

Golden Gate



2010-11

GENERAL REPORT

on the provincial audit outcomes of the **FREE STATE**



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence



100 YEARS
1911-2011



GENERAL REPORT
ON THE OUTCOMES OF THE
FREE STATE PROVINCIAL GOVERNMENT
2010-11

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This flagship publication of my office is a tool that gives simple and handy insights. These insights empower users to focus on those issues that will lead to improved audit outcomes. This publication also captures the commitments that leaders have made to address audit outcomes.

Auditor-General: Terence Nombembe

Our reputation promise/mission

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



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SECTION 1: FOREWORD

It is a great pleasure to present to the Free State Legislature the results of the audit outcomes of provincial departments, including the legislature, provincial public entities and trading entities for the financial year ended 31 March 2011. The purpose of this report is to provide an overview of the audit outcomes of departments and public entities. This empowers those charged with governance and oversight, including the executive, the legislature and audit committees, to work together towards achieving clean audit outcomes.

Two departments received clean audit opinions in the Free State, four departments received unqualified audit reports, while qualified audit reports were issued to seven departments. Five of the public entities received clean audits, another two entities received unqualified audit reports, and qualified audit reports were issued to two entities. Overall, 67% of the departments and the entities received unqualified audit opinions in the Free State for the 2010-11 year. However, neither the Department of Health nor the Department of Education, which received a big portion of the provincial budget, achieved clean audits.

A noticeable improvement in the province was the Department of the Premier joining the Department of the Provincial Treasury in receiving clean audits, setting an example in the province. Another achievement was the elimination of disclaimers of opinion at both the Department of Health and the Department of Police, Roads and Transport, due to leadership interventions. Only one entity, the Free State Tourism Authority, managed to improve its outcomes this year. Notwithstanding these improvements, both the Department of Agriculture and the Department of Economic Development, Tourism and Environmental Affairs regressed in their audit outcomes, mainly because basic key controls such as monthly asset counts and reconciliations had not been implemented. Overall, a lack of leadership attention to address non-compliance findings, especially relating to irregular expenditure, the findings on reporting of service delivery and the lack of monitoring of action plans also contributed to the outcomes. Inadequate internal audit focus and audit committee attention weakened the benefits of the governance structures in the province. The unavailability of the members of the executive council (MECs) to engage with the Auditor-General of South Africa (AGSA) resulted in a lack of leadership attention to internal control weaknesses.

During the interactions with the premier, commitments were received to immediately have workshops to discuss the information technology (IT) and supply chain management (SCM) issues in the province. The workshops will be used to compile action plans, which will be monitored by the executive leadership. The MECs committed to be available on a quarterly basis to meet with the AGSA and the audit committees to ensure continuous dialogue on the obstacles in the path to clean audits. The leadership will also make sure that adequate resources are available and that reliable financial and service delivery reporting is done on a monthly basis. The credibility of information is to be enhanced by internal audit verification and audit committee validation. Audit committees will be encouraged to interact regularly with the legislature and MECs to assure them on a quarterly basis regarding all in-year monitoring reports. The provincial treasury is playing a coordinating role with enabling national role players, with emphasis on SCM, service delivery reporting, human resource (HR) management and IT management. However, unless the recommendations and guidance provided by the provincial treasury are implemented, the audit outcomes will remain the same.

The executive authority and oversight structures have committed to monitor and evaluate the status of key controls and commitments each quarter in order to achieve sustainable clean audit outcomes. At a minimum, this will require a commitment by the executive authority of an hour once every 90 days. This can then be followed by the sharing of the consolidated picture with the premier and the legislature. It will require the continued enhancement of the oversight model, which will include effective coordination between the public accounts committee (PAC) and portfolio committees. If these governance and oversight structures work collectively in monitoring internal controls on a quarterly basis, it will place provincial governance on a higher level and will contribute greatly to sustainable, positive outcomes.

As part of its contribution towards clean administration, the leadership of the AGSA will continue to enhance its visibility and thereby provide proactive insights on the root causes of the status of internal controls. These engagements will also include timely feedback and inputs on the adequacy of the guidance provided by coordinating role players, such as the provincial treasury.

In this centenary year of the AGSA, 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 of the province. It is particularly pleasing to note that both audit groups have understood that in addition to producing audit opinions and findings, our purpose is to provide useful and relevant information and insights that promote oversight and accountability in government, thereby strengthening public confidence in our democracy.

Auditor-General

Auditor-General
Pretoria
November 2011



SECTION 2: AUDIT OUTCOMES

The Free State Provincial Government comprises 13 provincial departments (including the legislature), the revenue fund, and 16 public entities. This report presents the 2010-11 audit outcomes of 13 departments and 14 public entities, of which the audits were performed by the AGSA.

2.1 Audit opinions on financial statements

2.1.1 Audit outcomes for the year ended 31 March 2011

The audits of all 13 departments and 14 public entities (2009-10: 29 out of 31) that had submitted financial statements on time, were completed by 31 July 2011, within the legislated time frame of two months from receipt of the financial statements by the AGSA. The audits of the provincial revenue fund and two public entities (Free State Development Corporation and Free State Political Party Fund) had not been finalised as at 31 August 2011, the cut-off date set by the AGSA for inclusion of audit outcomes in this general report. The Free State Gambling and Racing Board and the Free State Liquor Authority were merged on 10 June 2010 to become a new entity, namely the Free State Gambling and Liquor Authority, which is reported on for the first time during 2010-11. The audit outcomes for the 2010-11 financial year and those of the previous year are presented in table 1 below.

Table 1: Summary of audit outcomes

Audit outcomes	Audits conducted by the AGSA			
	Departments*		Public entities**	
	2010-11	2009-10	2010-11	2009-10
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	2	2***	5	7
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	4	6	7	6
Financially unqualified financial statements	46%	57%	86%	87%
Qualified	7	4	2	2****
Adverse	0	0	0	0
Disclaimer	0	2	0	0
Financially qualified financial statements	54%	43%	14%	13%
Total number of audits reported on	13	14	14	15
Number of audits not yet finalised at 31 August 2011	1	0	2	2
Total number of audits	14	14	16	17
Total number of auditees in which findings arose from the AGSA's other legal reporting responsibilities:				
Predetermined objectives findings only	0	0	0	1
Compliance with laws and regulations findings only	1	2	8	4
Findings on both predetermined objectives and compliance with laws and regulations	10	10	1	2

* Including the legislature and the revenue fund.

** Including trading and other types of entities.

***The results for 2009-10 have been restated to include the Provincial Revenue Fund (financially unqualified opinion with no matters). 2010-11 audit report is outstanding.

****The results for 2009-10 have been restated to include the Universitas Academic Hospital Board (financially qualified opinion with no matters). 2010-11 audit report is outstanding.

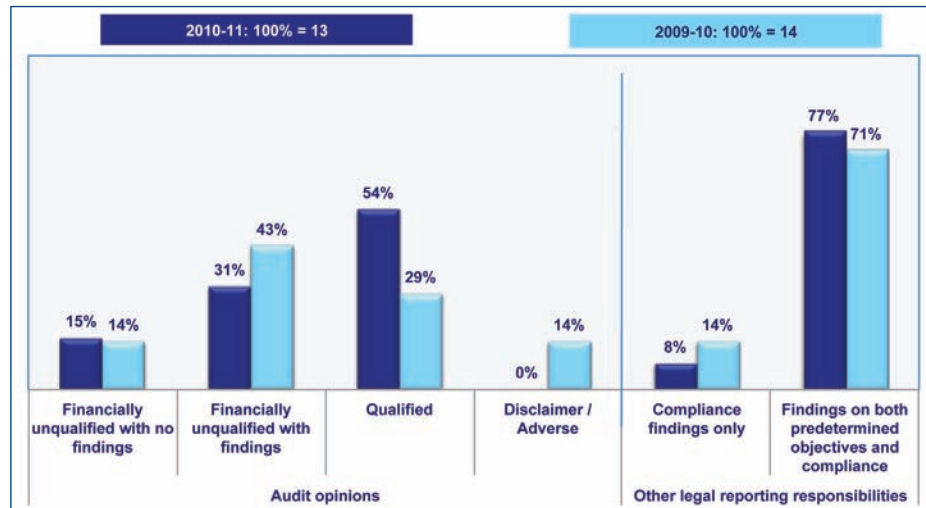
The financial statements of departments and public entities that were financially qualified contained material misstatements that caused them to not fairly present the financial position at 31 March 2011 or the financial results for the year then ended in respect of one or more areas.

Findings arising from other legal reporting responsibilities are as a result of the constitutional mandate to audit and report on the financial statements, performance information as well as compliance (also referred to as 'the three critical pillars of audit outcomes'). Due to the adopted phasing-in approach in expressing an opinion

on predetermined objectives and compliance with laws and regulations, findings on these two critical pillars are included in the audit reports.

Figures 1 to 4 provide additional statistics relating to the three critical pillars of audit outcomes, namely (i) audit opinions on financial statements, (ii) findings on predetermined objectives, and (iii) departments' and public entities' compliance with laws and regulations.

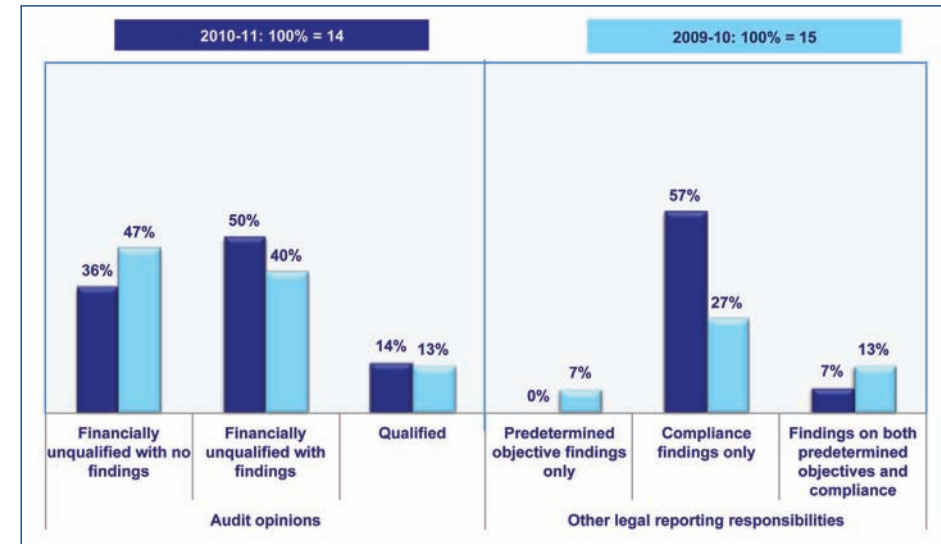
Figure 1: Audit outcomes of departments – current year vs prior year



* In this report, 'with findings' or 'with no findings' refers to findings on predetermined objectives and/or compliance with laws and regulations

The extent to which the audit outcomes of public entities have changed from the previous financial year is depicted in figure 2 below.

Figure 2: Audit outcomes of public entities – current year vs prior year



Figures 3 and 4 depict findings arising from the audit of reporting on predetermined objectives and compliance with laws and regulations for departments and public entities, respectively.



Figure 3: Departments with findings on predetermined objectives and/or compliance with laws and regulations

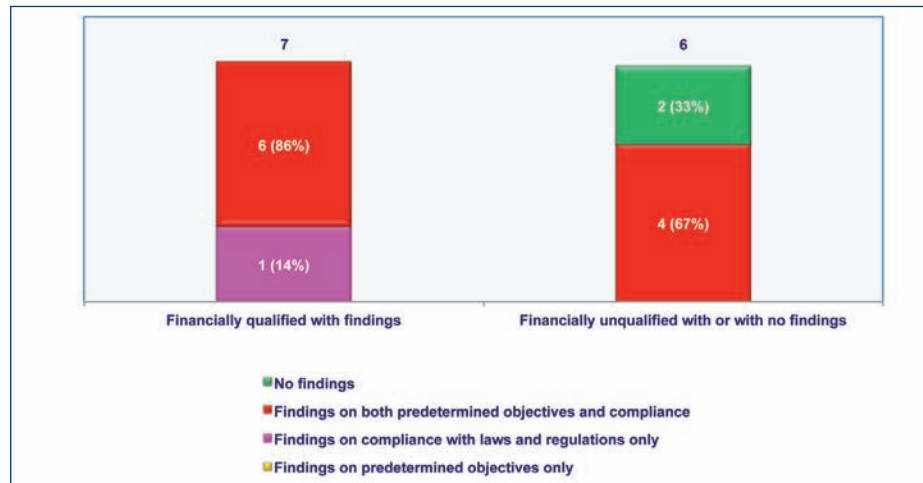
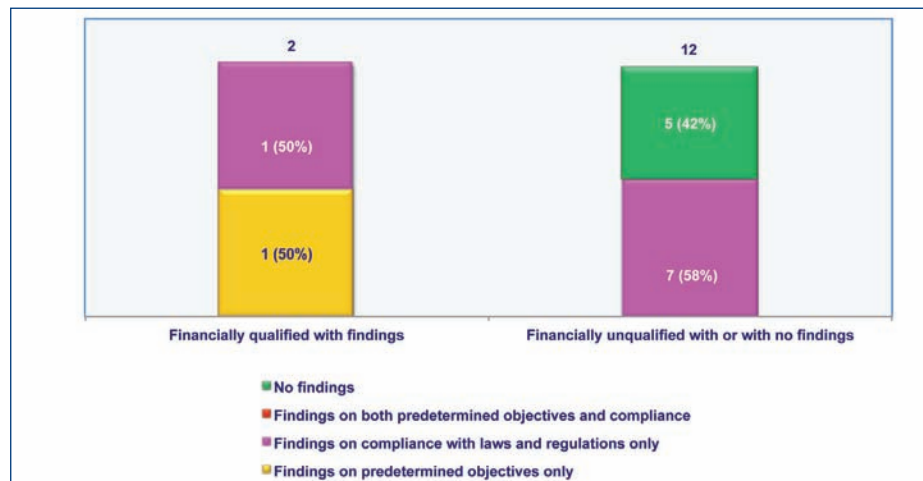


Figure 4: Public entities with findings on predetermined objectives and/or compliance with laws and regulations



Findings on predetermined objectives are analysed in section 2.3, while an overview of auditees' compliance with laws and regulations is presented in section 2.4 of this report.

The newly established Free State Gambling and Liquor Authority had findings on both predetermined objectives and compliance.

Highlights and major trends in audit opinions on the financial statements for the year under review, with comparisons to the previous financial year, are presented below. Annexure 1 to this report lists the auditees together with their 2010-11 audit outcomes and those of the previous financial year.

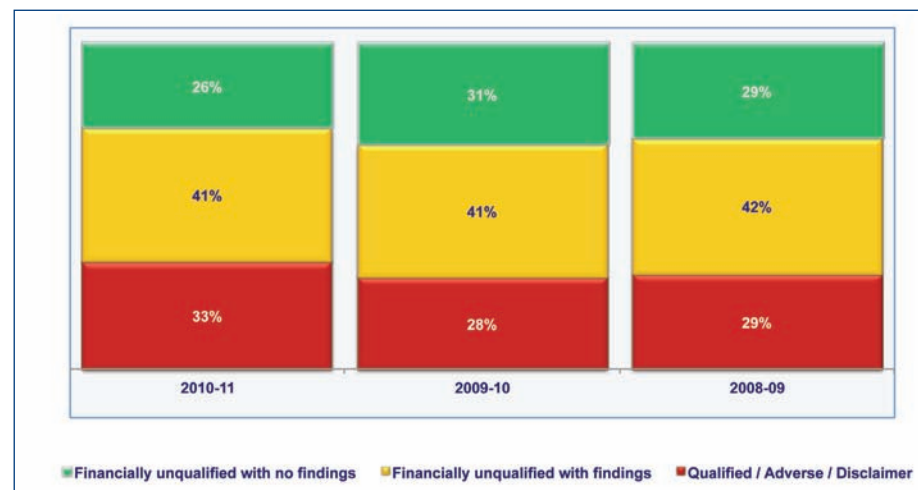
Overall trends	<p>The Department of the Premier and the Free State Provincial Treasury managed to obtain clean audit outcomes, while the Departments of Health and of Police, Roads and Transport improved from disclaimed to qualified audit opinions.</p> <p>Four (31%) departments, (Health, Premier; Human Settlements; as well as Police, Roads and Transport) improved their 2009-10 audit outcomes; two (15%) departments, (Agriculture and Rural Development as well as Economic Development, Tourism and Environmental Affairs) regressed; and seven (54%) departments, remained unchanged.</p> <p>Only the Free State Tourism Authority (7%) improved its audit outcome from qualified to financially unqualified with other matters; three entities (21%) (Free State Fleet Management Trading Entity, Free State Housing Fund and Free State Gambling and Racing Board) regressed; and nine (64%) remained unchanged. The Free State Gambling and Liquor Authority was audited for the first time during 2010-11.</p>
Financially unqualified audit opinions with no findings	Two departments and five public entities obtained financially unqualified audit opinions with no findings on either reporting against predetermined objectives or compliance with laws and regulations.
Notable improvements	<p>During 2010-11, the Department of the Premier became the second department to receive an unqualified audit opinion with no findings.</p> <p>The Departments of Health as well as Police, Roads and Transport improved from disclaimed to qualified audit outcomes.</p> <p>Generally the departments addressed prior year qualification findings on other disclosure notes and expenditure.</p>

Disclaimed, adverse or qualified audit opinions	No disclaimers of audit opinions were issued for departments or public entities during the year under review. The two departments that had disclaimers during 2009-10 received qualified audit opinions for the year under review. Two departments (15%) and one public entity (7%) regressed to qualified audit opinions.
Prior year qualification findings	The six departments qualified in 2009-10 had addressed eight qualification findings, while attracting seven new qualification findings. Fifteen were repeat qualification findings.
Repeatedly qualified auditees	The Department of Public Works has received qualified opinions for the past five years. The Departments of Cooperative Governance and Traditional Affairs (CoGTA), Health as well as Police, Roads and Transport have received qualified opinions for three consecutive years. The Department of Education has remained qualified for the past two years.
Financially unqualified, with findings/with no findings	In the current year, financially unqualified (i.e. with or without findings on predetermined objectives and compliance with laws and regulations) audit outcomes regressed from 21 (72%) to 18 (67%). The Free State Fleet Management Trading Entity and the Free State Housing Fund regressed from financially unqualified without findings to financially unqualified with findings on other matters.
No further progress towards clean administration	Three departments and four public entities had repeat findings on predetermined objectives and/or compliance with laws and regulations, while their financial statements were again financially unqualified. The audit outcomes of these auditees have therefore remained unchanged because they have failed to make progress over the past two years towards clean administration.

2.1.2 Three-year history of audit outcomes for the province

The audit outcomes for the province over the past three years are depicted below.

Figure 5: Three-year audit outcomes for the province



The above assessment provides a combined picture for all levels of audit outcomes

- The graph depicts a regression in clean audits due to the inclusion of the revenue fund results for 2009-10, which have not yet been completed for 2010-11 due to a different legislated deadline.
- Governing departments, i.e. the Free State Provincial Treasury and the Department of the Premier, are leading by example by attaining clean audit opinions.
- Four departments recorded an improvement, two regressed and eight had unchanged audit outcomes compared to the prior year.
- Reporting on predetermined objectives and compliance with laws and regulations still remain the biggest concerns that prevented most of the auditees achieving the prestigious clean audit in 2010-11.
- Auditees with qualified, adverse and disclaimed audit opinions mostly had problems with asset management and compliance with the reporting requirements pertaining to unauthorised, irregular as well as fruitless and wasteful expenditure.
- Two public entities regressed from unqualified without findings to unqualified with findings on predetermined objectives and/or compliance with laws and regulations.

Financially unqualified with no findings

- Although the percentages are reducing compared to previous years, the auditees with financially unqualified opinions with no findings were constantly getting the same audit outcomes.
- The leadership took decisive action to address matters and provided proactive and effective oversight.
- Strong finance teams with the appropriate skills were appointed at these auditees.
- The leadership implemented and monitored proposed interventions, such as key controls, and followed up action plans.



Financially unqualified with findings

- No proper record keeping existed to support the reported predetermined objectives.
- The leadership did not implement internal controls to prevent, detect and monitor non-compliance with laws and regulations.
- Proper systems were not implemented to collate and report on predetermined objectives.

Disclaimed, adverse or qualified audit opinions

- There was a lack of effective leadership in taking decisive action.
- There was a lack of skilled personnel in key positions and overreliance on consultants.
- Key positions were vacant.
- Management continuity was lacking.
- Systems were inadequate and there were breakdowns in controls.
- There was a lack of effective internal audit units.
- Auditees did not have the technical expertise to review the financial statements prepared by consultants before submission for auditing.
- No transfer of skills to finance staff took place.
- The complexity of Standards of Generally Recognised Accounting Practice (GRAP) was a challenge for public entities.
- Despite the use of consultants to prepare the financial statements, the submissions still contained material misstatements that required corrections.
- Officials did not implement skills introduced during SCM training interventions.
- There were insufficient supervision and monitoring of compliance with laws and regulations and other internal control matters.
- Accounting officers and authorities did not take action against senior management members who failed to perform.

The history of audit outcomes of those auditees whose financial statements received qualified audit opinions for the year under review is included in table 4.

2.1.3 Improvements and regressions in audit opinions on financial statements for the year under review

Movements in the audit outcomes of departments from the 2009-10 financial year are depicted in the table below.

