Three entities closed in prior year not included in 2011-12

The department of the Premier, the Free State Legislature and provincial treasury are leading by example in their commitment to compliance with related laws and regulations. The five public entities which again had no findings on compliance with laws and regulations are all trust funds where minimal functional activity occurred and limited statutory requirements were applicable.

In the Free State no significant progress has been made to address the non-compliance findings that plague the province. In most instances there are no formal processes in place to monitor compliance with legislation, which resulted in the high number of reported non-compliance issues.

### 2.4.2 Compliance with laws and regulations findings

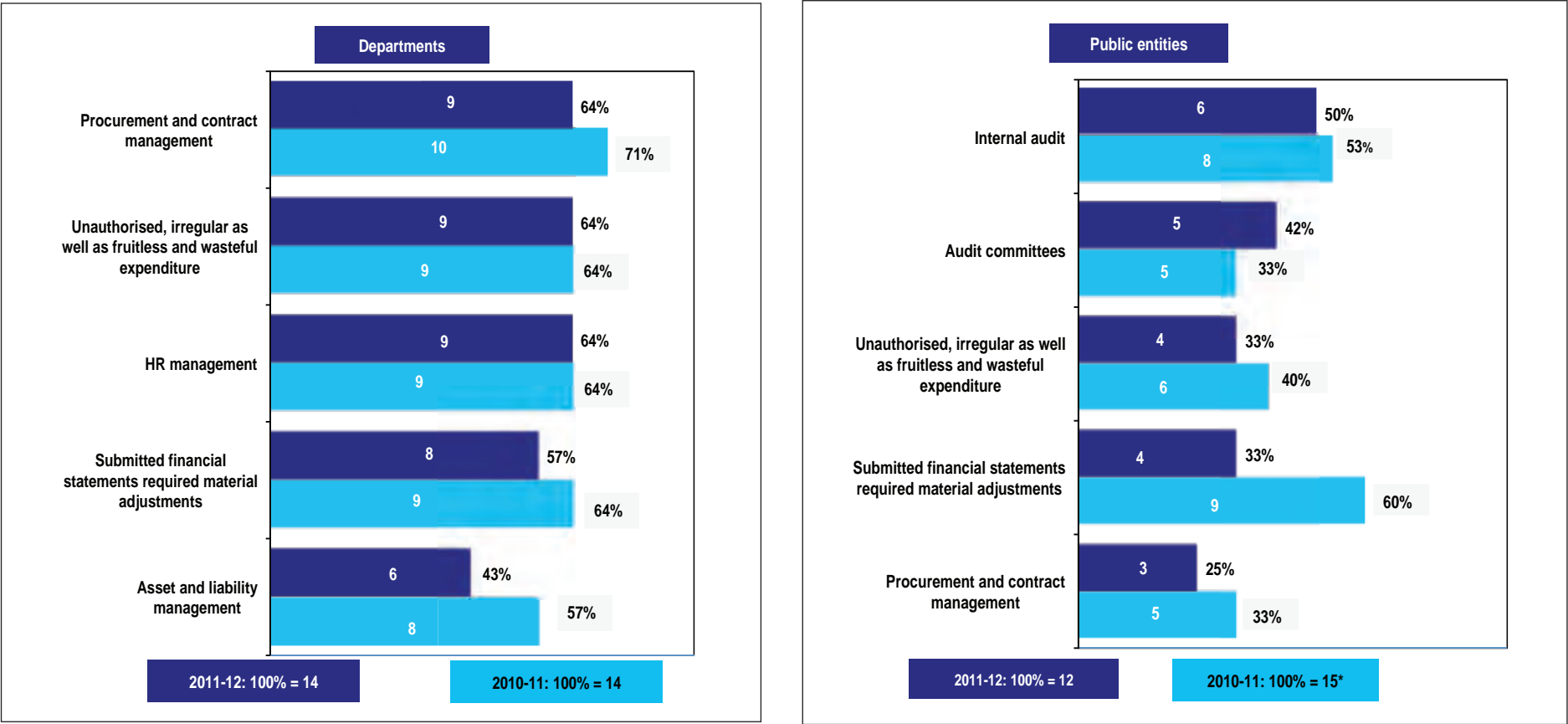
The procedures performed to obtain evidence that auditees had complied with applicable laws and regulations were limited to the following focus areas:

- Material misstatements in submitted annual financial statements
- asset and liability management
- audit committees
- budgets
- expenditure management
- prevention of unauthorised, irregular and fruitless and wasteful expenditure
- financial misconduct
- internal audit
- revenue management
- strategic planning and performance management
- transfer of funds and conditional grants
- procurement and contract management
- human resource management and compensation.

The following figure depicts overall movements in the different focus areas.

**Figure 14: Overall movement of findings on compliance with laws and regulations**

The table that follows depicts the progress, or lack thereof, made by auditees in addressing their prior year compliance findings.



\* Including three entities closed in prior year.

**Figure 15: Progress made by auditees in addressing prior year findings on non-compliance**

Auditee	Movement in addressing 2010-11 non-compliance areas						
	Material misstatement / limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Asset and liability management	Internal audit
<b>Departments</b>							
Department of Agriculture and Rural Development	Repeat	Repeat	Repeat	Repeat	New	Repeat	
CoGTA	Repeat	Repeat	Repeat	Repeat	Addressed	Repeat	Repeat
Department of Economic Development, Tourism and Environmental Affairs	Repeat	Repeat	Repeat	Repeat		Addressed	Addressed
Department of Education	Repeat	Repeat	Repeat	Repeat		Addressed	
Department of Health	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	New
Department of Human Settlements	Repeat	New	Repeat	Repeat	Repeat	Repeat	Repeat
Department of Police, Roads and Transport	New	Repeat	Repeat	Repeat	Repeat	Addressed	Repeat
Free State Legislature				Addressed			Addressed
Department of Public Works	Repeat	Repeat	Repeat	Addressed	Addressed	Repeat	Addressed
Department of Social Development		Repeat	Repeat	Repeat	Addressed		
Department of Sport, Arts, Culture and Recreation	Addressed	Addressed	Addressed	Repeat	Addressed	New	Addressed

Auditee	Movement in addressing 2010-11 non-compliance areas						
	Material misstatement / limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Procurement management	HR management	Expenditure management	Asset and liability management	Internal audit
<b>Public entities</b>							
Central Medical Trading Account	Addressed	Repeat		Addressed	Repeat	Addressed	Repeat
Free State Development Corporation	Repeat				Addressed	Addressed	Addressed
Free State Fleet Management Trading Entity							Repeat
Free State Housing Fund	Repeat						Repeat
Free State Gambling and Liquor Authority	Repeat	Repeat	Repeat			Addressed	Repeat
Phakisa Major Sport Events and Development Corporation	Repeat	Repeat	Repeat	Addressed	Addressed		Repeat
Free State Tourism Authority	Addressed	Repeat	Repeat		Addressed		Repeat

At the majority of auditees there is a lack of leadership commitment to stop the current practice of non-adherence to laws and regulations. Poor implementation, review and monitoring of key monthly and quarterly controls and the fact that staff are not held accountable for non-adherence to laws and regulations led to the lack of progress made in addressing non-compliance and the recurrence of similar non-compliance findings year on year. The high number of auditees with material audit adjustments and limitations on the financial statements submitted for audit purposes and the incurrence of unauthorised, irregular and fruitless and wasteful expenditure is alarming. Not following due process during the procurement process has become the norm in the Free State Provincial Government.

The table that follows details the nature of the most common findings on non-compliance with laws and regulations.

**Table 13: Nature of findings on non-compliance with laws and regulations**

Compliance findings category	Departments	Public entities	Nature of findings
<b>Procurement and contract management</b>	9 (64%)	3 (25%)	<ul style="list-style-type: none"> <li>Three written quotations were not invited and/or deviations were not justified.</li> <li>Competitive bids were not invited and/or deviations were not justified.</li> </ul>
<b>Unauthorised, irregular as well as fruitless and wasteful expenditure</b>	9 (64%)	4 (33%)	<ul style="list-style-type: none"> <li>Leadership did not implement effective steps to prevent unauthorised, irregular and fruitless and wasteful expenditure.</li> <li>Effective and appropriate disciplinary steps were not taken against officials who incurred or permitted unauthorised, irregular as well as fruitless and wasteful expenditure.</li> </ul>

Compliance findings category	Departments	Public entities	Nature of findings
<b>HR management</b>	9 (64%)	n/a	<ul style="list-style-type: none"> <li>Accounting officers did not ensure that all leave taken was recorded accurately and in full.</li> <li>Funded vacant posts were not filled within 12 months.</li> <li>Senior managers did not sign performance agreements for the current performance period.</li> </ul>
<b>Submitted financial statements required material adjustments</b>	8 (57%)	4 (33%)	<ul style="list-style-type: none"> <li>Quarterly financial statements are not completed with the necessary care and diligence and are only submitted for compliance sake to the provincial treasury.</li> <li>Financial statements are not reviewed prior to submission for audit, resulting in errors not being corrected.</li> <li>Inadequate review by leadership of the accuracy and completeness of disclosure notes included in the financial statements.</li> </ul>
<b>Asset and liability management</b>	6 (43%)	0 (0%)	<ul style="list-style-type: none"> <li>Proper control systems were not implemented for safeguarding and maintenance of assets.</li> </ul>



Compliance findings category	Departments	Public entities	Nature of findings
<b>Internal audit</b>	4 (29%)	6 (50%)	<ul style="list-style-type: none"> <li>No evaluation of and/or recommendations on compliance with laws and regulations.</li> <li>No evaluation of and/or recommendations on reliability and integrity of financial and operational information.</li> </ul>
<b>Audit committees</b>	3 (21%)	5 (42%)	<ul style="list-style-type: none"> <li>No audit committee was in place at the Phakisa Major Sport Events and Development Corporation and the Free State Tourism Authority.</li> <li>No review of compliance with legal and regulatory provisions at Police, Roads and Transport; Health; Central Medical Trading Account and the Fleet Management Trading Entity. This is due to internal audit units not reviewing compliance with laws and regulations as part of their internal audit plans, resulting in audit committees not having sight of possible non-compliance with laws and regulations.</li> </ul>

### 2.4.3 Findings arising from the audit of supply chain management

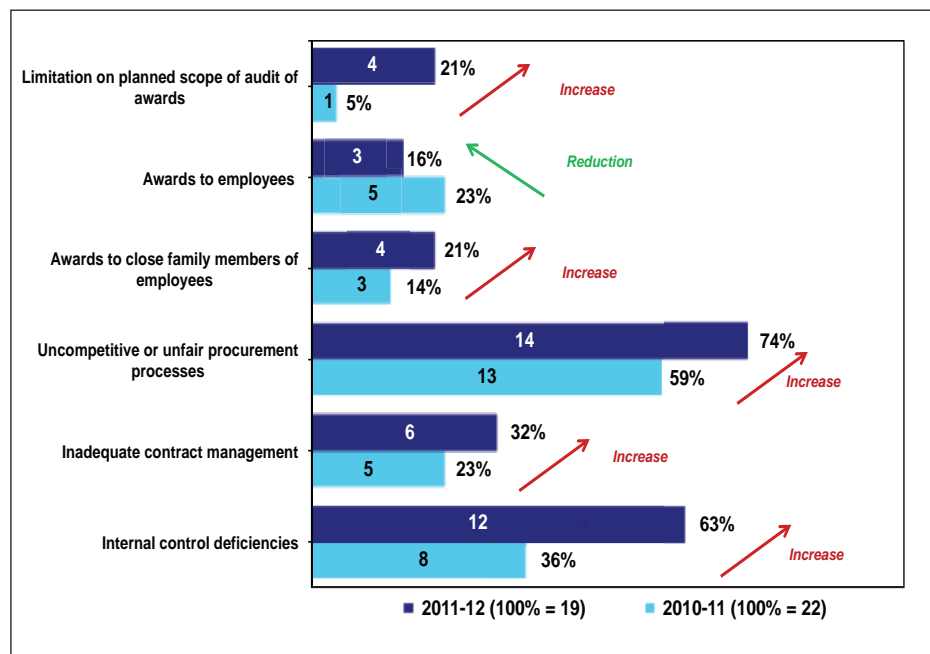
Audits conducted by the AGSA included an assessment of procurement processes, contract management and the related internal controls. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and internal controls need to comply with legislation and must minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.

Findings arising from the audit were reported in the management reports of 16 (84%) of the auditees, while at 12 (63%) of these auditees the findings were material enough to warrant reporting thereof in the auditor's report.

Contracts awarded and price quotations accepted (referred to as "awards" in the remaining sections of this report) to the value of R5,412 billion were tested. **Awards to the value of R921 million that were selected for audit could, however, not be audited due to the required information or documentation not being made available by auditees.**

The following figure presents a summary of SCM findings, with a comparison to the audit results of the previous year. The percentages are based on the number of auditees reported on.

**Figure 16: Summary of findings on supply chain management**



Details of the most prevalent findings are provided in the paragraphs that follow.

#### 2.4.3.1 Limitations on planned scope of audit of awards

At four (21%) auditees sufficient appropriate audit evidence could not be provided that awards had been made in compliance with the requirements of SCM legislation for some of the awards selected for testing. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The detail on the limitations is depicted in the table below. The name of the auditee is highlighted in red in instances where a scope limitation was also experienced in the previous year.

**Table 14: Limitations experienced**

Auditee	Number of awards	Amount
<b>Departments</b>		
Department of Economic Development, Tourism and Environmental Affairs	4	R73,6 million
Department of Health	2	R20,5 million
Department of Human Settlements	421	R806,6 million
Department of Police, Roads and Transport	8	R20,2 million
<b>Total</b>	<b>435</b>	<b>R921 million</b>

The reasons for these limitations were as follows:

- Inadequate safeguarding of and control over supporting documentation by the principal department and/or the contracting department.
- Contracts were entered into in previous years without proper procurement processes in place at the time.
- The general ledger and administration system were not reconciled.

Due to these limitations, the findings reported in the remainder of this section might not reflect the full extent of irregularities and SCM weaknesses at the auditees.

Furthermore, the limitations raise a red flag that there may be a risk of fraud and corruption as the bid documentation was not submitted for audit purposes.

### 2.4.3.2 Awards to employees and close family members

The audit included an assessment of the interest of employees of the auditee and their close family members in suppliers to the auditee.

Legislation does not prohibit such awards but there are policies and legislation in place to ensure that conflicts of interest do not result in the unfair awarding of contracts or acceptance of unfavourable price quotations. Legislation also requires employees to obtain approval for performing remunerative work outside their employment.

Where interests were identified, compliance with SCM legislation and policies of the auditee was tested. The awards identified were also tested with a view to identifying possible non-compliance or irregularities that could be an indication that decisions or recommendations were unlawfully and improperly influenced.

The details of awards made and an indication of whether legislated requirements were met are depicted in the table below. The name of the auditee is highlighted in red if awards to employees and close family members were also identified in the previous year.

**Table 15: Awards to employees and their close family members**

Auditee	Awards made to					Non-compliance with regard to awards made							
	Employees			Close family members of employees		Supplier did not declare interest		Employee did not declare interest		Other remunerative work not approved		Non-compliance/irregularity in procurement process	
	Number*	Amount (R)	Positions	Number*	Amount (R)	Number*	Amount (R)	Number*	Amount (R)	Number*	Amount (R)	Number*	Amount (R)
<b>Departments</b>													
Department of Education	36	2 339 314	Middle management, other employees	13	1 529 883	14	936 891	16	1 132 562	21	1 763 941	6	1 174 844
Department of Health	16	2 182 368	Senior manager, other employees	11	1 216 961	16	2 182 368	16	2 182 368	16	2 182 368		
Department of Police, Roads and Transport	1	3 900	Other employees	2	10 539			1	3 900	1	3 900		
Department of Social Development				2	575 760								
<b>Total</b>	<b>53</b>	<b>4 525 582</b>		<b>28</b>	<b>3 333 143</b>	<b>30</b>	<b>3 119 259</b>	<b>33</b>	<b>3 318 830</b>	<b>38</b>	<b>3 950 209</b>	<b>6</b>	<b>1 174 844</b>

\* Number: indicates number of instances

### 2.4.3.3 Uncompetitive or unfair procurement processes

Our audits also focus on whether procurement processes followed were fair and competitive in that they provided all suppliers equal opportunity to compete for public sector contracts and that the process does not unfairly favour some suppliers above others.

It is important that the prescribed processes be followed to ensure that the selected supplier meets the requirements and has the capacity and ability to deliver the goods and services, and that those goods and services are procured at competitive and economical prices.

The procurement processes of 753 contracts (R5,232 billion) and 2 054 quotations (R180 million) were tested at 13 departments and six public entities. The most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in the following table. Similar findings were raised in the province in the prior year.

