



GENERAL REPORT
on the provincial audit outcomes of **FREE STATE**
2009-10



AUDITOR - GENERAL
SOUTH AFRICA



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Auditing to build public confidence

General report

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of Free State 2009-10**

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S O U T H A F R I C A

Auditing to build public confidence

Our reputation promise/mission

The Auditor-General of South Africa 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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TABLE OF CONTENTS

SECTION 1: FOREWORD	1
SECTION 2: EXECUTIVE SUMMARY	3
2.1 Overview of audit outcomes	3
2.2 Findings on predetermined objectives	6
2.3 Findings on compliance with laws and regulations	7
2.4 Information technology system matters	7
2.5 Drivers to improve audit outcomes	7
2.6 Overview of specific focus areas	9
2.7 Overview of status of provincial consolidation and status of tabling of annual reports	12
2.8 Concluding remarks	12
DETAILED REPORT AUDITS CONDUCTED BY THE AGSA	
SECTION 3: OVERVIEW OF AUDIT OUTCOMES FOR 2009-10	13
3.1 Summary of audit outcomes	13
3.2 Findings on predetermined objectives	32
3.3 Findings on compliance with laws and regulations	35
3.4 Information technology system matters	36
3.5 Investigations and performance audits (specific to auditee)	39
3.6 Audits not conducted by the Auditor-General of South Africa	39
SECTION 4: ACTION TAKEN OR TO BE TAKEN TO ADDRESS AUDIT OUTCOMES	41
4.1 Drivers of audit outcomes	41
4.2 Action taken/to be taken to address matters previously reported	52
4.3 Initiatives taken by the AGSA to encourage clean administration	55
4.4 Matters that may potentially impact the auditor's report in the coming year	56
SECTION 5: FINDINGS ARISING FROM AGSA-SPECIFIC FOCUS AREAS	58
5.1 Significant findings from audits of human resources management and compensation of employees	58
5.2 Significant findings from audit of procurement and contract management	65
5.3 Transversal performance audits	72



A U D I T O R - G E N E R A L
S O U T H A F R I C A

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SECTION 6: CONSOLIDATED FINANCIAL STATEMENTS **75**

SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS **76**

7.1	Summary of annual reports tabled	76
7.2	List of departments and public entities whose annual reports were not tabled, together with reasons	76

ANNEXURES TO GENERAL REPORT **79**

1.	Listing of names with audit outcomes, areas qualified and findings on predetermined objectives	80
2.	Listing of names with findings related to compliance with laws and regulations	83
3.	Listing of entities with dates on which the annual reports were tabled	85

SECTION 1: FOREWORD

It is with pleasure that I present the Free State Provincial Legislature with my 2009-10 general report, which summarises the audit outcomes of the provincial departments, including the provincial legislature and revenue fund, as well as public entities for the financial year ended 31 March 2010.

Four departments had improved audit outcomes, while three regressed. Although the outcomes reflect that, at face value, the number of departments in the province that had improved audit opinions exceeded the number that regressed, the reality is that, included in the regressions, are two departments with disclaimers, which in fact reflects that the overall audit outcome for the province had moved backwards for 2009-10. The failure to implement key controls relating to accurate financial recording and to ensure that due process is followed for all procurement matters has contributed to the lack of improvement.

Those charged with oversight should focus on the leadership inefficiencies in the province, while members of the executive council (MECs) in particular should understand the key control deficiencies in their departments relating to (i) leadership, (ii) financial and performance management, and (iii) governance, and engage with management and those charged with governance to address the matters raised in the reports.

Clearly many departments and public entities do not meet the reporting and regulatory requirements on service delivery. The level of reliance that can be placed on the reported performance against predetermined objectives is low, which hampers effective oversight.

The poor quality of financial statements remains a concern as management had to make material adjustments during the audit of 12 of the 13 departments. Chief financial officers (CFOs) need to focus on their responsibilities in this regard as the continued use of consultants does not provide a sound basis for sustainable audit outcomes. The level of accounting activity after year-end and during the audit is indicative of the poor quality of financial management and reporting during the year. If the conditions that create the prevalence of these material errors are not addressed urgently, the provincial audit outcomes may reverse irretrievably. Regular in-year financial reporting should be implemented and monitored to enable errors to be addressed in a timely manner.

There is still much to be done to address deficient asset management processes and practices in the province, while the prevalence and magnitude of irregular expenditure incurred by 11 departments and three public entities during the year are unacceptably high and indicative of a lack of monitoring and supervision.

Serious vacancy challenges at senior levels exist in the province and I commend the Premier for the action already taken to review the organisational structures of departments.

The attainment of unqualified audit reports by all government departments and public entities is a milestone we encourage and support. The information on leadership, financial and performance management and governance, as reflected in the report, should be used as a baseline and should be tracked as the culture of oversight and monitoring is implemented in the province.

The current leadership, championed by the Premier, is building on these undertakings and undertook to specifically attend to the following:

- Provide adequate leadership and addressing non-performance
- Assisting in attracting and retaining persons with the appropriate skills and competencies
- Assisting portfolio committees in fulfilling their oversight responsibilities
- Addressing challenges regarding the implementation of infrastructure projects
- Monitoring the implementation of action plans
- Addressing areas of non-compliance that result in irregular expenditure.

Through our continued commitment to be proactive and to provide early warning signals to the leadership, the AGSA will assess the implementation of basic key controls at regular intervals. I remain confident that clean financial administration can be achieved in the Free State if all role players join forces in a concerted and unwavering effort towards this goal.

In conclusion, I wish to thank the audit teams from my office and the audit firms that assisted in the Free State Province 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.

Together, we will continue to make every effort to collaborate in order to contribute towards strengthening our country's democracy.

Auditor-General

**Auditor-General
Pretoria
December 2010**

SECTION 2: EXECUTIVE SUMMARY

The purpose of this general report is to provide an overview of the audit outcomes of provincial government for the 2009-10 financial year as well as recommendations to those charged with governance and oversight on achieving financially unqualified audit opinions and eliminating findings on the reporting of performance against predetermined objectives and compliance with laws and regulations. An overview of these audit outcomes was presented to the provincial legislature during October 2010 to facilitate dialogue on the understanding of the key underlying issues driving these audit outcomes and possible solutions in this regard.

The summary that follows highlights key issues and conclusions reached on the main sections in this report, while further details are contained in the body of the report.

Audit outcomes

2.1 Overview of audit outcomes

The Free State Provincial Government comprises 13 provincial departments (including the provincial legislature), the revenue fund and 17 public entities. This report presents the 2009-10 audit outcomes of 13 departments and 14 public entities.

The audits of all 13 departments and 14 public entities (2008-09: 27 out of 28) that submitted financial statements on time, were completed by 31 July 2010, within the legislated time frame of two months from receipt of the financial statements. The audits of the revenue fund, two public entities and another entity had not been finalised as at 31 August 2010. A high-level review of audit outcomes for the current and prior year is as follows:

Table 1: Summary of audit outcomes

Audit outcomes	Departments (including legislature and revenue fund)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Opinion on financial statements:				
Disclaimer	2	0	0	0
Adverse	0	0	0	1
Qualified	4	7	1	0
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	6	5	6	9
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	1	1	7	6
Total number of audits reported on	13	13	14	16
Number of audits not finalised at 31 August 2010	1	0	3	1
Total number of audits	14	13	17	17
Entities with findings arising from the AGSA's other legal reporting responsibilities:				
Predetermined objectives	10	9	4	7
Compliance with laws and regulations	12	11	6	9

At face value, the number of departments and entities in the province that achieved improvements in audit outcomes exceeded the number that regressed. The reality, however, is that included in the regressions are two disclaimers of opinion, which actually indicates that overall audit outcomes in the Free State have regressed in 2009-10.

Summary of audit outcomes

Highlights of the audit outcomes for the year under review are as follows:

Departments

- The Free State Provincial Treasury achieved a financially unqualified opinion with no findings on predetermined objectives or compliance with laws and regulations. This is the only department to have achieved this milestone.
- Economic Development, Tourism and Environmental Affairs remained financially unqualified (with findings on predetermined objectives and/or compliance with laws and regulations) for the fourth successive year, while the Free State Legislature and the Premier have maintained this status for the past five and six years.
- Agriculture, Social Development and Sport, Arts, Culture and Recreation improved from qualified to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.
- Cooperative Governance and Traditional Affairs (formerly Local Government and Housing) remained qualified for the second consecutive year, while Public Works and Rural Development was qualified for the sixth successive year.
- Education regressed from financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations to qualified, while Health and Police, Roads and Transport regressed from qualified to a disclaimer of opinion.

Public entities

- The seven public entities that achieved the ultimate audit outcome of financially unqualified with no findings on predetermined objectives or compliance with laws and regulations are: Free State Fleet Management Trading Entity, Free State Housing Fund, James Robertson Bursary Fund, Nature Conversation Trust Fund, Private Patients Fund Trust, Recreation Fund Trust and the Thomas Robertson Bursary Fund.
- Six public entities were financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations, namely Central Medical Trading Account, Free State Investment Promotion Agency, Free State Liquor Authority, Free State Gambling and Racing Board, Phakisa Major Sports Events and Development Corporation and Free State Youth Commission.
- Free State Tourism Authority regressed from financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations to qualified.

Audits not conducted by the Auditor-General of South Africa

There are 11 schedule 3 entities which are subsidiaries of the Free State Development Corporation. The audit of the Free State Development Corporation has not been finalised as the corporation has not submitted consolidated financial statements to the AGSA to date. No information relating to the audit outcomes of the

section 3 entities, their financial position or results of operations for the 2009-10 financial year has been provided to the AGSA on which to base an analysis. Consequently, these entities have not been included in the analysis in this report.

Common issues that form the basis for the qualified auditor's opinion on the financial statements

The common financial statement qualification areas in which more than 40% of the affected departments and public entities were qualified included:

- movable and/or immovable capital assets (five out of seven entities)
- current assets (three out of seven entities)
- liabilities (three out of seven entities)
- other disclosure items (four out of seven entities)
- expenditure (three out of seven entities)
- irregular as well as fruitless and wasteful expenditure (six out of seven entities).

The common root causes for the qualifications were inadequate leadership, oversight and monitoring of the implementation of action plans to address prior year audit findings, a lack of supporting documentation due to inadequate record keeping and failure to observe key daily and monthly financial controls.

Five departments and one public entity were qualified on irregular expenditure because management did not implement adequate processes to completely account for irregular expenditure. Furthermore, one department was also qualified regarding the completeness of fruitless and wasteful expenditure. The qualifications are mainly due to a lack of internal controls to prevent, detect and account for non-compliance with applicable legislation.

Funding of operations/financial sustainability/going concern

Three public entities displayed indicators of financial sustainability issues, which created significant uncertainties about their future operations.

Unauthorised, irregular as well as fruitless and wasteful expenditure

Unauthorised expenditure of R46,766 million was incurred due to the overspending of various programmes at two departments. These amounts still had to be condoned at the date of this report.

Irregular expenditure amounting to R763,558 million was incurred by 11 departments and three public entities, mainly as a result of non-compliance with SCM regulations. These amounts had not yet been condoned at financial year-end.

Fruitless and wasteful expenditure of R51,769 million was incurred by 10 departments and four public entities during the year under review.

Material impairment of assets

Two departments reflected a material impairment of receivables totalling R1 24,429 million.

Material underspending of the vote

Four departments and one public entity underspent their budget by a total of R338,494 million during the year. As a result, adequate service delivery was not achieved in respect of the underspent programmes.

Transversal material misstatements corrected during the audit

Financial statements submitted for auditing were subjected to material corrections during the audit at 12 of the 13 departments and eight of the 14 entities, compared to 11 of 13 departments and nine of 16 entities in 2008-09. This was due to errors, omissions and inconsistencies that were identified by the auditors and that would have resulted in qualifications had the matters not been corrected. The misstatements could have been detected by the departments and entities had the internal controls relating to financial reporting processes been effective and the monthly and annual financial statements been diligently supervised and reviewed by management throughout the year. Furthermore, had the financial statements been reviewed, a significant number of errors would have been detected prior to the financial statements being submitted to the AGSA.

2.2 Findings on predetermined objectives

Findings from the audit of predetermined objectives were analysed for 13 departments, including the Legislature, and 12 public entities. The reporting of performance against predetermined objectives is not applicable to the remaining one department and two public entities, namely the Provincial Revenue Fund, Private Patients Fund Trust and the Recreation Fund Trust, due to the nature of these entities' activities.

Table 2: Summary of findings arising from the audit of predetermined objectives

Category of finding	Departments (including legislature)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	54%	50%	33%	88%
Information on performance against predetermined objectives not useful	31%	42%	8%	38%
Information on performance against predetermined objectives not reliable	62%	67%	8%	0%
Information on performance against predetermined objectives not submitted for auditing by 31 May 2010	0%	0%	0%	13%
Total number of audits reported on	13	12	12	8
Total number of audits with findings on predetermined objectives	10	9	4	7

Significant findings were reported for 10 departments and four public entities. Three departments and eight public entities had no findings resulting from the audit of performance against predetermined objectives: Free State Provincial Treasury, Premier, Public Works and Rural Development, Free State Housing Fund, James Robertson Bursary Fund, Thomas Robertson Bursary Fund, Nature Conservation Trust Fund, Free State



Investment Promotion Agency, Phakisa Major Sport Events and Development Corporation, Free State Youth Commission and Free State Fleet Management Trading Entity.

2.3 Findings on compliance with laws and regulations

Twelve out of 13 departments and nine out of 14 public entities had findings on non-compliance with laws and regulations. The areas of non-compliance with laws and regulations mainly related to the following:

- PFMA, including SCM regulations in relation to procurement, which resulted in irregular expenditure being incurred at 11 departments and three entities
- Treasury Regulations, particularly TR 8.3.2 relating to payments not made within 30 days at nine departments and three entities
- Other applicable legislation at six departments and two public entities

The non-compliance with laws and regulations can be directly linked to inadequate risk assessment by the management of departments and entities.