Table 2: Movements in audit outcomes of departments

Movements in audit outcomes over 2009-10 - Departments						
Audit opinion	Improvement	Unchanged	Regressed	New departments	Total reported on	Prior year opinion on audits outstanding 2010-11
Financially unqualified with no findings	↑ 1	1			2	1
Financially unqualified with findings	↑ 1	3			4	
Qualified	↑ 2	3	↓ 2		7	
Disclaimer/ Adverse					0	
Total	4	7	2	0	13	1

Movements in the audit outcomes of public entities from the 2009-10 financial year are depicted in the table below.

Table 3: Movements in audit outcomes of public entities

Movements in audit outcomes over 2009-10 - Public entities						
Audit opinion	Improvement	Unchanged	Regressed	New departments	Total reported on	Prior year opinion on audits outstanding 2010-11
Financially unqualified with no findings		5			5	
Financially unqualified with findings	↑ 1	4	↓ 2		7	1
Qualified			↓ 1	1	2	1
Disclaimer/Adverse					0	
Total	1	9	3	1	14	2

The above tables assess movements in the audit outcomes of departments and public entities between 2009-10 and 2010-11, with upward- and downward-facing arrows depicting changes. The green upward-facing arrows show the number of auditees that improved under each type of audit opinion. All the auditees with unchanged audit outcomes are shown in the blocks, with different block colours depicting the severity of the audit outcomes.

2.1.4 History of audit outcomes of auditees who obtained financially modified audit opinions for the year ended 31 March 2011

The history of audit outcomes of those auditees whose financial statements were modified (disclaimed, adverse or qualified) for the year under review is depicted in the table below.

Table 4: History of audit outcomes of auditees with modified audit opinions

Auditee	Audit outcomes				
	2010-11	2009-10	2008-09	2007-08	2006-07
Agriculture and Rural Development	Qualified	Financially unqualified with findings	Qualified	Qualified	Qualified
Cooperative Governance and Traditional Affairs (CoGTA)	Qualified	Qualified	Qualified	Financially unqualified with findings	Qualified
Education	Qualified	Qualified	Financially unqualified with findings	Financially unqualified with findings	Qualified
Health	Qualified	Disclaimer	Qualified	Qualified	Qualified
Police, Roads and Transport	Qualified	Disclaimer	Qualified	Financially unqualified with findings	Financially unqualified with findings
Public Works	Qualified	Qualified	Qualified	Qualified	Qualified
Economic Development, Tourism and Environmental Affairs	Qualified	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
Gambling and Racing Board	Qualified	Financially unqualified with findings	Financially unqualified with findings	Qualified	Financially unqualified with findings
Gambling and Liquor Authority	Qualified	Not established	Not established	Not established	Not established

It is disturbing that the leadership allowed departments and entities to deteriorate from unqualified audit opinions to qualified audit opinions. Effective leadership in promoting good governance needs to be strengthened by prioritising supervisory responsibilities, having the right people in the right positions, as well as implementing policies, procedures and action plans. Management and staff do not prioritise daily or monthly record keeping, processing and reconciling; compliance with laws and regulations; and regular reporting to the leadership. In order to improve audit outcomes, the leadership and management will have to act decisively to implement corrective measures, address non-performance, and perform regular monitoring and reviewing.



The auditees mentioned in the table above did not improve to financially unqualified opinions for the following reasons:

- The leadership did not address the following internal control deficiencies:
 - Regular (daily, weekly, monthly and quarterly) reconciliations were not performed.
 - No monthly asset counts and reconciliations were performed, resulting in fixed asset registers not being updated timeously.
 - Financial statements were not prepared timeously, i.e. monthly.
 - The leadership did not monitor these internal controls timeously.
- The following root causes relate to specific departments:
 - The asset unit at Agriculture and Rural Development was not staffed with skilled personnel. The leadership did not ensure that monthly asset counts were performed and that the results were reconciled to the fixed asset register. Agricultural projects were not adequately monitored and controlled.
 - CoGTA did not take proactive steps to ensure that assets were counted monthly and did not commit to effectively improve the control environment. The asset count and the reconciliation of the fixed asset register were the only matters that CoGTA needed to resolve to achieve an unqualified opinion, but these were not addressed by the leadership.
 - The leadership of Education underestimated the shortcomings regarding assets and could not rectify the shortcomings within the financial year.
 - Public Works remained qualified on immovable assets as well receivables for departmental revenue. Due to ownership issues and volume, this would require a long-term solution as the department is the custodian of all immovable assets in the Free State Province.
 - There were changes in key management positions at Economic Development, Tourism and Environmental Affairs without proper handover, especially on capital projects, which then affected major components such as assets. The MEC and the head of department (HoD) were new. Key controls were discussed with different members of management, which made the situation even more unstable as a single person did not oversee the implementation of these fundamental controls.
 - The merger of the Free State Gambling and Racing Board and the Free State Liquor Authority into the Free State Gambling and Liquor Authority is the main reason for the regression to qualified audit opinions for both the Free State Gambling and Racing Board and the Free State Gambling and Liquor

Authority. The leadership of the new entity was appointed late during the financial year and no effective guidance or direction was given to staff.

- The reasons why auditees improved from disclaimed to qualified opinions are the following:
 - There was an improvement in the leadership at Health due to the appointment of a new MEC and a qualified HoD and chief financial officer (CFO); regular meetings were held with the AGSA audit team; and the action plan was implemented and monitored.
 - At Police, Roads and Transport, the leadership implemented and monitored key controls.

2.1.5 Timeliness of the submission and auditing of financial statements

By 31 May 2011, all 13 (100%) of the departments (2009-10: 13) had submitted their financial statements for auditing. The number for public entities remained the same as in 2009-10 at 14, but the percentage increased from 82% to 88%. Three auditees were still not able to meet the legislative requirement of timely submission.

Table 5 below provides details of audits that had not been finalised by the cut-off date of this general report.

Table 5: Audits not finalised by the general report cut-off date

Auditee	Latest financial year audit finalised	Reason for audit outstanding or not finalised at general report cut-off date		Actual/expected date of finalisation
		Financial statements not yet received	Late receipt of financial statements	
Free State Development Corporation	2008-09			2009-10: 12 October 2011 2010-11: 15 February 2012
Political Party Trust Fund	Established 2007-08. Financial statements for 2008-09 were received on 5 September 2011. Financial statements for 2009-10 and 2010-11 are still outstanding.			Unknown

Auditee	Latest financial year audit finalised	Reason for audit outstanding or not finalised at general report cut-off date		Actual/expected date of finalisation
		Financial statements not yet received	Late receipt of financial statements	
Free State Provincial Revenue Fund	2009-10, financial statements for 2010-11 were received on 23 August 2011			30-Sep-11

These outcomes are not included in trend analyses or comparisons presented in this general report.

The Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) requires the submission of the financial statements of the provincial revenue fund within five months after year-end. The audit report was issued on 30 September 2011.

2.1.6 Outcomes of audits finalised after the cut-off date of the general report

From 31 August 2010 to the date of this report, the 2009-10 audits of the provincial revenue fund and one public entity were finalised. Their outcomes are reflected in the table below.

Table 6: Outcomes of audits finalised after the general report cut-off date

Auditee	Audit opinion 2010-11	Audit opinion 2009-10
Free State Provincial Revenue Fund	Financially unqualified with no findings	Financially unqualified with no findings
Universitas Academic Hospital Board	Dormant	Qualified

2.2 Findings on financial management, including defects in financial statements

Matters relating to financial management presented in this analysis include the progress (or lack thereof) by departments and entities in addressing prior year financial statement qualification findings, material errors and omissions in the financial statements submitted for auditing, material losses incurred by auditees,

underspending by auditees against their votes or conditional grants, and auditees facing financial sustainability concerns.

2.2.1 Auditees' progress in addressing prior year financial statement qualifications

Of the audits completed by 31 July 2011, five of the seven (71%) departments had not addressed all of their 2009-10 qualification findings in order for their 2010-11 financial statements to be financially unqualified. No public entities had repeat qualifications from 2009-10.

Figures 6 and 7 depict those financial statement areas attracting qualification findings at departments and public entities, respectively. Corrective action taken by management to address prior year qualification findings is outlined in section 2.2.2, while details of current year qualifications are provided in this section.

Figure 6: Transversal financial statement qualification areas – departments

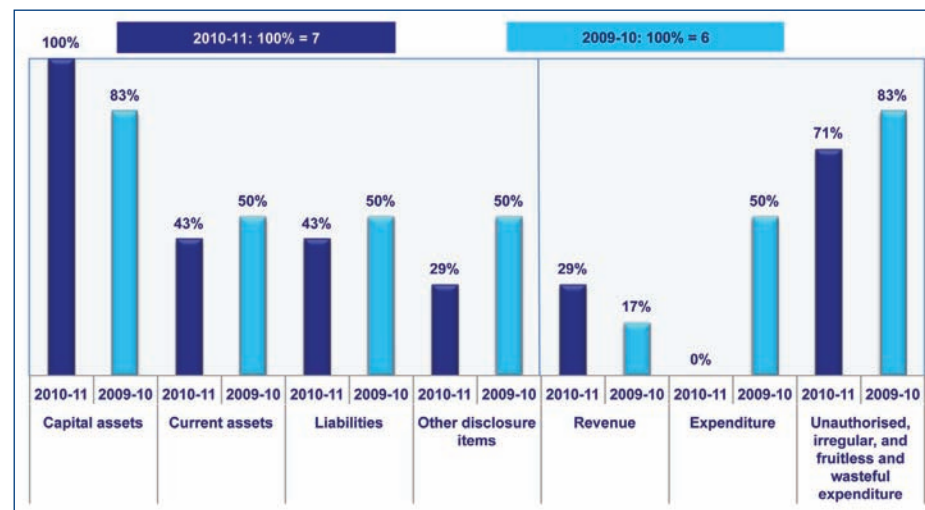
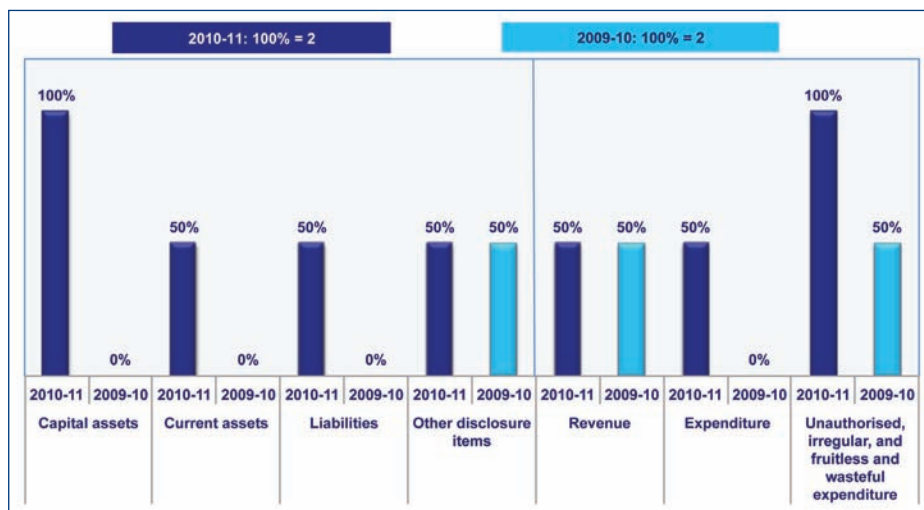




Figure 7: Transversal financial statement qualification areas – public entities



Tables 7 and 8 depict the movements in the financial statement qualification areas of those departments and public entities that obtained disclaimed, adverse or qualified audit reports.

Table 7: Movements in financial statement qualification findings at departments

Department	Audit opinion 2010-11	Movement in addressing 2009-10 financial statement qualification findings						
		Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	UIF*
Agriculture and Rural Development	Qualified	New						New
Cooperative Governance and Traditional Affairs	Qualified	Repeat**						Addressed
Economic Development, Tourism and Environmental Affairs	Qualified	New			New			New
Education	Qualified	Repeat						

Department	Audit opinion 2010-11	Movement in addressing 2009-10 financial statement qualification findings						
		Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	UIF*
Health	Qualified	Repeat**	Repeat**	Repeat**	Addressed	New	Addressed	Repeat**
Police, Roads and Transport	Qualified	Repeat**	Repeat**	Repeat**	Repeat	Addressed	Addressed	Repeat**
Public Works	Qualified	Repeat**	Repeat**	Repeat	Addressed	New		Repeat**

* Unauthorised, irregular as well as fruitless and wasteful expenditure

** Denotes area also qualified in years prior to 2009-10; i.e. qualification not addressed for three years or longer

Table 8: Movements in financial statement qualification findings at public entities

Public entity	Audit opinion 2010-11	Movement in addressing 2009-10 financial statement qualification findings						
		Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	UIF*
Gambling and Racing Board	Qualified	New					New	New
Gambling and Liquor Authority	Qualified	New		New	New	New		New

* Unauthorised, irregular, and fruitless and wasteful expenditure

2.2.2 Outline of corrective action taken by management to address the 2009-10 qualification findings

As can be seen in tables 7 and 8, limited progress has been made in addressing qualification areas. The initiatives taken by auditees that were able to successfully address the 2009-10 audit findings with a view to highlighting good practices are indicated below. These good practices should be replicated by auditees that still need to address qualification areas in the current audit reports. Improvements in audit outcomes can be attributed to corrective action taken by the leadership and management, which included the following specific actions:

- Both the leadership and staff made a concerted effort to ensure the implementation of action plans to address prior year audit findings and to avoid a repetition thereof.

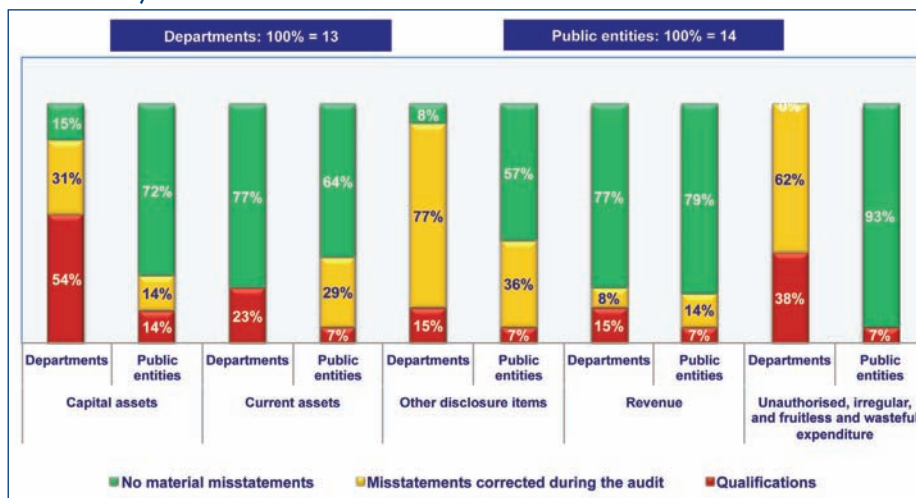
- The leadership became increasingly involved to resolve deficiencies identified during the audit.
- Key controls were implemented and monitored.
- Prior year audit findings and action plans were followed up to address prior qualification findings.
- Management improved its record keeping and records management.
- Reconciliations, supporting schedules and information were prepared for all balances on the balance sheet.
- Internal controls were implemented to avoid repeat findings.
- The AGSA audit teams worked with management to resolve technical qualifications.
- Departments corrected material misstatements during the audit.

2.2.3 Analysis of areas in financial statements containing material misstatements

Annexure 1 to this report lists the audit outcomes of all auditees in the province, together with their financial statement qualification areas.

As in prior years, departments and public entities submitted, for audit purposes, financial statements that contained material misstatements. For the year under review, the areas in financial statements that were misstated are depicted in figure 8 below.

Figure 8: Areas of material misstatement in financial statements (corrected and uncorrected)



The above assessment highlights departments and public entities that had material misstatements which led to qualified audit reports. The picture shows clearly that capital assets and unauthorised, irregular as well as fruitless and wasteful expenditure were the main causes for concern at most auditees. In line with the matters raised under internal controls, the graph depicts areas that must be addressed by management and the leadership to improve audit outcomes. Uncorrected material misstatements (defects) in financial statements attracted modified audit opinions, which are outlined in section 2.2.4, while the incidence of material misstatements is analysed in section 2.2.5 of this report.

2.2.4 Defects in current year financial statements of departments and public entities resulting in disclaimed, adverse or qualified audit opinions

Some auditees were unable to correct all of the identified material misstatements in their financial statements. Below is a summary of the areas that resulted in financial statements receiving disclaimed, adverse or qualified audit opinions, or not fairly presenting the financial position as at 31 March 2011 or the financial results for the year then ended.



Capital assets

Seven departments (100%)	Addressed = 0	Repeat = 5	New = 2
Two entities (100%)	Addressed = 0	Repeat = 0	New = 2

Capital assets principally consist of property, plant and equipment. Common matters attracting qualifications included the following internal control deficiencies that the leadership did not address:

- Incomplete capital asset records, i.e. assets not recorded in the asset register and accounting records.
- Assets recorded in the accounting records, but could not be physically verified.
- Assets not identifiable for physical verification purposes, i.e. assets not bar-coded with a unique asset number; asset register of Public Works did not have correct addresses or erven numbers where the land and buildings were located.
- Poor record management to ensure the availability of documentation to support values disclosed.
- Assets not accounted for in accordance with Standards of GRAP at public entities where useful lives and residual values were not reviewed annually in accordance with GRAP 17.
- Asset counts and reconciliations not performed monthly to identify missing assets, assets not recorded in the asset register, and redundant assets.

Current assets

Three departments (43%)	Addressed = 0	Repeat = 3	New = 0
One entity (50%)	Addressed = 0	Repeat = 0	New = 1

Current assets principally consist of account receivables, prepayments and advances as well as cash and cash equivalents. Common matters attracting qualifications included the following internal control deficiencies that the leadership did not address:

- Poor record management and the non-availability of supporting documentation.
- The Department of Health did not perform debtors' confirmations for patient fees due to the unavailability of complete records.

- Provision for doubtful debts not adequately provided for in the financial statements.

Liabilities

Three departments (43%)	Addressed = 0	Repeat = 3	New = 0
One entity (50%)	Addressed = 0	Repeat = 0	New = 1

Liabilities principally consist of account payables, provisions and accruals. Common matters attracting qualifications included the following internal control deficiencies that the leadership did not address:

- Poor record management and the non-availability of supporting documentation.
- Departments had repeat findings due to a lack of regular review of accounting reports by management.

Other disclosure items

Two departments (29%)	Addressed = 0	Repeat = 1	New = 1
One entity (50%)	Addressed = 0	Repeat = 0	New = 1

Other disclosure items principally consist of commitments, related party transactions and contingent liabilities. Common matters attracting qualifications included the following internal control deficiencies that the leadership did not address:

- Sufficient and appropriate supporting documentation not available to confirm the valuation of commitments at Police, Roads and Transport as well as Economic Development, Tourism and Environmental Affairs.
- Lease agreements could not be provided by the Free State Gambling and Liquor Authority to substantiate the lease commitments disclosed in the financial statements.
- Sufficient appropriate audit evidence not available to substantiate related party transactions relating to board fees, allowances of non-executive management members, and liquor revenue collected.
- The management of the Free State Gambling and Liquor Authority did not reconcile the related party transactions relating to payroll records to the financial statements.

- Commitments not disclosed in the financial statements in terms of the departmental financial reporting framework.
- Account receivables, account payables and assets not disclosed in the financial statements in accordance with the departmental financial reporting framework.

Revenue

Two departments (29%)	Addressed = 0	Repeat = 0	New = 2
One entity (50%)	Addressed = 0	Repeat = 0	New = 1

Revenue principally consists of voted funds, grants and levies. Common matters attracting qualifications included the following internal control deficiencies that the leadership did not address:

- Sufficient appropriate supporting documentation not available to confirm transactions relating to revenue.
- Patient fee revenue at the Department of Health incomplete.
- As the Department of Public Works did not have rental contracts, not all rental revenue was recorded in the financial statements.

Expenditure

One entity (50%)	Addressed = 0	Repeat = 0	New = 1
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Expenditure principally consists of transfer payments, employee cost as well as goods and services. Common matters attracting qualifications included the following internal control deficiencies that the leadership did not address:

- The management of the Free State Gambling and Racing Board was not able to provide sufficient appropriate audit evidence to support journal entries to reclassify finance lease expenditure.

Unauthorised, irregular as well as fruitless and wasteful expenditure

Five departments (71%)	Addressed = 0	Repeat = 3	New = 2
Two entity (100%)	Addressed = 0	Repeat = 0	New = 2

The leadership's lack of preventive or detective controls gave rise to the following common matters attracting qualifications:

- Inability to verify the accuracy and completeness of amounts disclosed in the financial statements.
- Goods and services paid for relating to agricultural projects not delivered or rendered and/or additional payments for services rendered.
- Sufficient appropriate supporting evidence that the department had complied with the SCM requirements could not be submitted.
- Due to a lack of adequate control processes relating to the identification, reporting and recording of irregular expenditure, the value for current year irregular expenditure was understated.
- Due to a lack of adequate control processes relating to the identification, reporting and recording of fruitless and wasteful expenditure, the current year fruitless and wasteful expenditure was understated.
- Rental of a building not in accordance with the contract.
- Payments for interest on late payments, terminated contracts, claims, re-establishment and escalations.
- Payments to a chief executive officer (CEO) in the absence of an employment contract signed by the MEC.
- Payments exceeding the contract amount.