**Table 16: Summarised findings on uncompetitive or unfair procurement processes**

Finding	Departments	Public entities	Nature of finding
<b>Three price quotations not obtained/ deviations not approved or justified</b>	11 (85%)	2 (33%)	<p>A price quotation process is prescribed for procurement of goods and services valued at between R10 000 and R500 000.</p> <p>Three price quotations were not in all instances obtained from prospective providers and the deviations were not approved by a properly delegated official or committee as required.</p>

Finding	Departments	Public entities	Nature of finding
<b>Competitive bids not invited/ deviations not approved or justified</b>	9 (69%)	1 (17%)	<p>A competitive bidding process should be followed for the procurement of goods and services valued above R500 000.</p> <p>Competitive bids were not always invited and the deviations were not justified or approved by a properly delegated official.</p>
<b>Preference points system not applied or not correctly applied</b>	7 (54%)	0 (0%)	The preference point system was not applied in all procurement of goods and services above R30 000, as required by the Preferential Procurement Policy Framework Act.
<b>No declaration of interest submitted by provider</b>	7 (54%)	1 (17%)	Bidders or their authorised representatives did not declare their position in relation to any person employed by the principal institution.

### 2.4.3.4 Inadequate contract management

Shortcomings in the manner in which contracts are managed result in delays, wastage and fruitless expenditure, which in turn impact directly on service delivery.

The most prevalent findings on inadequate contract management are summarised in the following table. Similar findings were raised in the prior year.

**Table 17: Summarised findings on contract management**

Finding	Departments	Public entities	Nature of findings
<b>No written contract/ contract not signed by delegated official</b>	2 (15%)	0 (0%)	Goods and services were received and payments were made to suppliers without a written, signed contract being in place.
<b>Inadequate contract performance measures and monitoring</b>	1 (8%)	0 (0%)	Measures applied in monitoring the performance of contractors were not sufficient to ensure that contractors delivered in accordance with the contract.
<b>Extension of contracts</b>	2 (15%)	0 (0%)	Contracts amended or extended without approval by a delegated official.  Contracts extended or renewed to circumvent competitive bidding processes.

#### 2.4.3.5 Inadequate supply chain management controls

Findings on the most prevalent identified deficiencies in fundamental SCM controls are summarised in the following table. Similar findings were raised in the prior year.

**Table 18: Summarised findings on supply chain management controls**

Finding	Departments	Public entities	Nature of findings
<b>Inadequate controls to ensure interest is declared</b>	5 (38%)	0 (0%)	The controls at some auditees were inadequate to ensure that: <ul style="list-style-type: none"> <li>employees declare whether they or their close family members, partners and associates have interests in suppliers to the auditee;</li> <li>suppliers declare any connections to persons in service of the auditee or other state institutions.</li> </ul>
<b>Risk assessment did not address SCM</b>	4 (31%)	0 (0%)	SCM is generally an area of considerable risk at most of the departments. However, the risk was not recognised in the risk assessments performed by some departments.
<b>Employees without interest in auditee suppliers - additional remunerative work not approved</b>	5 (38%)	0 (0%)	Certain employees of the department performed remunerative work outside their employment in the department without written permission from the relevant authority, as required by section 30 of the Public Service Act, 1994.

Finding	Departments	Public entities	Nature of findings
<b>No controls to monitor performance of contractors</b>	4 (31%)	0 (0%)	Measures applied in monitoring the performance of contractors were not sufficient to ensure that contractors delivered in accordance with the contract as the department did not have a system in place to record all the payments and monitor the budget of all the contracts they had entered into.

#### 2.4.4 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred

Legislation requires accounting officers to take reasonable steps to ensure that unauthorised, irregular as well as fruitless and wasteful expenditure is prevented. However, in exceptional circumstances where it does occur, legislation makes it compulsory for auditees to disclose such expenditure in their financial statements and a detailed accountability process is prescribed which could result in disciplinary processes and recovery of monies from liable officials.

Unauthorised, irregular or fruitless and wasteful expenditure was incurred by 18 (69%) auditees. The audits further revealed that the accounting officers and accounting authorities of 13 (50%) auditees did not ensure that reasonable steps were taken to prevent this type of expenditure. This was reported in the auditor's reports as material non-compliance.

The extent of this expenditure and non-compliance by the accounting officers is indicative of an environment where incurring unauthorised and irregular expenditure has become the norm and not the exception. This is further supported by the fact that deviations approved were not always based on a sole supplier or emergency requirement. Reasonable steps are not taken to prevent such expenditure, while the occurrence thereof is not detected in some instances by auditees. Furthermore, a detailed accountability process was not implemented as prescribed.

#### Nature of and overall trends in unauthorised expenditure (departments only)

The figure below reflects the three-year trend in unauthorised expenditure.

**Figure 17: Three-year trend in unauthorised expenditure**

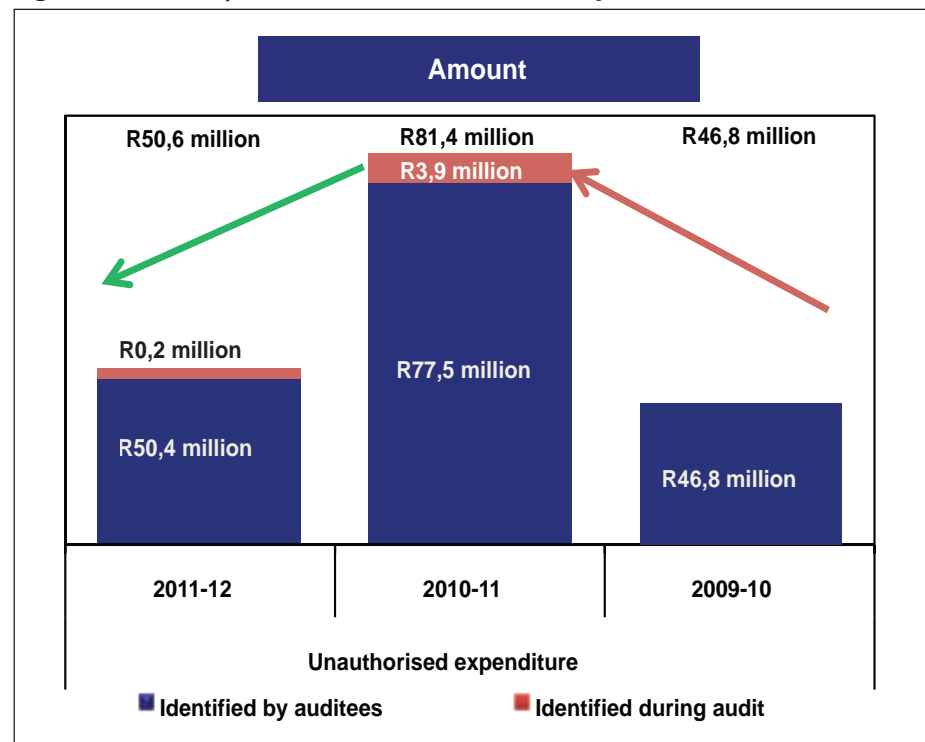
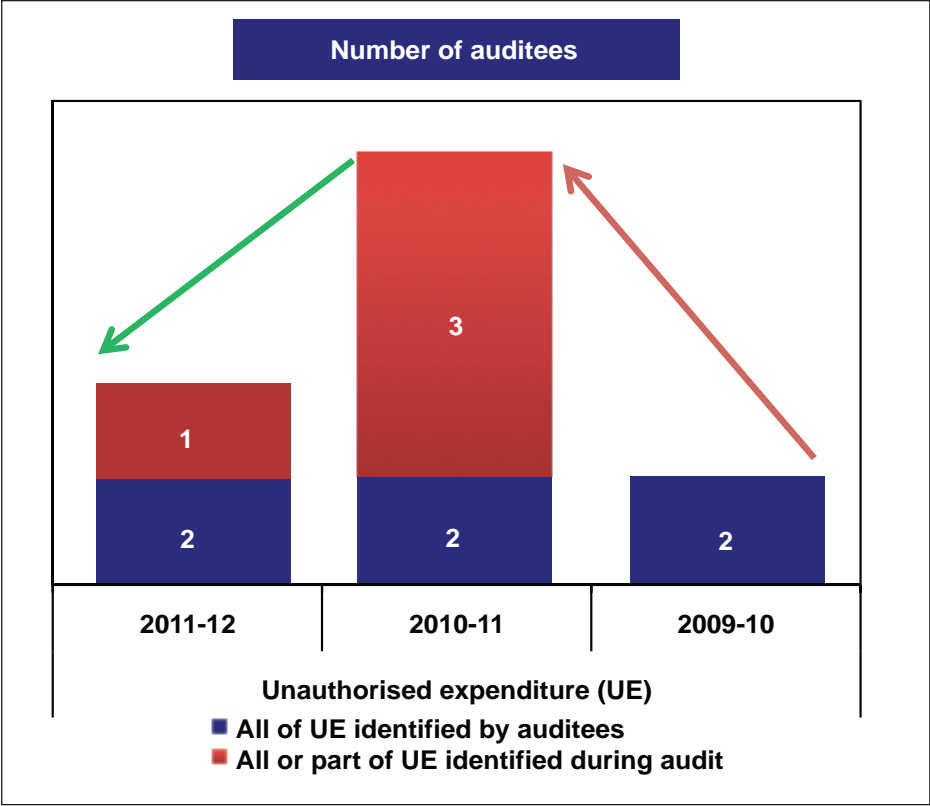


Figure 17: Three-year trend in unauthorised expenditure (continued)



The nature of unauthorised expenditure incurred is analysed in the following table.

Table 19: Nature of and current year movements in unauthorised expenditure

Nature	Number of auditees (100% = 13)	Amount 2011-12	Movement in number of auditees from 2010-11	Movement in amount from 2010-11
Overspending of votes/ main division within votes	3 (23%)	R50,4 million	1 (25%)	R16,7 million (25%)
Expenditure not in accordance with votes	1 (8%)	R0,2 million	0%	R14 million (99%)

Note: 'Unchanged' denotes an increase/reduction of 5% or less in the level of findings compared to the previous financial year.

The decrease in unauthorised expenditure was as a result of improved monitoring of actual expenditure against the budget. The R50,4 million in unauthorised expenditure reported for the province is the result of overspending at Agriculture, Health and Police, Roads and Transport.

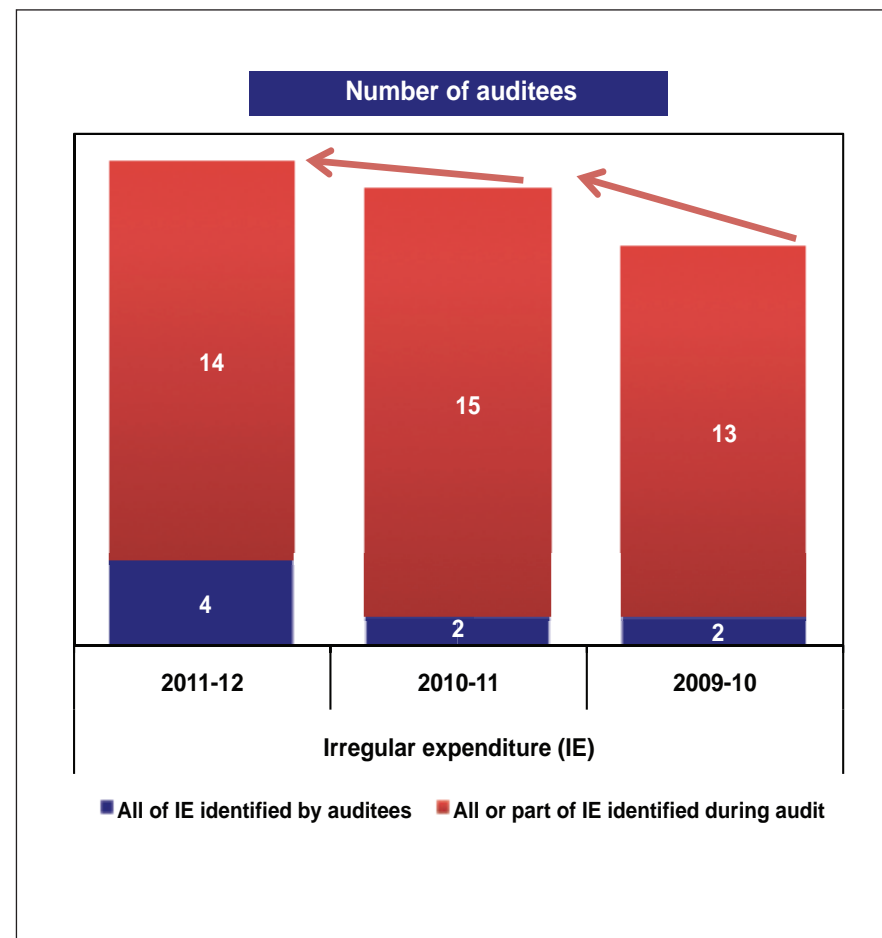
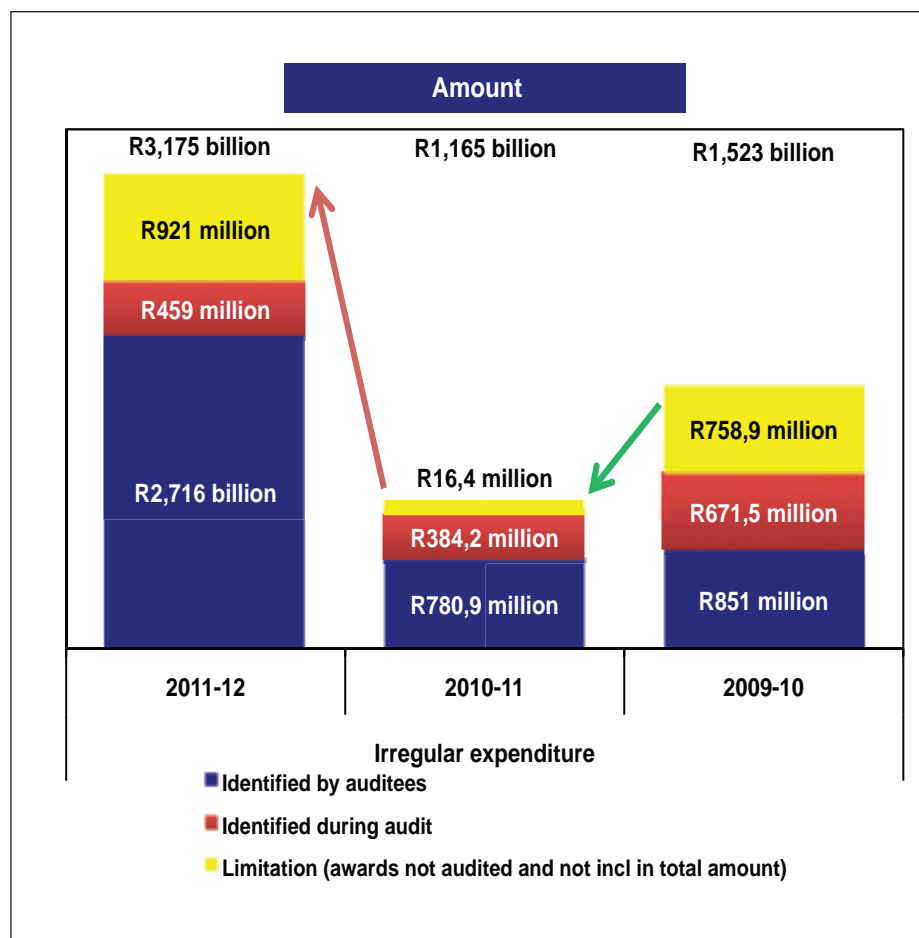
Unauthorised expenditure at the Department of Police, Roads and Transport decreased from R64 million in 2010-11 to R3,3 million in the current year. The National Treasury and provincial treasury intervened at this department, one of the main reasons being the significant unauthorised expenditure incurred in prior years due to over-commitment by the department on the roads infrastructure projects. The intervention resulted in cost containment measures and strict budget management towards the end of the financial year.

Nature of and overall trends in irregular expenditure

The figure that follows reflects the three-year trend for irregular expenditure.

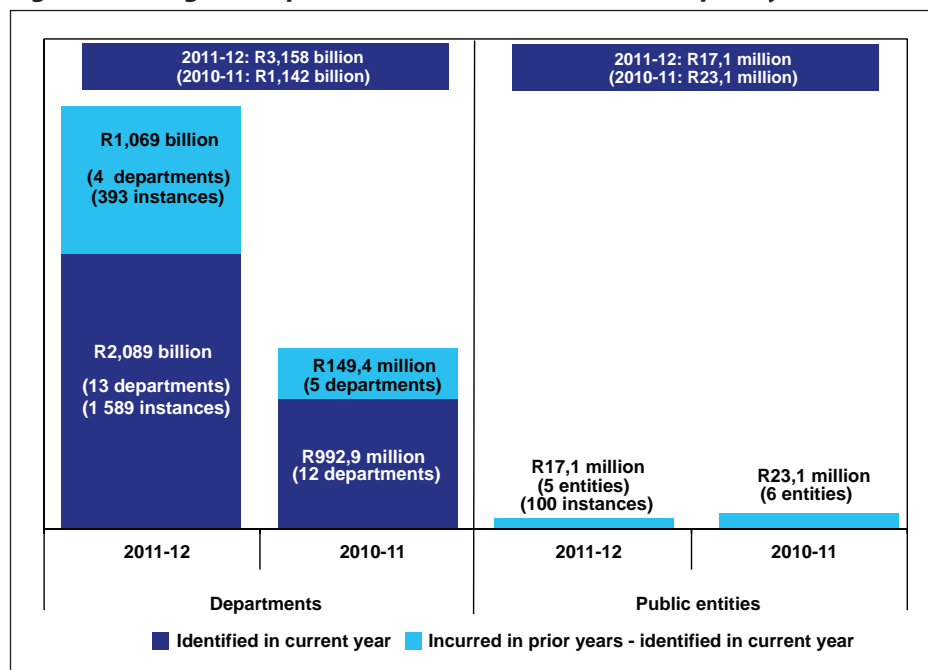


**Figure 18: Three-year trend in irregular expenditure**



The following figure depicts the extent of the irregular expenditure that occurred as a result of transgressions in the current and previous year and those that occurred in previous years but were only discovered recently.