2.4 Information technology system matters

Departments and public entities are heavily reliant on computerised information systems to perform their statutory financial management, reporting and administrative functions. The control environments for these systems are crucial as large amounts of critical financial data and transactions are recorded on, and processed through, these systems. The AGSA conducted audits of computerised information systems as part of the 2009-10 regularity audits of the financial statements at departments and entities. All 13 departments and four public entities had several high-risk deficiencies in general computer controls and user account management controls, which compromised the reliability of computer systems for financial reporting purposes.

2.5 Drivers to improve audit outcomes

In order to improve audit outcomes, the following aspects of internal control should be addressed in the province:

Leadership

- Commitment by those charged with governance at departments and entities to improve on the audit outcomes by creating an environment conducive to sound financial management and improved service delivery.
- Establish an effective organisational structure that places people with appropriate skills in appropriate positions to ensure compliance with applicable laws and regulations.
- Review and monitoring of action plans to address all significant internal control deficiencies.
- Ensure that all vacancies in finance and other significant components are filled within a reasonable time period.
- Leadership implementation of action plans to address user access control deficiencies (information systems)

Financial and performance management

- Proper record keeping and record management ensuring that supporting documentation is properly filed and easy retrievable.
- Ensuring that assets register reflects the assets owned and that this is agreed to the financial record and financial statements. Reconciling and clearing of suspense accounts on a monthly basis.
- Producing accurate financial statements and performance information and continuously monitoring the quality thereof. Ensuring that performance information is supported by relevant and reliable information.
- Application systems susceptible to compromised data integrity (information systems)
- Lack of skills transfer by consultants

Governance

- Greater involvement by internal audit and audit committee in monitoring processes
- Maintaining effective risk management strategies, including fraud prevention plans
- An IT governance framework that directs the positioning of IT, resource requirements, risk and internal control management

As the Free State has only one unqualified audit with no findings on predetermined objectives or non-compliance with laws and regulations, all departments and entities should pay close attention to the mentioned fundamentals of internal control.

Progress on undertakings given by the executive authority and Provincial Treasury to address matters reported

The collective leadership under the direction of the premier in conjunction with the Provincial Treasury committed to the initiatives of monitoring action plans drawn up by departments, providing technical support, compiling manuals on financial functions and providing training, as well as regular reporting to the MEC: Finance on financial management in departments.

Resulting from the AGSA's interactions with the executive council on matters previously reported, the premier instituted task teams to support departments in clearing matters arising from previous audits. The premier took initiative to speed up the process of appointing accounting officers and qualified CFOs. A further action taken by the premier is to move CFOs to strengthen financial administration at certain departments.

During the Auditor-General's roadshow in October 2010 to present the 2009-10 audit outcomes, the executive leadership of the province committed to the coordination and monitoring of follow-up action plans. These are summarised as follows:

- The political leadership is in the process of engaging consultants in developing systematic organisational structures based on available budget to eliminate high vacancy rates.
- Leadership envisages seeking support from other governmental structures to deal with the implementation of infrastructure projects.
- Consideration will be given to consolidate trust funds within departments.
- Providing adequate leadership and addressing non-performance.

- Political leadership to support the attraction and retention of skills and competencies in the public service.
- Members of the Executive Council (MECs) will interact with the provincial AGSA to proactively resolve matters emanating from audit reports.
- Executive leadership will assist the portfolio committees in fulfilling their oversight responsibilities.
- The Provincial Treasury will provide enhanced support and guide departments and entities in developing a systematic follow-up of the audit outcomes.
- The Provincial Treasury will develop a proper system to enhance record management to ensure that supporting documentation is maintained.
- A process directed by the Premier will be developed to address challenges that the province is confronted with, resulting in irregular expenditure.
- 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 fulfil political oversight.
- Quarterly reporting on asset management is envisaged.

Initiatives by the AGSA to encourage clean administration

In support of an ultimate audit outcome of unqualified audit opinions with no reported findings on predetermined objectives or compliance with laws and regulations, the AGSA leadership in the province embarked on an intensified programme to enhance its visibility with the objective to improve the effectiveness of the audit process and engage with all role players who could influence clean administration. To this end, the audit teams made regular visits during the audits and meetings were held with those charged with governance. The engagements focused on simplicity, clarity and relevance of the message to gain an understanding, get buy-in and seek commitment that would influence clean administration.

Matters that may potentially impact the auditors' report in the coming year

The Government Immovable Asset Management Act of South Africa, 2007 (GIAMA), which came into effect on 1 April 2010, applies to any custodian or user that is a provincial department. The impact of not fulfilling the requirements would be that the financial statements of departments could be qualified for incorrectly recognising immovable assets in their financial statements.

2.6 Overview of AGSA-specific focus areas

Significant findings from audits of human resource management and compensation of employees

The regularity audits of departments included an assessment of their compliance with legislation that supports effective human resource management and controls over compensation of employees.

The Free State Legislature was not included in the audit of human resource management and compensation of employees since the legislature is not subject to the provisions of the said laws and regulations.

Weaknesses were identified in the following areas:

- All 12 departments did not comply with all the requirements for effective human resource planning and organisation.

- The vacancy rate did not improve at seven departments.
- The appointment process was not effectively implemented at seven departments.
- Sick and incapacity leave deficiencies were identified at seven departments.
- Nine departments were identified where non-compliance occurred, resulting in incorrect calculation of overtime.
- Eight departments did not remove employees timeously from the payroll after termination.
- Nine departments did not fully implement payroll control.

The weaknesses in the controls over compensation identified in the following areas are, however, of concern:

- Sick and incapacity leave
- Leave administration
- Management of overtime
- Service terminations
- Payroll controls

Significant findings from audits of procurement and contract management

The regularity audits included an assessment of the departments' and entities' procurement processes and contract management as well as the controls implemented by them to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that prevents and detects fraud, non-performance by suppliers and non-compliance with SCM legislation.

Non-compliance with SCM legislation resulted in 88% of the irregular expenditure incurred in the year under review, details of which have been included under paragraph 4.1.3.2 of this report.

Non-compliance with the SCM legislation in the procurement process was identified at 11 departments.

The most significant findings were:

- three quotations were not always invited for procurement up to a value of R500 000
- competitive bidding processes were not always followed for procurement above R500 000
- the preference point system was not always/correctly applied
- various approvals for deviation from procurement processes that were granted were not justified.

Weaknesses in the management of contracts were identified at six departments. The most significant findings were:

- contracts were amended, extended or renewed without approval or to circumvent the competitive bidding process
- action was not always taken against non-performing contractors
- performance measures or monitoring of some contracts were inadequate
- payments were made for goods or services not received.

The root cause of the weaknesses identified relates to controls not being implemented to prevent and detect the non-compliance and failures. The following control deficiencies were most prevalent:

- Lack of SCM policies/procedures or the policies/procedures were in conflict with legislation
- Risk assessments did not address procurement and contract management risks
- Internal audit units did not perform evaluations of SCM compliance

Conclusion

The non-adherence to SCM requirements increases the risk for fraudulent actions and bribery. The many deviations from prescripts are also of concern, especially in cases where deviations were approved for not following procedures based on emergency/urgency grounds which could not always be justified.

The regularity audits included an assessment of the departments' and entities' procurement processes and contract management as well as the controls implemented by them to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that prevents and detects fraud, non-performance by suppliers and non-compliance with SCM legislation.

Non-compliance with SCM legislation resulted in 88% of the irregular expenditure incurred in the year under review, details of which have been included in paragraph 4.1.3.2 of this report.

Investigations and performance audits (Specific auditee)

Details of investigation and performance audits in progress during the year under review are contained in section 3 of this report.

Investigations

Investigations were in progress in all 13 departments and at the Free State Tourism Authority.

Infrastructure performance audit

The AGSA conducted performance audits of the infrastructure delivery process at the Departments of Health and Education as part of a transversal performance audit on infrastructure delivery. The audit focused on a high-level overview of the infrastructure delivery management processes.

Broad conclusions in respect of audits conducted included:

- The highest priorities for infrastructure were not always addressed first as needs were not always well understood or inadequate information was used during the decision-making process.
- Infrastructure projects were not supervised, monitored and controlled effectively due to insufficient technical skills.
- The applicable legislation and regulations were not correctly applied during the appointment of contractors and consultants due to a lack of supervision and training.
- The commissioning and utilisation of completed infrastructure projects were delayed due to ineffective coordination between role players.
- All audit procedures deemed necessary could not be executed due to poor document management and the subsequent unavailability of documentation.

2.7 Overview of status of provincial consolidation and status of tabling of annual reports

The consolidated financial statements for the departments and public entities for the 2009-10 financial year were received on 31 August 2010. The audit is currently in progress and the anticipated reporting date is 30 September 2010. The status of tabling of 2009-10 annual reports is provided in section 8 of this report.

2.8 Concluding remarks

The leadership needs to take decisive action to address areas requiring improvement in order to prevent deterioration in audit outcomes in the future. Prevalent increase in non-compliance with laws and regulations should be attended to by adhering to basic principles of financial accounting to prevent irregular, fruitless and wasteful expenditure as well as reporting against predetermined objectives.

SECTION 3: OVERVIEW OF AUDIT OUTCOMES FOR 2009-10

3.1 Summary of audit outcomes

The Free State Provincial Government comprises 13 provincial departments (including the provincial legislature), the revenue fund and 17 public entities. This report presents the 2009-10 audit outcomes of 13 departments and 14 public entities.

The table below provides an overview of the 2009-10 audit outcomes of departments and public entities. The table also reflects the status of completion of the 2009-10 audits as at 31 August 2010.

Table 3: Summary of audit outcomes

Audit outcomes	Departments (including legislature and revenue fund)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Opinion on financial statements:				
Disclaimer	2	0	0	0
Adverse	0	0	0	1
Qualified	4	7	1	0
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	6	5	6	9
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	1	1	7	6
Total number of audits reported on	13	13	14	16
Number of audits not finalised at 31 August 2010	1	0	3	1
Total number of audits	14	13	17	17
Entities with findings arising from the AGSA's other legal reporting responsibilities:				
Predetermined objectives	10	9	4	7
Compliance with laws and regulations	12	11	6	9

It should be noted that the comparative figures for 2008-09 have been restated to include audits finalised since the previous general report was prepared and issued.

3.1.1 Movements in audit outcomes

The number of departments increased from 13 in 2008-09 to 14 in 2009-10 because Local Government and Housing was split into two departments in 2009-10, namely Cooperative Governance and Traditional Affairs and Human Settlements. The number of public entities remained unchanged since the Small Holdings Trust Fund was disestablished in the year under review, and another entity, the Universitas Academic Hospital Board, was audited for the first time in 2009-10.

The movement in the audit outcomes of departments and public entities for the year under review is reflected in the table below:

Table 4: Movement in audit outcomes

Type of entity	Unchanged	Improvement	Regression	New entities or those no longer in existence	Total
Departments	5	4	3	1	13
Public entities	12	1	1	0	14
Total number of audits reported on	17	5	4	1	27

At face value, the number of departments and entities in the province that achieved improvements in audit outcomes exceeds the number that regressed. The reality, however, is that included in the regressions are two disclaimers of opinion, which actually indicates that overall audit outcomes in the Free State have regressed in 2009-10.

Departments

Of the 13 departments analysed, four registered improved audit outcomes, five registered the same outcomes and three registered deteriorated audit outcomes compared to the previous financial year, and one more was not previously reported on.

Unchanged

Economic Development, Tourism and Environmental Affairs remained financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations for the fourth successive year, while the Free State Legislature and the Premier have maintained this status for the past five and six years. The leadership and management of these departments are encouraged to prioritise actions to address the matters that have thus far prevented them from progressing to clean financial administration.

The financial statements of Cooperative Governance and Traditional Affairs (formerly Local Government and Housing) remained qualified for the second consecutive year, while Public Works and Rural Development was qualified for the sixth successive year.

Improvements

The Free State Provincial Treasury improved from financially unqualified with findings to financially unqualified with no findings on predetermined objectives or compliance with laws and regulations. The Provincial Treasury is the first department in the province (other than the revenue fund) to achieve this status. The leadership and management of the department are congratulated on this achievement and are commended for their commitment and efforts towards achieving clean financial administration.

Agriculture, Social Development and Sport, Arts, Culture and Recreation improved from qualified to financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations.

Regressions

Education regressed from financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations to qualified, while Health and Police, Roads and Transport regressed from qualified to a disclaimer of opinion.

New entity

Human Settlements, which was established in 2009-10 when Local Government and Housing was split into two departments, received a qualified audit opinion for the year ended 31 March 2010.

Public entities

The overall audit outcomes for the public entities also regressed during the 2009-10 year, with one of the 14 public entities analysed registering an improved audit outcome, 12 registering the same outcomes and another registering a deteriorated outcome. One public entity no longer existed at year-end.

Unchanged

Six public entities were financially unqualified with no findings on predetermined objectives or compliance with laws and regulations, namely Free State Fleet Management Trading Entity, James Robertson Bursary Fund, Nature Conversation Trust Fund, Private Patients Fund Trust, Recreation Fund Trust and Thomas Robertson Bursary Fund.

A further six public entities were financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations, namely Central Medical Trading Account, Free State Investment Promotion Agency, Free State Liquor Authority, Free State Gambling and Racing Board, Phakisa Major Sports Events and Development Corporation and Free State Youth Commission.

Improvement

The Free State Housing Fund improved from a financially unqualified opinion with findings to a financially unqualified opinion with no findings on predetermined objectives or compliance with laws and regulations

Regression

The Free State Tourism Authority regressed from financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations to qualified.

Entity no longer in existence

The Small Holdings Trust Fund was disestablished in 2009-10.