2.2.5 Material misstatements in the financial statements submitted for auditing

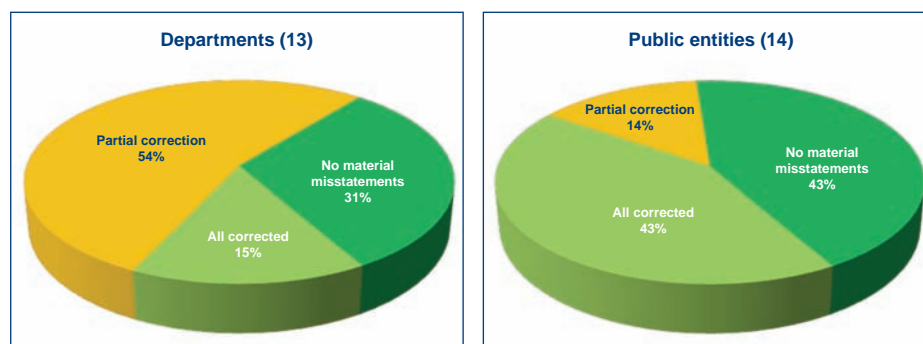
The PFMA directs that departments and public entities must submit, for auditing, annual financial statements that fairly present their state of affairs and their financial position as at the end of the financial year. Financial statements submitted for auditing are therefore required to be free from material misstatements (that is, contain no material errors or omissions).

As in previous financial years, the financial statements submitted for auditing were of a poor quality and had to be materially adjusted during the audit process. Auditees had significant deficiencies in the design and implementation of internal control in respect of financial reporting, which resulted in material corrections to the financial statements during the audit in the case of 11 departments (85%) and eight public entities (57%). The corresponding level of pervasive material misstatements for 2009-10 was 86% for departments and 60% for public entities.



Areas misstated in the financial statements submitted for auditing are listed in section 2.2.3. The figure below indicates the extent of pervasive material misstatements in the financial statements submitted for auditing, some of which were subsequently corrected by management as a result of audit findings. Where material misstatements were not corrected, the financial statements were qualified.

Figure 9: Material misstatements in the financial statements submitted for auditing



Findings per auditee are depicted in annexure 8 to this report.

The following internal control deficiencies failed to prevent or timeously detect material misstatements in the financial statements due to the leadership and management not addressing them:

- The leadership did not prevent, detect and monitor non-compliance with laws and regulations, specifically relating to SCM. This resulted in an increase in irregular expenditure due to the tender process not being followed, delegations of authority not being adhered to, and the required number of quotations not being obtaining.
- The leadership did not appoint competent staff or enhance skills and competencies, resulting in the poor quality of the financial statements submitted for auditing.
- The leadership did not implement regular internal controls, such as daily and monthly processing and reconciling of transactions.
- The leadership did not enforce the preparation of regular financial statements that were supported by reliable information.

- The internal audit unit did not review the financial statements.
- The delayed appointment of cluster or audit committees had a negative impact, as the financial statements were not reviewed by these committees.
- The leadership did not implement action plans to address internal control deficiencies.
- An accurate and complete asset register supported and evidenced by reliable information was not available.

2.2.6 Material losses, impairment of assets and material underspending of votes or conditional grants

The table below details material losses, asset impairments and underspending of the vote or conditional grants as disclosed in the financial statements of departments and public entities for the year ended 31 March 2011.

Table 9: Material losses, asset impairments and underspending

Auditee	Material losses		Material impairment of assets		Material underspending of vote/conditional grants	
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
Departments						
Agriculture and Rural Development						
Public Works						
Police, Roads and Transport						
Free State Legislature						
Sport, Arts, Culture and Recreation						
Economic Development, Tourism and Environmental Affairs						
Education						
Public entities						
Central Medical Trading Account						
Free State Tourism Authority						

Causes of material losses

The main source of material losses at the Department of Agriculture and Rural Development was the theft of computer equipment. The department is still investigating this matter.

Nature of asset impairments

The accounting records for property rental receivables at the Department of Public Works were not reliable. As a result of the limitation imposed by the accounting records for receivables for departmental revenue, the reliability of the estimate for possible impaired receivables amounting to R27,4 million could not be determined.

Material underspending of vote or conditional grant

The material underspending of the vote totalling R16,8 million by Police, Roads and Transport can be attributed to service providers that were not appointed in time to provide training for the victim support programme, service providers appointed for Security Month in February 2011 that were not paid in time, and the cancellation of the building of a police station. Consequently, the department did not achieve its objective to monitor, support and promote a victim empowerment programme at police station level.

Public Works underspent its vote by R35,6 million owing to the implementation of the new IT infrastructure still awaiting for approval, the non-finalisation of the procurement process for heritage assets, national funding for infrastructure projects received late, and unspent additional infrastructure funds as a result of heavy rains. This resulted in infrastructure not being maintained during the year.

The Free State Legislature materially underspent its vote by R3,5 million, mainly due to funds to a political party being withheld. The underspending had no impact on the legislature reaching its objectives as set out in the performance plan.

The underspending of the vote of Sport, Arts, Culture and Recreation (R8,3 million) occurred as a result of delays in procurement caused by an implementing agent, which resulted in the department not achieving its objectives of upgrading and building facilities and libraries.

Economic Development, Tourism and Environmental Affairs underspent its vote by R42,7 million owing to a vacancy rate of 30%. The understaffing resulted in a lack of service delivery on all three programmes.

The National Treasury withheld funds in part from Education due to poor spending on infrastructure budgets. The poor spending resulted from delays with the appointment of contractors by the implementing agent (Public Works). The department could therefore only spend in part, which resulted in the underspending of the conditional grant received. As a consequence, the department did not achieve its objectives of providing electricity and sanitation at the targeted number of schools.

2.2.7 Auditees with concerns regarding funding of operations, financial sustainability or going concern

No concerns regarding the funding of operations or financial sustainability were identified at any of the auditees in the province.

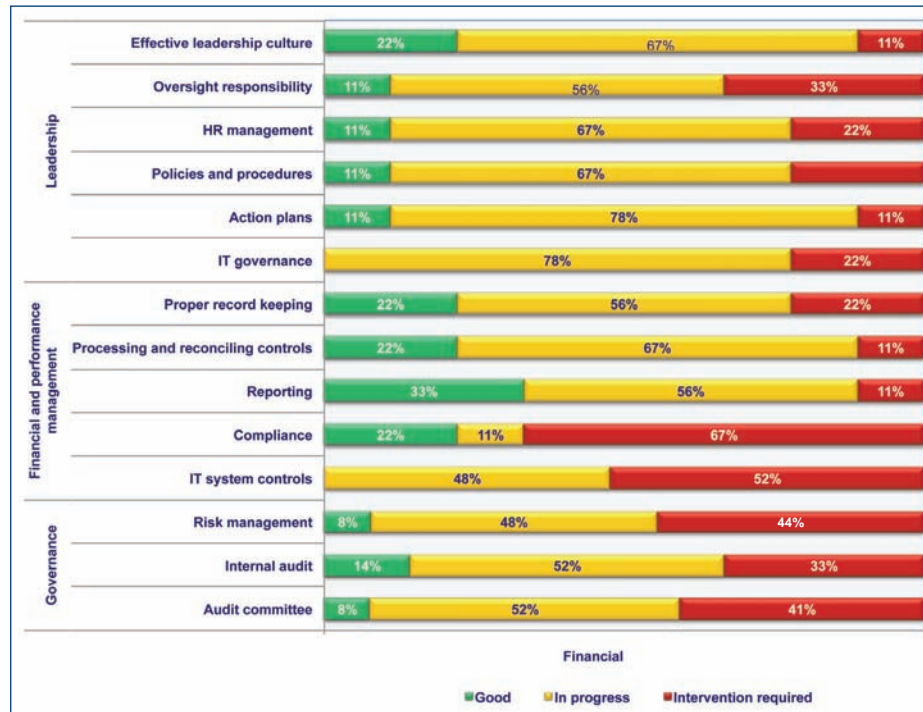
2.2.8 Assessment of drivers of internal control over financial management and reporting

The ability of auditees to produce financially unqualified financial statements is determined by the operation of key drivers of internal control. These drivers are classified under (i) leadership, (ii) financial and performance management, and (iii) governance. Figure 10 provides an assessment, at the time of the 2010-11 audits, of the key drivers of internal control that should be in place at auditees to achieve their financial management and financial reporting objectives and to meet their legislated obligations.

A summarised assessment of the detailed elements of leadership, financial and performance management as well as governance for all departments and public entities at the time of the audit is depicted in the figure. The figure also illustrates the correlation between the outcomes of those auditees receiving disclaimed, adverse or qualified opinions, as evidenced by the low percentages assessed as 'good'.



Figure 10: Assessment of drivers of internal control – financial management and reporting



The above assessment highlights the significant attention required by the leadership, those charged with governance and management to move these auditees, initially to financially unqualified audit reports, and ultimately to clean administration. It assesses the three areas of fundamental key controls at the time of the audit of auditees whose financial statements were disclaimed, adverse or qualified. It is concerning that the leadership has not monitored key controls effectively to ensure improvement at a quicker pace. The lack of leadership intervention is evident by the areas indicated as 'intervention required' in the figure above.

Details on these key drivers are provided in section 3.1.

2.2.9 Best practices, root causes of findings and way forward on financial statement qualifications and financial management

Best practices employed by departments and public entities

- The leadership and management enforced the implementation of the recommendations of internal and external auditors.
- The leadership and management set the right tone at the top to create a control environment conducive to good financial management.
- Auditees used forums to discuss issues that are common among all departments and public entities.
- Auditees were willing to accept findings raised by auditors in a positive light with the aim of resolving the root cause.

Root causes resulting in qualification findings

- The leadership and management inadequately reviewed the financial statements before submitting them for audit purposes.
- Finance departments were not capacitated with personnel possessing the appropriate financial skills; they thus did not understand the financial reporting requirements.
- There were inadequate supervision, review and monitoring of certain daily financial activities.
- Audit committees and internal audit units did not play an effective role in evaluating the controls and processes related to financial reporting.
- There was overreliance on the work of consultants without adequate review or monitoring.

Action plans to address qualification findings

Departments and public entities have action plans to address findings, especially at departments where audit opinions and conclusions were poor.

The effectiveness of action plans is more evident in the number of departments that improved from poor audit outcomes to less severe results, financially unqualified with findings or unqualified with no other findings.

Recommendations and way forward

Leadership

- The leadership should prioritise the development, implementation and monitoring of action plans to address findings in order to avoid a repetition thereof.

Financial and performance management

- Vacancies should be filled with skilled staff.
- Daily and monthly internal controls should be adequately supervised. The work of consultants needs to be monitored to ensure that they do indeed transfer skills and knowledge to finance staff.

Governance

- Audit committees should review the financial statements.
- Internal audit units should perform adequate reviews.
- Proactive risk assessments should be conducted.

2.3 Findings arising from the audit of predetermined objectives

2.3.1 Overview of the AGSA's approach to the audit of predetermined objectives

Departments and public entities are required to report against their predetermined objectives (service delivery) and to submit such annual performance reports for auditing, together with the annual financial statements. The objective of an audit of predetermined objectives is to enable the auditor to conclude whether the reported performance against those predetermined objectives is reliable, accurate and complete, in all material respects, based on predetermined criteria.

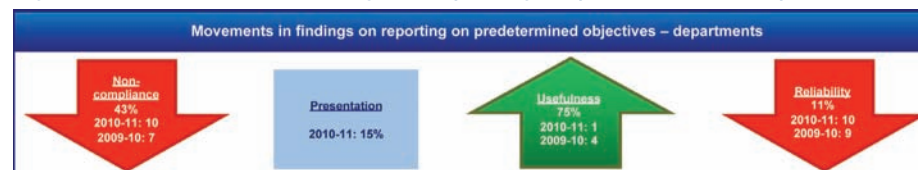
The AGSA has since the 2005-06 financial year gradually been phasing in the audit of predetermined objectives and explaining to leaders within all spheres of government the importance of lending credibility to published service delivery information through the auditing thereof. Since the 2009-10 financial year, a separate audit conclusion, based on the results of the audit of predetermined

objectives, has been included in the management report. However, these conclusions have not yet been elevated to the level of the audit report.

2.3.2 Overall findings arising from the audit of predetermined objectives

Progress, or the lack thereof, by auditees in addressing prior year findings on predetermined objectives is depicted in figure 11 below. A summary of the regulatory requirements or criteria not met by auditees is provided in section 2.3.3.

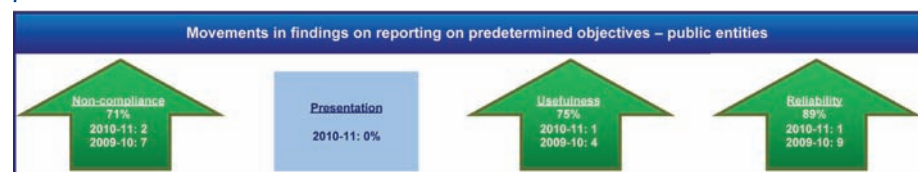
Figure 11: Movements in findings on reporting on predetermined objectives



The Department of the Premier, the Free State Provincial Treasury and CoGTA had no findings on predetermined objectives. The performance reports submitted by these departments were substantiated by supporting evidence and the predetermined targets in their strategic plans were reached.

The extent of findings on usefulness and reliability is depicted in figure 12.

Figure 12: Movements in findings on reporting on predetermined objectives – public entities



The only public entity with challenges on usefulness and reliability was the Free State Gambling and Liquor Authority, as the entity was new. The Free State Gambling and Racing Board and the Free State Liquor Authority merged on 10 June 2010 (three months after year-end) to become the Free State Gambling and Liquor Authority. As the CEO and the CFO were only appointed during January and February 2011, respectively, the leadership did not have sufficient time to ensure



that proper attention was paid to the predetermined objective report. This resulted in the predetermined targets not being consistent and measurable, hence not useful, and the predetermined objective report not being valid, accurate and complete (i.e. not reliable).

2.3.3 Summary of regulatory requirements or criteria not met by auditees as well as trends in findings

Key trends in findings related to predetermined objective reporting are discussed below. The percentages reflect those departments and entities that had findings arising from the audit of performance against predetermined objectives, calculated as a percentage of the total number of auditees audited.

Annual performance report not received in time for audit purposes

Departments and public entities are required to submit their performance report for auditing by 31 May. Predetermined objectives and detailed findings were analysed for 13 departments (2010: 13) and 14 public entities (2010: 12). All departments and public entities submitted the annual performance report in time for audit purposes, except for the Free State Liquor Authority and the Free State Gambling and Racing Board, which did not report on predetermined objectives in the 2010-11 financial year, as they had operated for only three months before merging on 10 June 2010.

Non-compliance

Findings and conclusions on predetermined objectives related to compliance with regulations pertaining to the planning, management, monitoring, reviewing and reporting of performance information. Seven of the 10 departments had repeat findings on the strategic planning and performance management system. The instances of non-compliance related specifically to the fact that the leadership did not ensure that the departments and public entities had and maintained effective, efficient and transparent systems and internal controls regarding performance management as required by the PFMA. Deterioration in compliance, especially at departments, was as a result of inadequate processes and systems relating to performance management systems. The root causes of non-compliance at departments were the insufficient coverage of the audit of predetermined objectives

by the internal audit unit as well as inadequate oversight by those charged with governance.

Usefulness

Findings related to objectives not being measurable against indicators and targets and the absence of clear and logical links between objectives, outcomes, outputs, indicators and performance targets.

The audit focused on the consistency, relevance and measurability of planned and reported performance against predetermined objectives, and departments significantly improved in this area.

The main concern raised in the prior year was that planned and reported indicators were not well defined. The leadership took corrective action in addressing prior year audit findings, as illustrated by the fact that all departments that had findings on usefulness in 2009-10 addressed their findings.

The performance indicators of only the Free State Legislature and the Free State Gambling and Liquor Authority were not measurable because they were not well defined.

Reliability

Findings on reliability included instances where the actual reported performance could not be verified.

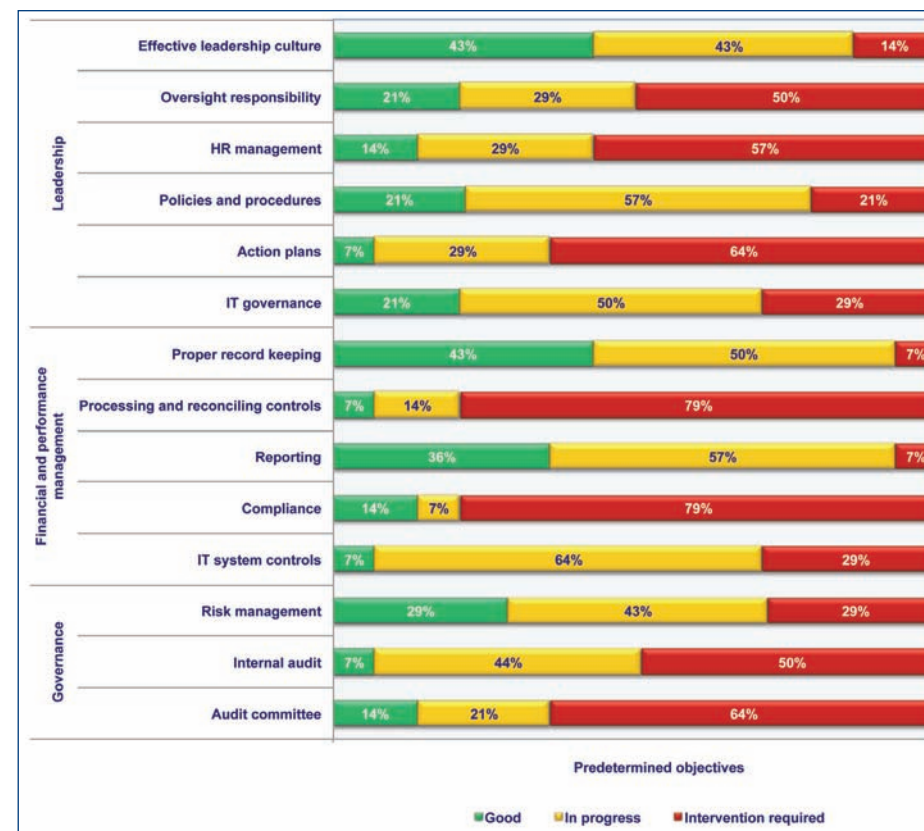
The main challenge for the province is the credibility of service delivery information in the annual report. The reliability of predetermined objectives centres on whether reported measures can be traced back to accurate, complete and consistent source data or documentation. Overall, this is the area where most departments are struggling. Nine of the 10 findings reported in the current year are repeat findings. At 10 of the 13 departments as well as one of the 14 public entities the reported performance information was not reliable, since appropriate evidence was unavailable or insufficient to confirm the validity, accuracy and completeness of reported performance against predetermined objectives. This is a result of a lack

of systems to collate and report on predetermined objectives. The auditees did not have any processes to quality-check the information to ensure the credibility of the information reported on.

2.3.4 Assessment of drivers of internal control over reporting on predetermined objectives

Figure 13 provides an assessment at the time of the audit of the key drivers of internal control that should be in place to ensure that auditees produce performance reports that are useful, reliable and meet the regulatory requirements, including that of presentation.

Figure 13: Assessment of drivers of internal control – reporting on predetermined objectives



The above figure depicts sub-areas of the three drivers of audit outcomes that were identified as major contributors to findings on predetermined objectives at most departments and public entities. It assesses the adequacy of the attention paid by the leadership, those charged with governance and management to the three drivers regarding predetermined objectives. The assessment highlights areas where focused leadership intervention is required in order to improve the audit outcomes of predetermined objectives.



2.3.5 Best practices, root causes of findings and way forward on predetermined objective reporting by auditees

Best practices employed by departments and public entities

- The leadership enforced the implementation of the recommendations of internal and external auditors.
- Predetermined objective reporting was substantiated by supporting evidence.
- Senior management led from the front, especially regarding issues of reporting and proper implementation of action plans.
- Performance management sections were properly capacitated with appropriately skilled personnel.
- Auditees used forums to discuss issues common to all departments and public entities.
- Departments implemented the recommendations made by the AGSA during the workshop on predetermined objectives.

Root causes resulting in the findings on reported performance information

Non-compliance

The leadership did not exercise the following responsibilities to prevent and detect non-compliance with the PFMA and Treasury Regulations pertaining to the planning, management, monitoring, reviewing and reporting of performance information:

- Adequate systems were not implemented to ensure that service delivery objectives were continuously monitored, including controls to ensure that information was checked and that roles and responsibilities were clear.
- There were inadequate reviews of predetermined objective reports and information, including controls to ensure that internal audit plans covered service delivery reporting.
- Appropriate strategic plans and performance management systems were not in place.
- Processes and monitoring systems were insufficient to ensure effective, efficient and transparent predetermined objective reporting on service delivery.

Usefulness of reported performance information

The leadership did not address the following deficiencies concerning the consistency, relevance and measurability of planned and reported performance against predetermined objectives:

- Insufficient guidance was provided to departments and public entities on how to appropriately define indicators, measures and targets.
- Performance management sections were not capacitated with personnel with the appropriate skills and experience.
- Senior management vacancies at the Free State Gambling and Liquor Authority resulted in a lack of monitoring to ensure that predetermined indicators were well defined.