**Figure 19: Irregular expenditure incurred – current and prior years**



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The nature of irregular expenditure incurred is analysed in the following table.

**Table 20: Nature of and current year movements in irregular expenditure**

Nature	Number of auditees (100% = 26)	Amount 2011-12	Movement in number of auditees from 2010-11	Movement in amount from 2010-11	Number of instances
SCM related	18 (75%)	R3,132 billion	2 (13%)	R2,059 billion (192%)	2 082
Compensation of employees related	4 (17%)	R7,9 million	3 (43%)	R15,7 million (67%)	
Other non-compliance	3 (13%)	R35,7 million	3 (50%)	R32,8 million (48%)	

The irregular expenditure incurred was mostly the result of non-compliance with SCM legislation (R3,132 billion). The irregular expenditure relating to non-adherence to SCM legislation comprises 13% of the total budget (R24 782 billion) allocated to the province for 2011-12. It is imperative that the province act decisively to ensure that there are consequences for non-compliance with SCM processes.

The following is a summary of the most significant instances of irregular expenditure incurred due to non-compliance with SCM processes:

- Irregular expenditure incurred by various departments as result of procurement processes not being followed by the Department of Public Works for infrastructure contracts contributed R158,2 million to the total irregular expenditure.
- The Department of Public Works also incurred irregular expenditure of R109 million with regard to the appointment of consultants.
- The Department of Human Settlements incurred R957,4 million in the current year, while R1,038 billion relating to prior years was identified in the current year, as result of procurement processes not followed for housing contracts.

- The Department of Police, Roads and Transport incurred irregular expenditure of R687,8 million on road construction and maintenance projects that were awarded in prior years.

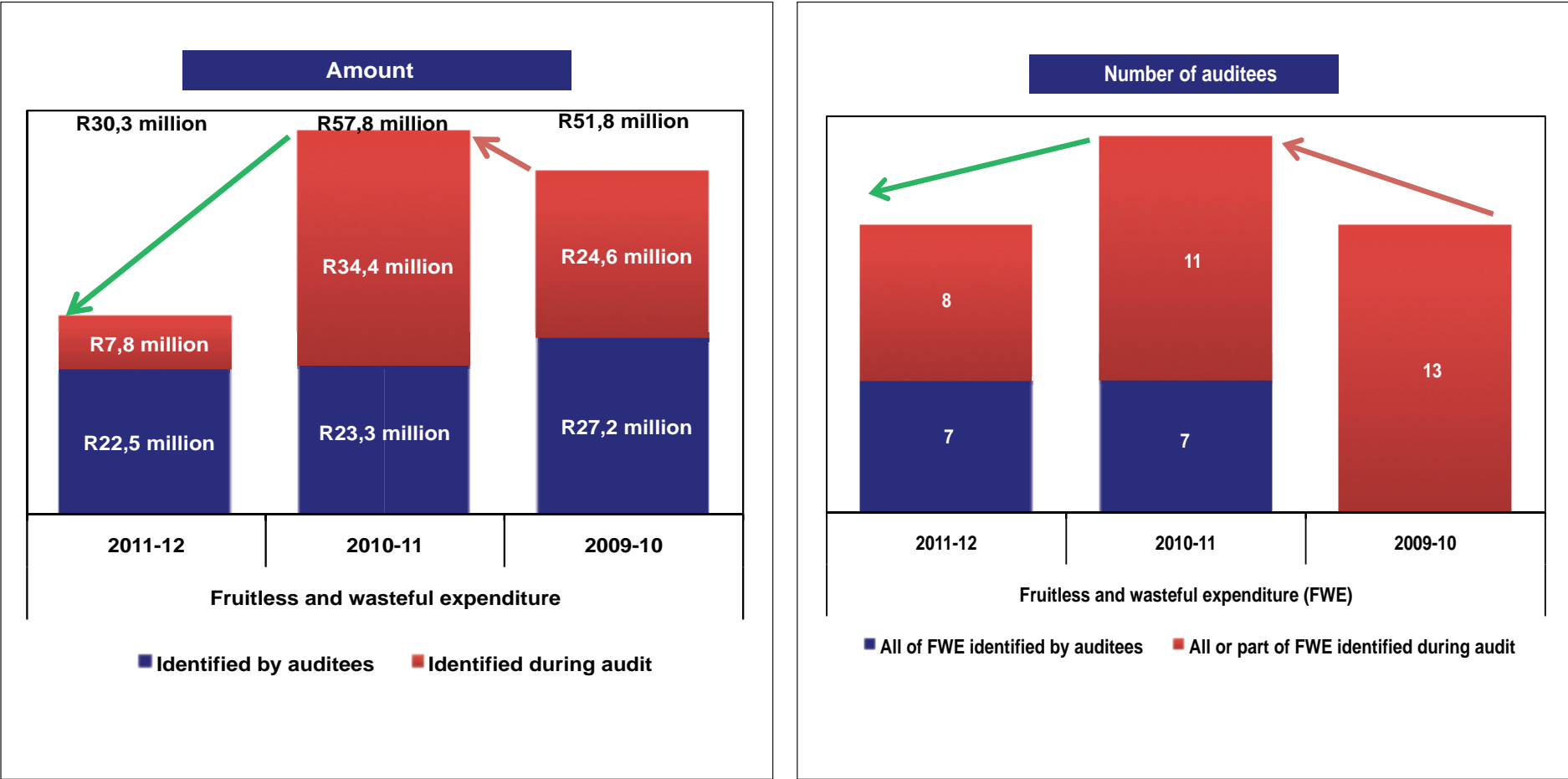
Suspected irregular expenditure amounting to R690 million was identified during the audit process but is still under investigation and has therefore not been included in the analysis above. This is an indication that irregular expenditure incurred in the current year may have been significantly higher.

The significant amount of irregular expenditure incurred may be indicative of a fraud risk in the procurement processes.

**Nature of and overall trends in fruitless and wasteful expenditure**

The figure below reflects the three-year trend in fruitless and wasteful expenditure.

**Figure 20: Three-year trend in fruitless and wasteful expenditure**



The nature of fruitless and wasteful expenditure incurred is analysed in the following table.

**Table 21: Analysis of fruitless and wasteful expenditure**

Nature	Number of auditees (100% = 26)	Amount 2011-12	Movement in number of auditees from 2010-11	Movement in amount from 2010-11	Number of instances
Incurred to prevent irregular/loss/ further fruitless and wasteful expenditure	1 (4%)	R66 000	0 (100%)	R66000 (100%)	164
Actual fruitless and wasteful expenditure	15 (58%)	R30,2 million	2 (15%)	R27.6 million (48%)	

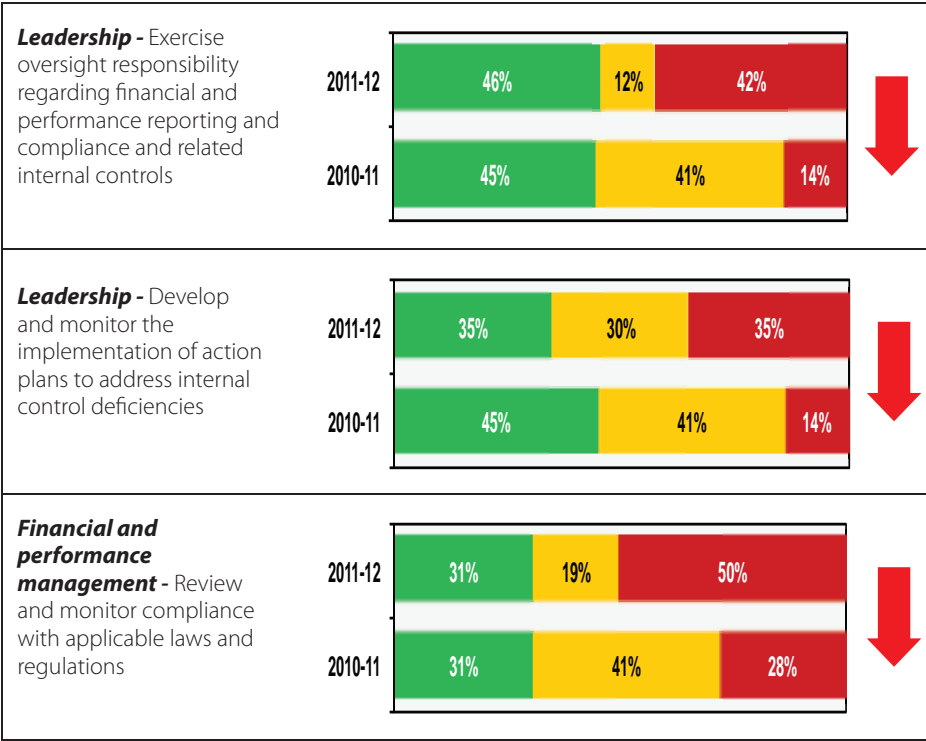
The Department of Health incurred 55% (R16,1 million) of the fruitless and wasteful expenditure reported in the province. This expenditure related mostly to expiry of medication. Management did not develop and implement sufficient controls over inventory and an adequate system is not in place to account for inventory. Medication is not being issued on the first-in-first-out basis at all institutions, resulting in most recently received medication being issued before medication in stock is depleted. Additional to this, certain emergency medication, which is very expensive, has to be kept in stock; however, as this medication is very rarely used it results in medication expiring before being used.

### 2.4.5 Root causes and best practice recommendations

The ability of auditees to enforce adherence to legislation and to discharge their statutory responsibilities is influenced by the existence of a sound system of internal control. The key drivers of these control are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance. More information on the specific drivers of internal control, together with recommendations, is provided in section 3 of this report.

The figure that follows indicates the significant deficiencies in the internal control that require attention from leadership to improve the audit outcomes.

**Figure 21: Assessment of drivers of internal control over reporting on compliance with laws and regulations**



Identified root causes which gave rise to this assessment and the recommended way forward are summarised as follows:

**Table 22: Identified root causes and way forward (good practices)**

Aspect	Identified root causes and way forward
<b>Leadership tone</b>	<p><u>Root causes</u></p> <ul style="list-style-type: none"> <li>• Incurring irregular expenditure has become the norm.</li> <li>• There is a lack of consequences for repeated instances of non-compliance with laws and regulations.</li> <li>• No commitments provided to the AGSA to address findings on all compliance focus areas.</li> <li>• Instability in key positions and delays in the filling of vacancies resulted in a lack of ownership.</li> <li>• Ongoing monitoring and supervision were not undertaken to enable an assessment of the effectiveness of internal control over compliance with laws and regulations.</li> <li>• Supporting departments such as provincial treasury are not always consulted for advice when political decisions with a financial impact are taken.</li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• Improve leadership tone in driving sustainable clean administration and lead by example. Leadership will have to emphasise that non-compliance with laws is unacceptable.</li> <li>• Leadership should enforce consequences for non-compliance.</li> <li>• Leadership should take ownership of key control checklists and monitor progress monthly.</li> <li>• Create stability in key positions and timeously fill vacant positions which are needed to strengthen the internal control environment.</li> <li>• Supporting departments should be utilised to provide expert advice on decisions with a financial impact.</li> </ul>

Aspect	Identified root causes and way forward
<b>Systems and processes</b>	<p><u>Root causes</u></p> <ul style="list-style-type: none"> <li>• There is generally a lack of adherence to policies and procedures.</li> <li>• There is also a lack of adequate supervision and monitoring to identify these breaches early in the process.</li> <li>• Lack of ownership to address issues in respect of immovable assets in the province.</li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• Each government employee is required to know that laws and regulations must be adhered to and, secondly, should have a sound knowledge of the laws and regulations specific to their functions.</li> <li>• Leadership should monitor and enforce the requirements of SCM policies.</li> <li>• The Department of the Premier, provincial treasury and the Department of Public Works should coordinate a process with all other departments to identify all immovable assets in the province and ensure proper handover of immovable assets from other departments to Public Works.</li> </ul>

Aspect	Identified root causes and way forward
<b>Oversight and monitoring</b>	<p><u>Root causes</u></p> <ul style="list-style-type: none"> <li>• MECs do not follow up on the unauthorised, irregular and fruitless and wasteful expenditure with their respective accounting officers to ensure proper record keeping and that the accounting officers provide them with timeous feedback regarding investigations which are taking place and the amount of irregular and fruitless and wasteful expenditure which will be recovered from the defaulting staff.</li> <li>• Lack of stability and ownership by political and administrative leadership to effectively manage and address non-compliance challenges and to fill critical vacancies. The political and administrative leadership does not review performance and staff are not held accountable for poor performance.</li> <li>• Inadequate implementation and monitoring of key controls, action plans and commitments by leadership to ensure that both financial and non-financial reports are reliable.</li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• The executive authority should create stability in leadership positions and monitor unauthorised, irregular and fruitless and wasteful expenditure on a monthly basis, with a report from the relevant accounting officers on investigations taking place and the possible recovery of monies. Political and administrative leadership should monitor performance continuously and hold staff accountable for poor performance.</li> <li>• Adequate action plans, which specify the desired outcomes, assign responsibilities and set specific target dates, should be implemented and monitored.</li> </ul>

Aspect	Identified root causes and way forward
<b>Effective governance measures</b>	<p><u>Root causes</u></p> <ul style="list-style-type: none"> <li>• The internal audit and audit committee in some instances did not review compliance with laws and regulations.</li> <li>• Leadership did not identify and address all risks relating to compliance with laws and regulations in the risk register.</li> <li>• Leadership did not effectively monitor the implementation of controls based on the departmental risk assessment to ensure that control deficiencies are addressed.</li> <li>• The provincial public accounts committee and portfolio committees are not functioning effectively. No resolutions were tabled during the financial year with the result that auditees are not held accountable for non-compliance with laws and regulations.</li> </ul>
	<p><u>Way forward</u></p> <ul style="list-style-type: none"> <li>• Internal audit and audit committee should focus on the review of compliance with laws and regulations.</li> <li>• Leadership should ensure that all risks are considered when performing the risk assessment and should decide on specific control activities to manage and mitigate specific risks.</li> <li>• Leadership should improve communication channels between themselves, audit committees and internal audit units.</li> <li>• The provincial public accounts committee and portfolio committees should hold auditees accountable for their actions by tabling resolutions.</li> </ul>

# SECTION 3

## AUDITEES' SYSTEMS OF INTERNAL CONTROL

- 3.1 OVERALL STATUS OF INTERNAL CONTROL
- 3.2 HUMAN RESOURCE MANAGEMENT
- 3.3 MANAGEMENT OF INFORMATION TECHNOLOGY
- 3.4 AUDIT COMMITTEES AND INTERNAL AUDIT



AUDITOR - GENERAL  
SOUTH AFRICA





# SECTION 3

## AUDITEES’ SYSTEMS OF INTERNAL CONTROL AND AUDIT FOCUS AREAS

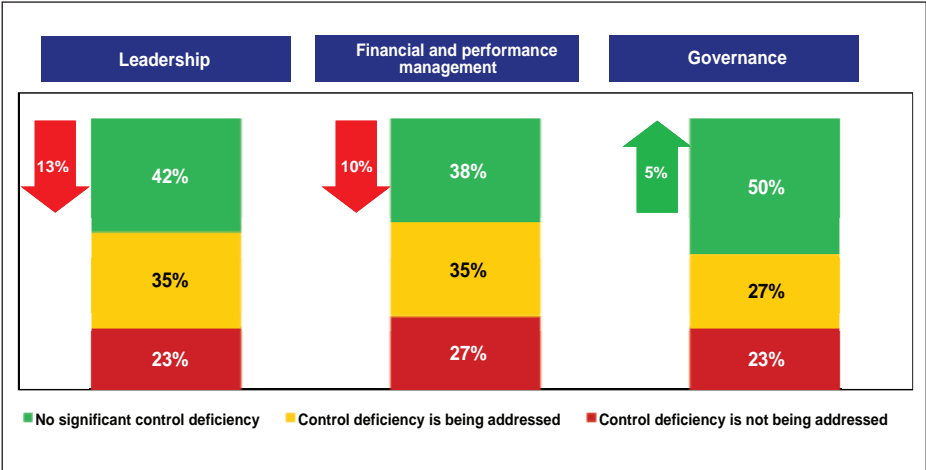
This section of the general report provides a view of the status of the systems of internal controls at the auditees at the time of the audit. The overall status is presented (section 3.1) followed by a specific focus on human resource management (section 3.2), information technology management (section 3.3), audit committees and internal audit (section 3.4).