Drivers of improvements and regressions in audit outcomes

Improvements

The improvements in audit outcomes can be attributed to the following:

- Leadership involvement and regular monitoring of the implementation of action plans to address prior year audit findings at the Free State Provincial Treasury
- Availability and accessibility of key management, staff and governance structures
- Timely responses to audit findings and dedicated management commitment to resolve matters reported in the previous year
- Involvement of internal audit in the financial reporting process and in the evaluation and development of internal controls over moveable assets at Agriculture
- Engagement of consultants by Agriculture to reconstruct the asset records of the department

Regressions

The regressions in audit outcomes are due to the following:

- Inadequate oversight by leadership and management throughout the year. A contributing factor in some departments has been vacancies in senior management positions that were filled by officials in acting positions for significant periods during the year under review, and the resultant leadership instability.
- Inadequate implementation and monitoring of action plans that were developed to address prior year matters reported by the AGSA.
- Lack of management oversight of key daily and monthly controls.
- Lack of adequate systems to support the reported performance against predetermined objectives.
- Decisive action was not taken in response to the risk of non-compliance with SCM regulations and sound internal control procedures highlighted in previous audit findings, by implementing controls to prevent the occurrence of irregular and fruitless and wasteful expenditure.
- In the case of Health, the split between the functions of the head of department and the accounting officer brought about inefficiencies in management processes and contributed to a culture of lack of accountability in the department that had a detrimental effect on the departmental control environment and its financial performance.
- In respect of Education, exemption regarding the disclosure requirements for capital assets granted by the National Treasury had expired in the 2009-10 financial year regarding major assets. During the period in which the department had the exemption, management had not taken sufficient action to put the department in a position to reliably disclose its capital assets.
- In respect of Police, Roads and Transport, management imposed a significant limitation of scope on the audit of procurement, expenditure and the completeness of irregular expenditure. Management did not provide reasonable explanations as to why requested information was not provided for audit purposes, which increased the risk of probable irregularities in the processes, especially given the shortcomings identified in the department's SCM policies.

3.1.2 Status of completion of audits

The audits of all 13 departments and 14 public entities (2008-09: 27 out of 28) that submitted financial statements on time, were completed by 31 July 2010, within the legislated time frame of two months from receipt of the financial statements. The audits of the revenue fund, two public entities and another entity had not been finalised as at 31 August 2010, the cut-off date for the purpose of the detailed analysis in this report.

These entities have thus been excluded from the analysis in this general report.

The table below reflects the status of completion of these audits at 31 August 2010 as well as the expected date of completion thereof:

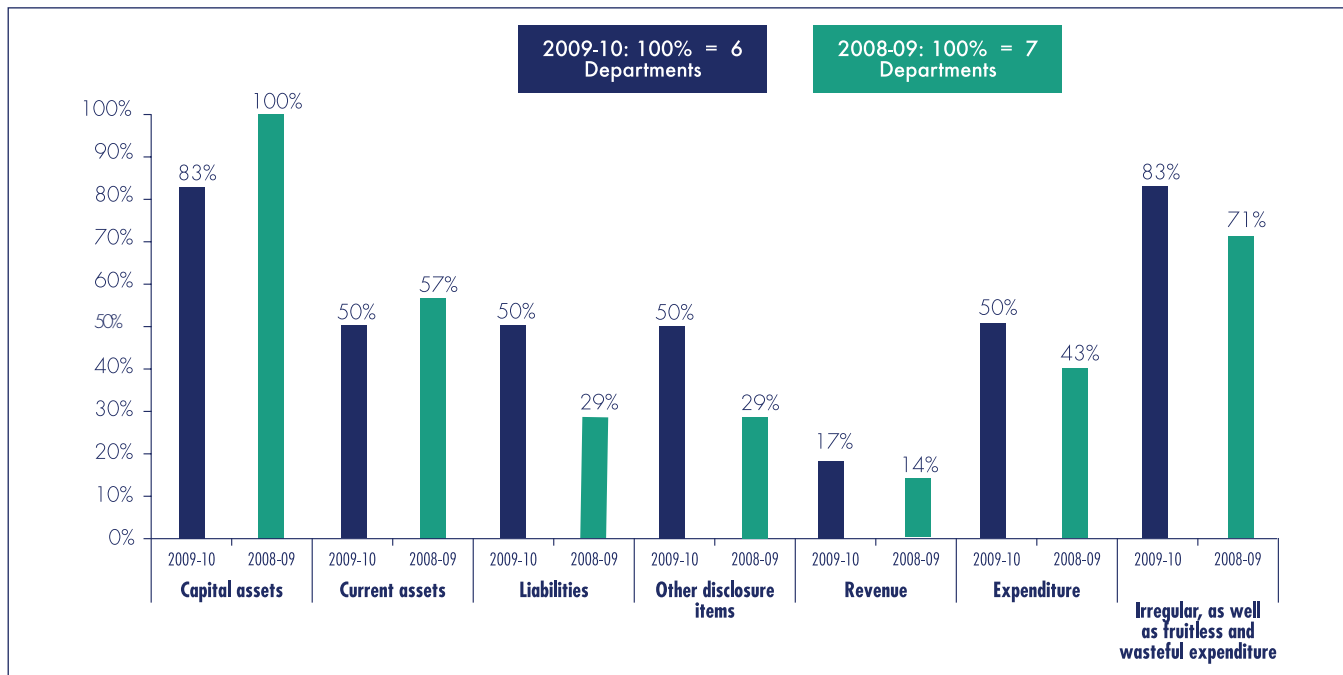
Table 5: Status of completion of the 2009-10 audits

Entity not reported on	AFS received date	Reason not finalised	Expected date of completion
Free State Provincial Revenue Fund	27 Aug 10	Annual financial statements for 2009-10 were not received due to a practical delay caused by the Provincial Treasury awaiting completion of annual audits.	30 Sep 10
Free State Development Corporation	Consolidated annual financial statements outstanding	The entity is experiencing challenges to obtain financial statements for all its subsidiaries.	15 Nov 10
Universitas Academic Hospital Board	30 Aug 10	Late submission of annual financial statements	15 Nov 10
Free State Political Party Fund	Outstanding	The annual financial statements for 2008-09 were only submitted on 9 June 2010 and the financial statements for 2009-10 have not been submitted to date since the legislature is still awaiting financial statements of one political party.	15 Oct 10 (for 2008-09)

The audit reports of the Provincial Revenue Fund (financially unqualified with no findings on predetermined objectives or compliance with laws and regulations) and the Free State Development Corporation (adverse) for the year ended 31 March 2009 were issued on 10 September 2009 and 14 October 2009, respectively.

3.1.3 Common issues that form the basis for the qualified auditor's opinion on the financial statements

This section analyses the outcomes of seven out of 27 departments and entities that were qualified during 2009-10 (2008-09: eight out of 28) and details specific areas that attracted qualified audit opinions. Figures 1 (departments) and 2 (public entities) below depict the incidence of those financial statement areas that attracted qualified audit opinions.

Figure 1: Financial statement areas qualified: Departments

The root causes of financial statement qualifications where findings are prevalent in more than 40% of the departments qualified, calculated as a percentage of the total number of departments that received a qualification in that area, are as follows:

Capital assets

Five of the six departments, namely Cooperative Governance and Traditional Affairs, Education, Health, Police, Roads and Transport and Public Works and Rural Development, were qualified in the area of movable assets (2008-09: seven), while only Public Works and Rural Development was qualified regarding immovable assets.

Qualifications in this area resulted from the following:

Movable assets

- Fixed asset registers did not include all the detail required to make it a reliable and verifiable record of all assets that support the financial statements and that could be used to audit the financial statement disclosure.
- The departmental asset control and verification procedures were ineffective, resulting in assets not being identified and asset records that support the financial statement disclosure not being updated.
- Asset registers were not reconciled with the financial statement disclosure.
- Assets were budgeted for and procured on incorrect item codes that resulted in the asset items not being included in the asset registers by the automated processes.

- Departmental asset control processes were inadequate to track and account for asset movement.
- Supporting documentation for asset values was not available at the departments.
- Management did not consider whether the average cost calculated and allocated to assets by LoGIS represented appropriate values.

Immovable assets

- The province still does not have an effective process in place for departments to report to the management of Public Works and Rural Development the detail of any capital improvements made to provincial property to allow Public Works and Rural Development to correctly account for the value of such improvements in the department's registers.
- Currently, the province faces a challenge to determine the ownership of farm schools that had been erected on private property, and, where ownership can be determined, how to value the structures.
- The valuation of all provincial property has also not been finalised.

Current assets

Three of the six departments that were qualified, namely Police, Roads and Transport, Public Works and Rural Development and Health, were qualified in the area of current assets (2008-09: four).

Qualifications in this area resulted from the following:

Receivables

The issues on receivables are confined to the receivables disclosed in the disclosure notes to the financial statements and not the receivables that form part of the statement of financial position. The reasons for the qualifications are diverse and are therefore discussed individually below.

Department of Health

Oversight controls are not effective and instances of incomplete capturing of service revenue were not prevented or detected and corrected. Documentation retention protocols had also not been established. Furthermore, effective verification processes to confirm the existence of debtors could not be performed.

Department of Police, Roads and Transport

The department did not disclose the receivables for which it is responsible (vehicle licensing and other traffic-related receivables).

Department of Public Works and Rural Development

Management processes and oversight at the department in respect of the receivables are not effective and supporting evidence could not be provided in respect of lease receivables.

Liabilities

Three of the six departments qualified, namely Police, Roads and Transport, Public Works and Rural Development, and Health were qualified in the area of liabilities (2008-09: two).

Health and Police, Roads and Transport were qualified regarding the provision for potential irrecoverable receivables and accruals, while Public Works and Rural Development was only qualified regarding the provision for potential irrecoverable receivables.

Other disclosure items

Three of the six departments qualified, namely Police, Roads and Transport, Public Works and Rural Development and Health, were qualified in the area of other disclosures (2008-09: two).

The qualifications related to the following disclosures in the financial statements:

Table 6: Summary of qualifications on disclosures

Department	Subsidiaries, associates, joint ventures and PPPs	Contingent liabilities	Commitments
Health	X	X	X
Police, Roads and Transport			X
Public Works and Rural Development		X	

The qualifications resulted from the following:

- In terms of the subsidiaries, joint ventures and PPPs, a financial arrangement was identified during the current financial year that the Department of Health has with the University of the Free State in terms of the shared cost of an agreed-upon joint staff establishment.
- In respect of contingent liabilities a lack of sufficient management insight into the information required to reliably estimate contingencies resulted in estimations being made without due consideration of all issues that can affect the calculation of the value thereof.
- In respect of commitments, management oversight was ineffective and as a result the departmental system reports were not interrogated before inclusion of the values in the financial statements.

Expenditure

Three of the six departments qualified, namely Human Settlements, Police, Roads and Transport and Health were qualified on expenditure (2008-09: three).

The qualifications resulted from the incorrect classification of expenditure and limitations placed on the scope of the audit by management due to requested documentation in support of recorded transactions not being made available.

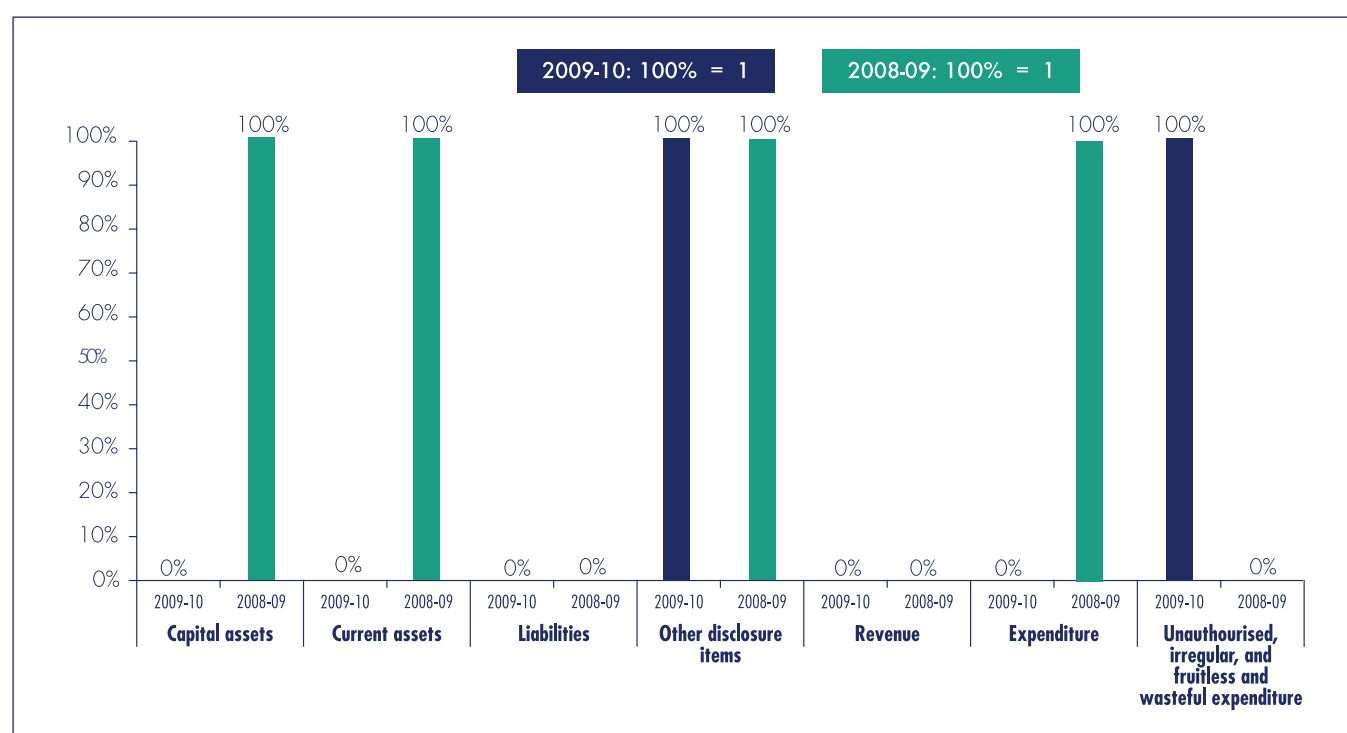
The challenges are mainly due to the lack of effective daily key control processes that are intended to ensure that transactions are correctly processed and that all related supporting documentation is adequately safeguarded.

Irregular as well as fruitless and wasteful expenditure

Five of the six departments qualified, namely Cooperative Governance and Traditional Affairs, Human Settlements, Police, Roads and Transport, Public Works and Rural Development and Health, were qualified on irregular expenditure (2008-09: five). Management did not implement adequate processes to completely account for irregular as well as fruitless and wasteful expenditure due to a lack of internal controls to prevent, detect and account for non-compliance with applicable legislation. Cooperative Governance and Traditional Affairs was also qualified on fruitless and wasteful expenditure in 2009-10.

The qualifications resulted from a lack of proper processes to prevent, detect and account for irregular expenditure. This weakness points to poor oversight controls by management.