Reliability of reported performance information

The leadership did not take responsibility for the following to address findings regarding the adequacy of evidence submitted for audit purposes to support the reliability of the reported information:

- Ensure that the audit committee reviewed quarterly and annual performance reports.
- Enhance the skills and competencies of the performance managers to ensure that they fully understand performance information processes, including what constitutes appropriate evidence to support reported information.
- Ensure adequate supporting source information to make certain that reported indicators and targets are accurate.
- Timeously review performance indicators and targets reported to ensure that only valid, complete and accurate indicators and targets are reported.
- Ensure that source information for reported targets is complete, accurate and valid.

Transversal root causes

The following root causes are applicable to more than one category of predetermined objectives:

- As individual performance contracts of staff members were not aligned to the strategic plan and the annual plan of departments or entities, staff members were not held responsible for the poor performance of departments and entities.
- Employees responsible for monitoring and reporting on performance information treated it as a secondary role instead of a core function.
- Audit committees and internal audit units did not review quarterly performance reports.
- The leadership did not enforce the implementation of the recommendations of internal and external auditors.
- National and provincial oversight leadership did not provide adequate guidance to the departments and entities in addressing concerns on predetermined objectives.
- The National Treasury did not provide feedback on the correctness of the quarterly reports submitted by departments and entities.
- Performance information was completed for compliance purposes only, i.e. just to ensure that there was a performance report section in the annual report tabled.
- Auditees placed too much emphasis on action plans to improve or maintain financially unqualified reports, and did not focus on predetermined objectives.

Action plans to address findings on predetermined objective reporting

There are action plans to address findings, especially at departments with qualified audit outcomes.

For the action plans to be implemented successfully, it will have to be monitored monthly. Feedback should be provided to the leadership of departments and entities as well as the oversight structures, such as audit committees and portfolio committees.

Recommendations and way forward

- Departments should implement the recommendations that were made by the external auditors during the audit process and deliver on the detailed engagements discussed during the audit steering committee meetings.
- The leadership should implement regular internal controls such as daily, weekly, monthly and quarterly reporting and reviews of predetermined objectives by senior management, internal audit units and audit committees.

- The leadership should adequately respond to the risk of poor service delivery as well as inaccurate or inadequate reporting on predetermined objectives raised by risk management officers.
- Portfolio committees should get quarterly performance information from departments and obtain assurance from the departments on the credibility of their information.
- The leadership should strengthen the quality of HR, financial and IT resources relating to performance management and reporting.
- The leadership should intervene and make sure that findings are appropriately addressed, especially those that relate to systems and processes.

2.4 Findings on compliance with laws and regulations

2.4.1 Overview of the AGSA's approach to the audit of compliance with laws and regulations by auditees

As part of the annual audit of financial statements, the AGSA audits and reports on compliance with laws and regulations by auditees. Broadly, such laws and regulations set out:

- the activities auditees are charged with carrying out for the citizens
- any limits or restrictions on such activities
- the overall objectives to be achieved
- how due process rights of individual citizens are protected.

Compliance refers to adherence by auditees to the laws and regulations to which they are subject. Conversely, non-compliance refers to acts of omission or commission by auditees, either intentional or unintentional, which are contrary to such laws and regulations.

Details of identified instances of material non-compliance are included in the audit reports. The AGSA specifically focused on legislative requirements relating to the following areas for the financial year ended 31 March 2011:

- Strategic planning and performance management
- Annual financial statements, performance report and annual report
- Audit committees

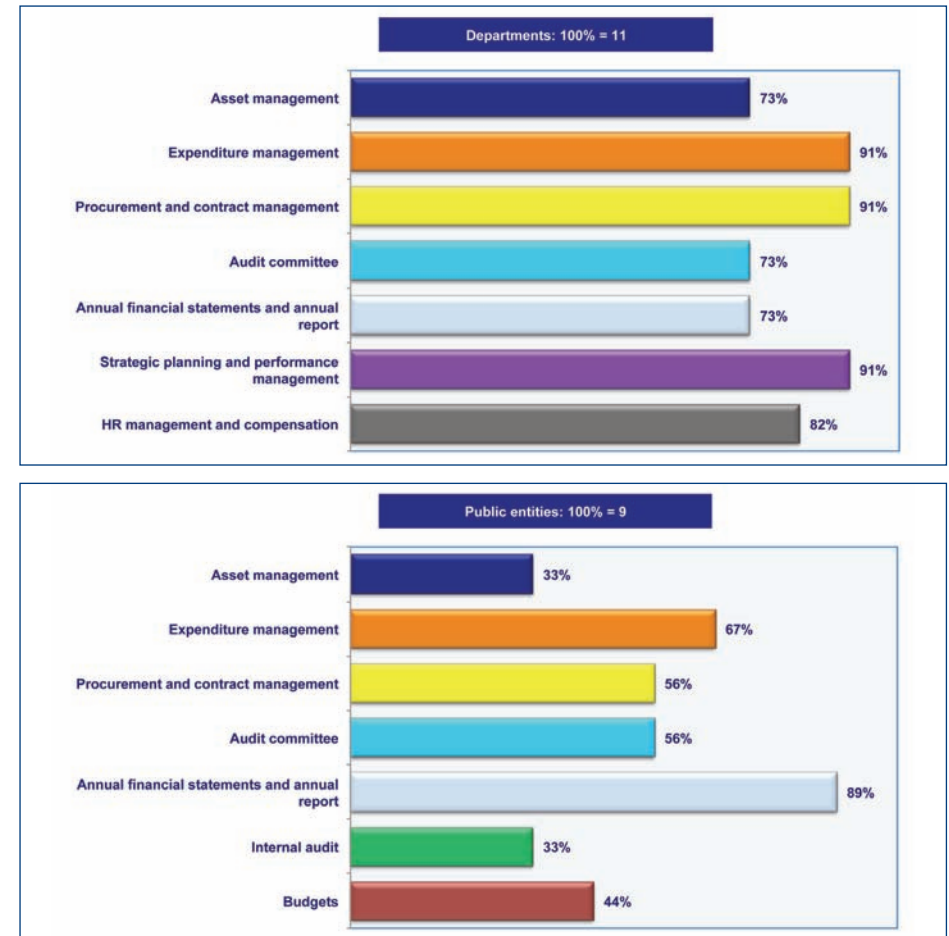


- Internal audit
- Procurement and contract management
- HR management and compensation
- Expenditure management
- Budgets and budgetary processes
- Transfer of funds and conditional grants
- Revenue management
- Asset management
- Financial misconduct

2.4.2 Transversal findings on compliance with laws and regulations

The figure below depicts identified areas of material non-compliance that were most prevalent at departments and public entities.

Figure 14: Summary of findings arising from the audit of compliance with laws and regulations



Common non-compliance findings relating to the AGSA's focus areas are summarised below. Annexure 2 to this report lists all the auditees where non-compliance in this regard was identified.

Table 10: Common non-compliance findings relating to the AGSA's focus areas

Focus area	Summary of common findings	Departments	Public entities
Prevalent non-compliance areas: All auditees			
Asset management	Proper control systems not implemented for safeguarding and maintenance of assets	73%	22%
	Accounting authority did not exercise utmost care to ensure reasonable protection and safeguarding of assets and records	9%	11%
Expenditure management	Expenditure incurred without approval of a delegated official	9%	11%
	Fruitless and wasteful expenditure not prevented	64%	44%
	Irregular expenditure not prevented	82%	56%
	Payments to creditors not settled within 30 days from receipt of an invoice	55%	33%
	Fruitless and wasteful expenditure not detected	36%	11%
Procurement and contract management	Competitive bids not invited - no deviation approved	73%	44%
	Inadequate controls to ensure interest is declared	73%	56%
	Three written quotations not invited - no deviation approved	55%	44%
Audit committees	No audit committee in place	36%	33%
	No review of compliance with legal and regulatory provisions	9%	22%
	No review of effectiveness of internal control systems	18%	22%
	No review of risk areas of institution's operations to be covered in scope of internal and external audits	9%	11%
Annual financial statements and annual report	Submitted AFS not prepared in accordance with prescribed generally recognized accounting practices	73%	89%
Strategic planning and performance management	Lack of effective, efficient and transparent systems and internal controls	91%	22%
HR management and compensation	HR plan based on strategic plan not in place	45%	11%
	Senior managers did not sign performance agreements for current performance period	64%	11%

Focus area	Summary of common findings	Departments	Public entities
Internal audit	Internal audit not under control and direction of audit committee	27%	22%
	Reporting not done at all audit committee meetings	9%	11%
	Risk management strategy (including fraud prevention plan) not used to direct internal audit and determine required skills	27%	11%
	No internal audit function in place		22%
	No evaluation and/or recommendations on reliability and integrity of financial and operational information	18%	11%
Budgets	Budget not submitted to executive authority for approval at least six months before start of financial year of parent department/ other period agreed to		33%
	Report on utilisation of savings not submitted to executive authority and relevant treasury		11%

Section 2.2.4 of this report provides details on the financial statements submitted by accounting officers for auditing that had not been prepared, in all material aspects, in accordance with generally recognised accounting practice (and were supported by full and proper records) as required by the PFMA.

Details of non-compliance findings relating to auditees' performance reports are provided in section 2.3.3 and further details on findings related to unauthorised, irregular as well as fruitless and wasteful expenditure in section 2.4.3.

Findings arising from the audit of procurement and contract management are analysed in section 2.4.4, section 3.2 provides further details on non-compliance findings related to HR management at departments, while section 3.3 discusses shortcomings in IT management.

2.4.3 Expenditure management findings – unauthorised, irregular as well as fruitless and wasteful expenditure incurred by auditees

The PFMA requires accounting officers or authorities to take reasonable steps to ensure that unauthorised, irregular as well as fruitless and wasteful expenditure is prevented and detected.



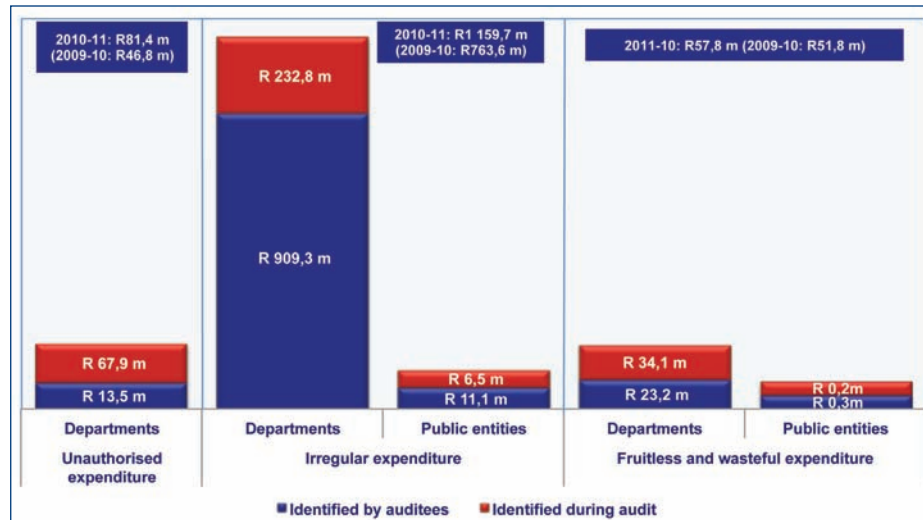
Unauthorised expenditure results from overspending a vote or a main division within a vote or is expenditure that is not in accordance with the purpose of a vote or main division.

Irregular expenditure is expenditure, other than unauthorised expenditure, incurred in contravention of, or that is not in accordance with, a requirement of any applicable legislation, including the PFMA, the State Tender Board Act, 1968 (Act No. 86 of 1968) and any provincial legislation providing for procurement procedures in a provincial department.

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. It is compulsory for departments and public entities to disclose such expenditure in their financial statements.

The figure below depicts the extent of such expenditure and the portion thereof that was identified during the audit and not detected by the auditees.

Figure 15: Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by departments and entities



The unauthorised, irregular as well as fruitless and wasteful expenditure is a result of non-compliance with SCM prescripts and the Public Service Act, 1994 (Act No. 103 of 1994) (PSA).

The nature of the expenditure and significant trends are presented in the table below. Annexure 3 to this report lists all auditees with unauthorised, irregular as well as fruitless and wasteful expenditure.

Table 11: Movements in unauthorised, irregular as well as fruitless and wasteful expenditure

Nature of movements	Departments			Public entities		
	Number of auditees	Amount	Movement over 2009-10	Number of auditees	Amount	Movement over 2009-10
Unauthorised expenditure (applicable to departments only)						
Number of departments incurring	5	R81,4m	↑ 3			
Overspending of vote/main division within vote	4	R67,1m	↑ 2			
Expenditure not in accordance with vote	1	R14,3m	↑ 0			
Additional amounts identified during audit	3	R3,9m	↑ 3			
Incurring for two or more successive financial years	1					
Irregular expenditure						
Number of auditees incurring	12	R1 142,1m	↑ 1	5	R17,6m	↑ 3
Resulting from proper SCM processes not being followed	10	R1 050,2m	↓ 11	5	R17,3m	↑ 3
Related to compensation of employees	6	R23,3m	↓ 7	1	R0,3m	
Resulting from other causes	7	R68,5m	7	0		
Additional amounts identified during audit	10	R232,8m	↓ 1	3	R6,5m	3
Incurring for two or more successive financial years	10			2		

Nature of movements	Departments			Public entities		
	Number of auditees	Amount	Movement over 2009-10	Number of auditees	Amount	Movement over 2009-10
Fruitless and wasteful expenditure						
Number of auditees incurring	11	R57,3m	↑ 10	6	R0,4m	↑ 4
Additional amounts identified during audit	6	R34,1m	↓ 9	5	R0,3m	↑ 4
Incurred for two or more successive financial years	9			3		

Unauthorised expenditure

Three departments had new findings on unauthorised expenditure resulting from overspending the vote or a main division within the vote.

- Police, Roads and Transport again overspent on its programmes, due to the following:
 - The overspending on programme 5 (traffic management) was due to the payment of overtime to law-enforcement officers and the appointment of registering authority clerks late in the financial year to assist during the 2010 FIFA World Cup as well as increased rental payments to the Free State Fleet Management Trading Entity.
 - The overspending on programme 4 (public freight and transport) was due to the department transferring more money as a result of increased transport subsidy claims to various bus companies.
- Directive, preventive and detective controls were not adequate to prevent the occurrence of unauthorised expenditure and ensure the subsequent recording thereof.

Irregular expenditure

All 10 departments with irregular expenditure had repeat findings from 2009-10. The findings were mainly the result of the leadership not preventing and detecting non-compliance with SCM prescripts and the PSA, such as the following:

- Tender processes were not adhered to, the required number of quotations was not obtained, and delegations of authority were not adhered to.
- Overtime and appointments were not in line with the PSA.
- Salaries were not approved.

Fruitless and wasteful expenditure

Nine of the 11 departments and three of the six entities had repeat findings on fruitless and wasteful expenditure.

Auditees incurred fruitless and wasteful expenditure due to services paid for but not provided as well as interest payments.

2.4.4 Summary of findings arising from the audit of SCM conducted by the AGSA

The audits conducted by the AGSA included an assessment of procurement processes, contract management and the controls in place to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that complies with legislation and minimises the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.

Findings were raised during the audit of SCM at 10 departments (77%) and five entities (36%) relating to contracts that had been awarded and quotations that had been accepted (referred to as 'awards' in the rest of this report). The names of these auditees are summarised in annexure 5 to this report.

Due to the significance of the SCM processes and the challenges experienced in government, a separate section (section 5) in this report has been dedicated to provide detail on the findings raised during the audit of SCM. Figure 16 summarises these findings.

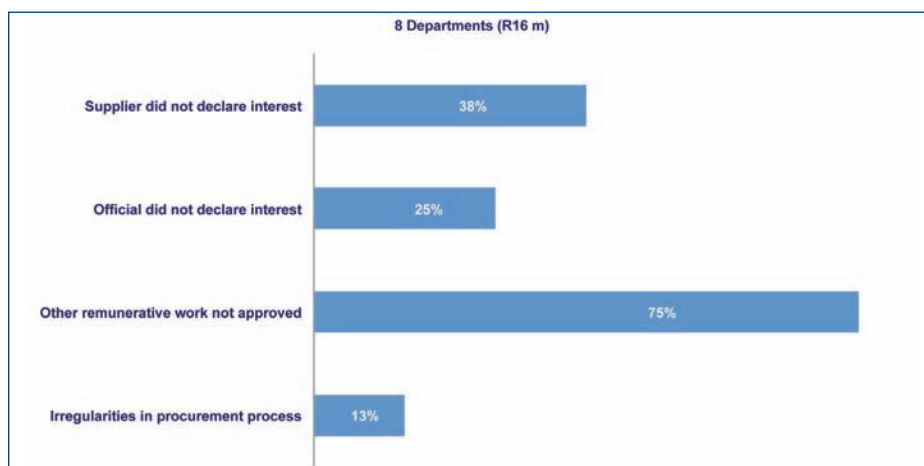


Figure 16: Summary of findings on SCM



The figure below depicts instances where awards were made to state officials or their close family members.

Figure 17: Awards to state officials and/or their close family members



At the eight departments where conflicts of interest by state employees were noted, the following shortcomings were identified:

- Three departments (38%) had suppliers that were owned by state employees and this was not declared by these suppliers.
- Two departments (20%) had suppliers that were owned by state employees and the interest was not disclosed by the employees of the department and/or employees of other departments.
- Six departmental employees performed remunerative work without prior approval.
- Education (13%) awarded a contract to a person in the service of the state.

No findings on awards to state officials or their close family members were identified at the public entities.

2.4.5 Investigations into SCM irregularities, fraud or other financial misconduct

There has been an increase in the number of investigations commissioned by departments and public entities from 14 in the previous financial year to 17 in the current financial year. Table 12 lists the investigations in progress or completed by 31 March 2011. Not all of the investigations were conducted by the AGSA.

Table 12: Investigations completed or in progress as at 31 March 2011

Auditee	SCM-related	Fraud	Other financial misconduct	Number of investigations per auditee
Free State Legislature	1		1	2
Economic Development, Tourism and Environmental Affairs	1		1	2
Health			1	1
Education	1	1	1	3
Cooperative Governance and Traditional Affairs	1		1	2
Public Works	1			1

Auditee	SCM-related	Fraud	Other financial misconduct	Number of investigations per auditee
Police, Roads and Transport	1		1	2
Agriculture and Rural Development	1			1
Sport, Arts, Culture and Recreation	1			1
Free State Gambling and Racing Board			1	1
Free State Liquor Board			1	1
Total	8	1	8	17

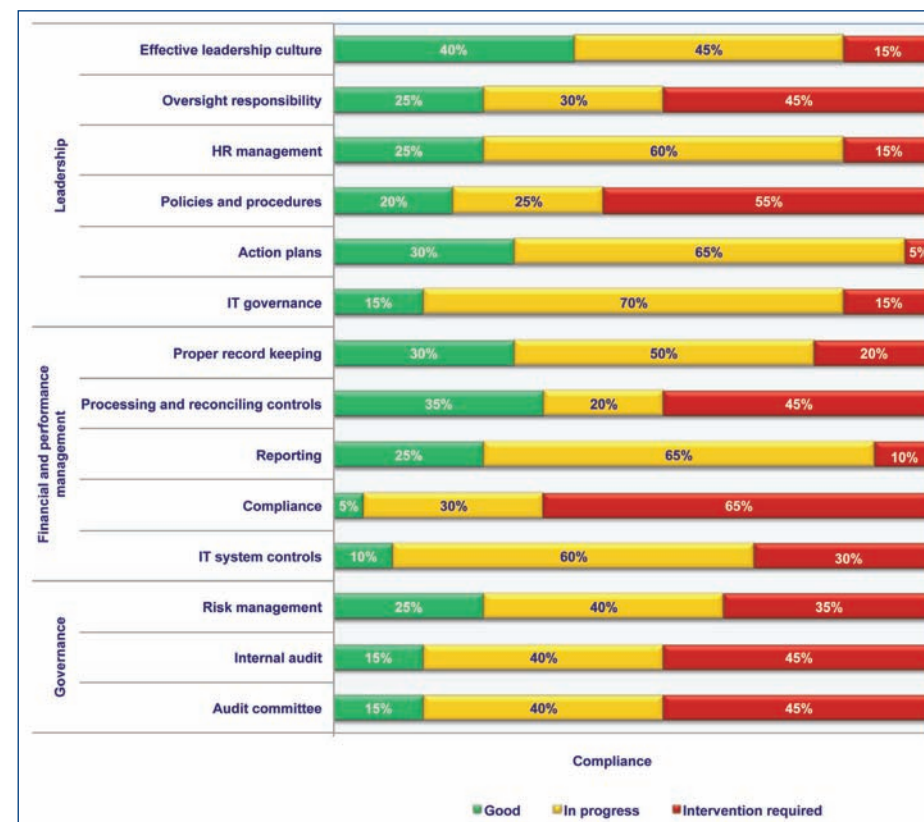
A transversal investigation into all SCM practices was instituted at the request of the premier across all departments with findings on SCM.

Other investigations were instituted by auditees based on allegations of possible irregularities regarding SCM, fraud and financial misconduct.

2.4.6 Assessment of drivers of internal control over compliance with laws and regulations

Figure 18 provides an assessment of the key drivers of internal control that should be in place to ensure compliance with laws and regulations.