### 3.1 OVERALL STATUS OF INTERNAL CONTROL

A key responsibility of accounting officers/authorities and other officials is to implement and maintain effective and efficient systems of internal control. As part of the audits the auditees’ system of internal control is assessed to determine its effectiveness in ensuring reliable financial and performance reporting and compliance with laws and regulations, which in turn will result in a clean audit. For the purpose of focusing corrective action, the principles of the different drivers of internal control have been categorised under leadership, financial and performance management and governance.

The figure below provides the overall assessment of these drivers at the time of the audit, based on significant deficiencies identified in internal control which resulted in material misstatements in financial and performance reports and findings on non-compliance with laws and regulations.


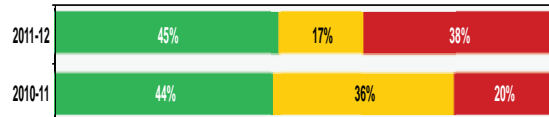

Figure 22: Overall assessment of drivers of internal control


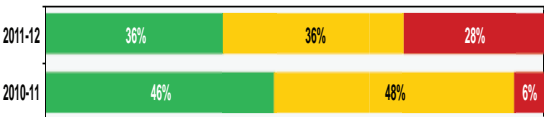


Although there was an overall improvement in audit outcomes for the province, the key control assessments for leadership, financial and performance management had regressed. The sustainability of audit outcomes is at risk because the improvement in audit outcomes was the result of material adjustments made to the financial statements during the audit process.

The status of the internal control elements underlying leadership, financial and performance management and governance and movements in the implementation thereof is presented in the following table.

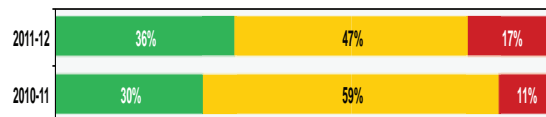
**Table 23: Status of internal control**

Driver no. 1: Leadership													
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.	 <table><tr><th>Year</th><th>Green (%)</th><th>Yellow (%)</th><th>Red (%)</th></tr><tr><td>2011-12</td><td>59%</td><td>26%</td><td>15%</td></tr><tr><td>2010-11</td><td>57%</td><td>34%</td><td>9%</td></tr></table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	59%	26%	15%	2010-11	57%	34%	9%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	59%	26%	15%										
2010-11	57%	34%	9%										
A formal code of conduct was established which addressed appropriate ethical and moral behaviour. However, not all officials understand that quality is a prerequisite and should be embedded in the entity's values.													
Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	 <table><tr><th>Year</th><th>Green (%)</th><th>Yellow (%)</th><th>Red (%)</th></tr><tr><td>2011-12</td><td>45%</td><td>17%</td><td>38%</td></tr><tr><td>2010-11</td><td>44%</td><td>36%</td><td>20%</td></tr></table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	45%	17%	38%	2010-11	44%	36%	20%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	45%	17%	38%										
2010-11	44%	36%	20%										
<p>Leadership did not adequately exercise oversight responsibility over financial and performance reporting and compliance with laws and regulations as well as internal control. This is due to lack of stability in the political and administrative leadership and lack of ownership to effectively manage and address financial, performance, governance challenges and to fill critical vacancies.</p> <p>MECs were not always available for meetings during the course of the audit.</p> <p>The appropriate level of management does not regularly review quarterly and monthly financial and performance reports.</p> <p>Best practice at auditees that received clean audits includes the effective monitoring and review of key controls.</p>													
Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.	 <table><tr><th>Year</th><th>Green (%)</th><th>Yellow (%)</th><th>Red (%)</th></tr><tr><td>2011-12</td><td>45%</td><td>32%</td><td>23%</td></tr><tr><td>2010-11</td><td>44%</td><td>43%</td><td>13%</td></tr></table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	45%	32%	23%	2010-11	44%	43%	13%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	45%	32%	23%										
2010-11	44%	43%	13%										

Driver no. 1: Leadership													
Section 3.2 provides an analysis of human resource management													
Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.	 <table><thead><tr><th>Year</th><th>Green (%)</th><th>Yellow (%)</th><th>Red (%)</th></tr></thead><tbody><tr><td>2011-12</td><td>40%</td><td>50%</td><td>10%</td></tr><tr><td>2010-11</td><td>42%</td><td>48%</td><td>10%</td></tr></tbody></table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	40%	50%	10%	2010-11	42%	48%	10%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	40%	50%	10%										
2010-11	42%	48%	10%										
<p>Documented policies and procedures (relevant to both the financial and non-financial environment) are in place in most instances to guide the operations of the auditee to comply with relevant legislation. However, these are not always implemented effectively and adhered to due to a lack of consequences for non-adherence to policies and procedures.</p> <p>Adequate processes are not in place to prevent and detect unauthorised, irregular and fruitless and wasteful expenditure.</p>													
Develop and monitor the implementation of action plans to address internal control deficiencies.	 <table><thead><tr><th>Year</th><th>Green (%)</th><th>Yellow (%)</th><th>Red (%)</th></tr></thead><tbody><tr><td>2011-12</td><td>36%</td><td>36%</td><td>28%</td></tr><tr><td>2010-11</td><td>46%</td><td>48%</td><td>6%</td></tr></tbody></table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	36%	36%	28%	2010-11	46%	48%	6%
Year	Green (%)	Yellow (%)	Red (%)										
2011-12	36%	36%	28%										
2010-11	46%	48%	6%										
<p>Inadequate implementation and monitoring of key controls, action plans and commitments by leadership to ensure that both financial and non-financial reports are reliable.</p> <p>Action plans for addressing internal and external audit findings are not always complete and clear and do not set specific time frames and assign responsibilities appropriately. Implementation of action plans is also not monitored adequately by leadership.</p> <p>Various provincial public accounts committee resolutions of prior years have not been implemented by departments.</p>													

### Driver no. 1: Leadership

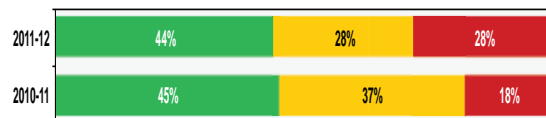
Develop and monitor the implementation of action plans to address internal control deficiencies in the IT environment. Establish an IT governance framework that supports and enables the business, delivers value and improves performance.



**Section 3.3 provides an analysis of the management of information technology**

### Driver no. 2: Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.



Proper record keeping is not adequately implemented or the filing system is not adequately monitored. Documentation is not available when requested for audit purposes. This resulted in financial qualifications and PDO findings.

Implement controls over daily and monthly processing and reconciling of transactions.



### Driver no. 2: Financial and performance management

The auditees that received clean audits are effectively monitoring daily and monthly processing and reconciling of transactions.

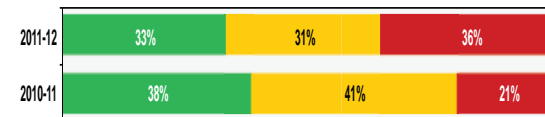
The implementation, review and monitoring of key controls, however, did not take place on a daily, weekly and monthly basis at all auditees. Notwithstanding our recommendation in the previous year where departments had qualifications on assets, we noted that monthly asset counts were still not performed to ensure that asset registers are reliable.

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.



Leadership did not adequately review financial and performance reports, resulting in numerous misstatements that were corrected. Regular financial statements, including the disclosure notes, must be compiled to eliminate the year-end effort to reconcile and compile financial information. Departments are now required to compile quarterly financial statements and this will be monitored during the next financial year.

Review and monitor compliance with applicable laws and regulations.



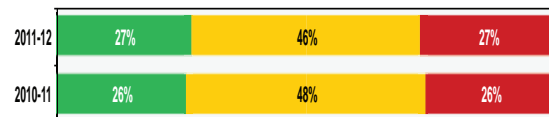
Although the provincial treasury had issued a checklist to assist the departments and entities to monitor compliance with laws and regulations for all procurement and expenditure, this is not used by the auditees or not effectively implemented.

Non-compliance is not detected timeously and, if detected, is not addressed by the accounting officers.

In some instances good governance over SCM is continuously ignored and has resulted in an increase of 173% in irregular expenditure since the previous year.

### Driver no. 2: Financial and performance management

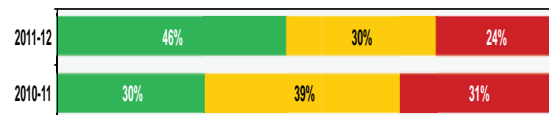
Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information and to address application systems susceptible to compromised data integrity (information systems).



**Section 3.3 provides an analysis of the management of information technology**

### Driver no. 3: Governance

Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.



Overall there was an improvement in risk management activities (i.e. risk assessments, fraud prevention plans and risk strategies were implemented).

However, the risks identified are not always effectively addressed and monitored through adequate action plans. Assessment of the controls in place is not conducted on at least a quarterly basis to prevent and detect fraud and appropriately address any significant deficiencies.

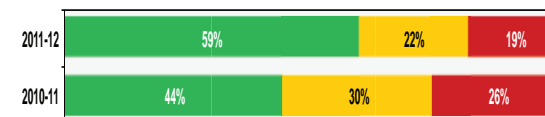
### Driver no. 3: Governance

Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.



**Section 3.4 provides an analysis of internal audit**

Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.



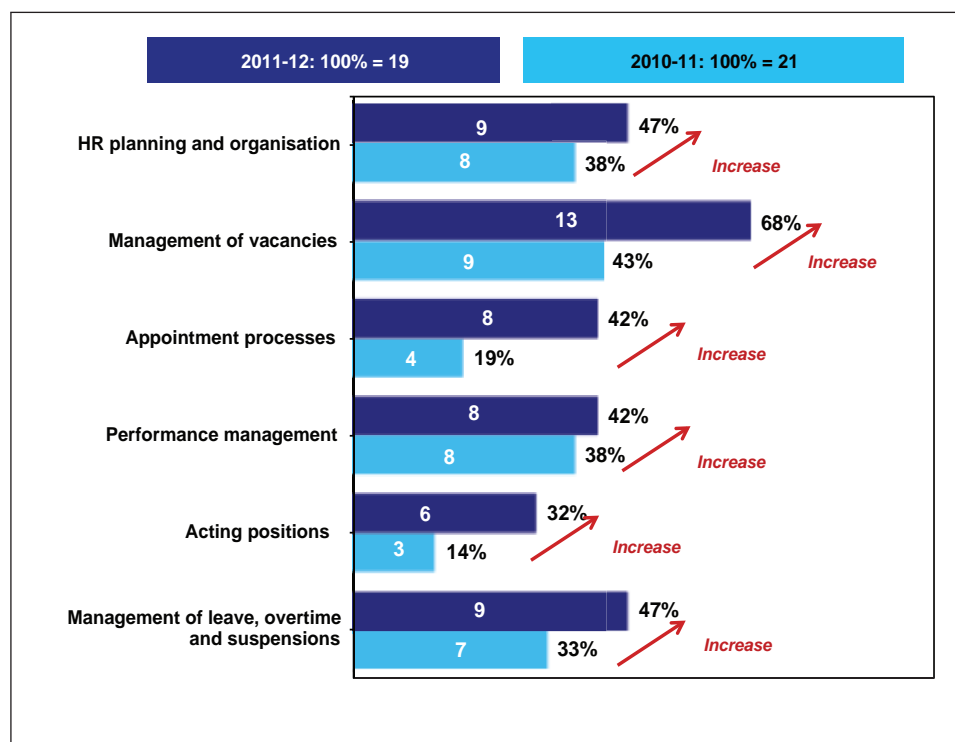
**Section 3.4 provides an analysis of audit committees**

## 3.2 HUMAN RESOURCE MANAGEMENT

Effective human resource (HR) management is a key driver of audit outcomes. In this context, HR management is deemed effective if adequate and sufficiently skilled resources are in place and their performance and productivity are managed. Auditees often identify a lack of capacity as the root cause of audit outcomes, which prompted the AGSA to specifically focus on HR management.

The following figure depicts the outcome of an assessment of HR management at auditees.

**Figure 23: Summary of human resource management findings**



As indicated in the figure above, matters of concern raised in the prior years have not been addressed in the province and inadequate attention is being given to the matters relating to human resources. Of particular concern is the fact that in eight departments the senior managers did not sign the required performance agreements. This despite the fact that the Public Service Commission (PSC) had visited the province in 2011 to raise their concerns about the people management practices in the Free State.

**Table 24: Nature of key findings**

Findings	Key findings
<b>Management of vacancies and acting positions</b>	<ul style="list-style-type: none"> <li>Positions at senior management level in the finance department and internal audit unit were vacant for more than 12 months.</li> <li>Advertisements to fill vacancies at senior manager level, in service delivery departments and in internal audit units were not placed within six months of the positions becoming vacant.</li> </ul>
<b>Appointment process</b>	<ul style="list-style-type: none"> <li>Appointments were made in posts that had not been advertised.</li> <li>A verification process for new appointments did not always take place.</li> <li>Employees acted in positions for longer than 12 months.</li> </ul>
<b>HR planning and organisation</b>	<ul style="list-style-type: none"> <li>HR plan based on strategic plan not in place.</li> <li>Job descriptions did not exist for every post or group of posts.</li> </ul>
<b>Performance management</b>	<ul style="list-style-type: none"> <li>Senior managers did not sign performance agreements for the current performance period.</li> </ul>
<b>Management of leave, overtime and suspensions</b>	<ul style="list-style-type: none"> <li>Medical certificates were not submitted for sick leave.</li> <li>Written authorisation not provided in advance for overtime to be worked.</li> <li>Prolonged suspension periods not reasonable in the circumstances.</li> </ul>

At the Department of Public Works there were no findings on HR management as the HR unit had effectively addressed all prior year audit findings by issuing circulars and monitoring the implementation thereof. The Department of the Premier once again had no findings due to effective monitoring and stability in key positions.

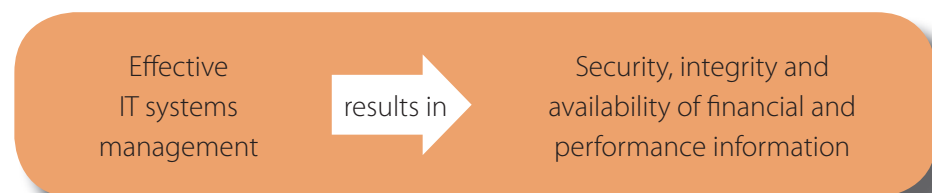
HR remains a concern for most auditees because of:

- inadequate oversight of HR processes as well as the reluctance of management to adhere to HR legislation, policies and procedures.

- the inability to attract and retain specialised skills for operational (service delivery) vacant positions.
- a lack of signed personalised performance agreements, e.g. no key performance indicators for unauthorised, irregular and fruitless and wasteful expenditure, to hold staff accountable for poor performance.
- instability in key leadership positions and key operating positions.

### 3.3 MANAGEMENT OF INFORMATION TECHNOLOGY

#### 3.3.1 Information technology management as a specific key driver of audit outcomes



IT in the province is important to enable the responsibilities of ensuring operational integrity of financial statements and performance information reports and to enable the facilitation and monitoring of service delivery.

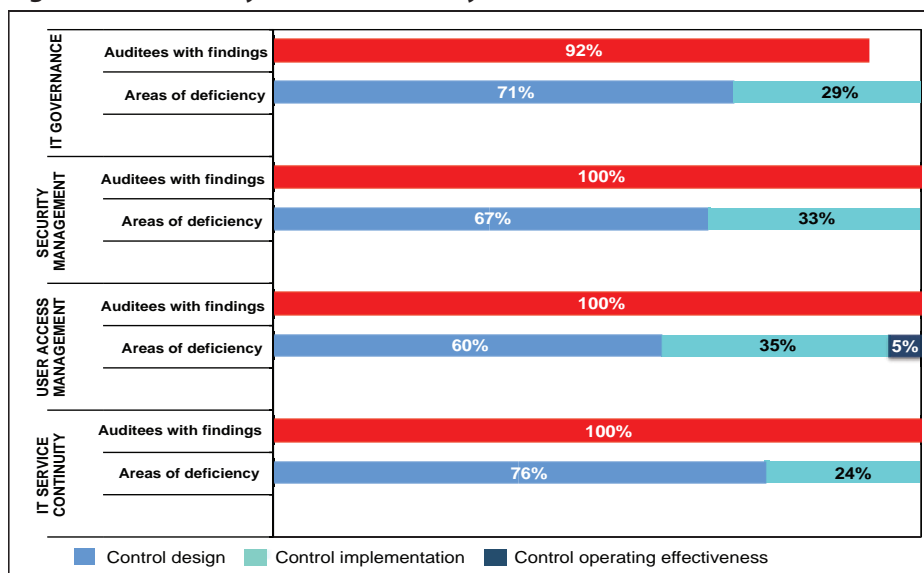
IT processes should be in place to enable service delivery and safeguard the provincial information.

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

IT controls for financial systems were evaluated at 13 departments and controls for performance information were evaluated at three sectoral departments, i.e. Health, Education and Human Settlements.

### 3.3.2 Summary of overall identified weaknesses in the management of financial information systems

**Figure 24: Summary of information system control weaknesses**



## Information technology governance

The provincial treasury developed the IT governance framework; however, it has not been made available to the departments to adopt and implement. As a result, some of the departments had not established IT governance controls that are generally prescribed by the IT governance framework, such as the establishment of the IT steering committees to oversee the implementation of the IT strategic plan, the development of service level agreements with the service providers and the performance of the risk assessment. The department that took the initiative to develop and implement IT governance controls had not adequately implemented them.