Figure 2: Financial statement areas qualified: Public entities



The root causes of financial statement qualifications where findings are prevalent in more than 40% of the entities qualified, calculated as a percentage of the total number of entities that received a qualification in that area, are as follows:

Other disclosure items

The Free State Tourism Authority was qualified in the area of other disclosures (2008-09: one). The qualifications resulted from the fact that GRAP 1 budget information disclosure could not be complied with due to systems constraints that did not permit management to obtain the required information to allow for the reconciliation of the budget to the financial statement disclosure.

Irregular as well as fruitless and wasteful expenditure

The Free State Tourism Authority was qualified on irregular expenditure (2008-09: 0). Management did not implement adequate processes to completely account for irregular as well as fruitless and wasteful expenditure due to a lack of internal controls to prevent, detect and account for non-compliance with applicable legislation.

The qualifications resulted from a lack of proper processes to prevent, detect and account for irregular expenditure. This weakness points to poor oversight controls by management.

3.1.4 Funding of operations/financial sustainability/going concern

The table below depicts the public entities in the province where concerns related to funding of operations, financial sustainability and going concern were raised.

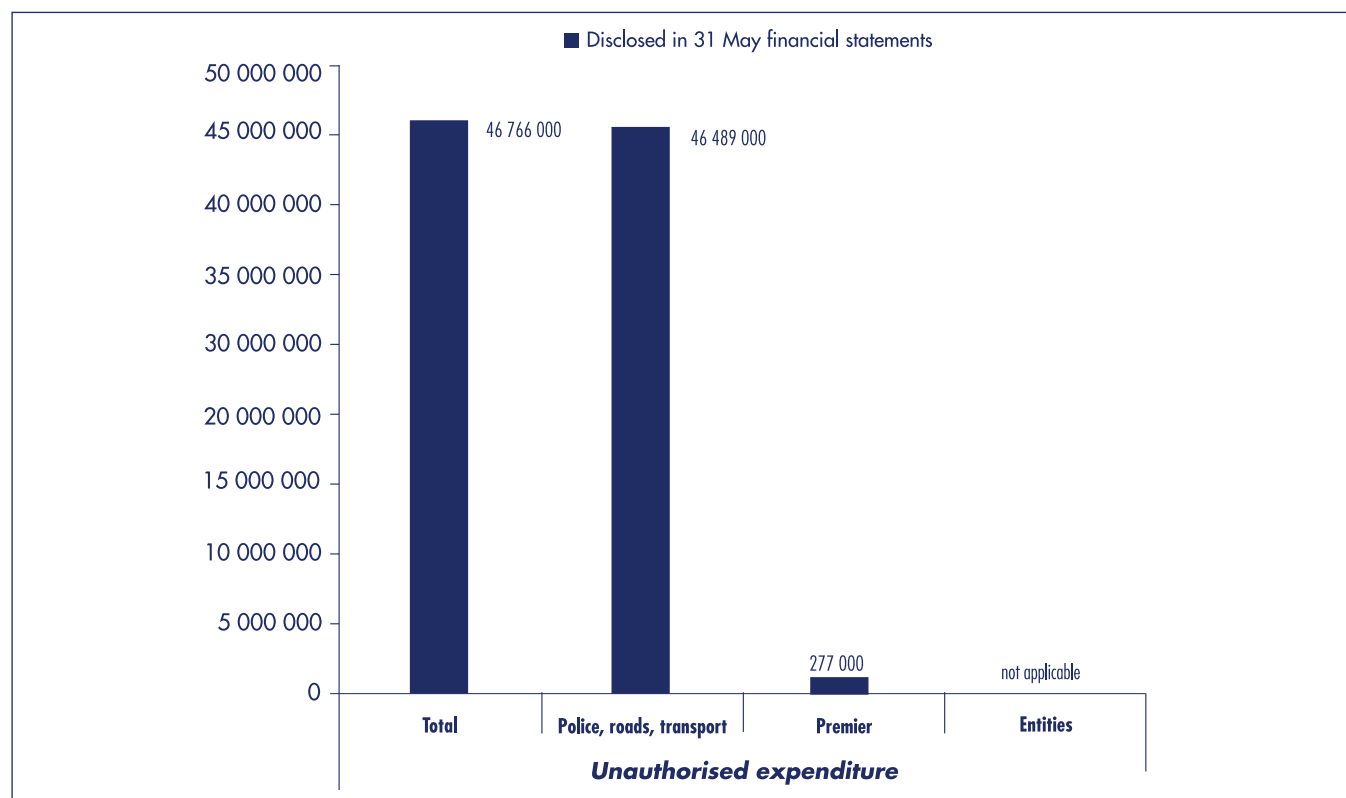
Table 7: Auditees with concerns related to funding of operations/financial sustainability/going concern

Public entity	Reason(s)
Free State Investment Promotion Agency	Continued operating losses, current liabilities exceed its current assets and pending incorporation of agency into the Free State Development Corporation
Free State Gambling and Racing Board	Liabilities exceed assets and pending incorporation of the board into the Free State Gambling and Liquor Authority
The Phakisa Major Sport Events and Development Corporation	Financial loss of R6,5 million and uncertainty regarding future funding

3.1.5 Unauthorised, irregular, and fruitless and wasteful expenditure incurred during the year

Unauthorised expenditure – R46,766 million

As depicted in figure 3 below, two departments incurred unauthorised expenditure during the year under review. This unauthorised expenditure was detected by the auditees and disclosed in the financial statements submitted to the AGSA on 31 May 2010.

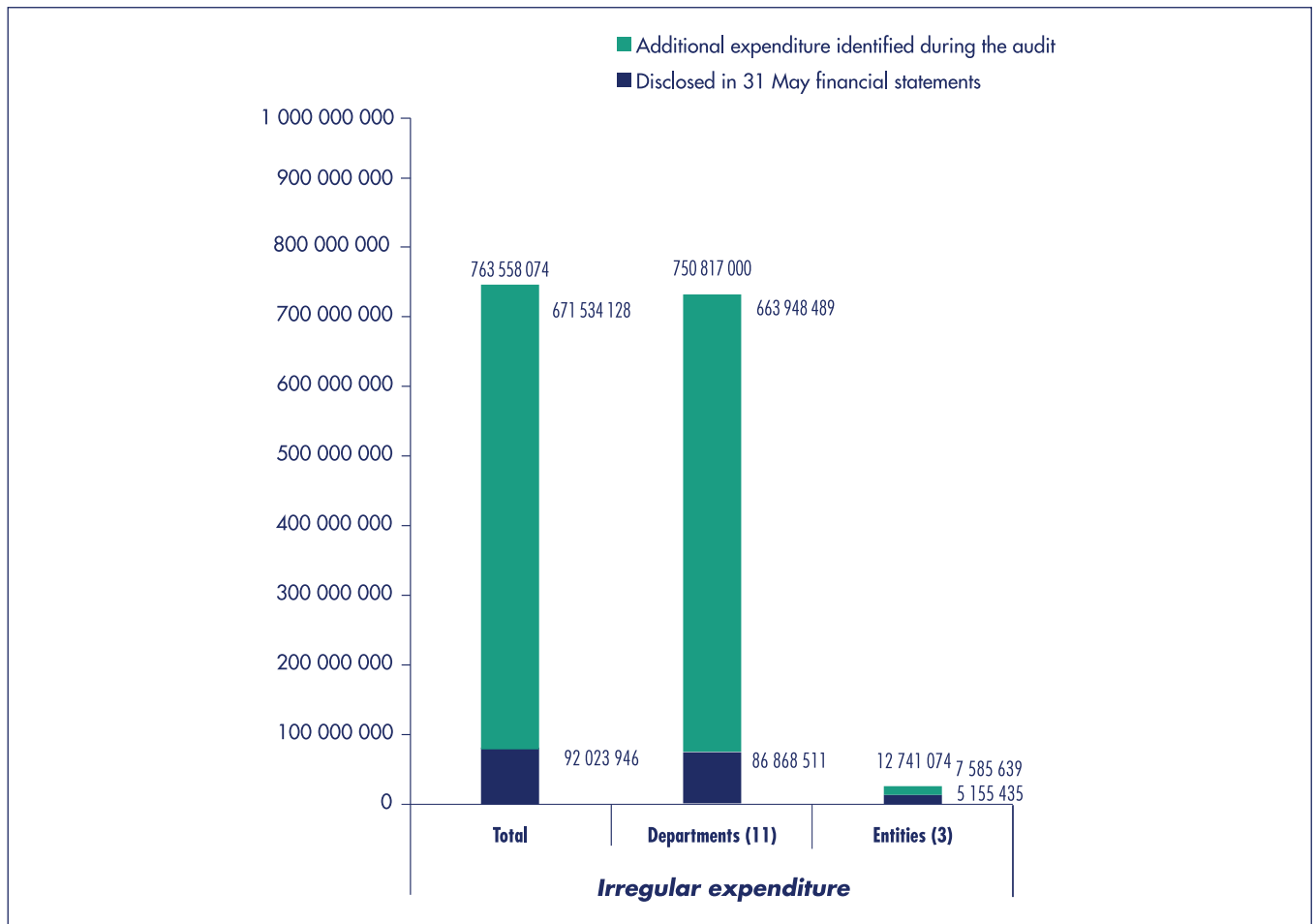
Figure 3: Unauthorised expenditure incurred in 2009-10

Police, Roads and Transport incurred unauthorised expenditure amounting to R46 489 000 due to an amount paid to the Free State Fleet Management Trading Entity relating to the roads function that was transferred from the Department of Public Works and Rural Development, and that was carried over from the previous financial year. At year-end, when the Provincial Treasury confirmed that the payment had to be made, the department no longer had sufficient funding at its disposal.

The Premier overspent on a main division within the vote (institutional development) by R277 000.

Irregular expenditure – R763,558 million

Figure 4 below depicts the extent of irregular expenditure incurred by departments and public entities during the year under review.

Figure 4: Irregular expenditure incurred in 2009-10

Eleven departments and three entities incurred irregular expenditure totalling R763,558 million during 2009-10:

Table 8: Irregular expenditure per department/entity

Department/Public entity	Amount R	%
Agriculture	4 441 000	0.6%
Cooperative Governance and Traditional Affairs	18 846 550	2.5%
Economic Development, Tourism and Environmental Affairs	26 582 585	3.5%
Education	92 712 075	12.1%
Health	273 614 633	35.8%
Human Settlements	17 113 646	2.2%
Police, Roads and Transport	141 731 274	18.6%
Premier	4 580 000	0.6%
Public Works and Rural Development	146 624 000	19.2%
Social Development	3 278 000	0.4%

Department/Public entity	Amount R	%
Sport, Arts, Culture and Recreation	21 292 539	2.8%
Free State Tourism Authority	7 245 289	0.9%
Phakisa Major Sport Events and Development Corporation	5 184 435	0.7%
Free State Youth Commission	311 350	0.1%
Total	763 577 376	

None of the irregular expenditure incurred in the 2009-10 financial year had been condoned at year-end. Additional irregular expenditure totalling R671,534 million was identified by the auditors during the audit process. It is evident that the systems and internal controls for the detection, identification and recording of irregular expenditure in place at departments and entities are inadequate, since only R92,024 million of the total amount of irregular expenditure was detected by the auditees and disclosed in the financial statements submitted on 31 May 2010.

A material limitation was placed on the scope of our audit of procurement and contract management at Police, Roads and Transport because management did not provide the auditors with supporting documentation for tenders awarded totalling R753,880 million. This amount of potential irregular expenditure has not been reflected in the figures and tables in this report.

As depicted in the table below, R669,758 million of the irregular expenditure was incurred due to non-compliance with SCM regulations.

Table 9: Analysis of irregular expenditure

Type of auditee	Nature and extent of irregular expenditure					
	SCM related	Compensation of employees related			Other	
	Number	R'000	Number	R'000	Number	R'000
Departments	11	657 018	7	15 041	7	78 758
Public entities	3	12 740	-	-	-	-
Total	14	669 758	7	15 041	7	78 758

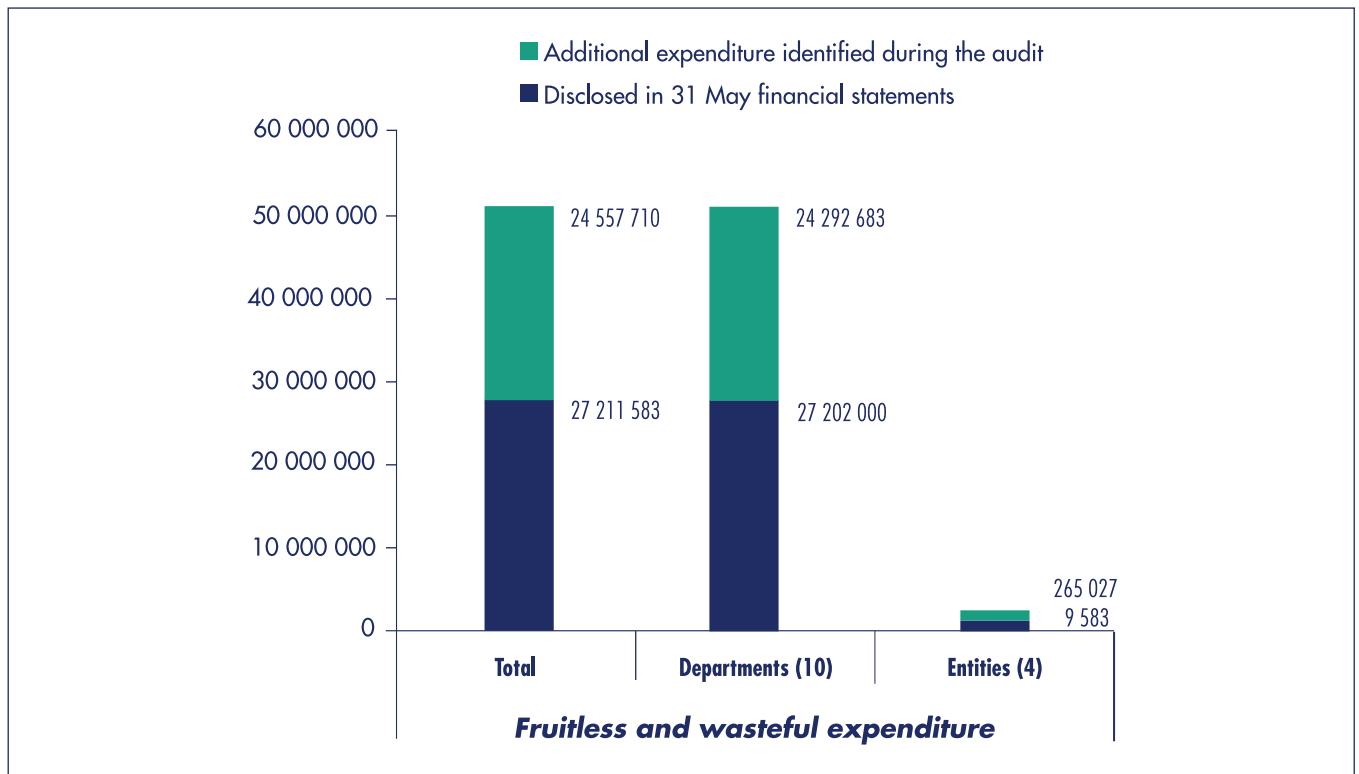
The prevalence of accounting officers of departments utilising urgent and emergency delegations to avoid the invitation of competitive bids is of great concern and reasons for the occurrence of such urgent and emergency circumstances will need to be carefully considered and interrogated by the accounting officers in the year ahead.