Figure 18: Assessment of drivers of internal control – compliance with laws and regulations



2.4.7 Best practices, root causes of findings and way forward on compliance with laws and regulations by auditees

Best practices employed by departments and public entities

- At the Department of the Premier, both the leadership and staff made a concerted effort to ensure the implementation of their action plans to address prior year audit findings and to avoid a repetition thereof. Adequate daily and



monthly controls were implemented to prevent non-compliance with laws and regulations.

- The Free State Provincial Treasury conducted monthly monitoring and oversight over key control areas and used detailed checklists to prevent irregularities. If deficiencies were identified, corrective actions were taken timeously.

Root causes resulting in the findings on compliance with laws and regulations

- The basic daily and monthly controls to prevent non-compliance with laws and regulations were not in place.
- Checklists were not used to prevent any irregular expenditure before it occurred.
- Auditees relied heavily on correcting material misstatements identified during the audit to improve audit outcomes.
- The leadership failed to address prior year audit findings and implement prior year recommendations.
- The leadership and the audit committee did not review annual financial statements and other financial information before submission for auditing to ensure that they were fairly presented as required by the PFMA. There was also a lack of internal audit focus on preventing and detecting non-compliance with laws and regulations.
- There was a lack of oversight by the portfolio committees to ensure that departments took adequate action to prevent non-compliance with laws and regulations.

Recommendations and way forward

Leadership

- The leadership should implement internal controls as well as compliance checklists to prevent and detect non-compliance with laws and regulations.
- Oversight by portfolio committees is needed to ensure that departments and entities adhere to legislative requirements.

Financial and performance management

- The leadership should implement regular internal controls such as daily, weekly, monthly and quarterly reconciliations and reviews to prevent and detect unauthorised, irregular as well as fruitless and wasteful expenditure.

Governance

- Audit committees should review financial statements before submission for auditing to ensure that financial statements are in accordance with auditees' financial reporting frameworks.
- Internal audit units should focus on compliance with laws and regulations.
- The leadership should respond to the risk of non-compliance with laws and regulations identified by risk management units.

2.5 Outline of the way forward to improve audit outcomes

As is evident from the analysis of the audit outcomes presented in this section of the report, there are a number of areas that require focus and, in some instances, intervention to achieve clean administration. Such intensified focus and intervention are required principally from the following parties:

- Accounting authorities, accounting officers, CFOs and auditee management (analysed in section 3)
- Provincial executive leadership (analysed in section 4.1)

The AGSA's continuing initiatives to encourage clean administration are discussed in section 4.2 of this report, while other emerging matters that require attention to prevent a negative impact on future audit outcomes are discussed in section 4.3.

SECTION 3: DRIVERS OF AUDIT OUTCOMES – KEY CONTROLS

3.1 Overview of key controls as drivers of audit outcomes

The AGSA has identified three categories of drivers of improved audit outcomes through interactions on audit outcomes with auditees over the past several years. These categories have been used to formally document the results of quarterly key control visits by the AGSA to the provincial leadership.

These drivers (key controls) are categorised into the fundamental areas of internal control, namely:

- Leadership
- Financial and performance management
- Governance

Deficiencies in some or all of these controls can be directly linked to the following:

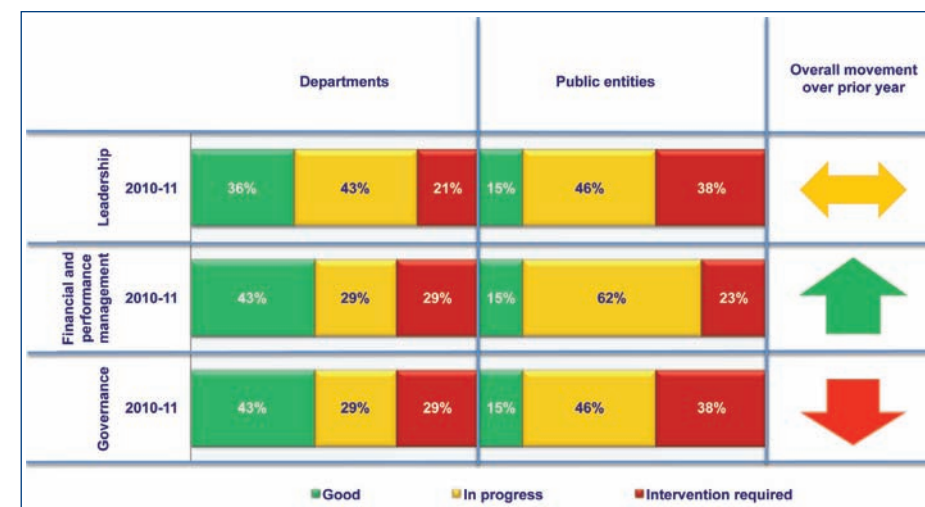
- Audit opinions on the financial statements
- Findings on predetermined objectives
- Findings on compliance with laws and regulations

Auditees that had improved their audit outcomes or maintained positive audit outcomes can attribute this to the implementation and effective monitoring of the three fundamentals of internal control. Similarly, auditees that had regressed or received negative audit outcomes can attribute this to not implementing and monitoring these fundamentals of internal control.

Annexure 4 to this report assesses the adequacy of key controls at auditees at the time of the audit. An assessment of these drivers over financial reporting, reporting on predetermined objectives and compliance with laws and regulations is provided in sections 2.2.8, 2.3.4 and 2.4.6, respectively. Sections 3.2 and 3.3 provide an assessment of HR management and IT management as specific drivers of audit outcomes.

An overall assessment of progress made by departments and public entities in implementing key controls is depicted in figure 19.

Figure 19: Progress made in implementing key controls (all auditees)



The reasons why auditees were assessed as indicated in figure 19 are outlined below.

Departments

- The leadership of the Free State Provincial Treasury and the Department of the Premier implemented internal controls, resulting in an improvement in their audit outcomes.
- The leadership of the Departments of Health and of Police, Roads and Transport is implementing internal controls, resulting in these departments improving from disclaimed to qualified audit outcomes.
- The leadership still needs to enforce the implementation and monitoring of internal controls in improving the financial, performance and compliance audit outcomes.



- The deterioration in governance is due to the delay in appointing cluster audit committees, leading to internal audit units not functioning effectively since the audit committees did not operate for most of the financial year.

Public entities

- Although audit committees were in place at public entities, internal audit units did not function effectively.
- Daily and monthly internal controls were not monitored effectively, resulting in a deterioration in audit outcomes.
- Only the Free State Gambling and Racing Board regressed from a financially unqualified to a qualified audit opinion, due to the leadership failing to monitor the implementation of internal controls.

Audit committees

The province introduced cluster audit committees during the year under review, except for Education and Health who have their own audit committees due to their size.

In some departments, interim audit committees were appointed during the year. The cluster audit committees appointed on 21 January 2011 resulted in some departments meeting the minimum requirements, for example, the Free State Provincial Treasury and the Department of the Premier.

As the appointment of the cluster audit committees was finalised late in the financial year, the audit committees were not in existence for the full financial year.

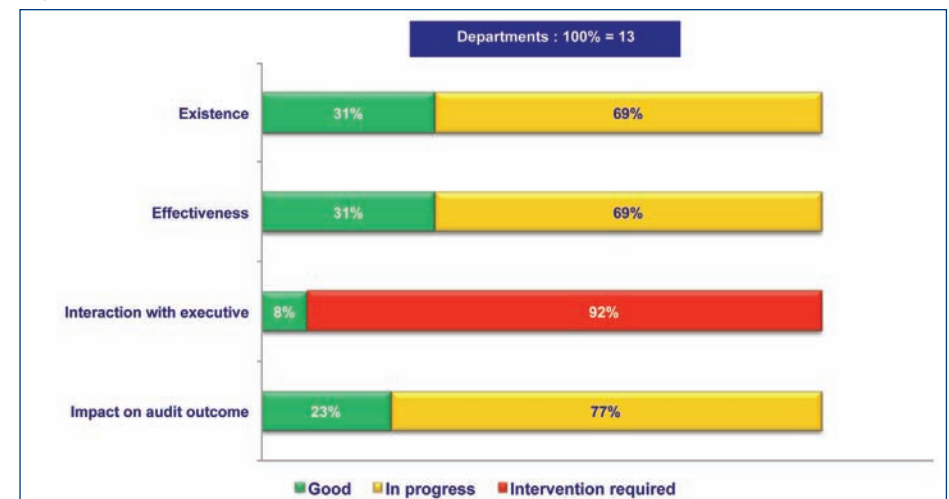
The improvement of the audit outcome at Human Settlements was unfortunately not driven by the audit committee and only three (23%) of the audit committees had a direct impact on the audit outcomes of their respective auditees, as depicted in figure 20 below.

The Department of Education had an audit committee, which functioned effectively during the year under review. The chairperson of the audit committee provided feedback to the MEC for Education about the challenges faced by the department.

The Department of Health had a functional audit committee during the financial year. However, the interventions of the audit committee did not have the impact it could have had, as the executive committee of the department did not prioritise meeting with the committee members and acting on their recommendations.

Further details on the effectiveness of audit committees are provided in annexure 10.

Figure 20: Audit committee



3.2 Human resource management as specific driver of audit outcomes

Effective human resource (HR) management is key to all three categories of drivers of improved audit outcomes. In this context, HR management is deemed effective if adequate and sufficiently skilled resources are in place and performance is monitored.

The AGSA's assessment of HR management focused on the following areas:

- HR planning and organisation

- Management of vacancies
- Appointment processes
- Performance management
- Acting positions
- Management of leave, overtime and suspensions

This assessment was performed at departments in the previous year and was introduced at some public entities in the year under review.

3.2.1 Overall findings arising from the assessment of HR management

The figures below depict the extent of weaknesses in each focus area for departments (with a comparison to the previous year) and public entities (without a comparison). The auditees with findings on HR management are summarised in annexure 7 to this report.

Figure 21: Identified HR management weaknesses – departments

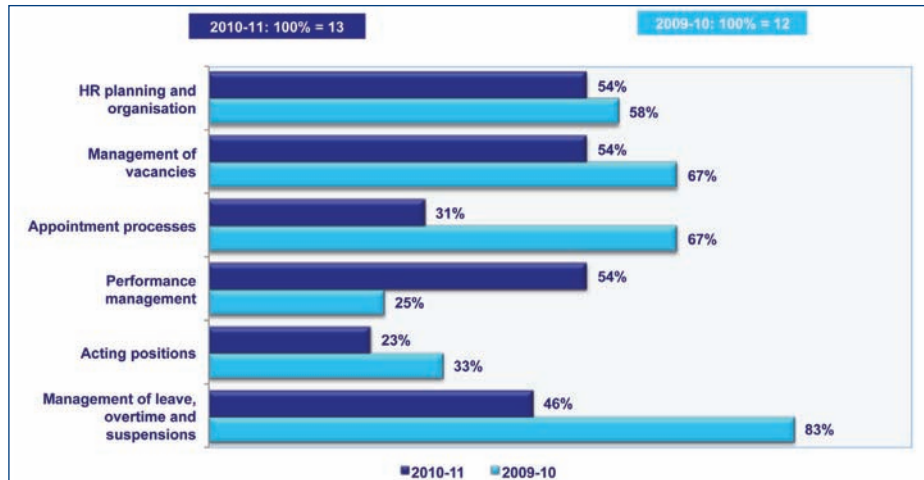
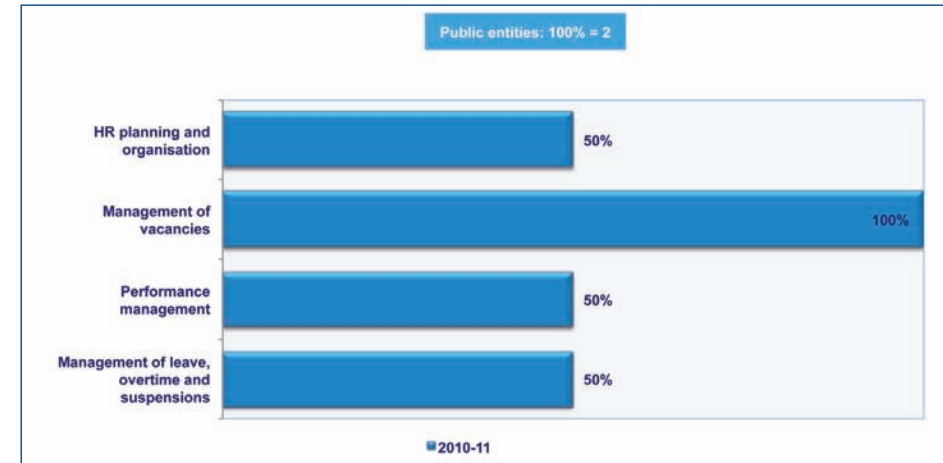


Figure 22: Identified HR management weaknesses – public entities



Common findings arising from the AGSA's focus areas are summarised below. Prior year statistics are given for departments.

Table 13: Common HR findings at departments relating to the AGSA's focus areas

Focus area	Summary of common findings	Departments	
		2010-11	2009-10
HR planning and organisation	HR plan based on strategic plan not in place	38%	50%
	Job descriptions did not exist for each post or group of posts	23%	25%
Management of vacancies	Critical positions vacant for more than 12 months	23%	33%
	Critical positions not advertised within six months	15%	33%
	Senior management positions vacant for longer than 12 months	23%	42%
Appointment processes	Verification processes for new appointments did not cover all the verifications prescribed	23%	25%
	Verification processes for new appointments did not always take place	8%	50%
Performance management	Senior managers did not sign performance agreements for the current performance period	54%	17%
	Performance bonuses incorrectly calculated	0%	17%
	Performance bonuses paid to employees without signed performance agreements for applicable period	8%	0%



Focus area	Summary of common findings	Departments	
		2010-11	2009-10
Acting positions	Employees acted in positions for more than 12 months	23%	25%
	Senior managers received acting allowances for more than six months without approval	0%	25%
Management of leave, overtime and suspensions	Suspensions longer than 30 days not reviewed regularly	15%	25%
	No policy for managing suspensions	0%	17%
	Employees worked more than the maximum hours' overtime allowed, written authorisation not provided in advance for overtime to be worked, or overtime policy not in place	23%	42%
	Prolonged suspension periods not reasonable in the circumstances	15%	0%

Table 14: Common HR findings at public entities relating to the AGSA's focus areas

Focus area	Summary of common findings	Public entities
		2010-11
HR planning and organisation	HR plan based on strategic plan not in place	50%
Management of vacancies	Critical positions vacant for more than 12 months	50%
	Vacancy rate increased from previous year	50%
Performance management	Senior managers did not sign performance agreements for current performance period	50%
Management of leave, overtime and suspensions	Employees received more than their entitled annual leave	50%

3.2.2 Impact of staff vacancies on internal control

Positions should be timeously filled with staff that have and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing sound internal control.

Control activities performed by staff at all levels are an integral part of planning, implementing, reviewing and accountability for stewardship of government resources managed by auditees and achieving results.

Such control activities include a wide range of diverse tasks related to the three drivers of audit outcomes, such as the following:

- Preparing financial statements
- Setting performance targets and indicators; monitoring, recording and validating performance against predetermined objectives; investigating variances from set targets; and taking corrective action for deviations identified
- Enforcing compliance by officials with laws and regulations and ensuring obligations imposed by legalisation on the organisation are timeously and fully discharged

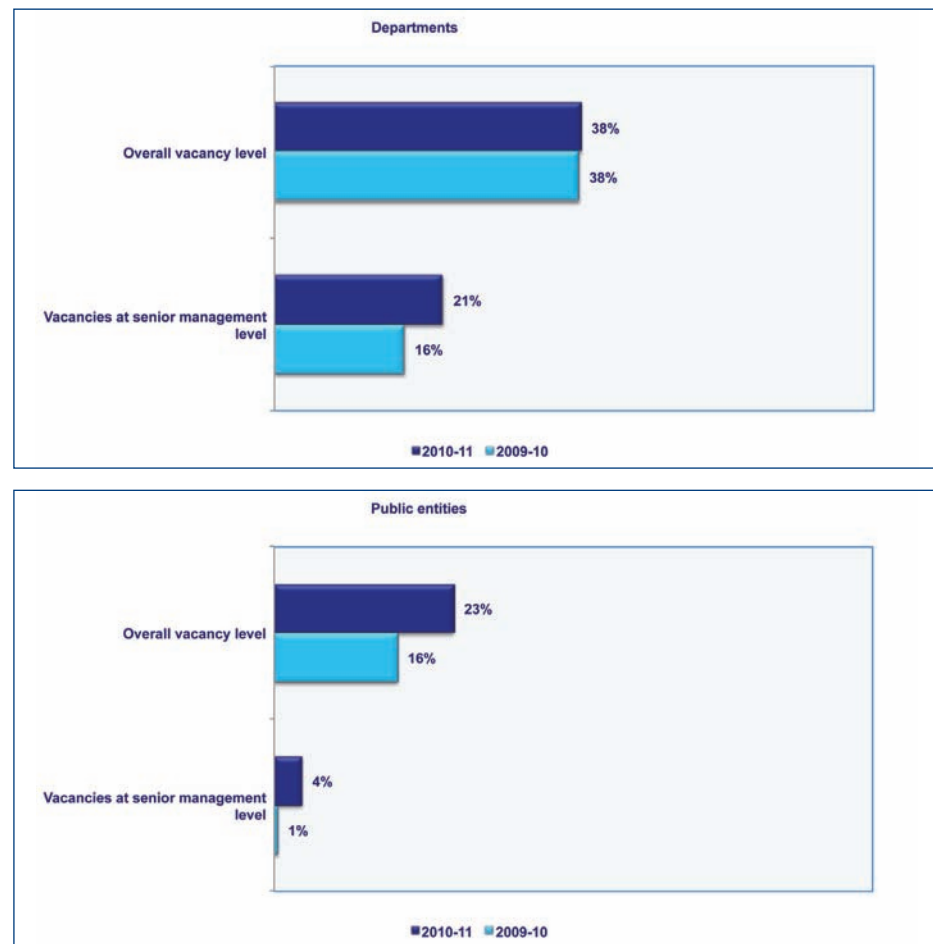
Such activities include, but are not limited to, approvals, authorisations, verifications, reconciliations, performance reviews, maintenance of security, as well as creating and maintaining records and appropriate documentation.

Control activities that may be neglected should key positions not be timeously filled with personnel who have the requisite level of qualifications and experience include the following:

- Proper execution of transactions
- Accurate and timely recording of transactions and events
- Segregating incompatible duties, including the initiation, processing and approval of transactions
- Physical control over assets that are easily misappropriated
- Access restrictions to, and accountability for, resources and records
- Controls over information processing
- Maintaining appropriate documentation of transactions
- Enforcing compliance with policies and procedures
- Maintaining internal control
- Establishing and reviewing performance measures and indicators
- Adequate day-to-day supervision and monitoring by management
- Top-level reviews of actual versus planned performance

Progress by auditees since the audit of their 2009-10 financial statements in filling vacancies is depicted below. The vacancy rate depicted is an average rate based on the year-end vacancy rates at the auditees.

Figure 23: Progress in filling vacancies



3.2.3 Root causes of findings and way forward on HR management

The main root causes of the findings on HR management are the following:

- Intervention by supervisory departments such as the Department of the Premier resulted in the recruitment and appointment processes in some departments not happening in time.
- The decentralised nature of certain HR functions created challenges for senior and executive management to ensure compliance with all relevant processes, policies and legislation as well as the integrity of supporting records.
- There were insufficient planning processes to monitor and control the levels of vacancies in departments, resulting from poor performance management.
- Certain departments' HR plan was developed without adequate monitoring controls to ensure compliance with all relevant laws and regulations, especially the Public Service Regulations.
- Some departments did not have an approved organisational structure for the 2010-11 financial year, thus taking them longer to make appointments.
- The assessment of the staff requirements needed to perform departments' functions was inadequate, with particular reference to the number of employees required and the competencies that those employees must possess.
- There were inadequate monitoring controls to ensure that departments complied with relevant laws, rules and regulations, ensuring that time frames for filling funded vacant posts were adhered to, i.e. funded vacant posts were advertised within six months after becoming vacant and filled within 12 months after becoming vacant.
- Current review processes in respect of staff establishments resulted in HR plans not being in place.
- HR policies and practices were not appropriately designed and/or implemented to facilitate the effective recruitment and retention of employees.

Way forward

Leadership

Training interventions will be provided to portfolio committee and officials of the departments on HR management.



Qualified and competent HoDs and CFOs at departments will be appointed. Vacant positions will be filled with competent officials. Executive leadership will follow-up on the HR findings raised by the AGSA.

Financial and performance

Management should sign and monitor performance contracts. An action plan focusing on HR findings should be drawn up and monitored on a quarterly basis.

Governance

Internal audit will focus on HR management during 2011-12.

The high vacancy rates at departments and public entities have primarily been attributed to the following:

- Funding constraints resulting in departments and entities not being able to appoint the entire approved establishment.
- Moratorium by departments playing an oversight or supervisory role delayed appointment processes, thus causing funded vacancies to remain vacant for extended periods.
- Limited attention paid to the requirements of the Public Service Regulations, resulting in HR compliance deviations regarding time frames.