## Security management

IT security policies had not been adequately designed as they were not always formally approved or lacked important aspects which could affect the confidentiality and integrity of information. As a result, some of the departments had not implemented firewalls, patches were not applied and security parameter settings were not always adequately set or configured.

## User access control

The provincial treasury developed a generic user account management procedure for the departments to customise and implement. However, in some instances the procedures were not adopted or customised. This is due to the fact that IT is not regarded as being of strategic importance and an effort is not made to address the findings. As a result, user access profiles were created without approval, user access rights were not periodically verified to determine if they were still appropriate in respect of the responsibilities, the departments did not verify whether the activities performed by the system controllers (super user access) were monitored and reviewed.

## Information technology service continuity

Business continuity plans were not designed for the resumption of normal business operations in the event of a disaster which could affect the availability of information and systems. As a result the departments had not developed disaster recovery plans and the backups were inconsistently performed and were not tested for restoration.

3.3.3 Audit of predetermined objectives

The audit focused on compliance with Framework 86 of 2007, compiled by the National Treasury for managing programme performance information. According to this framework, the national departments have the overall responsibility for designing IT controls to govern the systems used by the provincial departments for predetermined objectives. Three departments, namely Human Settlements, Health and Education, were reviewed for compliance. At the Department of Health, eight elements that are critical to the achievement of compliance were reviewed. At the Department of Education the review focused on the existence of and compliance with a national policy. At the Department of Human Settlements a national guideline for controls had already been implemented in all the provinces and the review therefore focused on provincial compliance with the policy. Drivers of weaknesses and the summary are depicted below.

Figure 25: Comparison between national and provincial implementation of information technology controls over performance systems

	Human Settlements			Education			Health		
Development of controls by national	Good			Intervention required			Good		
Implementation of controls by province	Intervention required			Intervention required			Intervention required		
IT weaknesses at provincial level	Security management	User access control	IT service continuity	Security management	User access control	IT service continuity	Security management	User access control	IT service continuity
	Intervention required			Intervention required			Intervention required		
	Intervention required			Intervention required			Intervention required		

Good Intervention required

Human Settlements

Although the national department had developed guidance for implementing controls and provided options to centralise infrastructure management, the provincial department has not made a decision to migrate the IT infrastructure for central management. As a result, none of the controls were in place to ensure that access to the housing subsidy system (HSS) is regularly reviewed. Security controls were not in place to prevent unauthorised access and disaster recovery plan were not in place to ensure the availability of data in instances of disaster or data loss.

Education

The national department had not designed a framework or provided for the implementation of IT controls for the education management information system (EMIS). The risks are further increased by the lack of proactiveness by the province to design and implement controls that will ensure confidentiality, integrity and availability of performance information.

Health

The national department had developed guidance for the implementation of all the systems used for predetermined objectives, namely the district health information system (DHIS), the electronic tuberculosis register (ETR.Net) and the electronic drug-resistant tuberculosis register (EDR.Net). However, the guidance was not adhered to because of a lack of accountability at the provincial departments.

3.3.4 Status of addressing management commitments

Following the 2010-11 audits, management undertook to address identified weaknesses in the information systems environments and the status of honouring such commitments as determined during the 2011-12 audit is depicted below:



**Table 25: Progress in addressing management commitments - Departments**

Auditee	IT governance	Security management	User access controls	IT service continuity
Agriculture				
CoGTA				
Economic Development, Tourism and Environmental Affairs				
Education				
Health				
Human Settlements				
Premier				
Police, Roads and Transport				
Provincial legislature				
Provincial treasury				
Public Works				
Social Development				
Sport, Arts, Culture and Recreation				
<b>Total</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>
Not addressed	12	13	13	13
Addressed	1	0	0	0

Lack of progress is due to ineffective management oversight and lack of continuous assurance from internal audit and audit committees.

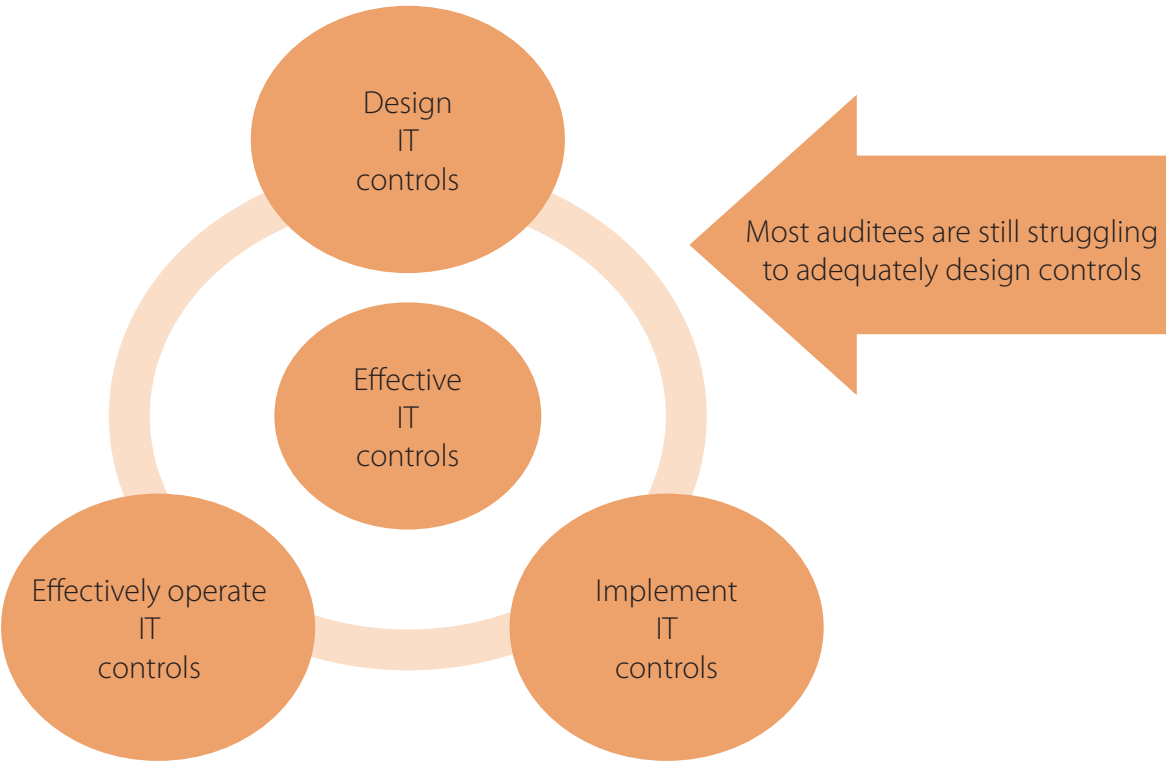
### 3.3.5 Key information technology concerns

**Key audit findings on IT controls namely:**

- IT governance framework developed by provincial treasury had not been rolled out to departments
- Lack of IT security policies to safeguard the information and the IT infrastructure
- Lack of user access control that prevents and detects unauthorised access to information
- Lack of IT service continuity controls to support business continuity

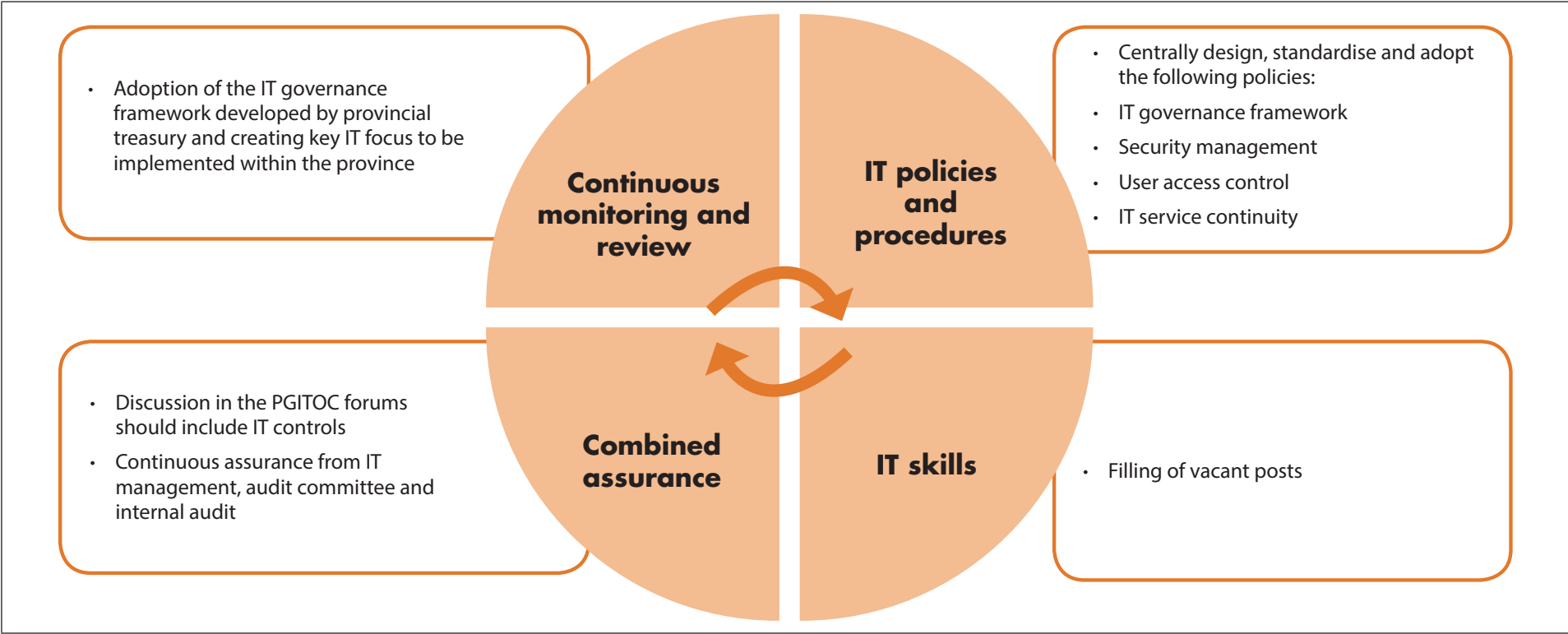
**Internal control deficiencies**

- The positions of IT director/manager had been vacant over a period of two to three years
- There was a lack of skill to develop IT internal controls/policy and procedures
- The PGITOC forums created for IT knowledge sharing had recently been introduced but IT audit findings have not yet been discussed
- No action was taken against management for failing to institute internal controls or seek assistance where their knowledge was limited
- Although provincial treasury had developed the IT governance framework it had not been rolled out to departments



3.3.6 Way forward in resolving information technology management weaknesses

The departments should implement the governance framework developed by the provincial treasury .The PGITOC should prioritise the discussions around IT controls in their meetings.The implementation and the effective operation of internal controls should be monitored on a regular basis to determine whether they are yielding the desired effects.



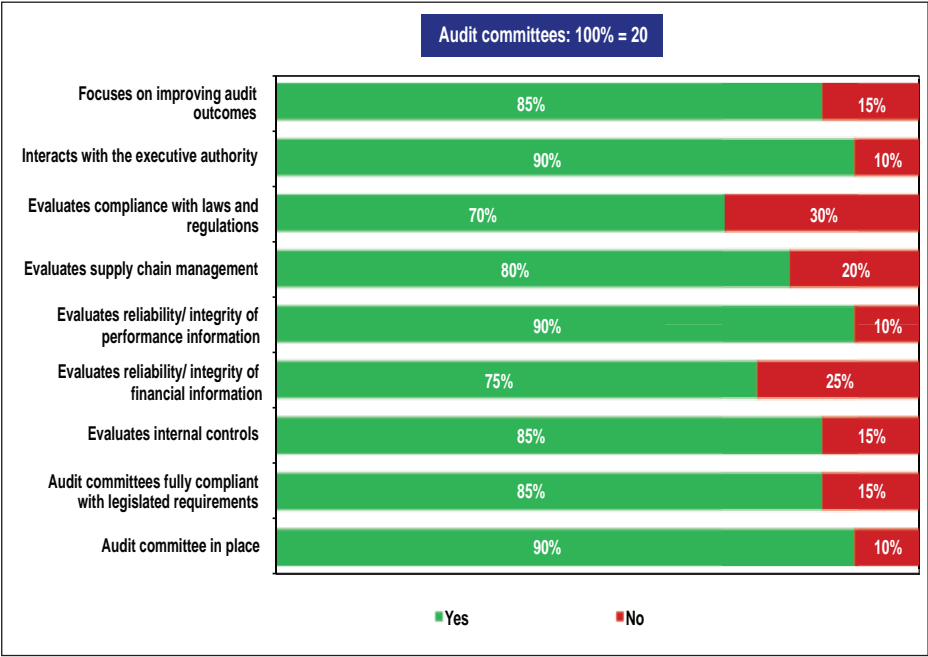
3.3.7 Good information technology practice

Provincial treasury took an initiative to develop an IT governance framework and user account management procedures for the provincial departments. They also provide super-system controllers to oversee the work of the sub-system controllers at the departments.

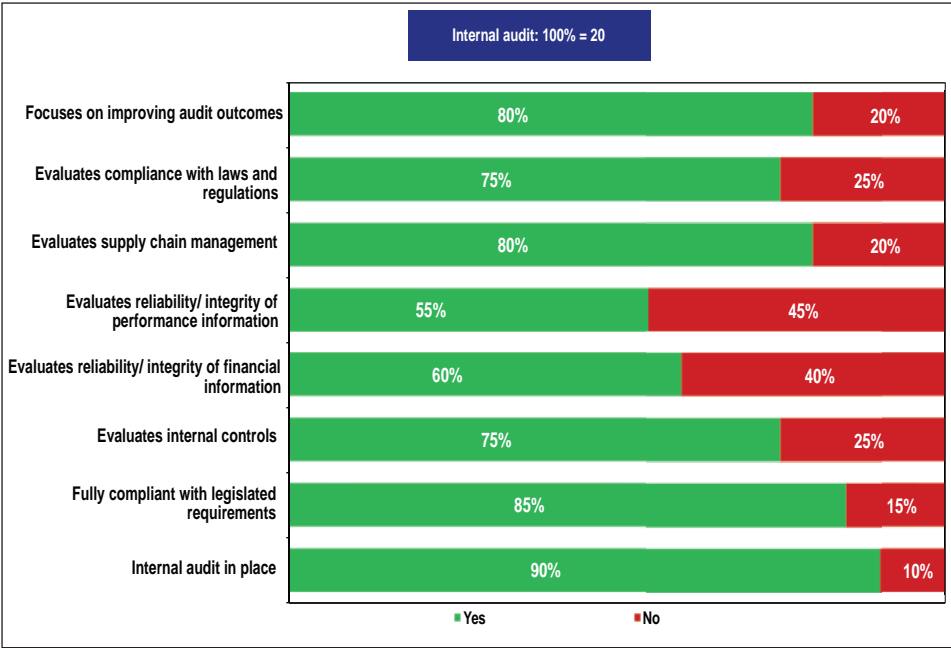
### 3.4 AUDIT COMMITTEES AND INTERNAL AUDIT

Effective governance is a driver of audit outcomes, while audit committees and internal audit are key elements of governance. In terms of legislation, an audit committee and internal audit unit must be established by all auditees. Audit committees must serve as independent governance structures whose function is to play an oversight role regarding the systems of internal control, compliance with legislation, risk management and governance. In executing its duties, the audit committee assists the accounting officer in the effective execution of his/her responsibilities, with the ultimate aim of achieving the organisation’s objectives. Internal audit units should provide assurance on governance, risk management and control. The figures that follow depict the assessed effectiveness of audit committees and internal audit units for the year under review.

**Figure 26: Effectiveness of audit committees**



**Figure 27: Effectiveness of internal audit units**



The graphs above depict a positive evaluation of the functions of both audit and internal audit units. Although an effort is made by the majority of audit committees and internal audit units, the audit outcomes are not yet reflecting a positive picture in the province. The main reason why the internal audits and audit committees do not have a positive impact on audit outcomes at certain auditees is the leadership’s attitude towards the implementation of recommendations made by the audit committees and internal audit units.

The Phakisa Major Events and Development Corporation and Free State Tourism Authority did not have a functioning audit committee and internal audit unit.

The majority of the audit committees and internal audit units are functioning effectively as indicated in the graphs above. The following concerns were, however, identified at auditees where the audit committees and internal audit units are not yet functioning effectively:

## **Audit committees**

Audit committees are not in a position to fully exercise their oversight responsibility because:

- leadership does not implement recommendations made by the audit committee
- the committees are limited by the effectiveness of the internal audit unit
- the timely appointment of audit committee members was not prioritised
- the audit committee did not review the monthly management information
- the audit committee did not consider and monitor the department's compliance with laws and regulations.

## **Internal audit units**

It is of concern that internal audit units are still not functioning effectively due to the following:

- Leadership does not respond to internal audit findings or recommendations are not implemented
- Internal audit units are not effectively engaged to provide assurance on the accuracy of the financial statements and performance information prior to submission to the audit committee and external audit
- Internal audit does not audit significant areas, such as SCM and performance information systems, due to failure by the department to follow a risk management process to identify high-risk areas
- Capacity constraints within the internal audit unit.