The leadership and management of the departments and entities will need to strengthen supervision, monitoring and review of day-to-day activities and adherence to internal controls as a priority in order to reduce the prevalence of irregular expenditure in the province. The support of the audit committee and internal audit is necessary to establish a strong control environment and ensure compliance.

Fruitless and wasteful expenditure – R51,769 million

Figure 5 below depicts the extent of fruitless and wasteful expenditure incurred by departments and public entities during the year under review.

Figure 5: Fruitless and wasteful expenditure incurred in 2009-10



Ten departments and four entities incurred fruitless and wasteful expenditure totalling R51,769 million during 2009-10:

Table 10: Fruitless and wasteful expenditure per department/entity

Department/Entity	Reasons	Amount R	%
Agriculture	Officials not attending courses	450 000	0.9%
Cooperative Governance and Traditional Affairs	Value-added tax (VAT) payments to non-vendors	3 523 997	6.8%
Education	NSN difference in learner numbers, government transport, Public Works and Rural Development, interest paid and capital projects not fully utilised	18 901 000	36.5%
Health	Expired medical stock	22 261 922	43.0%
Human Settlements	VAT incorrectly paid to supplier	317 308	0.6%
Police, Roads and Transport	Double payments for interest and salaries were made to employees who were suspended	2 083 853	4.0%
Premier	Transfer from the Premier to the Free State Youth Commission in contravention of the Free State Youth Commission Act	166 603	0.3%
Public Works and Rural Development	Rentals regarding Warden Building and rates and taxes paid on third-party properties	3 327 000	6.4%
Social Development	Nineteen laptops paid for but not received	214 000	0.4%
Sport, Arts, Culture and Recreation	Interest payment to service provider and overcharges above contract price	249 000	0.5%

Department/Entity	Reasons	Amount R	%
Free State Investment Promotion Agency	Interest on payments made	2 000	0.1%
Free State Tourism Authority	Video production never aired nor received	254 000	0.5%
Phakisa Major Sport Events and Development Corporation	Fines paid to SARS	7 000	0.1%
Free State Youth Commission	Penalties and interest	11 610	0.1%
Total		51 769 293	

3.1.6 Material losses, material impairment of assets and material underspending of the vote/conditional grant

The table below depicts the extent of concerns raised regarding material losses, material impairment of assets and material underspending of the vote during the year under review:

Table 11: Material impairments of assets and material underspending of the vote

Type of auditee	Extent of material losses, impairments and underspending					
	Material impairment of assets			Material underspending of vote		
	Number	%	R'000	Number	%	R'000
Departments	2	15%	124 429	4	31%	336 910
Public entities	0	0%	0	1	7%	1 584
Total	2	7%	124 429	5	19%	338 494

Material impairment of assets

Police, Roads and Transport had receivables for vehicle licences totalling R123 488 000 at 31 March 2010, which had been outstanding for more than 12 months. The recoverability of these amounts is doubtful. Sport, Arts, Culture and Recreation had staff debtors of R941 000 which are potentially irrecoverable due to poor collection practices in the department.

3.1.7 Material underspending of the vote

Health materially underspent the vote by R304 504 000 for 2009-10. The department underspent on all programmes, but the most notable underspending was in respect of programme 2: district health services (R68 873 000), programme 4: provincial hospital management (R47 684 000), programme 5: central hospital services (R19 481 000) and programme 8: health facilities management (R130 840 000). As a consequence, the department has not achieved its objectives in respect of these programmes as set out in the report on predetermined objectives as published with the annual report.

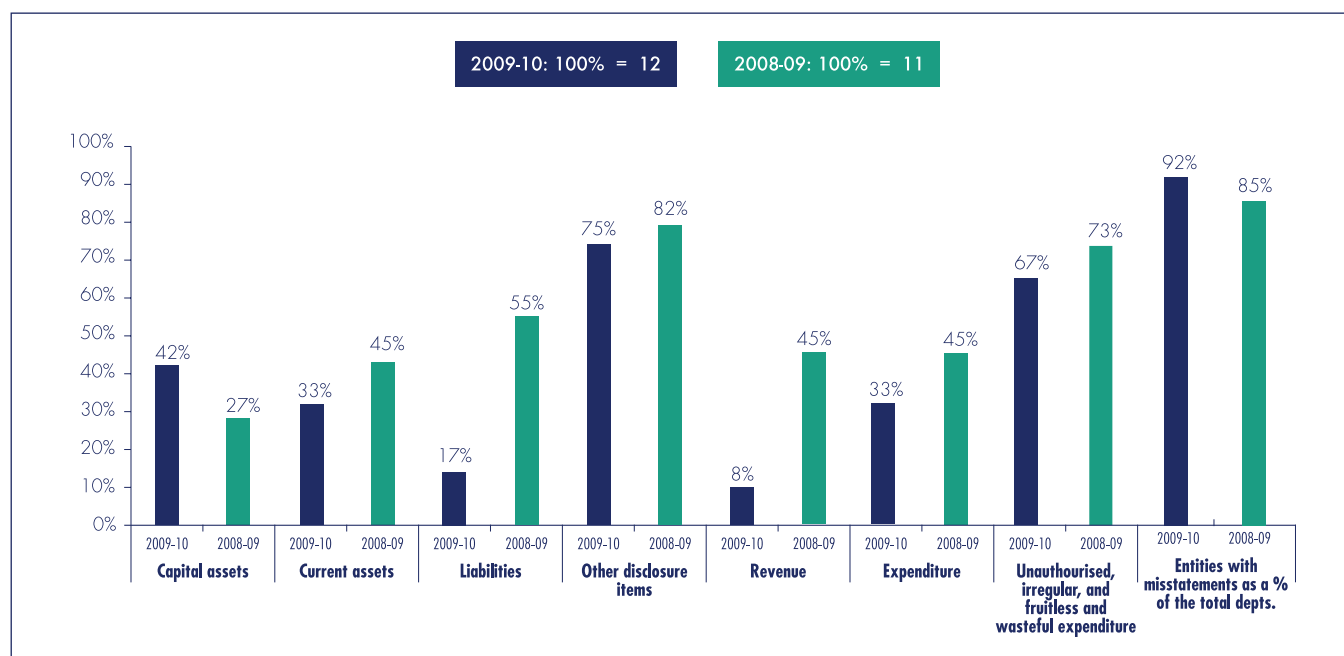
Public Works and Rural Development underspent the vote by R10 839 000 that mainly related to programme 2: public works (R4 492 000), programme 3: EPWP (R4 266 000) and programme 4: rural development (R2 376 000).

Agriculture underspent the vote by R8 778 000 for the year under review. The underspending related to programme 3: farmer support and development (R5 548 000) and programme 7: structured agricultural training (R1 111 000).

The Free State Legislature materially underspent its budget on programme 1: administration (R2 814 000) and programme 3: facilities for members (R7 950 000) as a result of the delay experienced in the reconstituting of the Free State Legislature's committees after the elections as well as the forfeiture of the grant by a political party.

3.1.8 Transversal material misstatements corrected during the audit

Figure 6: Transversal material misstatements corrected during the audit: Departments



Transversal material misstatements in financial statements

Financial statements submitted for auditing were subjected to material corrections during the audit at 12 of the 13 departments compared to 11 of 13 departments. This was due to errors, omissions and inconsistencies that were identified by the auditors and that would have resulted in qualifications had the matters not been corrected. The misstatements could have been detected by the departments had the internal controls relating to financial reporting processes been effective and the monthly and annual financial statements been diligently supervised and reviewed by management throughout the year. Furthermore, had the audit committee adequately reviewed the financial statements, a significant number of errors would have been detected prior to the financial statements being submitted to the AGSA. The level of activity to adjust and amend the annual financial statements subsequent to year-end is indicative of poor financial management in place during the year.

An analysis of material misstatements corrected per financial statement area where findings are prevalent in more than 40% of departments is as follows:

Capital assets

The following five departments made corrections in the area of capital assets, compared to three of the 11 departments in 2008-09: Economic Development, Tourism and Environmental Affairs, Police, Roads and Transport, Public Works and Rural Development, Social Development, Sport, Arts, Culture and Recreation.

Other disclosure items

The following nine departments were required to make material corrections to the financial statements submitted for auditing relating to other disclosure items, compared to nine departments in 2008-09: Agriculture, Economic Development, Tourism and Environmental Affairs, Human Settlements, Police, Roads and Transport, Premier, Public Works and Rural Development, Education, Health, Sport, Arts, Culture and Recreation.

Unauthorised, irregular, and fruitless and wasteful expenditure

The following eight departments were required to make material corrections to the financial statements submitted for auditing relating to unauthorised, irregular, and fruitless and wasteful expenditure, compared to eight departments in 2008-09: Agriculture, Cooperative Governance and Traditional Affairs, Economic Development, Tourism and Environmental Affairs, Free State Legislature, Human Settlements, Public Works and Rural Development, Education, Sport, Arts, Culture and Recreation.

Figure 7: Transversal material misstatements corrected during the audit: Public entities



Transversal material misstatements in financial statements

Financial statements submitted for auditing were subjected to material corrections during the audit at eight of the 14 entities, compared to nine of 16 entities in 2008-09. This was due to errors, omissions and inconsistencies that were identified by the auditors and that would have resulted in qualifications had the matters not been corrected. The misstatements could have been detected by the entities had the internal controls relating to financial reporting processes been effective and the monthly and annual financial statements diligently supervised and reviewed by management throughout the year. Furthermore, had the audit committee adequately reviewed the financial statements, a significant number of errors would have been detected prior to the financial statements being submitted to the AGSA. The level of activity to adjust and amend the annual financial statements subsequent to year-end is indicative of poor financial management in place during the year.

An analysis of material misstatements corrected per financial statement area where findings are prevalent in more than 40% of entities is as follows:

Capital assets

The following five entities made corrections in the area of capital assets, compared to three of the entities in 2008-09: Central Medical Trading Account, Free State Housing Fund, Free State Liquor Authority, Private Patients Fund Trust, Free State Investment Promotion Agency.

Current assets

Four entities were required to make material corrections to the financial statements submitted for audit purposes in the area of current assets, compared to six entities in 2008-09. The entities are Central Medical Trading Account, Free State Housing Fund, Free State Investment Promotion Agency, Free State Tourism Authority.

Liabilities

The following six entities were required to make material corrections to the financial statements submitted for audit purposes relating to liabilities, compared to six entities in 2008-09: Central Medical Trading Account, Free State Housing Fund, Free State Liquor Authority, Free State Investment Promotion Agency, Free State Tourism Authority, Free State Youth Commission.

Expenditure

The following six entities made corrections in the area of expenditure, compared to seven entities in 2008-09: Central Medical Trading Account, Free State Housing Fund, Free State Liquor Authority, Free State Investment Promotion Agency, Free State Tourism Authority, Free State Youth Commission.

Departments and entities with no material misstatements in the financial statements submitted for auditing

Of the 27 departments and entities reported on, no material misstatements were identified in the financial statements of the following department and six entities: Free State Provincial Treasury, Free State Fleet Management Trading Entity, James Robertson Bursary Fund, Nature Conservation Trust Fund, Recreation Fund Trust, Thomas Robertson Bursary Fund, Phakisa Major Sport Events and Development Corporation.

Root causes for pervasive material corrections to the financial statements submitted for auditing

Challenges that departments and entities face with respect to the correction of material misstatements identified during the audit stem from deficiencies in the control environments and control activities and can be summarised as follows:

- The leadership of the applicable departments and entities did not set the right tone at the top to create a control environment conducive to good financial management by adequately reviewing the financial statements before submitting them for audit purposes.
- Lack of supervision and monitoring over daily activities, with the result that the underlying information was not accurate or not easily available.
- Lack of understanding of the requirements of the applicable financial reporting framework or a lack of staff with the necessary level of knowledge.
- Inadequate monitoring and review by management of the work performed by consultants engaged to prepare annual financial statements and inadequate transfer of skills to staff in the finance unit by consultants.
- Information pertaining to the disclosures required in the annual financial statements is not captured in a form and time frame to support financial reporting, and disclosure notes that are not system-generated are only produced at year-end.
- Internal audit and audit committees did not play an effective role in evaluating the controls and processes related to financial reporting.

Recommendations on the way forward to address pervasive material corrections in financial statements submitted for audit purposes

In order to address the prevalence of material misstatements in financial statements that have to be corrected during the audit, the departments and entities should consider the following:

- Quality, reliable monthly financial accounts and management information should be produced, supported by proper record keeping, and documents should be properly filed and easily retrievable.
- The leadership of the departments and entities should improve the oversight of the production of quality monthly financial statements and management information, which should be evaluated and monitored at appropriate leadership level to enable quality decision-making.
- The financial statements should be subjected to a quality review process before submission for auditing, while internal audit and audit committees can also assist in evaluating the adequacy of the design and implementation of controls regarding the preparation of the financial statements.

- Skilled staff in the finance and SCM units should be recruited.
- Measures should be implemented to enhance the transfer of skills where consultants are engaged to prepare the financial statements.