3.3 Information technology management as specific driver of audit outcomes

3.3.1 Computer systems in use and the management of information technology (IT)

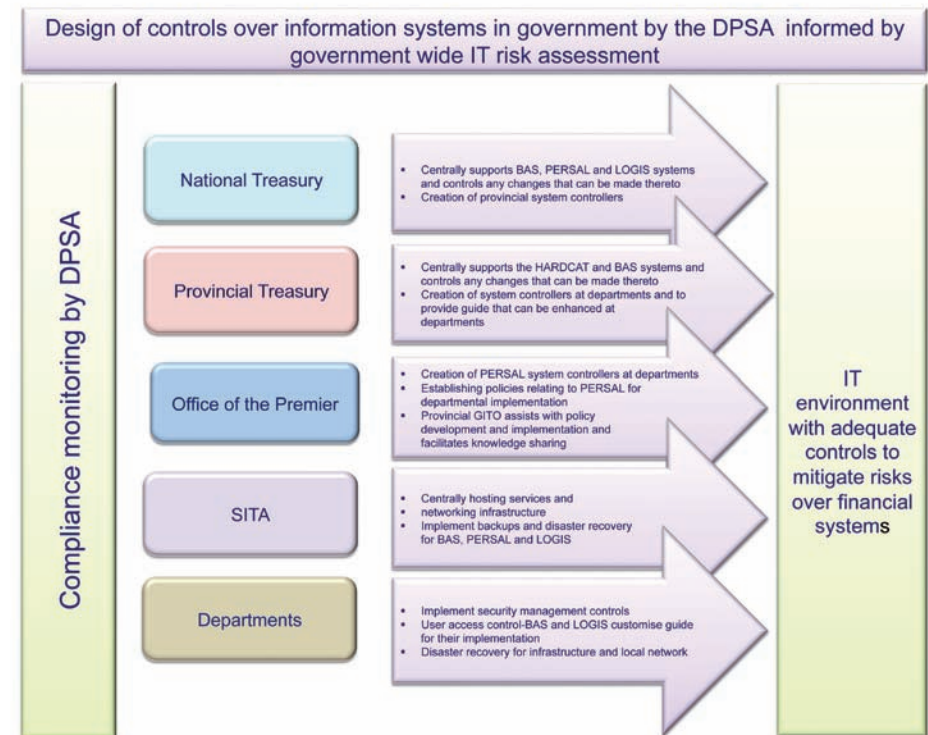
As in all other provinces, departments and public entities rely heavily on IT systems to perform their statutory financial management, reporting and administrative functions. Furthermore, these systems enable the automation of business processes and transaction processing, which contributes to effective internal control. The information processed and stored on IT systems is vital to the accuracy and

reliability of the financial and performance information used by management for planning, monitoring and reporting.

Design of IT management

Roles and responsibilities in terms of support and usage of systems to ensure a controlled environment are depicted below.

Figure 24: Design of controls over information systems in government by the DPSA informed by government-wide risk assessment



Departments

Twelve departments in the province utilise transversal systems, namely the Basic Accounting System (BAS), the Personnel Administration System (PERSAL) and the Logistical Information System (LOGIS) to manage financial information. The Free State Legislature uses the Promun and CAMS systems to manage financial information

Public entities

Although the IT environment was only formally reviewed at two public entities, the IT environment at the remaining public entities was assessed during the key control assessments performed on a quarterly basis.

Two public entities, namely the Free State Development Corporation and the Free State Gambling and Liquor Authority, were audited. Both utilise off-the-shelf solutions customised for the management of their information. The Free State Development Corporation uses VIP and MDA, while the Free State Gambling and Liquor Authority uses VIP and Pastel.

The National Treasury and the State Information Technology Agency (SITA) do not maintain the systems. Unlike in the transversal systems environment where SITA is responsible for data backups, entities are responsible for ensuring the availability of data to minimise the impact of any disruptions. Entities are also responsible for program change controls as well as environmental and physical controls.

It is against the roles and responsibilities outlined above that the following focus areas were set for the audit of IT in the province:

- IT governance
- Security management
- User access control
- IT service continuity

The following focus areas are transversally performed and were audited at the National Treasury and SITA. Please refer to the national general report for an overview of the findings, root causes and way forward for national departments and entities.

- Program change management
- Facilities management
- Data centre

The following focus areas were audited at the departments, as they are under the direct control of each department:

- IT governance
- Security management
- User control management
- IT service continuity

3.3.2 Implementation of IT management

The IT management of financial systems was evaluated at 13 departments. Key areas in the management of IT where deficiencies were identified are summarised in figure 25 and table 1.5 below.

Figure 25: Identified control deficiencies in the management of IT

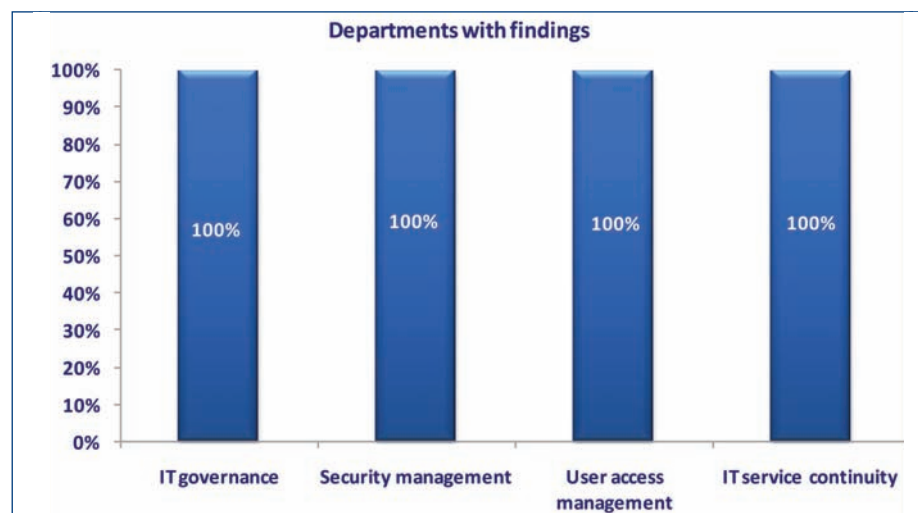




Table 15: Identified findings in the management of IT

Focus area	Outline of aspects audited	Incidence of control weaknesses identified			
		Departments		Public entities	
		Number audited	Percentage	Number audited	Percentage
IT governance	The structures, policies and process through which the departments ensure that IT departments and public entities support and are in line with the business requirements	13	100%	2	100%
Security management	Controls that prevent unauthorised access to the networks, operating systems and application systems that generates and prepares financial information	13	100%	2	100%
User access management	Procedures through which the departments and public entities ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system	13	100%	2	100%
IT service continuity	Processes of managing the availability of hardware, system software, application software and data to enable departments to recover or establish information system services in the event of a disaster	13	100%	2	100%

Key issues within the Free State Province can be summarised as follows:

Departments

In the absence of a government-wide IT governance framework that needs to be developed and rolled out by the Department of Public Service and Administration (DPSA), the Department of the Premier took the initiative to develop an IT governance framework for the province, which is yet to be approved and implemented. The following governance processes have not been implemented at all departments:

- Executive oversight over IT activities through properly mandated IT steering committees

- Development of IT strategic plans
- Adequate risk management processes
- Delegation of responsibilities for key IT positions
- Formally established IT policies and procedures

Departments had not designed adequate operating system and network security, thus resulting in the increased risk of unauthorised access to networks, applications and data. Many departments sighted lack of skills and funding as reasons for not implementing controls, such as network firewalls.

The Free State Provincial Treasury developed BAS and Persal user account practice notes. Although these require some enhancements and improvements, the provincial treasury is commended for the initiative. Individual departments must implement and monitor adherence to these policies, but not all departments had fully implemented the guidelines and policies. This resulted in a lack of review and monitoring of system controller activities, while users' access rights were not periodically reviewed as required by the policy. Logis user account policies and procedures had not been developed either.

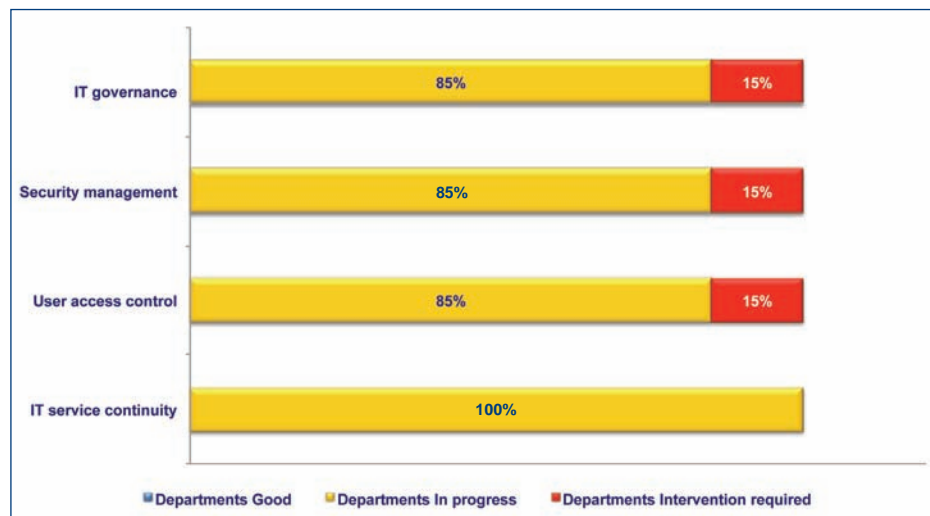
None of the departments had performed a business impact analysis to assist in preparing proper business continuity plans (BCPs) and disaster recovery plans to minimise the impact of a disaster and ensure the timeous resumption of business operations in the event of a disaster.

Public entities

In addition to weaknesses identified around user account management, security management facilities and environmental controls, there is an added risk as entities are also responsible for their own business continuity to ensure the availability of data and to minimise the risk of disruptions. Furthermore, key IT governance processes, including strategic planning, IT risk assessments and executive oversight over IT activities, were not implemented.

Some of the audit focus areas were also assessed in the 2009-10 financial year. The following figure depicts the progress made by departments in addressing the issues raised.

Figure 26: Progress in addressing prior year IT findings – departments



The development of an IT governance framework is the responsibility of the DPSA. In the absence of such a framework, the Department of the Premier took the initiative to develop one. The framework still needs to be approved and rolled out for implementation at all departments.

The development of security policies and the deployment of network security (including firewalls) did not take place, due to a lack of skills and funds.

Management gave commitments to develop and implement user account management procedures. The Free State provincial treasury designed user account management procedures, with the implementation of these policies being the responsibility of departments. A concerted effort must be made by CFOs to fully implement and continuously monitor adherence to these policies.

Accounting officers should take the lead by performing systematic assessments of the impact of disasters and preparing their departments to minimise the impact of such disasters on operations.

3.3.3 Root causes of findings and way forward on IT management

Root causes

Departments

The overall root cause is the lack of monitoring of commitments to ensure the implementation of agreed-upon corrective actions, due to IT findings not always being included in the departments' action plans. More specific root causes are the following:

- IT governance – The key root cause for findings relating to IT governance is the absence of a government-wide IT governance framework, which has not been developed and rolled out by the DPSA. This has led to the development of a provincial framework by the Department of the Premier. This framework has not been finalised, as the provincial government needs to ensure that it is aligned to the government-wide IT governance framework being developed by the DPSA.
- Security management – Management did not develop adequate system security policies due to a lack of IT skills and funding.
- User access management – Departments did not implement the guidelines developed by the provincial treasury.
- IT service continuity – Accounting officers did not take responsibility for developing BCPs.
- Human Settlements and CoGTA did not address prior year findings on IT management.

Public entities

Executive authorities did not delegate the design and implementation of the IT governance framework. This resulted in a lack of proper policies and procedures to minimise the risk of unauthorised access. User account management was not developed due to a lack of resources. As the leadership did not take the lead in performing business impact analyses, entities did not have BCPs.



Way forward and recommendations

Departments

- The provincial government information technology officer with the assistance of the Department of the Premier should present the IT governance framework at the HoD forum for adoption and implementation at all departments. The provincial framework should be aligned to the government-wide framework being developed by the DPSA.
- Accounting officers with the assistance of their CFOs should ensure that user account policies are fully implemented. This should be monitored to ensure that users adhere to the policies and procedures.
- Departments should develop Logis user account policies and procedures, users need to be trained on these policies, and adherence should then be monitored.
- Accounting officers should ensure that BCPs are established for each department.

Public entities

Critical processes of IT governance, including IT strategic planning, IT risk management and executive oversight over IT activities, should be developed. This will also ensure that critical security policies are designed and duly implemented.

Commitments

Departments

HoDs will provide hands-on leadership to ensure that IT findings are addressed. To this end they will ensure that IT audit findings are included in their departmental action plans. They will also continuously monitor progress to ensure that remedial action is taken at their departments.

Staff will be trained and assigned the responsibility to periodically review and monitor adherence to set policies on user account management, Logis user account management will be developed by departments with guidance from the provincial treasury.

The Department of Human Settlements and CoGTA did not provide management commitments on their reports.

Public entities

No overall commitments were obtained from entities since only two were audited.

Overall assessment of the design and implementation of IT management controls at provincial level

The departmental leadership in the capacity of HoDs and CFOs needs to play an increased role in the implementation of IT controls. This will ensure that developed policies are implemented effectively and monitored continuously, and that IT is strategically aligned to support each department's objectives. The leadership also needs to play a leading role in preparing and continuously testing departments' readiness to resume operations in the event of a disaster.

SECTION 4: INITIATIVES AND COMMITMENTS FROM KEY FREE STATE AND NATIONAL ROLE PLAYERS

4.1 The function of key provincial role players in audit outcomes

4.1.1 Assessment of the monitoring capacity and focus areas of provincial role players at the time of the audit

The AGSA has since August 2011 engaged with provincial role players on seven specific focus areas where their contributions to improve audit outcomes can be further enhanced. An assessment of the monitoring capacity and effectiveness of the role players in relation to these focus areas at the time of the audit is depicted in the table below.

Table 16: Assessment of the monitoring capacity of key provincial role players to address audit outcomes at the time of the audit

Oversight accountability	Role players	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Governance structures
	Provincial executive leadership (Premier and MEC for Finance)	In progress	Intervention required	In progress	In progress	In progress	In progress	In progress
	Coordinated provincial oversight (Provincial standing committees and Provincial Speakers Forum)	In progress	Intervention required	In progress	In progress	Intervention required	Intervention required	In progress
Accounting officers, accounting authorities, CFOs and senior officials								
Administrative accountability								

■ Good progress
 ■ In progress
 ■ Intervention required

Although commitments were made by the provincial executive leadership on the seven specific focus areas where their contributions to improve audit outcomes can be further enhanced, the leadership did not enforce the implementation of good practices in improving the audit outcomes; thus, the auditees in the province are still having challenges in the following areas:

- SCM – The reluctance of management to ensure that SCM regulations are properly enforced resulted in major deviations from the processes and the occurrence of irregular expenditure. The executive leadership did not intervene to enforce accountability by accounting officers.
- Predetermined objectives – Departments are still having challenges regarding compliance with their strategic planning and performance management, predetermined objectives and unreliable reports, thus resulting in poor service delivery.

However, the province is making progress on financial management, turnaround plans, IT controls, HR management, governance structure focus areas and the usefulness of performance information. This is due to the provincial executive leadership implementing the following good practices in improving the audit outcomes:

- The provincial executive leadership has taken ownership of turnaround plans by playing a major role in appointing a competent and qualified HoD and CFO.
- The provincial executive leadership also appointed cluster audit committees to strengthen governance at departments and public entities to improve the audit outcomes; however, the appointment of members was delayed but further improvements are expected during the 2010-11 financial year.
- The National Treasury's Logis user account management policy and procedures were adopted for implementation by all departments.

4.1.2 Commitments and actions by the provincial executive leadership and oversight

The AGSA engaged with the provincial leadership, the Speaker and the public accounts committee to deliberate on the achievement of clean audits, actions on findings and commitments made by the stakeholders.



During the roadshow on 2 November 2011 the role players present committed to have ongoing conversations to clear and eliminate obstacles towards achieving clean administration within the province. Further commitments include the following:

- MECs will strengthen their involvement in eliminating obstacles towards a clean audit by availing themselves on a quarterly basis for a joint dialogue with the AGSA, the audit committee and HoDs.
- MECs will drive, monitor and lift the pace at which audit findings are being eliminated within the departments. They will ensure that commitments made are sustainable and monitored by means of clear action plans and well-defined milestones. This should also be replicated by the legislature.
- Ensuring that the role players find synergies and promote open communication between the work done by the MECs, HoDs, audit committees, internal audit units, public accounts committees and the AGSA.
- Continuing the drive to ensure the appointment of competent, professional and qualified financial officers in the province.
- Investigating and monitoring the effectiveness of ICT controls and securities within departments to ensure uninterrupted service delivery and the continuity of business operations by implementing appropriate controls over IT systems, to ensure the reliability of the systems and the protection of information.
- Assigning the responsibility for predetermined objectives and compliance matters to dedicated officials with the adequate, delegated authority to enforce continuous credible reporting.
- Workshops to discuss the IT and supply chain management (SCM) issues in the province.
- The executive leadership will take action against state employees who do not declare conflicts of interest and perform remunerative work outside of government without approval.
- Corrective action will be taken against departmental staff who do not comply with the PFMA, hence incurring unauthorised, irregular as well as fruitless and wasteful expenditure.
- The executive leadership will conduct a viability study on trust funds in the province.

Responses and commitments emanating from the September/October 2011 interactions and roadshows on 2 November 2011 are outlined in the table below.

Table 17: Responses and commitments by the provincial executive leadership

Outline of role player commitment/ proposed action plans October 2011		Focus areas targeted by commitments and action plans						
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT Controls	HR management	Governance structures
Provincial executive leadership								
1	The political leadership is in the process of engaging consultants in developing systematic organizational structures based on available budget to eliminate high vacancy rates							
2	The leadership envisages seeking support from other governmental structures to deal with the implementation of infrastructure projects							
3	Consideration will be given to consolidate trust funds within departments							
4	Providing adequate leadership and addressing non-performance							
5	The political leadership should support the attraction and retention of skills and competencies in the public service							
6	MECs will interact with the provincial AGSA to proactively resolve matters emanating from audit reports							
7	The executive leadership will assist the portfolio committees in fulfilling their oversight responsibilities							
8	A workshop directed by the Premier to address challenges that the province is confronted with, resulting in irregular expenditure							
9	The political leadership will ensure that regular meetings take place to deal with the AGSA key control matrix and to simplify the process for better understanding in order to fulfill political oversight							
10	Attend to performance contracts of senior management							
11	Workshops are envisaged with GITOs to address IT deficiencies							

Outline of role player commitment/ proposed action plans October 2011		Focus areas targeted by commitments and action plans					
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT Controls	HR management
12	Investigate and monitor the effectiveness of ICT controls and securities within departments to ensure uninterrupted service delivery and the continuity of business operations by implementing appropriate controls over IT systems, to ensure the reliability of the systems and the protection of information.						
13	Continuing the drive to ensure the appointment of competent, professional and qualified financial officers in the province.						
14	Assigning the responsibility for predetermined objectives and compliance matters to dedicated officials with the adequate delegated authority to enforce continuous credible reporting.						
15	Viability studies on trust funds will be performed						
Provincial oversight leadership							
1	Arrange IT workshop for attendance by relevant provincial staff.						
2	Arrange SCM workshop for attendance by relevant provincial staff.						
3	Investigate irregular expenditure.						
4	Monitoring of performance information						
5	Conflict of interest follow-up						
6	Probe accounting officers on SCM issues.						
Provincial Treasury							
1	The Provincial Treasury will provide enhanced support and guide departments and entities in developing a systematic follow-up of the audit outcomes						
2	The Provincial Treasury will develop a proper system to enhance record management to ensure that supporting documentation is maintained						
3	Quarterly reporting on asset management is envisaged						

Post-audit commitment/initiative (new)
 Commitment/initiative from prior year

4.1.3 Status of PROPAC oversight resolutions

At year-end, 92 provincial public accounts committee (PROPAC) resolutions out of a total of 130 had been resolved and 38 were in progress. The provincial treasury assists PROPAC in the evaluation of replies submitted by departments and public entities. The resolutions listed below as being outstanding are based on the evaluation by the provincial treasury on feedback received from departments and public entities. The efficient and effective implementation of resolutions has not been evaluated and will only be followed up during the next audit cycle.

Table 18: Status of implementation of PROPAC resolutions

Auditee	Total number of resolutions	Number of resolutions resolved during 2010-11	Number of resolutions in progress	Number of resolutions not actioned
Departments				
Office of the Premier	8	8	0	
Economic Development, Tourism and Environmental Affairs	14	8	6	
Free State Provincial Treasury	9	9	0	
Health	14	11	3	
Education	12	10	2	
Social Development	10	7	3	
Cooperative Governance and Traditional Affairs	8	4	4	
Public Works	10	5	5	
Police, Roads and Transport	10	7	3	
Agriculture and Rural Development	12	8	4	
Sport, Arts, Culture and Recreation	13	11	2	
Human Settlements	10	4	6	
Public entities				
Free State Gambling and Racing Board	5	0	5	
Free State Tourism Authority	3	3	0	
Phakisa	6	2	4	
Total	144	97	47	0

An estimated 72% of these resolutions directly or indirectly related to financial management, predetermined objective reporting or compliance with laws and



regulations. The fact that the leadership addresses the resolutions, but fail to monitor the continuous implementation of actions provided in response to the resolutions, is evident from the slow progress made in improving audit outcomes.