# SECTION 4

## IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

- 4.1 INITIATIVES AND COMMITMENTS MADE BY KEY ROLE PLAYERS TO IMPROVE AUDIT OUTCOMES
- 4.2 STATUS OF IMPLEMENTATION OF PUBLIC ACCOUNTS COMMITTEE OVERSIGHT RESOLUTIONS
- 4.3 AGSA INITIATIVES TO ENCOURAGE CLEAN AUDITS



AUDITOR - GENERAL  
SOUTH AFRICA





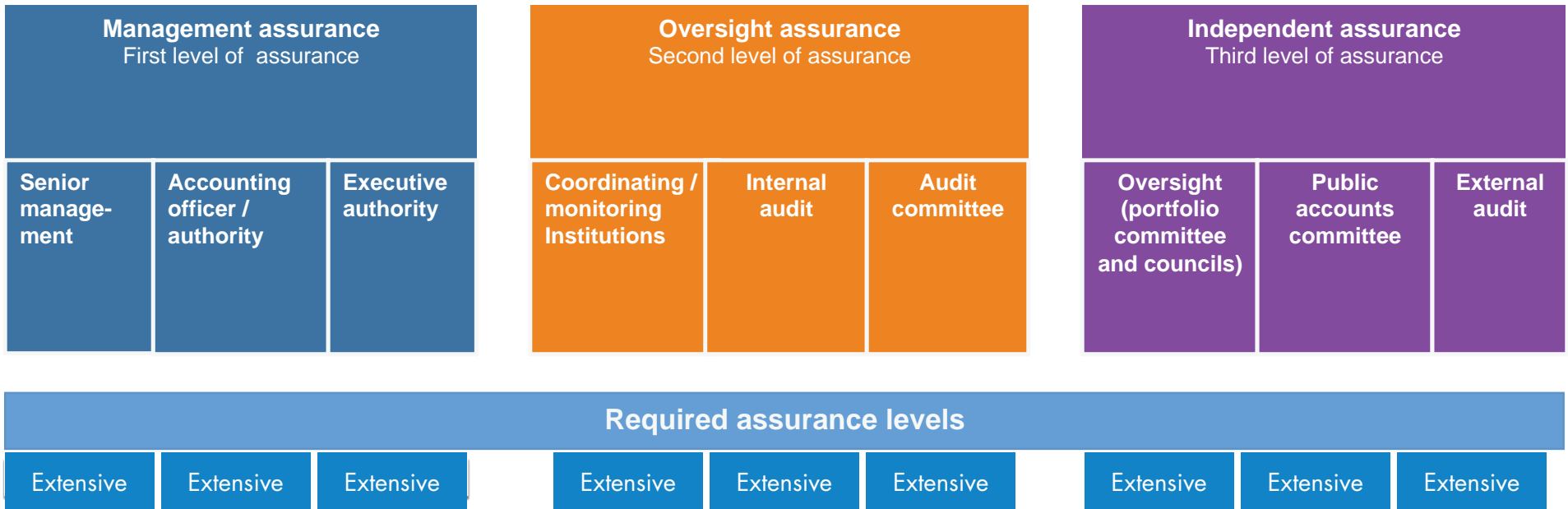
# SECTION 4

## IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

This section of the general report provides details of the initiatives and commitments of key provincial role players to improve audit outcomes, the status of implementation of public accounts committees’ oversight resolutions and an overview of the AGSA’s ongoing initiatives to encourage clean audits.

The following figure and table depict the risk assessment process towards combined assurance as achieved in the province. All these assurance providers should work collectively in addressing all the related risks. The required level and actual level of assurance are indicated below.

**Figure 28: Combined assurance providers**



**Table 26: Combined assurance providers per auditee**

Auditee	Senior management	Accounting officer/ authority	Executive authority	Coordinating/ monitoring institutions (not applicable at auditee level)	Internal audit	Audit committee	Public accounts committee (not applicable at auditee level)	Portfolio committees (not applicable at auditee level)
Required assurance levels	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive
<b>Auditee level</b>								
Agriculture								
CoGTA								
Economic Development, Tourism and Environmental Affairs								
Education								
Provincial treasury								
Health								
Human Settlements								
Premier								
Police, Roads and Transport								
Provincial legislature								
Provincial revenue fund								
Public Works								
Social Development								
Sport, Arts, Culture and Recreation								
Central Medical Trading Account								
Free State Development Corporation								
Free State Fleet Management Trading Entity								

Auditee	Senior management	Accounting officer/ authority	Executive authority	Coordinating/ monitoring institutions (not applicable at auditee level)	Internal audit	Audit committee	Public accounts committee (not applicable at auditee level)	Portfolio committees (not applicable at auditee level)
Required assurance levels	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive
<b>Auditee level</b>								
Free State Gambling and Liquor Authority								
Free State Housing Fund								
Free State Tourism Authority								
James Robertson Bursary Fund								
Nature Conservation Trust Fund								
Phakisa Major Sport Events and Development Corporation								
Private Patients Fund Trust								
Recreation Fund Trust								
Thomas Robertson Bursary Fund								
<b>Oversight level</b>								
Public accounts committee								
Portfolio committees:								
Public Accounts; Finance; Office of the Premier; Free State Legislature								
Agriculture and Rural Development								
CoGTA; Human Settlements								
Education; Sports, Arts, Culture and Recreation								

Auditee	Senior management	Accounting officer/ authority	Executive authority	Coordinating/ monitoring institutions (not applicable at auditee level)	Internal audit	Audit committee	Public accounts committee (not applicable at auditee level)	Portfolio committees (not applicable at auditee level)
Required assurance levels	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive	Extensive
Health; Social Development								
Public Works; Economic Development, Tourism and Environmental Affairs								
Police, Roads and Transport								
<b>Coordinating/ monitoring institutions</b>								
Premier								
Provincial treasury								
Legislature								
CoGTA								
DPSA								
<b>Overall provincial assessment</b>								
Assess assurance providers overall for the business unit/ province								

It should be noted that the combined assurance provided by internal audit and the audit committee does not always correlate with the key control assessment as they were unable to have the desired impact on the risks affecting the audit outcomes.

## 4.1 INITIATIVES AND COMMITMENTS MADE BY KEY ROLE PLAYERS TO IMPROVE AUDIT OUTCOMES

The table that follows outlines the key initiatives of provincial leadership and oversight to improve audit outcomes, as well as further commitments made to the AGSA for actions to be taken. The commitments include those made in response to the previous year's audit outcomes and new commitments obtained through in-year interactions and engagements between October 2012 and the date of this report. An assessment of the impact of the initiatives and commitments is also provided.

**Table 27: Key initiatives and commitments by provincial role players**

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial executive leadership</b>	<b>Prior year commitments</b>			
	Providing adequate leadership and addressing non-performance.	Financial management, SCM, PDO, HR, IT, turnaround plans	In progress	Limited impact
	The political leadership should support the attraction and retention of skills and competencies in the public service.	Financial management, SCM, PDO, HR, IT, turnaround plans	In progress	Limited impact
	The executive leadership will assist the portfolio committees in fulfilling their oversight responsibilities.	Financial management, SCM, PDO, HR, IT, turnaround plans	In progress	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial executive leadership</b>	A workshop directed by the Premier to address challenges that the province is confronted with, resulting in irregular expenditure.	Financial management, SCM	In progress	Limited impact
	The political leadership will ensure that regular meetings take place to deal with the AGSA's key control matrix and to simplify the process for better understanding in order to provide political oversight.	Financial management, SCM, PDO, HR, IT, turnaround plans	In progress	Limited impact
	Attend to performance contracts of senior management.	HR management	In progress	Limited impact
	Filling of critical vacancies.	HR management	In progress	Limited impact
	Workshops are envisaged with GITO's to address IT deficiencies.	IT controls	In progress	Limited impact
	Assigning the responsibility for PDO and compliance matters to dedicated officials with the adequate delegated authority to enforce continuous credible reporting.	PDO	In progress	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	<b>Initiatives</b>			
	Enhance leadership: The Forum for heads of departments (FOHoD) will be used to inform accounting officers of the status of financial management and highlight critical matters for resolutions. FOHoD resolutions will be monitored for implementation. Red flags will be escalated via the Governance and Administrative Cluster to Exco.	Turnaround plans	New	Not yet able to assess
	Enhance compliance with SCM: Exco resolved that departments should overhaul their SCM units and only qualified people should deal with SCM. Provincial treasury will enhance monitoring and enforcement of SCM regulations.	SCM	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	Capacity: Monitoring of departments to fill critical vacancies and provincial treasury will assist with capacity-building initiatives to enhance skills in required functional areas.	Turnaround plans, HR	New	Not yet able to assess
	Enhance quality of AFS: The assessment results of the quarterly interim financial statements are provided to audit committees to be used as part of their oversight function. Furthermore, the key control matrix for monthly, quarterly and bi-annual assessment and reporting was issued.	Financial management, turnaround plans	In progress	Limited impact
	Enhance compliance with laws and regulations: Develop a template for management of departments to assess compliance, identify gaps and implement remedial actions to enhance compliance.	Turnaround plans, financial management, SCM, HR, SCM, PDO	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
Provincial treasury	Asset management: The following will be developed:	Financial management	New	Not yet able to assess
	- An asset register cleanup guide for departments to deal with purification of their asset register.			
	- A guide for assets management challenges related to Logis with ways to approach and resolve these challenges.			
	Prior year commitments			
	The provincial treasury will provide enhanced support and guide departments and entities in developing a systematic follow-up of the audit outcomes.	Turnaround plans, financial management, SCM, HR, SCM, PDO, IT	In progress	Limited impact
The provincial treasury will develop a proper system to enhance record management to ensure that supporting documentation is maintained.	Turnaround plans, financial management, SCM, HR, SCM, PDO	In progress	Limited impact	

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
Provincial treasury	The key control matrix, a tool implemented since April 2012 to assess all functional areas, is currently under review based on the 2011-12 audit findings and will be used to promote and enforce compliance with the PFMA.	Financial management, PDO, SCM, HR, Compliance	In progress	Limited impact
	<b>New commitment</b>			
	Accounting officers must report monthly to the provincial treasury on the progress of investigations into irregular and fruitless and wasteful expenditure.	SCM	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	An integrated support plan (capacity building) will be developed in conjunction with National Treasury. The target date for the completion of this plan is end of November 2012. The overall objective is to elevate provincial treasury's financial management, monitoring and oversight capability as well as to address specific identified needs at department/ entity level. The overall objectives include improving the financial management capacity and capability of the provincial treasury; providing support, advice and assistance to provincial treasury regarding their capacity to provide technical support; advising and assisting provincial departments and providing capacity building and training workshops to provincial treasury.	Financial management, SCM	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/ commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Provincial treasury</b>	The assistance will focus on SCM, asset management, risk management, revenue management, monitoring and evaluation and debtor management.	Financial management, SCM	New	Not yet able to assess
<b>Provincial public accounts committees</b>	<b>Prior year commitments</b>			
	Arrange IT workshop for attendance by relevant provincial staff.	IT controls	Not implemented	No impact
	Investigate irregular expenditure.	SCM	Not implemented	No impact
	Monitoring of performance information.	PDO	Not implemented	No impact
	Follow up conflicts of interest.	SCM	Not implemented	No impact
<b>Members of provincial executive councils (MECs)</b>	<b>Initiatives to improve audit outcomes</b>			
	<b>MEC: Agriculture and Rural Development</b>			
	MEC met with all senior staff to outline the importance of supporting documentation and the availability of staff.	Quality of AFS	Complete	Significant impact



Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
Members of provincial executive councils	<b>MEC: Environmental Affairs, Tourism and Economic Development</b>			
	The AGSA was invited to discuss prior year findings and steps required to improve on audit outcomes.	Quality of AFS	No impact	Limited impact
	<b>MEC: Social Development</b>			
	Meeting with senior management and district managers with regard to supporting documentation on predetermined objectives.	PDO	Limited impact	Limited impact
	<b>Prior year commitments</b>			
	<b>MEC: Agriculture and Rural Development</b>			
	All senior management members from head office and district offices involved to ensure prior year audit risks are being addressed. Lack of supporting documentation or unavailability of staff would not be accepted.	PDO	Complete	Limited impact
	The department is ensuring that each district retains consistent supporting documentation for each indicator.	PDO	Complete	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
Members of provincial executive councils	Appointment of a consultant to correct the asset registers.	Assets	Complete	Significant impact
	Contract register updated with all contracts awarded.	SCM	Complete	Significant impact
	Monitoring of contract expenditure and performance.	SCM	Complete	Significant impact
	Investigation of irregular, fruitless and wasteful expenditure.	SCM	Complete	Significant impact
	<b>MEC: Cooperative Governance, Traditional Affairs and Human Settlements</b>			
	Consultant will be appointed to assist with stock take and to construct new asset register.	Asset management	Complete	Significant impact
	Split of functions between CoGTA and Human Settlements.	HR	In progress	Limited impact
	Advance payments will be stopped.	SCM	Complete	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
Members of provincial executive councils	<b>MEC: Environmental Affairs, Tourism and Economic Development</b>			
	Proper risk management will be implemented to identify and mitigate significant risks with regards to SCM.	SCM	In progress	Limited impact
	<b>MEC: Finance</b>			
	Fill SM position in IT department	IT	Complete	Limited impact
	<b>MEC: Health</b>			
	Appointment of a chief audit executive for the internal audit department.	SCM, quality of AFS, compliance and PDOs	In progress	No impact
	<b>MEC: Police, Roads and Transport</b>			
	CFO and chief internal auditor will be appointed.	HR	Complete	Limited impact
	Take steps to improve SCM process and to ensure compliance with laws and regulations in respect of supply chain management.	SCM	In progress	Limited impact
	Internal audit unit will be adequately resourced and functioning.	Quality of AFS	Complete	Limited impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
Members of provincial executive councils	Policies and procedures for reporting and monitoring of performance objectives should be established.	PDO	In progress	Limited impact
	Daily functions and monthly reconciliations, with special emphasis on monthly asset counts, should be performed and constantly monitored.	Quality of AFS	Not implemented	No impact
	<b>MEC: Social Development</b>			
	Action plan to address issues of improvement will be monitored.	SCM, quality of AFS, compliance and PDOs	In progress	Limited impact
	<b>MEC: Sport, Arts, Culture and Recreation</b>			
	Action plan will be regularly monitored.	SCM, quality of AFS, compliance and PDOs	Complete	Limited impact
	<b>New commitments</b>			
	<b>MEC: Agriculture and Rural Development</b>			
	Draft policies and procedures will be approved.	Quality of AFS	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Members of provincial executive councils</b>	Annual financial statements are also compiled monthly to ensure that amounts disclosed are supported by sufficient appropriate audit evidence.	Quality of AFS	New	Not yet able to assess
	Non-compliance will be addressed in an action plan.	Quality of AFS	New	Not yet able to assess
	Key management vacancies will be filled.	HR, SCM	New	Not yet able to assess
	Action plans to address IT management will be approved and implemented.	IT	New	Not yet able to assess
	<b>MEC: Cooperative Governance, Traditional Affairs and Human Settlements</b>			
	The action plan to address matters reported in the audit report will be monitored throughout the year.	SCM, quality of AFS, compliance and PDOs	New	to assess
	Housing units will be registered with National Home Builder Registration Council.	PDO	New	In progress
	Controls over housing section will be strengthened.	SCM	New	In progress

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Members of provincial executive councils</b>	<b>MEC: Education</b>			
	Documentation protocols will be implemented to ensure that no limitation of scope is encountered.	PDO	New	Not yet able to assess
	The departmental asset register will be updated to ensure that the electronic register is reliable and the only register.	SCM	New	Not yet able to assess
	Monitoring controls will be implemented to track compliance with laws and regulations.	Compliance	New	Not yet able to assess
	Financial information used to prepare annual financial statements will be regularly reviewed with specific focus on information utilised for disclosure notes.	Quality of AFS	New	Not yet able to assess
	The investigations into the irregular expenditure will be finalised.	SCM	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Members of provincial executive councils</b>	<b>MEC: Environmental Affairs, Tourism and Economic Development</b>			
	MEC will quarterly review the APP and implement corrective measures for underperforming units.	PDO	New	Not yet able to assess
	Officials will be held accountable for irregular expenditure incurred.	SCM	New	Not yet able to assess
	All fixed assets will be confirmed and the asset register will be updated.	Assets	New	Not yet able to assess
	MEC will be updated on monthly expenditure trends and commitments made that might affect spending patterns.	SCM	New	Not yet able to assess
	<b>MEC: Finance</b>			
	Development of outstanding IT policies	IT	New	
	<b>MEC: Health</b>			
	Workshop audit qualifications and other issues contained in the audit report to compile an action plan for implementation and monitoring.	SCM, quality of AFS, compliance and PDOs	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
<b>Members of provincial executive councils</b>	<b>MEC: Police, Roads and Transport</b>			
	Controls will be implemented to ensure that laws and regulations are complied with, especially in the HR department.	HR	New	Not yet able to assess
	A process will be implemented to enforce accountability, especially for non-compliance issues, and to ensure that there are consequences for poor performance.	SCM	New	Not yet able to assess
	Controls over IT systems will be implemented to ensure reliability.	Quality of AFS	New	Not yet able to assess
	<b>MEC: Public Works</b>			
	Compile and implement an action plan on issues resulting in qualifications.	SCM, quality of AFS, compliance and PDOs	New	Not yet able to assess
	Physical verification of moveable assets.	SCM	New	Not yet able to assess
	Contracts will be obtained, issued or re-issued for tenants occupying government property.	SCM	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative/commitment	Progress made with implementing commitments given	Impact of initiatives and commitments on audit outcomes
Members of provincial executive councils	<b>MEC: Social Development</b>			
	Record keeping and compliance will be improved.	PDO	New	Not yet able to assess
	The internal audit unit will be adequately resourced to ensure that internal control deficiencies are identified and that recommendations are made on corrective action.	SCM, quality of AFS, compliance and PDO	New	Not yet able to assess
	The audit committee will evaluate and monitor responses to risks and provide oversight of the effectiveness of the internal control.	SCM, quality of AFS, compliance and PDO	New	Not yet able to assess
	<b>MEC: Sport, Arts, Culture and Recreation</b>			
	An IT action plan will be implemented and monitored.	IT	New	Not yet able to assess
	The capacity in the internal audit unit will be expanded.	SCM, quality of AFS, compliance and PDO	New	Not yet able to assess
	<b>Speaker: Free State Legislature</b>			
	IT environment will be upgraded.	IT	New	Not yet able to assess
	HR evaluation and new organogram will be implemented.	HR	New	Not yet able to assess

Although the provincial public accounts committee has regular sessions they did not adopt any resolutions or provide formal commitments based on the 2010-11 audit outcomes. Portfolio committees were not yet functioning effectively during the year and therefore have not issued any formal commitments to date. The political leadership also failed to make formal commitments regarding their intended actions, resulting in a lack of adequate oversight and accountability.