3.2 Findings on performance against predetermined objectives

The objective of an audit of performance against predetermined objectives is to enable the auditor to conclude whether the reported performance against predetermined objectives is reliable, accurate and complete, in all material respects, based on predetermined criteria.

All departments and provincial public and other entities subject to an audit of performance against predetermined objectives in terms of General Notice No. 1570 of 2009, issued in Government Gazette No. 32758 of 27 November 2009, are required to submit their annual performance reports for auditing together with the annual financial statements.

Based on an assessment of audit readiness, it was decided that for the 2009-10 audit cycles, while all audit work will focus on the expression of an opinion on the performance information of national and provincial departments, their public entities and metropolitan councils and their entities, such opinions will not yet be elevated to the level of the individual audit reports. Instead, a reflection on the entities' performance information, should an opinion have been expressed, will be contained in the management report. An opinion will thus be prepared but not expressed publicly beyond being annexed to the management report as part of the readiness strategy.

Table 12: Conclusions on audit of performance against predetermined objectives

Type of audit conclusion	Departments (including legislature)	Public entities (including trading and other types of entities)
Disclaimer	4	2
Adverse	1	0
Qualified	4	1
Unqualified	4	9
Total number of audits reported on	13	12
Number of audits not finalised at the legislated date for submission to the executive authority – 31 August 2010	0	2
Total number of audits	13	14

All 13 departments, including the legislature, as well as 12 public entities were subjected to auditing. It should be noted that predetermined objectives are neither applicable to the Provincial Revenue Fund, nor to the Private Patients Fund Trust and Recreation Fund Trust, due to the nature of the activities of these entities.

Table 13: Summary of findings arising from the audit of performance against predetermined objectives

Category of finding	Departments (including legislature)		Public entities (including trading and other types of entities)	
	2009-10	2008-09	2009-10	2008-09
Non-compliance with regulatory requirements	54%	50%	33%	88%
Reported information on performance against predetermined objectives not useful	31%	42%	8%	38%
Reported information on performance against predetermined objectives not reliable	62%	67%	8%	0%
Information on performance against predetermined objectives not submitted for audit purposes by 31 May 2010	0%	0%	8%	13%
Total number of audits reported on	13	12	12	8
Total number of audits with findings on predetermined objectives	10	9	4	7

The percentages relate to those departments and public entities that had findings on the audit of performance against predetermined objectives, calculated as a percentage of the total number of entities audited.

Explanation of the various audit finding categories

3.2.1 Non-compliance with regulatory requirements

The scope of the audit of non-compliance with regulatory requirements related to compliance with the PFMA and Treasury Regulations pertaining to the planning, management, monitoring, review and reporting of performance information.

Seven out of 13 departments, namely Agriculture, Economic Development, Tourism and Environmental Affairs, Education, Free State Legislature, Health, Police, Roads and Transport and Social Development, and three out of 12 public entities namely, Central Medical Trading Account, Free State Gambling and Racing Board and Free State Tourism Authority, lacked effective, efficient and transparent systems and internal controls regarding performance management, as required by sections 38(1)(a)(i) and 51(1)(a) of the PFMA. The Free State Liquor Authority, an unlisted public entity, did not report on its performance against predetermined objectives as prescribed by the AG Directive.

3.2.2 Usefulness of information on performance against predetermined objectives

Our audit focused on the consistency, relevance and measurability of planned and reported information on performance against predetermined objectives.

Usefulness of information on performance against predetermined objectives refers to the reported information being consistent with the objectives and targets and whether the targets are clearly linked to the mandate and objective of the institution, specific and clearly identifying the nature and required level of performance, as well as measurable and time bound.

The reported information on performance against predetermined objectives at four of the 13 departments, namely Cooperative Governance and Traditional Affairs, Education, Police, Roads and Transport and Social Development, and one of the 12 public entities, namely Free State Tourism Authority, was not useful.

Findings are due to the lack of reporting on all predetermined objectives in the annual performance report and changes to planned performance that had not been appropriately approved. Some targets were not specific in clearly identifying the nature and required level of performance, while certain targets were not measurable in identifying the required performance or not time bound in specifying the time period or deadline for delivery. Some performance indicators and measures were not well defined and/or not verifiable.

3.2.3 Reported information on performance against predetermined objectives not reliable

The audit focused on whether the reported information on performance against predetermined objectives could be traced back to the source data or documentation and whether the reported information is accurate, complete and consistent in relation to the source data, evidence or documentation. In eight of the 13 departments, namely Agriculture, Cooperative Governance and Traditional Affairs, Education, Health, Human Settlements, Police, Roads and Transport, Social Development and Sport, Arts, Culture and Recreation, and one of the 12 entities, namely Free State Tourism Authority, the reported information on performance against predetermined objectives was not reliable. Portfolio committees will not be able to exercise effective oversight in the absence of reliable information.

“Reported information on performance against predetermined objectives not reliable” refers to insufficient appropriate evidence available in relation to reported information, an inappropriate system to generate the information, with the evidence provided not supporting the reported information and not accurate and complete.

3.2.4 Information on performance against predetermined objectives not submitted for audit purposes

Except for the Free State Liquor Authority, all the departments and entities reported on submitted their information on performance against predetermined objectives in time for auditing. Timely submission of information assists portfolio committees in being effective in their oversight role.

3.2.5 Departments and entities with no findings on performance against predetermined objectives

Three departments and eight public entities had no findings resulting from the audit of performance against predetermined objectives:

- Departments: Free State Provincial Treasury, Premier, Public Works and Rural Development.
- Entities: Free State Housing Fund, James Robertson Bursary Fund, Thomas Robertson Bursary Fund, Nature Conservation Trust Fund, Free State Investment Promotion Agency, Phakisa Major Sport Events and Development Corporation, Free State Youth Commission and Free State Fleet Management Trading Entity.

3.2.6 Outstanding audits

With regard to 2009-10, the outstanding reports are for Free State Development Corporation, Universitas Academic Hospital Board and Free State Political Parties Fund.

3.2.7 Conclusion

Considering the categories of audit findings detailed above due to a lack of effective, efficient systems and internal controls related to performance management, and especially the lack of sufficient appropriate audit evidence which results in reported performance not being reliable, it is evident that the departments and entities in the Free State will have to give serious attention to these areas.

3.3 Findings on compliance with laws and regulations

Table 14: Summary of findings relating to compliance with laws and regulations

Top 3 categories of non-compliance and SCM issues	Number	Percentage
Departments (including provincial legislature)		
SCM issues that resulted in irregular expenditure	11	85%
Payment of expenditure not made within 30 days	9	69%
No disciplinary hearings into alleged misconduct	7	54%
Public entities (including trading and other types of entities)		
Internal audit unit was not constituted/internal audit did not fulfil its legislated responsibilities	5	36%
Payment of expenditure not made within 30 days	3	21%
SCM issues that resulted in irregular expenditure	3	21%

Departments

At 11 departments, namely Agriculture, Cooperative Governance and Traditional Affairs, Economic Development, Tourism and Environmental Affairs, Education, Health, Human Settlements, Police, Roads and Transport, Premier, Public Works and Rural Development, Social Development and Sport, Arts, Culture and Recreation, SCM regulations were not complied with, resulting in irregular expenditure.

Nine out of 13 departments, namely Agriculture, Cooperative Governance and Traditional Affairs, Economic Development, Tourism and Environmental Affairs, Education, Health, Human Settlements, Police, Roads and Transport, Public Works and Rural Development and Social Development, had findings relating to payment of expenditure not being made within 30 days from receipt of invoices in terms of TR 8.2.3.

Seven departments, namely Agriculture, Cooperative Governance and Traditional Affairs, Free State Legislature, Human Settlements, Premier, Social Development and Sport, Arts, Culture and Recreation, did not conduct disciplinary hearings into alleged misconduct.

Public entities

At five out of 14 public entities, the internal audit unit did not fulfil its legislated responsibilities, namely Central Medical Trading Account, Free State Gambling and Racing Board, Free State Investment Promotion Agency, Free State Tourism Authority and Free State Youth Commission.

Three out of 14 public entities, namely Central Medical Trading Account, Free State Youth Commission and Phakisa Major Sport Events and Development Corporation, had findings relating to payment of expenditure not being made within 30 days from receipt of invoices (TR 8.2.3).

Three public entities failed to comply with SCM regulations, resulting in irregular expenditure: Free State Gambling and Racing Board, Free State Tourism Authority and Free State Youth Commission (TR 16A 8.3, TR16A 6.4 and section 38(1) of the PFMA).

Root causes for findings on compliance with laws and regulations

- Management and leadership do not monitor the day-to-day activities throughout the year.
- Ineffective/inadequate internal audit coverage of compliance
- Leadership not setting the right tone at the top
- Inadequate action taken by the leadership against officials who do not comply with legislation

Recommendations for the way forward regarding findings on compliance with laws and regulations

- Key controls should be implemented to ensure that non-compliance with laws and regulations is actively prevented and monitored.
- The right leadership tone, together with the support of the audit committee and internal audit, is necessary to establish a strong control environment and ensure compliance.
- Consistent corrective action should be taken to address matters of non-compliance by officials and to create an environment where officials strive to ensure compliance.

3.4 Information technology system matters

Significant findings on information technology systems

Departments and entities rely heavily on computerised information systems (e.g. the Basic Accounting System (BAS), Personnel Administration System (Persal) and the Logistical Information System (Logis)) to perform their statutory financial management, reporting and administrative functions. These systems are centrally supported by the National Treasury and the State Information Technology Agency (SITA) that provides important computer networking infrastructure, data storage and retrieval services. The control environments for these systems are crucial as large amounts of critical financial data and transactions are recorded on, and processed through, these systems. Furthermore, the automation of business processes and transaction processing contributes significantly to efficient service delivery.

Information technology (IT) general control audits were performed at 13 departments and four entities. Significant weaknesses were identified regarding the IT control environment and management of information systems.

- At 13 departments and four entities weaknesses regarding IT governance were identified.
- At 12 departments and four entities weaknesses regarding security management were identified.
- Twelve departments and four entities had findings relating to user access control.
- Thirteen departments and four entities had findings relating to IT service continuity.

Some of these weaknesses identified were reported in the prior year but had not been addressed and the risks therefore remain. This was brought to the attention of leadership to enable them to address internal control deficiencies where required.

Information technology system matters

IT general controls are those controls relating to the IT infrastructure and are imbedded in information system management processes. The objective of these audits is the evaluation of the effectiveness of IT controls to ensure that:

- financial and sensitive computer systems are only accessed by authorised officials
- systems are developed, enhanced, configured and implemented so that they are effective, functional and secure
- critical information is recoverable and usable in the event of disasters and disruptions
- financial information processes as stored in the computer systems are reliable for financial reporting purposes.

IT general control audits were performed at 13 departments and four entities. The following table indicates the number of common focus area findings raised during those audits:

Table 15: Listing of audit findings raised on common IT focus areas

No	Auditee	Focus areas			
		IT Governance	Security management	User access control	Information technology service continuity
Audits conducted by the AGSA					
Departments					
1	Premier	X	X		X
2	Free State Legislature	X	X	X	X
3	Economic Development, Tourism and Environmental Affairs	X	X	X	X
4	Provincial Treasury	X	X	X	X
5	Health	X	X	X	X
6	Education	X	X	X	X

No	Auditee	Focus areas			
		IT Governance	Security management	User access control	Information technology service continuity
7	Social Development	X	X	X	X
8	Cooperative Governance and Traditional Affairs	X	X	X	X
9	Public Works and Rural Development	X	X	X	X
10	Police, Works and Roads	X	X	X	X
11	Agriculture	X	X	X	X
12	Sport, Arts, Culture and Recreation	X		X	X
13	Human Settlements	X	X	X	X
Public entities					
1	Free State Gambling and Racing Board	X	X	X	X
2	Free State Liquor Authority	X	X	X	X
3	Free State Tourism Authority	X	X	X	X
4	Phakisa Major Sport Events and Development Corporation	X	X	X	X

The detail findings that related to the audited focus areas included the following:

- Inadequate user access control to ensure that only valid and authorised users are allowed access to initiate and approve transactions on the system and also that user access is adequately segregated when transactions are captured and approved.
- Security management controls did not prevent unauthorised access application systems that generate and prepare financial statements.
- IT service continuity controls could not ensure the availability of financial and performance information in instances of data loss or a disaster.
- Inadequate IT governance structures, policies and processes to ensure that IT supports and extends the departments' strategies and objectives.

Fundamentals of internal control to be addressed

- CFOs have to develop, monitor and enforce user access controls, such as user creation procedures and periodic reviews of the activities of system controllers and users on the applications that generate the financial statements.
- Government Information Technology Officers (GITO's), in consultation with SITA, and chief information officers (CIO's) have to clearly define security roles and responsibilities and implement network and operating system security controls that would detect and prevent unauthorised access to the application systems that generate financial information.
- Departments and entities should have business continuity plans that would enable SITA, the GITO's and CIO's to develop disaster recovery plans that are aligned to business requirements.

Accounting officers have to be involved in the oversight of IT governance processes and to capacitate IT departments with resources that will ensure adequate implementation of an IT plan.