4.2 Initiatives taken by the AGSA to encourage clean administration

The AGSA implemented the following initiatives to assist auditees in their drive towards clean administration:

- Key controls were evaluated and discussed with the CFOs, HoDs, internal audit units, audit committees and executive authorities quarterly.
- PFMA debriefing discussions were held with auditees to encourage them to address previous year audit findings.
- The AGSA performed an interim audit at some of the auditees to allow them time to resolve significant findings before the final audit commenced.
- The AGSA participated in the following forums to influence the stakeholders involved in driving clean administration:
 - CFO forum
 - Audit committee forum
 - Internal audit forum
 - Risk management forum
 - Weekly technical committee with the provincial treasury
- The AGSA discussed risk identification, possible impacts and recommendations with the CFOs, HoDs and internal audit units.
- Audit findings were communicated early to allow management time to address matters.
- The AGSA reviewed action plans of auditees to ensure that the corrective actions would sufficiently address the root causes identified. The AGSA also monitored the progress made on these action plans.
- The AGSA gave a presentation on IT to the HoDs.
- A presentation on predetermined objectives was given to the internal audit units and HoDs.
- The AGSA's engagement focused on sustaining the relationship with all role players that can influence clean administration.
- The visibility of the AGSA senior leadership in the province and continuous interactions with management, the leadership and the provincial treasury were strengthened to highlight possible challenges, audit findings and transversal risks.

4.3 Emerging matters that require attention to prevent a negative impact on future audit outcomes

This section deals with matters that did not have an impact in the current year but have the potential to result in misstatements in the ensuing year if they do not receive attention.

Accounting and compliance matters

New GRAP standards on accounting for heritage assets (GRAP 103), impairment of non-generating assets (GRAP 21) and presentation of budget information in the financial statements (GRAP 24) will become effective during the 2011-12 financial year. This may result in instances of non-compliance with SA Standards of GRAP.

Departments and entities are now required to account for library books as assets. The auditees may find it difficult to determine the recognition and measurement of library books, specifically old books.

Departments will be required to account for inventory in the financial statements. The departmental inventory may be incompletely recorded in the financial statements, hence instances of non-adherence to the departmental financial reporting framework may occur.

New guidance on the preparation of strategic and annual plans issued by the National Treasury may increase instances of non-compliance with the PFMA and Treasury Regulations.

The National Treasury issued instruction notes to strengthen the SCM regulations. This may result in instances of non-compliance and irregular expenditure.

SECTION 5: SIGNIFICANT FINDINGS ARISING FROM THE AUDIT OF SUPPLY CHAIN MANAGEMENT

5.1 Background

The audits conducted by the AGSA at departments (including Parliament and legislatures), trading entities, constitutional institutions and listed public entities included an assessment of procurement processes, contract management and the controls in place to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that complies with legislation and that minimises the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.

This assessment was not performed at the following auditees, as they did not incur any procurement in terms of SCM legislation:

Table 19: Auditees whose procurement processes, contract management and SCM controls were not assessed

Auditee	Reason why no SCM audit was performed
Public entities	
Free State Housing Fund	Procurement done by Department of Human Settlements
Patient Private Fund	Procurement done by Department of Health
Recreation Trust Fund	Procurement done by Department of Health
James Robertson Bursary Fund	Procurement done by Department of Education
Thomas Robertson Bursary Fund	Procurement done by Department of Education
Nature Conservation Trust Fund	Procurement done by Department of Economic Development, Tourism and Environmental Affairs

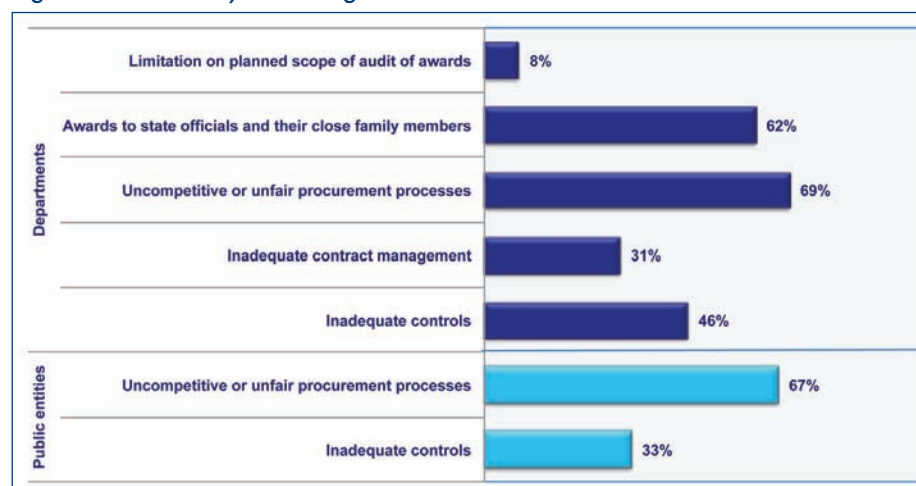
The analyses also do not include the Free State Development Corporation, as the audit had not yet been completed.

As is evident from the analysis of irregular expenditure (section 2.4.3), R910,2 million (91%) of the irregular expenditure incurred by auditees was as a result of the contravention of SCM legislation. Thirty-five per cent of the irregular expenditure was identified during the audit process. At the majority of the auditees, the incomplete identification of SCM irregular expenditure was as a result of the following:

- Lack of understanding or different interpretation of applicable legislation.
- Inadequate processes and procedures to identify SCM irregular expenditure.
- No adequate monitoring processes to detect contravention of legislation.
- Implementing agents not complying with SCM legislation. The auditees were not always aware of the irregular expenditure incurred due to a lack of involvement and monitoring of implementing agents.

The figure below presents a summary of SCM findings. Details of the most prevalent findings are provided further down under the headings depicted in the figure. The percentages are based on the number of auditees where findings were identified. The SCM findings are included in annexure 5.

Figure 27: Summary of findings on SCM



5.2 Limitations on the planned scope of the audit of awards

Sufficient appropriate audit evidence could not be provided at all the auditees that awards had been made in accordance with the requirements of SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular. Table 20 depicts the limitations experienced.



Table 20: Limitations experienced

Auditee	Number of awards	Value of awards R'000	Reason for limitation
Departments			
Department of Health	33	16 416	The limitation was as a result of missing documentation and inadequate document management systems, due to lack of discipline in the SCM division.
Total	33	16 416	

As a result of the limitations experienced, the findings reported in the rest of this section might not reflect the true extent of irregularities and SCM weaknesses at the auditees where the limitations were identified.

5.3 Awards to state officials and their close family members

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

Legislation does not prohibit such awards but there is legislation that endeavours to ensure that conflicts of interest do not result in the unfair awarding of contracts or acceptance of unfavourable price quotations, and 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 to pick up non-compliance or irregularities that could indicate that decisions or recommendations were unlawfully and improperly influenced.

The table below details audit findings relating to awards to state officials and their close family members.

Table 21: Awards to state officials and their close family members

Auditee	Awards made to				Non-compliance with regard to awards made							
	Officials		Close family members of officials		Supplier did not declare interest		Official did not declare interest		Other remunerative work not approved		Non-compliance / irregularity in procurement process	
	No.	R'000	No.	R'000	No.	R'000	No.	R'000	No.	R'000	No.	R'000
Departments												
Agriculture and Rural Development	2	65	1	2	3	67	3	67	3	67		
Education	88	8 100	12	334	29	2 313	29	2 313	85	5 509	2	179
Health	14	855	5	1 711					1	159		
Police, Roads and Transport	25	1 880										
Public Works	23	734							23	734		
Social Development	21	1 116							21	1 116		
Sport, Arts, Culture and Recreation	13	540	2	69								
Economic Development, Tourism and Environmental Affairs	4	463			1	42			3	383		
Total	190	13 753	0	2 116	33	2 422	32	2 380	136	7 968	2	179
Percentage of auditees tested	62%		31%		23%		15%		46%		8%	

5.4 Uncompetitive or unfair procurement processes

The procurement processes of 308 contracts (R1 927 903 013) and 623 quotations (R86 465 594) were tested. The most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in the table below.

Table 22: Findings on uncompetitive or unfair procurement processes

Auditee	Three written price quotations not invited		Competitive bids not invited		No declaration of interest submitted		No certificate of independent bid determination (SBD 9)		Procurement from suppliers without SARS tax clearance		Other findings	
	No.	R'000	No.	R'000	No.	R'000	No.	R'000	No.	R'000	No.	R'000
Departments												
Agriculture and Rural Development	1	76	1	5 078	145	15 088	1	5 710			9	2 029
Cooperative Governance and Traditional Affairs	12	1 852	5	42 419							27	2 272
Education			24	72 667	16	1 265	4	4 869			35	115 412
Health	25	2 309	61	24 808	13	1 645	1	12 374	7	384	12	653
Human Settlements	6	920	4	5 559							4	356
Public Works	18	142			2	372	8	23 455	1	715	39	306 272
Social Development	9	2 067	7	7 487	10	4 939	2	2 660	5	3 708	15	10 801
Sport, Arts, Culture and Recreation	9	14 872	21	24 373	13	608					16	438
Economic Development, Tourism and Environmental Affairs	9	656	2	2 062	1	42			8	6 471	12	64 843
Public entities												
Phakisa Major Sport Events and Development Corporation	1	96										
Free State Tourism Authority	8	400	6	11 551								

Auditee	Three written price quotations not invited		Competitive bids not invited		No declaration of interest submitted		No certificate of independent bid determination (SBD 9)		Procurement from suppliers without SARS tax clearance		Other findings	
	No.	R'000	No.	R'000	No.	R'000	No.	R'000	No.	R'000	No.	R'000
Free State Gambling and Liquor Authority	13	969	2	1 353							13	969
Free State Gambling and Racing Board	5	256	1	136							5	256
Total	116	24 615	134	197 493	200	23 959	16	49 068	21	11 278	187	504 301
Percentage of auditees tested	63%		58%		37%		26%		21%		58%	

The 'other findings' are summarised in the table below.

Table 23: Details on other findings

Auditee	Other findings	No.	R'000
Departments			
Agriculture and Rural Development	Points incorrectly allocated/calculated for quotations above R30 000 – incorrect bidder won award	1	88
	Preference point system not applied for quotations above R30 000	2	411
	Quotations for IT goods/services – SITA prospective suppliers not used	1	250
	Invitation/calls for expression not done via CIDB website for construction contracts	5	1 280
	Total	9	2 029
CoGTA	Preference point system not applied for quotations above R30 000	8	784
	Quotations above R30 000: Quotations not obtained from listed prospective suppliers/suppliers meeting listing requirements	19	1 488
	Total	27	2 272



Auditee	Other findings	No.	R'000
Health	Quotations not obtained from listed prospective suppliers/ suppliers meeting listing requirements	8	469
	Request for quotations did not include evaluation criteria	4	184
	Total	12	653
Human Settlements	Preference point system not applied for quotations above R30 000	4	356
	Total	4	356
Education	Submitted declaration of interest did not cover connection with persons employed elsewhere in state	13	1 947
	Bids advertised for shorter period - no approval of deviation	1	2 525
	Criteria applied in evaluation of bid differed from originally specified	1	2 525
	Deviations above R1 million not reported to AGSA/Treasury	7	18 582
	No declaration of past SCM practices (e.g. SBD8)	2	1 745
	Unsolicited bids - required conditions not met	1	21 208
	Unsolicited bids accepted for goods/ services generally available from other suppliers	1	21 208
	Proper needs assessment not done for infrastructure projects	3	35 985
	Awards made to contractors whose CIDB grading is not suitable for value of the construction contract	2	1 745
	Invitation not advertised for at least 10 working days before closing date for construction contracts	4	7 940
	Total	35	115 412

Auditee	Other findings	No.	R'000
Public Works	Preference point system not applied for quotations above R30 000	5	557
	Award of bid to supplier other than recommended by adjudication committee – not approved/dealt with as per SCM policy	24	3 045
	Criteria applied in evaluation of bid differed from originally specified	2	3 146
	No declaration of past SCM practices (e.g. SBD8)	1	2 815
	Points incorrectly allocated/ calculated for competitive bid – incorrect bidder won award	1	285 633
	Supplier scoring highest points not selected for competitive bids – no justification	6	11 077
	Total	39	306 272
Social Development	Preference point system not applied for quotations above R30 000	1	324
	Quotations not obtained from listed prospective suppliers/ suppliers meeting listing requirements	8	2 289
	Deviations above R1 million not reported to AGSA/Treasury	4	5 528
	No declaration of past SCM practices (e.g. SBD8)	2	2 660
	Total	15	10 801
Sport, Arts, Culture and Recreation	Points incorrectly allocated/calculated for quotations above R30 000 – no impact on award	8	278
	Preference point system not applied for quotations above R30 000	8	160
	Total	16	438
Economic Development, Tourism and Environmental Affairs	Procurement deliberately split to avoid compliance requirements	2	1 264
	Prospective supplier list not administered in accordance with requirements	10	63 579
	Total	12	64 843
Public entities			
Gambling & Racing Board	No prospective supplier list for inviting price quotations	5	256
	Total	5	256

Auditee	Other findings	No.	R'000
Gambling and Liquor Authority	No prospective supplier list for inviting price quotations	13	969
	Total	13	969
	Total	187	504 301

Further details on the legislation not complied with are as follows:

Finding	Detail
Written price quotations not invited	<p>A price quotation process should be followed for the procurement of goods and services of a lower value.</p> <p>No deviation approved</p> <p>The required number of price quotations was not always obtained and the deviations were not approved by a properly delegated official or committee.</p> <p>Approved deviation not reasonable or justifiable</p> <p>Instances were identified of deviations being approved for obtaining less than the required number of price quotations even though it was not impractical or impossible to obtain the required number of quotations.</p>
Competitive bids not invited	<p>A competitive bidding process should be followed for the procurement of goods and services above a prescribed value.</p> <p>No deviation approved</p> <p>Competitive bids were not always invited and the deviations were not approved by a properly delegated official or committee.</p> <p>Deviation not reasonable or justifiable</p> <p>Instances were identified of deviations from the competitive bidding process being approved even though it was not impractical or impossible to follow such a process. In most instances identified, the deviation was approved on the basis of it being an emergency while it could have been prevented through proper planning.</p>
No declaration of interest submitted (SBD 4)	<p>Specific measures are necessary to ensure that officials do not abuse the system in order to favour their own businesses or those of their family members or associates. In this regard, prospective suppliers are required to declare whether they are in the service of the state or connected to a person in the service of the state. Awards were made to suppliers that did not submit the required declaration.</p>
No certificate of independent bid determination (SBD 9)	<p>As a measure to prevent the abuse of the SCM system through collusive bidding (bid rigging), prospective suppliers are required to sign the certificate of independent bid determination for state contracts. Awards were made to suppliers who failed to submit such certificates.</p>
Procurement from suppliers without SARS tax clearance	<p>Awards were made to suppliers who failed to provide written proof from the South African Revenue Service (SARS) that their tax matters were in order.</p>

Finding	Detail
Other findings	<p>The other findings identified were as follows:</p> <ul style="list-style-type: none"> • Preference point system not applied in the procurement of goods and services. • Points incorrectly allocated/calculated, resulting in the incorrect bidder winning the award. • Points incorrectly allocated/calculated in some instances, but with no impact on the award. • Supplier scoring highest points not selected and no justification. • Deviations from competitive bidding process above R1 million not reported to the provincial treasury or the AGSA. • Criteria applied in the evaluation of the bid differed from those originally specified. • No declaration of past SCM practices (SBD 8). • Bids advertised for shorter period and no approval of deviation. • Quotations not obtained from listed prospective suppliers or suppliers meeting listing requirements. • Prospective supplier list not administered in accordance with requirements. • SITA prospective suppliers not used for IT goods/services. • Award of bid to supplier other than the one recommended by adjudication committee – not approved or dealt with as per SCM policy. • Invitations/calls for expression not done via Construction Industry Development Board (CIDB) website. • Awards made to contractors whose CIDB grading was not suitable for value of contract. • Invitation not advertised for at least 10 working days before closing date and five working days before any compulsory site meetings. • Submitted declaration of interest did not cover connection with persons employed elsewhere in state. • Unsolicited bids – required conditions not met. • Unsolicited bids accepted for goods/services generally available from suppliers. • Request for quotations did not include evaluation criteria. • Procurement deliberately split to avoid compliance requirements.

5.5 Inadequate contract management

Findings on contract management are summarised in the table below.



Table 24: Findings on contract management

Auditee	Inadequate contract performance measures and monitoring		Contracts extended or renewed to circumvent competitive bidding processes		Contract not prepared in accordance with general conditions of contract (prescribed by the National Treasury)	
	Number	R'000	Number	R'000	Number	R'000
Departments						
Cooperative Governance and Traditional Affairs			2	31 222		
Human Settlements	1	1 037 685				
Health	15	65 217				
Police, Roads and Transport					23	236 338
Total	16	1 102 902	2	31 222	23	236 338
Percentage of auditees tested	15%		8%		8%	

Further details on the findings are as follows:

Finding	Detail
Inadequate contract performance measures and monitoring	Measures applied in monitoring the performance of contractors were not always sufficient to ensure that contractors delivered in accordance with the contract.
Contracts extended or renewed to circumvent competitive bidding processes	It is normal business practice to extend or renew contracts, but at some auditees it was done to the extent that competitive bidding processes were being circumvented, resulting in a procurement practice that was unfair, uncompetitive or not transparent.
Contracts not prepared in accordance with the standard conditions of contract prescribed by the National Treasury	Contracts were drafted and signed in formats that were not in line with the prescribed requirements.

5.6 Inadequate SCM controls

Findings on deficiencies in fundamental SCM controls are summarised in the table below.

Table 25: Findings on SCM controls

Auditee	Inadequate controls to ensure interest is declared	Performance of SCM unit not regularly analysed	No controls to monitor performance of contractors	Audit committee or internal audit section did not evaluate and review compliance with SCM processes	Allegations not investigated within reasonable time	Other controls
Departments						
Agriculture and Rural Development						
Education						
Health						
Human Settlements						
Social Development						
Economic Development, Tourism and Environmental Affairs						
Public entities						
Free State Investment Agency						
Phakisa Major Sport Events and Development Corporation						
Total	6	2	3	1	1	3
Percentage of auditees tested	32%	11%	16%	5%	5%	16%

Further details on the findings are as follows:

Finding	Detail
Inadequate controls to ensure that interest is declared	The controls at some auditees were inadequate to ensure that officials declared whether they or their close family members, partners and associates had interests in suppliers or in a contract to be awarded and to ensure that they withdrew from the process involving such contract.
Performance of SCM unit not regularly analysed	SCM is generally an area of considerable risk at most auditees. However, the performance of the SCM unit was not regularly reviewed and analysed to identify areas where controls were not functioning as intended.
Inadequate controls to monitor performance of contractors	The performance of contractors directly affects service delivery. The controls at some auditees were, however, inadequate to monitor the performance of contractors.
Audit committee or internal audit section did not evaluate and review compliance with SCM processes	Even though SCM is generally a high-risk area and directly affects the objectives of most auditees, the internal audit sections at some auditees did not evaluate the controls, processes and compliance with laws and regulations with regard to SCM. Furthermore, the audit committee's review of compliance with laws and regulations did not include SCM.
SCM allegations not investigated within a reasonable time	Allegations of improper conduct in the SCM system were not investigated within a reasonable time.
Other findings	<p>The other findings identified were as follows:</p> <ul style="list-style-type: none"> • Adequate action was not taken to address the SCM risks identified. • Lack of processes to report any breach of, or failure to comply with, the SCM system. • The fraud prevention plan did not include measures for preventing and detecting fraud in procurement.

5.7 Overall conclusion on SCM matters

The irregular expenditure incurred in the province resulted mostly from procurement processes that were not followed at 10 departments and four entities.

Despite commitments by the leadership, the amount of irregular expenditure incurred as result of proper SCM processes not being followed increased significantly with 38% from the amount reported in the prior financial year. This is due to an overall lack of monitoring of SCM processes and compliance with applicable legislation by management. A lack of discipline to adhere to all the SCM practices and requirements was also identified.

Although the majority of irregular expenditure in respect of SCM non-compliance was incurred by the departments with the biggest budgets, most of the smaller departments and some entities also incurred significant irregular expenditure. It is evident that adequate controls are not in place to ensure that officials declare their interest in contracts and also to obtain approval to perform other remunerative work.

Deviations from competitive bidding processes were found to be approved at some of these auditees but not on justifiable grounds as outlined in legislation. In most instances the deviations could have been prevented through better planning.

The disregard for adherence to SCM legislation at the majority of the auditees led to the findings reported above. The leadership is required to take serious action to prevent irregular expenditure by implementing processes for monitoring compliance, ensuring adherence with processes and procedures for SCM and fraud prevention and detection, and active governance by risk management units, internal audit units and audit committees.



SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS

In terms of section 19 of the PFMA, the provincial treasury is required to prepare consolidated financial statements for each financial year in respect of departments, public entities and the legislature. At this time, the provincial treasury has not yet been able to prepare the required consolidation. The provincial treasury continues to prepare separate financial statements that aggregate the financial results of the departments and the legislature, and another set that aggregates the financial results of the public entities. This practice does not conform to the PFMA and the provincial treasury is urged to put processes in place to rectify this non-compliance.

Due to the above, the AGSA is not able to issue an audit report on the fair presentation of the financial statements, but instead separate factual finding audit reports are issued for the departments and the legislature, and for the public entities. The status of the agreed-upon procedure engagements as at 31 March 2011 is reflected in table 26 below.