## 4.2 STATUS OF IMPLEMENTATION OF PUBLIC ACCOUNTS COMMITTEE OVERSIGHT RESOLUTIONS

No resolutions were tabled by the provincial public accounts committee in respect of the 2010-11 financial year for implementation in 2011-12. As a result oversight by the public accounts committee is not effective due to a lack of action taken and consequences for transgressions.

Furthermore, the following resolutions tabled in previous years (prior to 2010-11) have not yet been fully implemented by departments as depicted in the table below:

**Table 28: Status of implementation of PAC resolutions prior to 2010-11**

Auditee	Number of resolutions not yet fully implemented
Agriculture and Rural Development	2
CoGTA	1
Economic Development, Tourism and Environmental Affairs	2
Education	2
Health	2
Human Settlements	1
Police, Roads and Transport	1
Public Works	1
Social Development	1

## 4.3 AGSA INITIATIVES TO ENCOURAGE CLEAN AUDITS

Summarised below are some of the key initiatives the AGSA has embarked on to promote public sector accountability and to encourage the process of improving audit outcomes and attaining clean audits.

**Table 29: The AGSA's key initiatives to encourage clean audits**

Nature	Outline of AGSA initiatives
<b>Interactions with the political and administrative leadership</b>	<p>In the previous year, the executive leadership undertook to be available for 60 minutes per quarter for AGSA interactions so that progress made in fulfilling commitments, the implementation and monitoring of action plans and the results of the key controls can be discussed. These commitments were honoured to some extent, which contributed to the improved outcomes for departments.</p> <p>PFMA debriefing discussions were held with the director-general, speaker, executive leadership, accounting officers, accounting authorities, the public accounts committees, the chairpersons of the portfolio committees and IT managers as well as staff of departments in some instances.</p> <p>The AGSA performed an interim audit at the big departments to allow them time to resolve significant findings before the final audit commenced.</p> <p>The AGSA's engagement focused on sustaining the relationship with all role players that can influence clean administration.</p>
<b>Quarterly interactions on status of key controls</b>	<p>Key controls were evaluated and discussed with the CFOs, HoDs, internal audit units, audit committees and executive authorities on a quarterly basis.</p>
<b>Promoting understanding of PDO requirements</b>	<p>A presentation on predetermined objectives was delivered to the internal audit units and HoDs as follow-up to the workshops held at the departments in the previous years.</p>

Nature	Outline of AGSA initiatives
<b>Involvement in forums and meetings related to provincial government financial affairs</b>	<p>The AGSA participated in the following forums to influence the stakeholders involved in driving clean administration:</p> <ul style="list-style-type: none"> <li>• CFO forum</li> <li>• Audit committee forum</li> <li>• Internal audit forum</li> <li>• Risk management forum</li> <li>• Weekly technical committee meeting with the provincial treasury</li> </ul>
<b>Promoting an understanding of IT risks and controls</b>	The information systems audit team visited the province for two days and had meetings with provincial treasury and all other departments to discuss IT risks and the related controls to ensure that all stakeholders have a clear understanding thereof.
<b>Assisting with fraud risk assessment</b>	The AGSA discussed risk identification, possible impacts and recommendations with the CFOs, HoDs and internal audit units continuously during the year.
<b>Contributing to the effectiveness of oversight structures</b>	<p>The AGSA presented briefings to the PFMA audit committee forum in respect of key controls, effectiveness of audit committees and what was expected of them.</p> <p>The AGSA also undertook to attend all audit committees and share results and insights into their support role with the audit committees.</p> <p>Briefing to provincial public accounts committee to enable an understanding of key controls and also to share audit outcomes.</p> <p>Portfolio committees in the province were briefed on the 2011-12 audit outcomes, and hearings are in process where all departments need to account for their performance during the 2011-12 financial year.</p>

**Table 30: Analysis of impact of interactions with the executive**

Auditee	Total number of interactions	Impact of interactions with executive				
		Audit outcome 2011-12	Audit outcome 2010-11	Misstatement	Material SCM findings	Material PDO findings
		Opinion	Opinion	Evaluation	Evaluation	Evaluation
Agriculture and Rural Development	3	Financially unqualified with findings	Qualified	Improved	Unchanged	Unchanged
CoGTA	2	Financially unqualified with findings	Qualified	Improved	Unchanged	Regressed
Economic Development, Tourism and Environmental Affairs	2	Qualified	Qualified	Unchanged	Unchanged	Unchanged
Education	3	Financially unqualified with findings	Qualified	Improved	Unchanged	Improved
Free State Legislature	4	Financially unqualified with no findings	Financially unqualified with findings	Remain no misstatement	Remain with no findings	Improved
Health	1	Qualified	Qualified	Improved	Unchanged	Improved
Human Settlements	2	Qualified	Financially unqualified with findings	Regressed	Unchanged	Regressed
Premier	4	Financially unqualified with no findings	Financially unqualified with no findings	Remain no misstatement	Remain with no findings	Remain with no findings
Police, Roads and Transport	3	Qualified	Qualified	Improved	Unchanged	Unchanged

Auditee	Total number of interactions	Impact of interactions with executive				
		Audit outcome 2011-12	Audit outcome 2010-11	Misstatement	Material SCM findings	Material PDO findings
		Opinion	Opinion	Evaluation	Evaluation	Evaluation
Provincial treasury	4	Financially unqualified with no findings	Financially unqualified with no findings	Remain no misstatement	Remain with no findings	Remain with no findings
Public Works	4	Qualified	Qualified	Improved	Unchanged	Unchanged
Social Development	2	Financially unqualified with findings	Financially unqualified with findings	Remain no misstatement	Unchanged	Unchanged
Sport, Arts, Culture and Recreation	3	Financially unqualified with findings	Financially unqualified with findings	Improved	Improved	Unchanged

It is imperative that the AGSA's quarterly interactions be prioritised and attended by the relevant MEC, HoD/ CEO, CFO, internal audit and chairpersons of the audit committee in order to foster a common understanding of the matters requiring attention to move the relevant department/ entity swiftly towards the goal of clean administration by 2014. This would enhance the alignment of political and administrative leadership, which is imperative in enforcing accountability and effective financial and performance management.

In the previous year the executives committed to meet with the AGSA for 60 minutes every quarter. The main driver behind the interactions was the quarterly key control visits as well as additional interactions to highlight areas requiring the intervention by the executive authorities in an effort to improve or at the very least maintain the audit outcomes. The graphic above details the interactions held with the MECs of departments. The graphic does not include the many additional interactions that were held with HoDs and CFOs. Also excluded are escalations which were made to the speaker of the legislature, the Premier and the director-general.

This commitment was honoured to a certain extent but most of the engagements occurred towards the end of the audit, which resulted in the departments putting an effort into improving the audit outcomes during the last two weeks of the audits. Had the commitment to meet with the AGSA every quarter been honoured, the quality of the interactions would have been higher, which would have allowed the executives to proactively address the issues with sustainable solutions.



# SECTION 5

## EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

5.1 OTHER CURRENT AND EMERGING MATTERS THAT REQUIRE ATTENTION

5.2 FINANCIAL HEALTH INDICATORS



AUDITOR - GENERAL  
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# SECTION 5

## EMERGING MATTERS AND AUDITEES' FINANCIAL HEALTH INDICATORS

This section of the general report provides information on emerging matters that may impact on future audit outcomes, as well as an analysis of auditees' financial health indicators.

### 5.1 OTHER CURRENT AND EMERGING MATTERS THAT REQUIRE ATTENTION

The following matters are expected to have an impact on provincial government audit requirements/outcomes in the 2012-13 financial year. Appropriate measures should therefore be timeously implemented to ensure that these matters do not negatively impact on audit outcomes.

**Table 31: Current and emerging matters that require attention**

Area of change		Summary of expected changes
Matters affecting government auditees in all provinces		
<b>Accounting matters</b>	Readiness of departments for the eventual inclusion of inventory in the financial statements disclosures	<p>Departments are not yet required to include inventory in the disclosure notes to the financial statements and consequently no audit findings were raised in the auditor's report in this regard.</p> <p>A review conducted of departments' inventory management processes requiring to be addressed include the following:</p> <ul style="list-style-type: none"> <li>• Inadequate inventory management system</li> <li>• Inventory management system not reconciled regularly to general ledger</li> <li>• Inadequate control system to safeguard inventory against theft, losses, wastage and misuse</li> <li>• No documented procedures for conducting inventory counts</li> <li>• Regular inventory counts not undertaken</li> <li>• Policy for redundant and/or damaged inventory not implemented</li> </ul>

Area of change		Summary of expected changes
<b>Predetermined objectives</b>	Increase in scope	<p>In terms of the <i>Framework for strategic plans and annual performance plans</i> and National Treasury's <i>Instruction note no. 33</i>, all strategic and annual performance plans (tabled during February 2012) for all departments, constitutional institutions and public entities listed in schedules 3A and 3C to the PFMA, must be compiled in accordance with the principles as per the framework.</p> <p>Audits of predetermined objectives (for the 2012-13 PFMA audit cycle and going forward) will thus be conducted in line with the principles of the <i>Framework for strategic plans and annual performance plans</i> in addition to the applicable laws and regulations and the <i>Framework for managing programme performance information</i> (as per the AG Directive) for the relevant auditees.</p>

## 5.2 FINANCIAL HEALTH INDICATORS

Management is responsible for the sound and sustainable management of the affairs of the departments or public entities to which they are appointed and for implementing an efficient, effective and transparent financial management system for this purpose, as regulated by legislation. AGSA audits included a high-level analysis of auditees' financial health indicators in order to provide management with an overview of selected aspects of auditees' current financial health and to enable timely remedial action where financial health and service delivery may be at risk.

Certain aspects of matters related to the management of budgets, expenditure, conditional grants (applicable only to departments), revenue, assets and liabilities were analysed.

The results of the analyses that follow should be considered as indicators of possible risks to the financial health and service delivery within the province overall.

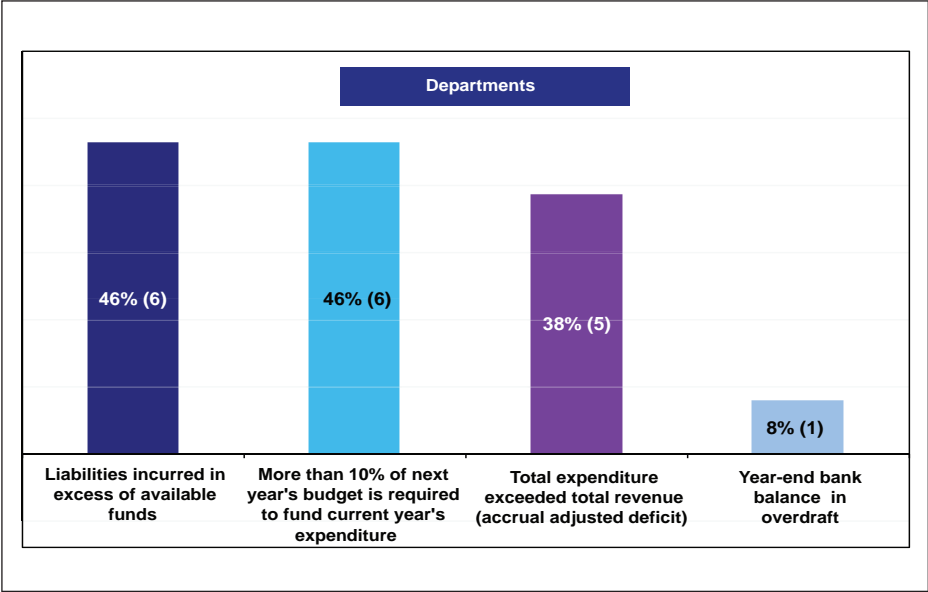
### 5.2.1 Budget management, conditional grants, assets and liability management

The spending of 10 (77%) departments was within the approved budget. However, the annual financial statements of departments are prepared on the modified cash basis of accounting, which means that the expenditure disclosed in the financial statements and used to assess actual expenditure vs. budget relates only what was paid during the year and does not include the liabilities for unpaid expenses at year-end. Effectively these liabilities are paid from the following year's budget, which reduces the amount available for that year's activities.

The analysis depicted below would in the private sector be indicators of a possible going concern problem at an entity, i.e. that the entity would not have sufficient funds to continue in business. It is uncommon, however, for the operational existence of a public sector auditee to cease as a result of an inability to finance its operations as these departments are normally responsible for the delivery of service to the public. In these instances additional funding from central government is normally required to enable the auditee to continue its operations.

The figure also shows the number of departments that incurred deficits in the current year and had bank overdrafts at year-end. To determine whether a surplus or deficit was realised at departments, the amounts in the financial statements were adjusted to the accrual basis of accounting (referred to below as accrual adjusted deficit).

Figure 29: Budget management by departments, deficits and overdrafts



Six departments would not have been able to fund all liabilities (accruals) from the current year's voted funds had all liabilities been paid at year-end. This includes departments where service delivery is crucial.

For six departments more than 10% of the next year's budget is required to fund current year expenditure and therefore less budget will be available for the next year's service delivery.

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.

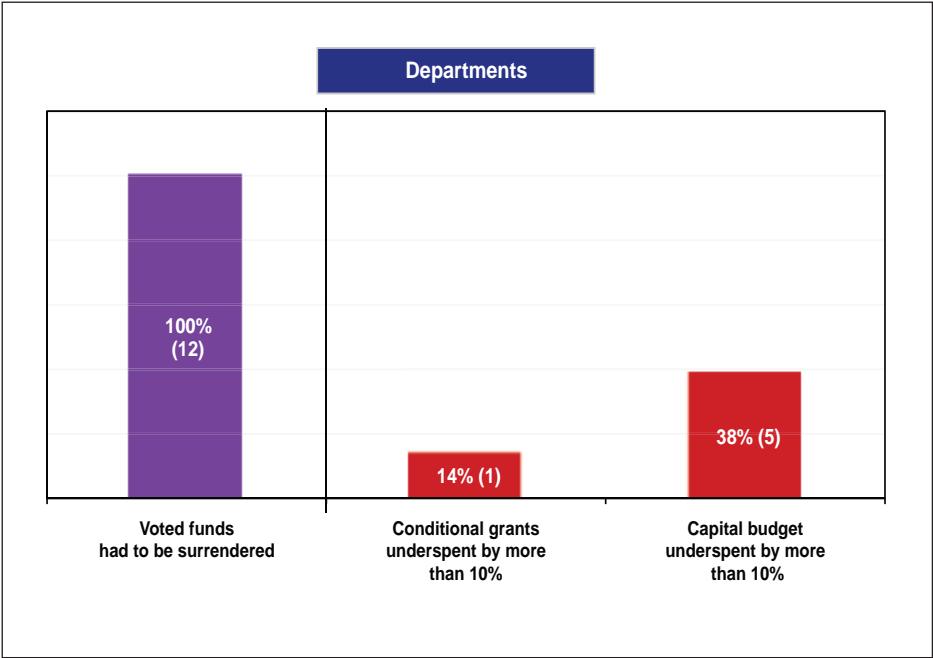
The above analysis further indicates that the amount of unauthorised expenditure incurred could have been significantly higher had accruals been paid before year-end.

The underspending of capital budgets and conditional grants can have an effect on the ability of the province to deliver on programmes and services. The approved budget (voted funds) of departments is requested from the provincial revenue funds only as required.