3.5 Investigations and performance audits (specific to auditee)

The table below provides detail of the investigations that were in progress during the year under review:

Table 16: Investigations in progress during the year

Department/Entity	SCM issues	Misconduct	Other
Free State Legislature			Validity of certain subsistence and travelling claims made during the current financial year and catering expenditure incurred
Human Settlements			Allocation of housing subsidies in previous financial periods
Health			Agreement entered into between the department and its private sector partner in the PPP
Education		Investigation into various alleged misconduct in the department.	
Premier			Review of compliance in respect of the Official Development Assistance (ODA) programme of the Flanders International Cooperation Agency (FICA).
Public Works and Rural Development	Supply chain management activities and contracts for capital projects		
Police, Roads and Transport			Appointment of contractors for the upgrading of roads
<ul style="list-style-type: none"> • Agriculture • Cooperative Governance and Traditional Affairs • Economic Development, Tourism and Environmental Affairs • Human Settlements • Free State Provincial Treasury • Premier • Police, Roads and Transport • Public Works and Rural Development • Social Development • Sport, Arts, Culture and Recreation 	Review to establish whether departments complied with legislative prescripts related to payroll and supply chain management.		
Free State Tourism Authority			Possible irregularities with the utilisation of funds during prior financial years

3.6 Audits not conducted by the Auditor-General of South Africa

There were 11 schedule 3 entities that were not audited by the AGSA, namely:

- Canton Trading 123 (Pty) Ltd t/a Jomago Health
- Cross Point Trading 23 (Pty) Ltd
- Highlands Furniture Factory (Pty) Ltd
- Mafube Risk Insurance Consultants (Pty) Ltd
- Orofino Africa Jewellery Manufacturers (Pty) Ltd
- Phiritona Plastics (Pty) Ltd
- Qwa-Qwa Datnis (Pty) Ltd
- Rumar Manufacturing (Pty) Ltd
- Scopefull 21 (Pty) Ltd

- Twin Cities Trading 129 (Pty) Ltd
- Welkom Diamond Cutting Works (Pty) Ltd

These entities are subsidiaries of the Free State Development Corporation. The audit of the Free State Development Corporation has not been finalised because the corporation has not yet submitted consolidated financial statements to the AGSA. No information relating to the audit outcomes of the section 3 entities, their financial position or results of operations for the 2009-10 financial year has been provided to the AGSA on which to base any analysis. Consequently, these entities have not been included in the analysis in this report.

SECTION 4: ACTION TAKEN OR TO BE TAKEN TO ADDRESS AUDIT OUTCOMES

4.1 Drivers of audit outcomes

The specific key controls in relation to each of the three fundamental areas of controls, namely leadership, financial and performance management and governance, and which should be monitored by the premier, MECs, accounting authorities and management in order to resolve the internal control deficiencies highlighted by the matters reported in the audit reports are outlined below. The adherence to, and monitoring of, these key controls on a day-to-day basis throughout the financial year will be decisive in ensuring sustainable improvements in audit outcomes going forward.

4.1.1 Leadership

Details of the departments and entities that this relates to is included on the next page.

Commitment by those charged with governance at departments and entities to improve on the audit outcomes by creating an environment conducive to sound financial management and improved service delivery.

This is particularly evident in the lack of active involvement of the political leadership to address the warning signals identified in the previous year, which resulted in disclaimers of audit opinion in the current year. The political leadership responsible for Health and Police, Roads and Transport did not actively take ownership of the audit outcomes of these departments, which resulted in decisive action not being taken to ensure sustainable improvement.

Establish an effective organisational structure that places people with appropriate skills in appropriate positions to ensure compliance with applicable laws and regulations.

Leadership instability resulted from the fact that senior management positions in five departments remained vacant for periods longer than 12 months.

Review and monitoring of action plans to address all significant internal control deficiencies

Leadership and management of 12 departments and seven entities did not take decisive action to implement and monitor action plans to address prior period audit findings.

Ensure that all vacancies in finance and other significant components are filled within a reasonable time

The leadership should ensure that all critical vacancies are filled within a reasonable time in order to ensure that adequate resources are available to perform the finance and other functions in the department. Instances

of non-compliance with laws and regulations were identified at 12 departments and six entities. In particular, non-compliance with supply chain management laws and regulations that resulted in irregular expenditure was not prevented or detected during the year.

Leadership implementation of action plans to address user access control deficiencies (information systems)

Accounting officers have to be involved in the oversight of IT governance processes and in capacitating IT departments with resources that will ensure adequate implementation of an IT plan.

Table 17: Listing of departments and entities: Leadership

No.	Department/Entity	Province	Maintained / improved previous good practices					Improvements required									
			Commitments by those charged with governance at departments and entities to improve on the audit outcomes by creating an environment conducive to improved service delivery:	Establish an effective organisational structure that places people with appropriate skills in appropriate positions especially in supply chain management to ensure compliance with applicable laws and regulations	Review and monitoring of action plans to address all significant internal control deficiencies	Ensure that all vacancies in finance and other significant components are filled within a reasonable time period	Leadership's implementation of action plans to address user access control deficiencies (information systems)	Financial statements	Pre-determined objectives	Commitments by those charged with governance at departments and entities to improve on the audit outcomes by creating an environment conducive to improved service delivery:	Establish an effective organisational structure that places people with appropriate skills in appropriate positions especially in supply chain management to ensure compliance with applicable laws and regulations	Review and monitoring of action plans to address all significant internal control deficiencies	Ensure that all vacancies in finance and other significant components are filled within a reasonable time period	Leadership's implementation of action plans to address user access control deficiencies (information systems)			
1	Agriculture	FS															
2	Department of Cooperative Governance and Traditional Affairs	FS															
3	Department of Human Settlements – FS	FS															
4	Department of the Premier	FS															
5	Economic Development, Tourism and Environmental Affairs	FS															
6	Education	FS															
7	Free State Legislature	FS															
8	Free State Provincial Treasury	FS															
9	Health	FS															
10	Police, Roads and Transport	FS															
11	Public Works and Rural Development	FS															
12	Social Development	FS															
13	Sport, Arts Culture and Recreation	FS															
TOTAL			3	4	2	1	7	2		10	9		11	12	6	11	
	Entities																
1	FS Gambling and Racing Board	FS															
2	FS Investment Promotion Agency	FS															
3	FS Youth Commission	FS															

No.	Department/Entity	Province	Maintained / improved previous good practices					Improvements required						
			Commitments by those charged with governance at departments and entities to improve on the audit outcomes by creating an environment conducive to sound financial management and improved service delivery:	Predetermined objectives	Establish an effective organisational structure that places people with appropriate skills in appropriate positions especially in supply chain management to ensure compliance with applicable laws and regulations	Review and monitoring of action plans to address all significant internal control deficiencies	Ensure that all vacancies in finance and other significant components are filled within a reasonable time period	Leadership's implementation of action plans to address user access control deficiencies (information systems)	Financial statements	Predetermined objectives	Establish an effective organisational structure that places people with appropriate skills in appropriate positions especially in supply chain management to ensure compliance with applicable laws and regulations	Review and monitoring of action plans to address all significant internal control deficiencies	Ensure that all vacancies in finance and other significant components are filled within a reasonable time period	Leadership's implementation of action plans to address user access control deficiencies (information systems)
4	Phakisa Major Sport Events and Development Corporation	FS												
5	Nature Conservation Trust Fund	FS												
6	Private Patient Trust Fund	FS												
7	Central Medical Trading Account	FS												
8	Fleet Management Trading Entity	FS												
9	FS Liquor Board	FS												
10	FS Housing Fund	FS												
11	FS Tourism Authority	FS												
12	James Robertson Bursary Fund	FS												
13	Thomas Robertson Bursary Fund	FS												
14	Recreation Trust Fund	FS												
TOTAL			7	11	7	14	10	7	3	3	7	0	4	

4.1.2 Financial and performance management

Proper record keeping and record management ensuring that supporting documentation is properly filed and easy retrievable

Adherence to basic financial controls throughout the financial year, i.e. daily processing of transactions, monthly reconciliation of accounts and a continuous review thereof, need to be actively monitored by the leadership. The maintenance and safe keeping of documentation are of paramount importance for sound internal control practices and effective management of departments and entities. This is critical to the audit process as it constitutes the audit evidence required to prevent a scope limitation which has a direct impact on the audit outcome.

Producing accurate financial statements and performance information and continuously monitoring the quality thereof. Ensuring that performance information is supported by relevant and reliable information.

The production of quality monthly financial statements and management information by the finance units of all departments and public entities is a priority and should be evaluated and monitored at appropriate leadership levels to enable quality decision-making and service delivery. Monthly management reports should be monitored and year-end financial statements should be reviewed by the leadership as well as the internal audit unit and audit committees, prior to submission to the AGSA for auditing.

The current processes, systems and internal controls at 10 departments and three entities are insufficient to establish a reliable audit trail for the reported performance against predetermined objectives. Management has not given sufficient attention to its established processes of collecting, verifying and reporting of information on predetermined objectives and as a result has not identified the risk that current processes do not provide a documentation trail that enables the disclosed information to be followed to its source.

Ensuring that the asset register reflects the assets owned and that this is agreed with the financial record and financial statements. Reconciling and clearing of suspense accounts on a monthly basis.

The basic disciplines of updating and monitoring the accuracy and completeness of the asset registers are not adhered to in the province and errors are not detected due to insufficient monitoring. Although there was an improvement of 29% compared to the previous financial year, departmental asset controls and verification procedures were still a challenge in the province. Improvement in the management of assets is mainly attributable to the use of consultants, the reconstruction of asset registers and the clear marking of assets to be easily identifiable. However, if these registers are not monitored and consultants fail to transfer skills to the departmental staff, it will be impossible to sustain proper asset management, resulting in regressions going forward.

Application systems susceptible to compromised data integrity (information systems)

CFOs have to develop, monitor and enforce user access controls, such as user creation procedures and periodic reviews of the activities of system controllers and users on the applications that generate the financial statements.

Lack of skills transfer by consultants

The assistance rendered by consultants was instrumental in equipping the finance units of the following four departments and one entity: Agriculture, Health, Police, Roads and Transport, Public Works and Rural Development, and Free State Investment Promotion Agency. These consultants were mainly engaged to prepare financial statements and to assist in maintaining and rectifying deficient asset registers and records.

The level of skills transferred to staff in the finance units remains a concern, and the leadership needs to ensure that the transfer of technical financial skills to the entity's personnel is specified in the consultants' contractual obligations and is monitored closely. The utilisation of consultants is considered to pose a risk in that any improvement in audit outcomes achieved might not be sustainable if the capacity for effective financial reporting is not being built within the relevant departments and entities. The leadership will need to establish clear processes within affected departments and entities as to the way forward to ensure that management and finance units in these departments and entities are capacitated to assume full responsibility for the functions and work currently performed by consultants.

Table 18: Listing of departments and entities: Financial and performance management

No.	Department / Entity	Province	Maintained / improved previous good practices							Improvements required											
			Proper record keeping and record management ensuring that supporting documents are properly filed and easily retrievable	Ensuring the assets register reflects the assets owned and that this is agreed to the financial records and financial statements. Reconciling and clearing of suspense accounts on a monthly basis	Financial statements	Predetermined objectives	Producing accurate financial statements and performance information and continuously monitoring the quality thereof. Ensuring that performance information is supported by relevant and reliable information :	User access control	Security management	Application systems susceptible to compromised data integrity (information systems):	Financial statements	Predetermined objectives	Proper record keeping and record management ensuring that supporting documents are properly filed and easily retrievable	Ensuring the assets register reflects the assets owned and that this is agreed to the financial records and financial statements. Reconciling and clearing of suspense accounts on a monthly basis	Financial statements	Predetermined objectives	Producing accurate financial statements and performance information and continuously monitoring the quality thereof. Ensuring that performance information is supported by relevant and reliable information :	User access control	Security management	Application systems susceptible to compromised data integrity (information systems):	Business continuity
1	Agriculture	FS																			
2	Department of Cooperative Governance and Traditional Affairs	FS																			
3	Department of Human Settlements – FS	FS																			
4	Department of the Premier	FS																			
5	Economic Development, Tourism and Environmental Affairs	FS																			
6	Education	FS																			
7	Free State Legislature	FS																			
8	Free State Provincial Treasury	FS																			
9	Health	FS																			
10	Police, Roads and Transport	FS																			
11	Public Works and Rural Development	FS																			
12	Social Development	FS																			
13	Sport, Arts Culture and Recreation	FS																			
TOTAL			3	5	8	1	3	1	1	0	8	10	8	5	12	10	12	12	12	13	

No.	Department / Entity	Province	Maintained / improved previous good practices										Improvements required				
			Proper record keeping and record management ensuring that supporting documents are properly filed and easily retrievable	Financial statements	Predetermined objectives	Ensuring the assets register reflects the assets owned and that this is agreed to the financial records and financial statements. Reconciling and clearing of suspense accounts on a monthly basis	Producing accurate financial statements and performance information and continuously monitoring the quality thereof. Ensuring that performance information is supported by relevant and reliable information :	User access control	Security management	Business continuity	Application systems susceptible to compromised data integrity (information systems):	Financial statements	Predetermined objectives	Producing accurate financial statements and performance information and continuously monitoring the quality thereof. Ensuring that performance information is supported by relevant and reliable information :	User access control	Security management	Business continuity
Entities																	
1	FS Gambling and Racing Board	FS															
2	FS Investment Promotion Agency'	FS															
3	FS Youth Commission	FS															
4	Phokiso Major Sport Events and Development Corporation	FS															
5	Nature Conservation Trust Fund	FS															
6	Private Patient Trust Fund	FS															
7	Central Medical Trading Account	FS															
8	Fleet Management Trading Entity	FS															
9	FS Liquor Board	FS															
10	FS Housing Fund	FS															
11	FS Tourism Authority	FS															
12	James Robertson Bursary Fund	FS															
13	Thomas Robertson Bursary Fund	FS															
14	Recreation Trust Fund	FS															
TOTAL			10	13	14	6	11	10	10	10	10	4	1	0	8	3	4

4.1.3 Governance

Greater involvement by internal audit and audit committee in monitoring processes

In our evaluation of the internal audit units we noted that positions in these units were either vacant or the units did not fulfil their legislated responsibilities as required. A more effective internal audit unit will permit more areas of the financial and performance management systems to be subjected to auditing by internal audit before the external audit commences.

Maintaining effective risk management strategies, including fraud prevention plans

Five departments and one public entity did not conduct risk assessments on a regular basis, or did not document and use a risk management strategy which included a fraud prevention plan.

The risk assessments performed by departments and public entities should inform the risk-based audit plans of internal audit to allow them to function effectively in advising the accounting officer and the audit committee on matters relating to internal controls, accounting procedures and practices, risk and risk management. The risk assessment process should inform the work plans of internal audit and the agendas of audit committees, which are essential elements in the review of the design and implementation of sound internal controls to achieve good governance and accountability over financial reporting and performance information/service delivery.