Table 26: Status of the audit of consolidated financial statements

Departments - audits completed		Public entities - audits completed	
2010-11	2009-10	2010-11	2009-10
Y / N	Y / N	Y / N	Y / N
N	Y	N	Y

The consolidated financial statements of departments and public entities for the 2010-11 year were received on 23 August 2011. The audit report was issued on 30 September 2011 and the results were therefore included in this report.

SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

The PFMA requires executive authorities responsible for departments or public entities to table in the legislature an annual report, annual financial statements and audit report relating to the financial statements. Such reports must be tabled within two months of the audit report having been received by the executive authorities.

A summary of the tabling of annual reports is provided below.

Table 27: Annual reports tabled by departments, provincial entities and other entities

Auditee type	Percentage of reports tabled at 30 September 2011	
	2010-11	2009-10
Departments	100%	0%
Public entities	100%	0%
Other entities	100%	0%
Provincial consolidations	Not due yet	100%
Total	100%	0%

Annual reports for departments, public entities and other entities for 2009-10 were tabled on 8 October 2010, as the legislature did not have a sitting before 30 September 2010.

CONCLUSION TO THE 2010-11 GENERAL REPORT

The AGSA maintains its commitment to support and share insights in influencing the achievement of clean administration, characterised by financially unqualified audit reports that have no findings on either service delivery reporting or compliance with laws and regulations. However, the tone of the provincial leadership will have to change to turn the situation around if the target of clean administration is to be achieved by 2014. Regressions in audit outcomes should be prevented at all costs by ensuring that key controls, comprising (i) leadership (ii) financial and performance management, and (iii) governance, are implemented and adhered to.

A concerted effort by the leadership of the province is needed in the areas of SCM, capital assets, IT management, compliance with laws and regulations as well as reporting on predetermined objectives (service delivery reporting), by institutionalising the practice of daily discipline and preparation of credible management information. Daily functions and monthly reconciliations with special emphasis on monthly asset counts must be performed vigilantly and monitored constantly by the leadership.

The effective management of IT should be strengthened to ensure uninterrupted service delivery and the continuity of business operations by implementing appropriate controls over IT systems, to ensure the reliability of the systems and the protection of information. The leadership should demonstrate a high level of commitment in addressing findings on predetermined objectives and compliance matters by assigning this responsibility to dedicated officials with the adequate delegated authority to enforce continuous credible reporting. Decisive action should be taken against the perpetrators of transgressions.

To reiterate the underlying message of this report to the oversight bodies, those charged with governance and management: It is possible to obtain unqualified audit reports and achieve clean administration if the fundamentals of internal control are institutionalised and constantly monitored by the leadership. The challenges are not insurmountable and the staff of the AGSA remain committed to identify and communicate good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.



ANNEXURES TO THE GENERAL REPORT

ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives

No.	Auditee	2010-11 audit year			2009-10 audit year			Financial statement qualification areas								Findings on predetermined objectives			
		Audit outcome 2010-11	Predetermined objectives	Compliance with laws and regulations	Audit outcome 2009-10	Predetermined objectives	Compliance with laws and regulations	Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Presentation	Reported information not useful	Reported information not reliable
Departments																			
1	Agriculture and Rural Development	Qualified			Financially unqualified with findings														
2	Cooperative Governance and Traditional Affairs	Qualified			Qualified														
3	Human Settlements	Financially unqualified with findings			Qualified														
4	Police, Roads and Transport	Qualified			Disclaimer														
5	Public Works	Qualified			Qualified														
6	Education	Qualified			Qualified														
7	Health	Qualified			Disclaimer														
8	Office of the Premier	Financially unqualified with no findings			Financially unqualified with findings														
9	Free State Legislature	Financially unqualified with findings			Financially unqualified with findings														
10	Free State Provincial Revenue Fund	Audit not finalised at legislated date			Financially unqualified with no findings														
11	Free State Provincial Treasury	Financially unqualified with no findings			Financially unqualified with no findings														
12	Social Development	Financially unqualified with findings			Financially unqualified with findings														
13	Sport, Arts, Culture and Recreation	Financially unqualified with findings			Financially unqualified with findings														
14	Economic Development, Tourism and Environmental Affairs	Qualified			Financially unqualified with findings														

No.	Auditee	2010-11 audit year			2009-10 audit year			Financial statement qualification areas								Findings on predetermined objectives			
		Audit outcome 2010-11	Predetermined objectives	Compliance with laws and regulations	Audit outcome 2009-10	Predetermined objectives	Compliance with laws and regulations	Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Presentation	Reported information not useful	Reported information not reliable
Public entities																			
15	Central Medical Trading Account	Financially unqualified with findings			Financially unqualified with findings														
16	Free State Development Corporation	Audit not finalised at legislated date			Audit not finalised at legislated date														
17	Free State Fleet Management Trading Entity	Financially unqualified with findings			Financially unqualified with no findings														
18	Free State Housing Fund	Financially unqualified with findings			Financially unqualified with no findings														
19	Free State Investment Promotion Agency	Financially unqualified with findings			Financially unqualified with findings														
20	Free State Liquor Authority	Financially unqualified with findings			Financially unqualified with findings														
21	Free State Gambling and Racing Board	Qualified			Financially unqualified with findings														
22	Free State Gambling and Liquor Authority	Qualified			New public entity														
23	James Robertson Bursary Fund	Financially unqualified with no findings			Financially unqualified with no findings														
24	Nature Conservation Trust Fund	Financially unqualified with no findings			Financially unqualified with no findings														
25	Private Patients Fund Trust	Financially unqualified with no findings			Financially unqualified with no findings														
26	Recreation Fund Trust	Financially unqualified with no findings			Financially unqualified with no findings														
27	Phakisa Major Sport Events and Development Corporation	Financially unqualified with findings			Financially unqualified with findings														
28	Thomas Robertson Bursary Fund	Financially unqualified with no findings			Financially unqualified with no findings														
29	Free State Tourism Authority	Financially unqualified with findings			Qualified														



No.	Auditee	2010-11 audit year			2009-10 audit year			Financial statement qualification areas								Findings on predetermined objectives			
		Audit outcome 2010-11	Predetermined objectives	Compliance with laws and regulations	Audit outcome 2009-10	Predetermined objectives	Compliance with laws and regulations	Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Presentation	Reported information not useful	Reported information not reliable
Public entities (not audited by the AGSA)																			
30	Canton Trading 123 (Pty) Ltd t/a Jomago Health	Audit not finalised at legislated date			Audit not finalised at legislated date														
31	Classic Number Trading 45 Pty (Ltd)	Audit not finalised at legislated date			New public entity														
32	Confram Harrismith Properties (Pty) Ltd	Audit not finalised at legislated date			New public entity														
33	Copper Moon Trading 429 (Pty) Ltd	Audit not finalised at legislated date			New public entity														
34	Cross Point Trading 23 (Pty) Ltd	Audit not finalised at legislated date			Audit not finalised at legislated date														
35	Golden Pond Trading 663 (Pty) Ltd	Audit not finalised at legislated date			New public entity														
36	Highlands Furniture Factory (Pty) Ltd	Audit not finalised at legislated date			Audit not finalised at legislated date														
37	Mafube Risk Insurance Consultants (Pty) Ltd	Audit not finalised at legislated date			Audit not finalised at legislated date														
38	Orofino Africa Jewellery Manufacturers (Pty) Ltd	Audit not finalised at legislated date			New public entity														
39	Phiritona Plastics (Pty) Ltd	Audit not finalised at legislated date			Audit not finalised at legislated date														
40	Qwa-Qwa Datnis (Pty) Ltd	Audit not finalised at legislated date			Audit not finalised at legislated date														
41	Rumar Manufacturing (Pty) Ltd	Audit not finalised at legislated date			Audit not finalised at legislated date														
42	Satinsky 167 (Pty) Ltd	Audit not finalised at legislated date			New public entity														
43	Scopefull 21 (Pty) Ltd	Audit not finalised at legislated date			Audit not finalised at legislated date														
44	Synthopro Holdings (Pty) Ltd	Audit not finalised at legislated date			New public entity														

No.	Auditee	2010-11 audit year			2009-10 audit year			Financial statement qualification areas								Findings on predetermined objectives			
		Audit outcome 2010-11	Predetermined objectives	Compliance with laws and regulations	Audit outcome 2009-10	Predetermined objectives	Compliance with laws and regulations	Capital assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Non-compliance with regulatory requirements	Presentation	Reported information not useful	Reported information not reliable
45	Twin Cities (Pty) Ltd	Audit not finalised at legislated date			Audit not finalised at legislated date														
46	Welkom Diamond Cutting Works	Audit not finalised at legislated date			Audit not finalised at legislated date														



ANNEXURE 2: Auditees with findings related to compliance with laws and regulations

No.	Auditee	Areas of non-compliance												
		Annual financial statements and annual report	Asset management	Audit committee	Budgets	Expenditure management	Financial misconduct	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Other	Procurement and contract management	HR management and compensation
Departments														
1	Agriculture and Rural Development													
2	Cooperative Governance and Traditional Affairs													
3	Human Settlements													
4	Police, Roads and Transport													
5	Public Works													
6	Education													
7	Health													
8	Office of the Premier													
9	Free State Legislature													
10	Free State Provincial Treasury													
11	Social Development													
12	Sport, Arts, Culture and Recreation													
13	Economic Development, Tourism and Environmental Affairs													
Public entities														
14	Central Medical Trading Account													
15	Free State Fleet Management Trading Entity													
16	Free State Housing Fund													
17	Free State Investment Promotion Agency													
18	Free State Liquor Authority													
19	Free State Gambling and Racing Board													
20	Free State Gambling and Liquor Authority													
21	James Robertson Bursary Fund													
22	Nature Conservation Trust Fund													
23	Private Patients Fund Trust													
24	Recreation Fund Trust													
25	Phakisa Major Sport Events and Development Corporation													
26	Thomas Robertson Bursary Fund													
27	Free State Tourism Authority													

ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure as well as material losses and impairment of assets

No.	Auditee	Nature and extent of unauthorised expenditure				Nature and extent of irregular expenditure				Fruitless and wasteful expenditure	Material losses	Material impairment of assets	Material underspending of vote/conditional grant (finding only)
		Overspending	Expenditure unrelated to functional area	Spending not in accordance with conditions of allocation	Total	Related to supply chain management	Related to compensation of employees	Other	Total				
Departments													
1	Agriculture and Rural Development	2 000			2 000	23 118 000	830 000	6 000	23 954 000	2 304 000	43 000		
2	Cooperative Governance and Traditional Affairs					76 857 000	2 478 000		79 335 000	5 961 000			
3	Human Settlements					32 657 000	1 734 000		34 391 000	855 000			
4	Police Roads and Transport	64 018 000			64 018 000	403 272 000	13 994 000	13 228 000	430 494 000	2 999 000			16 809 000
5	Public Works					31 246 000			31 246 000	1 500 000		28 455 000	35 644 000
6	Education					107 979 000		7 477 000	115 456 000	13 810 000			72 756 000
7	Health			14 282 000	14 282 000	270 842 326		47 701 098	318 543 424	21 114 518			
8	Office of the Premier												
9	Free State Legislature							41 000	41 000	11 000			3 504 000
10	Free State Provincial Treasury						22 000		22 000				
11	Social Development	395 000			395 000	16 665 300	3 920 517		20 585 817	37 000			
12	Sport Arts Culture and Recreation	2 689 000			2 689 000	67 560 000		74 000	67 634 000	242 000			8 252 000
13	Economic Development Tourism and Environmental Affairs					20 050 234	349 804		20 400 038	8 508 345			42 717 000
Total - departments		67 104 000	0	14 282 000	81 386 000	1 050 246 860	23 328 321	68 527 098	1 142 102 279	57 341 863	43 000	28 455 000	179 682 000
Public entities													
14	Central Medical Trading Account					1 783 535			1 783 535	201 372			
15	Free State Fleet Management Trading Entity												
16	Free State Housing Fund												
17	Free State Investment Promotion Agency									14 000			
18	Free State Liquor Authority												



No.	Auditee	Nature and extent of unauthorised expenditure				Nature and extent of irregular expenditure				Fruitless and wasteful expenditure	Material losses	Material impairment of assets	Material underspending of vote/conditional grant (finding only)
		Overspending	Expenditure unrelated to functional area	Spending not in accordance with conditions of allocation	Total	Related to supply chain management	Related to compensation of employees	Other	Total				
Public entities													
19	Free State Gambling and Racing Board					392 000			392 000	13 000			
20	Free State Gambling and Liquor Authority					2 322 000	286 000		2 608 000	127 000			
21	James Robertson Bursary Fund												
22	Nature Conservation Trust Fund												
23	Private Patients Fund Trust												
24	Recreation Fund Trust												
25	Phakisa Major Sport Events and Development Corporation					95 828			95 828	62 690			
26	Thomas Robertson Bursary Fund												
27	Free State Tourism Authority					12 703 000			12 703 000	24 000			6 934 060
Total - public entities		0	0	0	0	17 296 363	286 000	0	17 582 363	442 062	0	0	6 934 060
GRAND TOTAL		67 104 000	0	14 282 000	81 386 000	1 067 543 223	23 614 321	68 527 098	1 159 684 642	57 783 925	43 000	28 455 000	186 616 060

ANNEXURE 4: Assessment of auditees' key controls at the time of the audit

No.	Auditee	Leadership															Financial and performance															Governance															
		Effective leadership culture			Oversight responsibility			HR management			Policies and procedures			Action plans			IT governance			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT system controls			Risk management			Internal audit			Audit committee						
		F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C										
Departments																																															
1	Agriculture and Rural Development																																														
2	Cooperative Governance and Traditional Affairs																																														
3	Human Settlements																																														
4	Police, Roads and Transport																																														
5	Public Works																																														
6	Education																																														
7	Health																																														
8	Office of the Premier																																														
9	Free State Legislature																																														
10	Free State Provincial Treasury																																														
11	Social Development																																														
12	Sport, Arts, Culture and Recreation																																														
13	Economic Development, Tourism and Environmental Affairs																																														
Public entities																																															
14	Central Medical Trading Account																																														
15	Free State Fleet Management Trading Entity																																														
16	Free State Housing Fund																																														
17	Free State Investment Promotion Agency																																														
18	Free State Liquor Authority																																														
19	Free State Gambling and Racing Board																																														
20	Free State Gambling and Liquor Authority																																														
21	James Robertson Bursary Fund																																														
22	Nature Conservation Trust Fund																																														
23	Private Patients Fund Trust																																														
24	Recreation Fund Trust																																														
25	Phakisa Major Sport Events and Development Corporation																																														
26	Thomas Robertson Bursary Fund																																														
27	Free State Tourism Authority																																														



ANNEXURE 5: Auditees with key findings on supply chain management

No.	Auditee	Limitation on planned scope of audit of awards	Awards to state officials and their close family members	Uncompetitive or unfair procurement processes	Inadequate contract management	Inadequate SCM controls
Departments						
1	Agriculture and Rural Development					
2	Cooperative Governance and Traditional Affairs					
3	Human Settlements					
4	Police, Roads and Transport					
5	Public Works					
6	Education					
7	Health					
8	Office of the Premier					
9	Free State Legislature					
10	Free State Provincial Treasury					
11	Social Development					
12	Sport, Arts, Culture and Recreation					
13	Economic Development, Tourism and Environmental Affairs					
Public entities						
14	Central Medical Trading Account					
15	Free State Fleet Management Trading Entity					
16	Free State Housing Fund					
17	Free State Investment Promotion Agency					
18	Free State Liquor Authority					
19	Free State Gambling and Racing Board					
20	Free State Gambling and Liquor Authority					
21	James Robertson Bursary Fund					
22	Nature Conservation Trust Fund					
23	Private Patients Fund Trust					
24	Recreation Fund Trust					
25	Phakisa Major Sport Events and Development Corporation					
26	Thomas Robertson Bursary Fund					
27	Free State Tourism Authority					

ANNEXURE 6: Auditees with key findings on IT focus areas

No.	Auditee	Focus Areas						
		IT governance	Security management	User access management	IT service continuity	Program change management	Facility and environment controls	Data centre management
Departments								
1	Agriculture and Rural Development							
2	Cooperative Governance and Traditional Affairs							
3	Human Settlements							
4	Police, Roads and Transport							
5	Public Works							
6	Education							
7	Health							
8	Office of the Premier							
9	Free State Legislature							
10	Free State Provincial Treasury							
11	Social Development							
12	Sport, Arts, Culture and Recreation							
13	Economic Development, Tourism and Environmental Affairs							
Public entities								
14	Free State Gambling and Liquor Authority							



ANNEXURE 7: Auditees with findings on human resource management

No.	Auditee	HR planning and organisation	Management of vacancies	Appointment processes	Performance management	Acting positions	Management of leave, overtime and suspensions
Departments							
1	Agriculture and Rural Development						
2	Cooperative Governance and Traditional Affairs						
3	Human Settlements						
4	Police, Roads and Transport						
5	Public Works						
6	Education						
7	Health						
8	Office of the Premier						
9	Free State Legislature						
10	Free State Provincial Treasury						
11	Social Development						
12	Sport, Arts, Culture and Recreation						
13	Economic Development, Tourism and Environmental Affairs						
Public entities							
14	Central Medical Trading Account						
15	Phakisa Major Sport Events and Development Corporation						

ANNEXURE 8: Auditees with material misstatements in financial statements submitted for auditing

No.	Auditee	No material misstatements	All corrected	Partially corrected
Departments				
1	Agriculture and Rural Development			
2	Cooperative Governance and Traditional Affairs			
3	Human Settlements			
4	Police, Roads and Transport			
5	Public Works			
6	Education			
7	Health			
8	Office of the Premier			
9	Free State Legislature			
10	Free State Provincial Treasury			
11	Social Development			
12	Sport, Arts, Culture and Recreation			
13	Economic Development, Tourism and Environmental Affairs			
Public entities				
14	Central Medical Trading Account			
15	Free State Fleet Management Trading Entity			
16	Free State Housing Fund			
17	Free State Investment Agency			
18	Free State Liquor Board			
19	Free State Gambling and Racing Board			
20	Free State Gambling and Liquor Authority			
21	James Robertson Bursary Fund			
22	Free State Nature Conservation Fund			
23	Patient Private Fund			
24	Recreation Trust Fund			
25	Phakisa Major Sport Events and Development Corporation			
26	Thomas Robertson Bursary Fund			
27	Free State Tourism Authority			



ANNEXURE 9: Audit outcomes over the past five years

Auditee	2010-11	2009-10	2008-09	2007-08	2006-07
Departments					
Agriculture and Rural Development	Qualified	Financially unqualified with findings	Qualified	Qualified	Qualified
Cooperative Governance and Traditional Affairs	Qualified	Qualified	Qualified	Financially unqualified with findings	Qualified
Education	Qualified	Qualified	Financially unqualified with findings	Financially unqualified with findings	Qualified
Health	Qualified	Disclaimer	Qualified	Qualified	Qualified
Human Settlements	Financially unqualified with findings	Qualified	No comparative	No comparative	No comparative
Office of the Premier	Financially unqualified with no findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
Free State Legislature	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
Free State Provincial Treasury	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings	Qualified	Qualified
Free State Provincial Revenue Fund	Audit not finalised	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with findings	Financially unqualified with findings
Police, Roads and Transport	Qualified	Disclaimer	Qualified	Financially unqualified with findings	Financially unqualified with findings
Public Works	Qualified	Qualified	Qualified	Qualified	Qualified
Social Development	Financially unqualified with findings	Financially unqualified with findings	Qualified	Qualified	Qualified
Sport, Arts, Culture and Recreation	Financially unqualified with findings	Financially unqualified with findings	Qualified	Financially unqualified with findings	Financially unqualified with findings
Economic Development, Tourism and Environmental Affairs	Qualified	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
Public entities					
Central Medical Trading Account	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
Free State Fleet Management Trading Entity	Financially unqualified with findings	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with findings	Financially unqualified with findings
Free State Development Corporation	Audit not finalised	Audit not finalised	Adverse	Disclaimer	Qualified

Auditee	2010-11	2009-10	2008-09	2007-08	2006-07
Public entities					
Free State Housing Fund	Financially unqualified with findings	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Qualified
Free State Investment Agency	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	No comparative	No comparative
Free State Liquor Board	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	No comparative	No comparative
Free State Gambling and Liquor Authority	Qualified	No comparative	No comparative	No comparative	No comparative
Free State Gambling and Racing Board	Qualified	Financially unqualified with findings	Financially unqualified with findings	Qualified	Financially unqualified with findings
James Robertson Bursary Fund	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings	No comparative
Free State Nature Conservation Fund	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with findings
Private Patients Fund Trust	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings	Qualified
Phakisa Major Sport Events and Development Corporation	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified	Financially unqualified with findings
Recreation Trust Fund	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings	Qualified	Financially unqualified with findings
Thomas Robertson Bursary Fund	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings	No comparative
Free State Tourism Authority	Financially unqualified with findings	Qualified	Financially unqualified with findings	Financially unqualified with findings	Disclaimer



ANNEXURE 10: Evaluation of the audit committees of departments

Auditee	Evaluation of engagement with Executive	Effectiveness of audit committee	Existence of audit committee	Impact on audit outcome
Agriculture and Rural Development				
Cooperative Governance and Traditional Affairs				
Education				
Health				
Human Settlements				
Office of the Premier				
Free State Legislature				
Free State Provincial Treasury				
Free State Provincial Revenue Fund				
Police, Roads and Transport				
Public Works				
Social Development				
Sport, Arts, Culture and Recreation				
Economic Development, Tourism and Environmental Affairs				

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