Five departments incurred an accrual adjusted deficit. This indicates that the 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.

The figure below shows the number of departments that underspent on capital budgets and conditional grants, which led to unspent amounts being surrendered to the revenue fund.

Figure 30: Underspending by departments



Note: Legislature does not have to surrender voted funds, while the Premier, provincial treasury, the legislature, Social Development, CoGTA and Economic Development, Tourism and Environmental Affairs did not receive conditional grants.

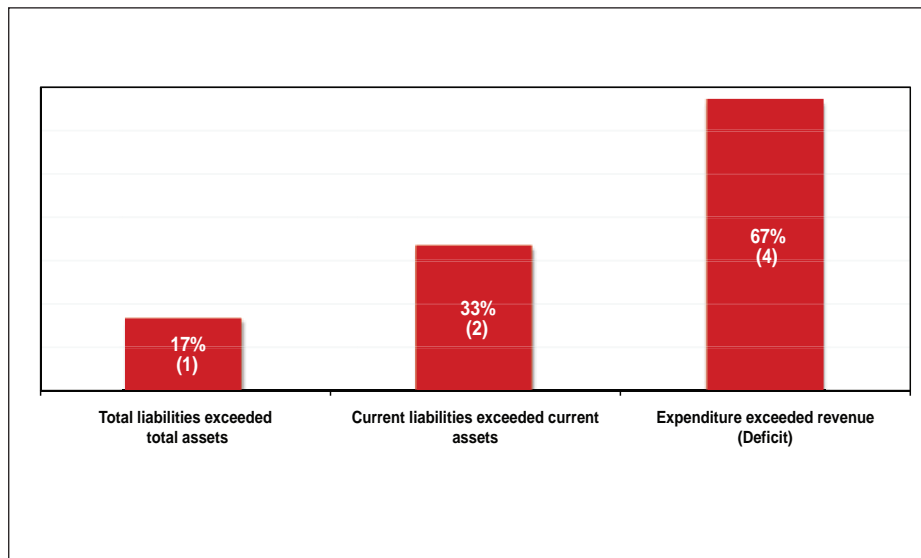
The majority (100%) of departments did not use all voted funds and had to surrender unused funds to the provincial revenue fund.

The department of Police, Roads and Transport reflected an underspending of 18,3% on conditional grants while the capital budget was underspent by 45,6%. This is mainly due to cash flow problems experienced by the department as a result of over-commitment on infrastructure projects in prior years. The capital budget was also underspent by more than 10% at four other departments. This is a matter of concern as spending on infrastructure directly impacts on service delivery.

No public entities underspent on their capital budgets.

The next figure shows the number of public entities that had negative indicators in relation to the funding of their continued operations.

**Figure 31: Funding of continued operations: Public entities**

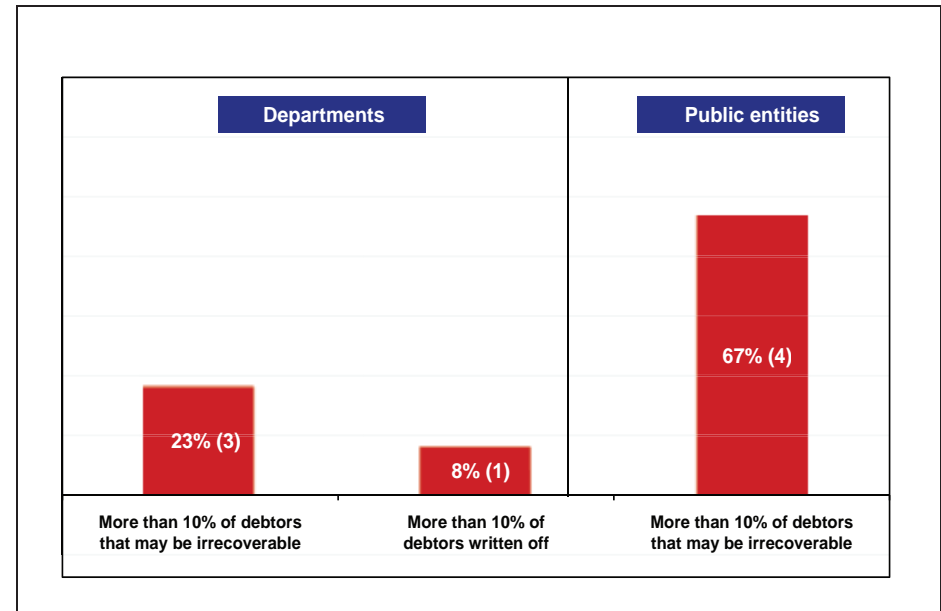


The negative indicators above are as a result of inadequate budget planning and management, as well as the timing of debtor and creditor payments.

## 5.2.2 Revenue management

The weakness in recovering revenue owed by debtors is highlighted in the following figure which shows the extent of bad debts that were written off or provisions made for such write-offs:

**Figure 32: Status of state debtors**



More than 10% of debtors may not be recoverable at three departments and four entities. This is due to a lack of effective and appropriate steps collect all money due to the auditees mentioned above.

At the Department of Health 22% of debtors were written off. The debt was non-recoverable due to the long-outstanding nature thereof. The recovery of debt is hampered by the fact that some of the patients do not provide sufficient information (i.e. addresses) which will enable the recovery of the debt.

## **Conclusion on financial health indicators**

Overall in the province there is a concern that the financial health of auditees may negatively impact on service delivery due to cash flow problems experienced, underspending of conditional grants and inadequate budget management.

The way forward on financial health indicators:

- Budget management processes and cash flow should be monitored by leadership throughout the year to avoid overspending.
- Accruals and commitments must be monitored monthly to ensure that over-commitment of a department's budget does not occur.
- Proper planning should be done to ensure that conditional grants and capital budgets are not underspent as this will hamper service delivery. The spending should also be strictly monitored by leadership.
- Effective and appropriate steps should be implemented and monitored to collect all money due to auditees.





# GLOSSARY OF TERMS

## ANNEXURE



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# GLOSSARY OF TERMS

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

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

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

<b>Leadership</b>	Leadership refers to the administrative leaders. This is also one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.
<b>Leading department</b>	Leading departments are those auditees that monitor and set an example for other auditees in national and provincial government. Leading departments comprise Parliament, the nine provincial legislatures, the nine Offices of the Premier, National Treasury and the nine provincial treasuries.
<b>Material finding</b>	An audit finding on reporting on predetermined objectives or non-compliance with laws and regulations which is significant enough in terms of value and/or nature to influence the understanding of the reported information.
<b>Material misstatement</b>	Misstatements which are significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of the rand value and/or the nature and cause of the misstatement.
<b>Misstatement</b>	Incorrect information in or information omitted from the financial statements or annual performance report.
<b>Modified opinion</b>	Qualified, adverse or disclaimer of opinion.
<b>Payroll</b>	A list of employees and their wages.
<b>Pervasive findings</b>	Findings that are not confined to specific items in the reported information or that represent a substantial proportion of the reported information.
<b>Property, plant and equipment</b>	Includes land, buildings, leasehold improvements, equipment, furniture, fixtures, delivery trucks, vehicles, etc. that are owned by the entity.
<b>Qualified audit opinion</b>	The financial statements contain material misstatements in specific amounts or there is insufficient evidence for the auditor to conclude that specific amounts included in the financial statements are not materially misstated.

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





## ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root causes

112

Number	Auditee	2011-12			2010-11			Financial statement qualification areas							Findings on predetermined objectives				Findings on areas of non-compliance								
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, fruitless and wasteful	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement / limitations in submitted Annual Financial statements	Unauthorised, Irregular, Fruitless wasteful and losses	Asset and liability management	Procurement management	HR management	Expenditure management	Audit committee	Internal audit	
Departments																											
1	Agriculture and Rural Development	FS						A						A		R			R	R	R	R	R	N	R		
2	Cooperative Governance and Traditional Affairs	FS						A							N		N		R	R	R	R	R	A	A	R	
3	Economic Development, Tourism and Environmental Affairs	FS						R			R			R		R			R	R	A	R	R		A	A	
4	Education	FS						A							N	R			R	R	A	R	R				
5	Health	FS						R	R			A	N	R	A	R			R	R	R	R	R	R	N	N	
6	Human Settlements	FS								N	N		N	N	N	R	N		R	N	R	R	R	R	A	R	
7	Police, Roads and Transport	FS						A	R	A	R	N		R	N	A			N	R	A	R	R	R	R	R	
8	Premier	FS																									
9	Provincial legislature	FS													A	A						A			A		
10	Provincial revenue fund	FS																									
11	Free State Provincial Treasury	FS																									
12	Public Works	FS						R	R	A		R		A		R			R	R	R	R	A	A	A	A	

Legend (audit outcomes)	Financially unqualified with no findings	Disclaimer	Qualified	Adverse	Legend (drivers)	Good	Significant control deficiency	S	Legend (findings)	Addressed	A	Legend (movements)	Reduction	Unchanged	Legend (root cause)	No significant root cause	A contributing root cause	A major root cause
	Financially unqualified with findings	Audit outstanding	Closed	Finding		Causing concern	Intervention required			New	N		Increase					



## ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root causes

Unauthorised, irregular, and fruitless and wasteful expenditure incurred						Procurement and contract management						Drivers of internal control												Human resource management					Information technology management				Root causes					
Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Limitation on planned scope of audit of awards	Awards to employees	Awards to close family members of employees	Uncompetitive or unfair procurement processes	Inadequate contract management	Internal control deficiencies	Leadership					Financial and performance management				Governance			Management of leave, overtime and suspensions	Acting positions	Performance management	Appointment processes	Management of vacancies	HR planning and organisation	IT governance	Security management	User access management	IT service management	HR capacity & productivity	Attention to key controls	Effectiveness of assurance providers		
Movement	Amount R	Movement	Amount R	Movement	Amount R							Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management														Internal audit	Audit committee
↓	R0.07 m	↓	R41.5 m	↑	R0.4 m				R		R														N	N	R	A	R	R	R	R	R	R				
		↑	R39.4 m	↑	R0.02 m				R	R	N		S	S												R	R		R	R	R	R	R	R				
		↓	R44.1 m	↓	R9.9 m	N			R		R		S	S		S					S	S			R		R	N	R	R	R	R	R	R				
		↑	R82.8 m	↑	R0.04 m		R	R	R		R		S					S		S	S				R	A		N			R	R	R	R	R			
↓	R47.2 m	↑	R45.3 m	↑	R16.1 m	R	R	R	R	R	R		S			S			S			S	S		R		R	R	R	R	R	R	R	R				
		↓	R2,006 bn			N			R	A	R		S	S				S	S				S			N	A	R		N	R	R	R	R	R			
↑	R3.3 m	↓	R691.6 m	↑	R0.3 m	N	R	R	N	R	N													S		R	N		R	R	R	R	R	R				
		↓	R3.1 m	↓	R0.01 m				R																						R	R	R	R				
		↓	R0.05 m	↔	R0.01 m						N	N														N	R		R		R	R	R	R				
		↓	R0.07 m								N																			N		A	R	R	R			
		↓	R157.8 m	↑	R0.001 m				R	N	N		S			S		S							A						R	R	R	R				

Legend (audit outcomes)	Financially unqualified with no findings	Disclaimer	Qualified	Adverse	Legend (drivers)	Good	Significant control deficiency	S	Legend (findings)	Addressed	A	Legend (movements)	Reduction	↑	Unchanged	Legend (root cause)	No significant root cause	
	Financially unqualified with findings	Audit outstanding	Closed	Finding		Causing concern	Intervention required			New	N		Repeat	R	Increase		↓	

## ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root causes

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Number	Auditee	2011-12			2010-11			Financial statement qualification areas							Findings on predetermined objectives				Findings on areas of non-compliance							
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, fruitless and wasteful	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement / limitations in submitted Annual Financial statements	Unauthorised, Irregular, Fruitless wasteful and losses	Asset and liability management	Procurement management	HR management	Expenditure management	Audit committee	Internal audit
Departments																										
13	Social Development	FS														R				R		R	R	A	A	
14	Sport, Arts, Culture and Recreation	FS													N	A			A	A	N	A	R	A	A	A
Public entities																										
15	Central Medical Trading Account	FS																	A	R	A		A	R	N	R
16	Free State Development Corporation	FS						R	R	R	R	R	R	A			N		R		A			A		A
17	Free State Fleet Management Trading Entity	FS																							R	R
18	Free State Housing Fund	FS																	R						A	R
19	Free State Political Party Fund	FS																								
20	Free State Gambling and Liquor Authority	FS						A		A	A	A		R	R	R			R	R	A	R			R	R
21	James Robertson Bursary Fund	FS																								
22	Nature Conservation Trust Fund	FS																								
23	Private Patients Fund Trust	FS																								

Legend (audit outcomes)	Financially unqualified with no findings	Disclaimer	Qualified	Adverse	Legend (drivers)	Good	Significant control deficiency	S	Legend (findings)	Addressed	A	Legend (movements)	Reduction	↑	Unchanged	Legend (root cause)	No significant root cause	A contributing root cause	A major root cause
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## ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root causes

Unauthorised, irregular, and fruitless and wasteful expenditure incurred						Procurement and contract management						Drivers of internal control												Human resource management						Information technology management				Root causes				
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Movement	Amount R	Movement	Amount R	Movement	Amount R							Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management														Internal audit	Audit committee
		↑	R6.6 m					N	R		A									S					A		R	N	R	R	R	R	R	R				
		↑	R39.3 m	↓	R1.2 m				R		N																N	R			R	R	R	R				
		↓	R4.4 m	↔	R0.2 m								S										S		N					R								
		↓	R2.2 m	↓	R1.1 m								S			S	S	S		S		S				N	N			N	N							
																							S	S		N			N	N								
																							S	S														
																							S	S														
		↓	R5.4 m	↓	R0.9 m				R	N	N															N			N	N	N							

Legend (audit outcomes)	Financially unqualified with no findings	Disclaimer	Qualified	Adverse	Legend (drivers)	Good	Significant control deficiency	S	Legend (findings)	Addressed	A	Legend (movements)	Reduction	↑	Unchanged	Legend (root cause)	No significant root cause	
	Financially unqualified with findings	Audit outstanding	Closed	Finding		Causing concern	Intervention required			New	N		Repeat	R	Increase		↓	

## ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root causes

Number	Auditee	2011-12			2010-11			Financial statement qualification areas								Findings on predetermined objectives				Findings on areas of non-compliance							
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, fruitless and wasteful	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement / limitations in submitted Annual Financial statements	Unauthorised, Irregular, Fruitless wasteful and losses	Asset and liability management	Procurement management	HR management	Expenditure management	Audit committee	Internal audit	
Public entities																											
24	Recreation Fund Trust	FS	Green			Green																					
25	Phakisa Major Sport Events and Development Corporation	FS	Yellow	Blue	Blue	Yellow		Blue								N	N			R	R		R	A	A	R	R
26	Thomas Robertson Bursary Fund	FS	Green			Green																					
27	Free State Tourism Authority	FS	Yellow	Blue	Blue	Yellow		Blue								N	N			A	R		R		A	R	R
28	Free State Investment Promotion Agency	FS	Blue		Blue	Yellow		Blue				Blue										Blue					
29	Free State Gambling and Racing Board	FS	Blue		Blue	Purple		Blue																			
30	Free State Liquor Authority	FS	Blue		Blue	Yellow		Blue				Blue															

Legend (audit outcomes)	Financially unqualified with no findings	Disclaimer	Qualified	Adverse	Legend (drivers)	Good	Significant control deficiency	S	Legend (findings)	Addressed	A	Legend (movements)	Reduction	↑	Unchanged	Legend (root cause)	No significant root cause	A contributing root cause	A major root cause
	Financially unqualified with findings	Audit outstanding	Closed	Finding		Causing concern	Intervention required			New	N		Increase	↓					

## ANNEXURE 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, audit committees and root causes

Unauthorised, irregular, and fruitless and wasteful expenditure incurred						Procurement and contract management						Drivers of internal control												Human resource management					Information technology management			Root causes				
Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Limitation on planned scope of audit of awards	Awards to employees	Awards to close family members of employees	Uncompetitive or unfair procurement processes	Inadequate contract management	Internal control deficiencies	Leadership					Financial and performance management				Governance			Management of leave, overtime and suspensions	Acting positions	Performance management	Appointment processes	Management of vacancies	HR planning and organisation	IT governance	Security management	User access management	IT service management	HR capacity & productivity	Attention to key controls	Effectiveness of assurance providers
Movement	Amount R	Movement	Amount R	Movement	Amount R							Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management													
		↓	R4.5 m	↑	R0.004 m				R		A	S					S				S	S	A		A		A	A								
		↑	R0.6 m	↓	R0.1 m				R			S	S		S	S			S	S	S		S	S												

Legend (audit outcomes)	Financially unqualified with no findings	Disclaimer	Qualified	Adverse
	Financially unqualified with findings	Audit outstanding	Closed	Finding

Legend (drivers)	Good	Significant control deficiency	S
	Causing concern	Intervention required	

Legend (findings)	Addressed	A
	New	N Repeat R

Legend (movements)	Reduction	↑	Unchanged
	Increase	↓	

Legend (root cause)	No significant root cause	
	A contributing root cause	A major root cause