An IT governance framework that directs the positioning of IT, resource requirements, risk and internal control management

In the province there are inadequate IT governance structures, policies and processes to ensure that IT supports and extends the departments' strategies and objectives. CFOs have to develop, monitor and enforce user access controls, such as user creation procedures and periodic reviews of the activities of system controllers and users on the applications that generate the financial statements. GITO's, in consultation with SITA, and CIOs have to clearly define security roles and responsibilities and implement network and operating system security controls that would detect and prevent unauthorised access to the application systems that generate financial information. Departments and entities should have business continuity plans that would enable SITA, the GITO's and CIOs to develop disaster recovery plans that are aligned to business requirements

Table 19: Listing of departments and entities: Governance

No.	Department / Entity	Province	Maintained / improved previous good practices				Improvement required										
			Greater involvement by internal audit and audit committee in monitoring processes		Maintaining effective risk management strategies, including fraud prevention plans		An IT governance framework that directs the positioning of IT, resource requirements, risk and internal control management		Greater involvement by internal audit and audit committee in monitoring processes			Maintaining effective risk management strategies, including fraud prevention plans		An IT governance framework that directs the positioning of IT, resource requirements, risk and internal control management			
			Financial statements	Predetermined objectives					Financial statements	Predetermined objectives					Financial statements	Predetermined objectives	
Departments																	
1	Agriculture	FS															
2	Department of Cooperative Governance and Traditional Affairs	FS															
3	Department of Human Settlements - FS	FS															
4	Department of the Premier	FS															
5	Economic Development, Tourism and Environmental Affairs	FS															
6	Education	FS															
7	Free State Legislature	FS															
8	Free State Provincial Treasury	FS															
9	Health	FS															
10	Police, Roads and Transport	FS															
11	Public Works and Rural Development	FS															
12	Social Development	FS															
13	Sport, Arts Culture and Recreation	FS															
TOTAL			2	2	8	0	11	11	11	5	13						
Entities																	
1	FS Gambling and Racing Board	FS															
2	FS Investment Promotion Agency/	FS															
3	FS Youth Commission	FS															
4	Phakisa Major Sport Events and Development Corporation	FS															
5	Nature Conservation Trust Fund	FS															
6	Private Patient Trust Fund	FS															

No.	Department / Entity	Province	Maintained / improved previous good practices				Improvement required								
			Greater involvement by internal audit and audit committee in monitoring processes		Maintaining effective risk management strategies, including fraud prevention plans		An IT governance framework that directs the positioning of IT, resource requirements, risk and internal control management		Greater involvement by internal audit and audit committee in monitoring processes		Maintaining effective risk management strategies, including fraud prevention plans		An IT governance framework that directs the positioning of IT, resource requirements, risk and internal control management		
			Financial statements	Predetermined objectives				Financial statements	Predetermined objectives			Financial statements	Predetermined objectives		
7	Central Medical Trading Account	FS													
8	Fleet Management Trading Entity	FS													
9	FS Liquor Board	FS													
10	FS Housing Fund	FS													
11	FS Tourism Authority	FS													
12	James Robertson Bursary Fund	FS													
13	Thomas Robertson Bursary Fund	FS													
14	Recreation Trust Fund	FS													
TOTAL			7	7	13	10		7	7			1		4	

4.2 Action taken/to be taken to address matters previously reported

Management and those charged with governance developed action plans to address matters previously reported. These action plans included the implementation of controls relating to complete accounting for, and monitoring of, receivables for departmental revenue, proper record keeping and availability of information to support the existence, completeness and valuation of receivables and capital assets, safeguarding of assets and updating of asset registers, implementation of systems and controls regarding performance management and measures to ensure the availability of sufficient and appropriate supporting documentation for service delivery achievements.

The lack of monitoring of the action plans by management, internal audit and leadership, and inadequate identification of risks relating to the achievement of financial and performance reporting objectives, has resulted in matters previously reported not being addressed by departments and public entities in the 2009-10 financial year.

It is clear that the leadership and management of the Free State Provincial Government still face a challenging journey ahead on the road to clean financial administration. Those charged with oversight and governance in the province ought to become more active in fulfilling their monitoring roles and responsibilities by interrogating the reasons for matters included in the audit reports and passing resolutions that require action to address them. The leadership (political as well as management) of departments and public entities should set the right tone from the top to implement action plans that address all audit findings and to enhance the personal accountability and commitment of all staff.

4.2.1 Commitments and actions by the premier and MECs

The collective leadership under the direction of the premier has committed to the Provincial Treasury's initiatives of monitoring departmental action plans, providing technical support, compiling manuals on financial functions and providing training, as well as regular reporting to the MEC for Finance on financial management in departments.

The AGSA was afforded the opportunity to address the executive council, including the head of the departments, on matters previously reported. The premier instituted task teams to support departments in clearing matters arising from previous audits. However, these interventions were not timeous and came too late to address the systemic challenges faced by the Departments of Health and Police, Roads and Transport. The premier took the initiative to speed up the process of appointing accounting officers and qualified CFOs. A further action taken by the premier is to move CFOs to strengthen financial administration at certain departments.

Certain MECs participated in the public hearings of the Provincial Public Accounts Committee for their respective departments during which they pledged support to resolving negative audit findings. Regrettably, the impact of MEC stakeholder interactions and provincial oversight and interventions in response to audit outcomes has been limited and efforts will have to be intensified in order to improve the provincial outcome going forward.

4.2.2 Actions and initiatives taken by the Provincial Treasury to improve audit outcomes and financial management practices

The Provincial Treasury undertook several initiatives to improve financial management practices in the province in the 2009-10 financial year, including the following:

- Performing a support function, including the pre-review and oversight of the compilation and submission of annual financial statements.
- Evaluating comparative figures prior to the submission of annual financial statements.
- The Provincial Treasury introduced the submission of interim financial statements for 2009-10 and the evaluation thereof for constructive feedback to the CFOs.
- Issuing a standardised audit working paper file to enhance the quality of audit evidence submitted to the AGSA and to facilitate a more effective and efficient consolidation process.
- Monitoring the implementation of action plans drawn up by departments based on the audit reports and management reports.
- Monthly monitoring of key performance indicators for financial management and determining fixed targets that should be reached, including the monitoring of asset and liability accounts.
- Reporting to the MEC for Finance on financial management of departments.
- Compiling manuals on financial functions and the use of the financial systems and providing the necessary training.
- Attending audit steering committee meetings in an advisory capacity based on prior year audit outcomes or at the request from departments.
- Attending weekly audit technical steering committee meetings between the Provincial Treasury and the AGSA to discuss anticipated audit report matters, interpretation and clarification of accounting matters and challenges in the audit process.

The Provincial Treasury played an active role in ensuring that the departments and public entities have action plans in place to address findings raised by the AGSA. The importance and urgency the Provincial Treasury placed on issues as well as the follow-up on prior year action plans enhanced consultation and interaction between the treasury, auditees and the AGSA to resolve audit findings. Despite the initiatives by the Provincial Treasury, an overall regression in audit outcomes of departments was noted. This can be attributed to the fact that the departments and entities are not timeous in their implementation of these initiatives. It is also evident from the level of activity after year-end.

4.2.3 Commitments arising from the October 2010 roadshow

During the Auditor-General's roadshow in October 2010 to present the 2009-10 audit outcomes, the executive leadership of the province committed to the coordination and monitoring of follow-up action plans. These are summarised as follows:

- The political leadership is in the process of engaging consultants in developing systematic organisational structures based on available budget to eliminate high vacancy rates.
- The leadership envisages seeking support from other governmental structures to deal with the implementation of infrastructure projects.
- Consideration will be given to consolidate trust funds within departments.
- Providing adequate leadership and addressing non-performance.

- The political leadership should support the attraction and retention of skills and competencies in the public service.
- MECs will interact with the provincial AGSA to proactively resolve matters emanating from audit reports.
- The executive leadership will assist the portfolio committees in fulfilling their oversight responsibilities.
- The Provincial Treasury will provide enhanced support and guide departments and entities in developing a systematic follow-up of the audit outcomes.
- The Provincial Treasury will develop a proper system to enhance record management to ensure that supporting documentation is maintained.
- A process directed by the premier will be developed to address challenges that the province is confronted with, resulting in irregular expenditure.
- 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 fulfil political oversight.
- Quarterly reporting on asset management is envisaged.

4.2.4 Accounting reforms

Continued interaction with the National Treasury, the Provincial Treasury, the Accounting Standards Board and other professional bodies has assisted in the interpretation and resolution of accounting matters and the clarification of guidance applicable for the PFMA cycle.

4.2.5 Status of PROPAC oversight resolutions

At year-end 83 Provincial Public Accounts Committee (PROPAC) resolutions out of a total of 99 had been resolved and 16 were in progress. The Provincial Treasury assists PROPAC in the evaluation of replies submitted by departments and entities. The resolutions listed below as being outstanding are based on the evaluation done by the Provincial Treasury on feedback received from departments and public entities, and the efficient and effective implementation of resolutions has not been evaluated. This will only be followed up during the following audit cycle.

Table 20: Status of PROPAC resolutions

No	Name of auditee	Total number of resolutions	Number of resolutions resolved	Number of resolutions in progress
1.	Premier	4	4	0
2.	Provincial Treasury	10	10	0
3.	Public Works and Rural Development	7	7	0
4.	Agriculture	8	7	1
5.	Cooperative Governance and Traditional Affairs	6	5	1
6.	Economic Development, Tourism and Environmental Affairs	12	9	3
7.	Education	7	5	2
8.	Health	7	6	1
9.	Police, Roads and Transport	6	5	1
10.	Social Development	8	7	1
11.	Sport, Arts, Culture and Recreation	8	6	2

No	Name of auditee	Total number of resolutions	Number of resolutions resolved	Number of resolutions in progress
12.	Free State Gambling and Racing Board	6	5	1
13.	Free State Tourism Authority	6	5	1
14.	Phakisa Major Sport Events and Development Corporation	4	2	2
Total number of audits reported on		99	83	16

Even though the resolutions have been significantly resolved, some department and entities are still qualified, which is an indication that the resolutions are not always addressing the root cause to the qualifications. It is imperative that in developing the resolutions, PROPAC should ensure that they address the root cause and that the Provincial Treasury should also ensure that the implementation of these resolutions eliminate the qualifications from recurring.

4.3 Initiatives taken by the AGSA to encourage clean administration

The AGSA embarked on many initiatives to enhance accountability and to influence the process towards obtaining financially unqualified audit opinions. The main initiative was to strengthen the relationship with all role players that can influence clean administration with the objective of improving the effectiveness of the audit process, enhancing the understanding of the AGSA and the mechanisms relating to performance management, and ultimately accountability, thereby paving the road towards improving public confidence.

This initiative included the increased visibility of the AGSA's senior leadership in the province and continuous interaction with management, leadership and the Provincial Treasury to highlight possible challenges, audit findings and transversal risks. Audit teams paid regular visits during the audits and meetings were held with those charged with governance. Our engagements focused on simplicity, clarity and relevance of the message to gain an understanding, get buy-in and seek commitment that will influence clean administration.

The premier also afforded the AGSA in the province the opportunity to present the 2009-10 audit outcomes at the meeting of the provincial executive committee on 28 July 2010, and we engaged with two individual and five cluster audit committees for the departments to discuss matters arising in the audit reports.

A high-level overview of the key controls which the premier and MECs should monitor to achieve clean financial administration and to ensure the reliability and accuracy of financial and performance reporting is set out in the table below.

Table 21: Key controls to monitor correct and reliable financial information

Key controls	Responsible person	Frequency of monitoring
Reconciliation of daily transactions and filing of documentation	AO	Daily
Confirmation that daily transactions are done in compliance with laws and regulation	AO	Monthly
Confirmation that daily transactions are done in line with service delivery objectives of the department	AO	Monthly
Monitoring that all monthly reconciliations and disciplines are performed including feedback on revenue and expenditure linked to the performance targets (service delivery)	AO with support from CFO	Monthly
Confirmation of monthly asset count and asset reconciliations to the MEC	AO with support from CFO	Monthly

4.4 Matters that my potentially impact the auditor's report in the coming year

4.4.1 Accounting and compliance matters

New pronouncements/requirements

Immovable assets

The executive council approved the assignment of its powers, duties and functions to a member of the executive council in terms of section 132(2) of the Constitution of the Republic of South Africa, 1996: Free State Land Administration Act, 1998 (Act No. 1 of 1998), on 22 July 1998. This resolution recognises Public Works and Rural Development as the "custodian" in relation to the immovable assets vesting in the provincial government.

In terms of the Presidential Minute No. 248, the President proclaimed that sections 6, 11, 12, 13 and 14 of the Government Immovable Asset Management Act of South Africa, 2007 (Act No. 19 of 2007) (GIAMA) had come into operation on 1 April 2010 for any custodian or user that is a department. The impact of not fulfilling the requirements of the above minute would be that the departments could possibly be qualified for incorrectly recognising immovable assets in their financial statements.

Predetermined objectives

Should the audit conclusion on the reporting of performance against predetermined objectives be elevated for inclusion in the audit report next year as opposed to it being included in the management report, four departments and two public entities would have a disclaimer, one department would have an adverse opinion, and four departments and one entity would have a qualified opinion. Audit findings relating to predetermined objectives raised in the current year, if not cleared, may thus impact the audit outcomes next year.

SA Standards of GRAP – Public entities

All schedule 3A and 3C public entities as per the PFMA, as well as constitutional entities, that have to make use of the financial reporting framework – SA Standards of GRAP, issued by the Accounting Standards Board (ASB), should take note of the new SA Standards of GRAP pronouncements and amendments to existing accounting standards that may have an impact on the preparation of future annual financial statements.

4.4.2 Susceptibility and subjectivity of complex accounting matters, estimates and fair values

Matters affecting the Free State Development Corporation

The following matters may potentially impact the auditor's report of the Free State Development Corporation in the coming year:

- The complexity and subjectivity of the calculations for impairment on investment property and properties in possession, and investments in subsidiaries in terms of the International Accounting Standard 36 Impairment of Assets.
- The complexity and subjectivity of the assumptions used in determining the impairment charges on investments in subsidiaries, loans and advances in terms of International Accounting Standard 39 Financial Instruments: Recognition and Measurement.
- The complexity and subjectivity in the identification of embedded derivatives and compound financial instruments in terms of International Accounting Standard 39 Financial Instruments:

Recognition and Measurement.

4.4.3 Susceptibility of assets or liabilities to loss or fraud

Significant transactions with related parties and contracts in which management or those charged with governance have an interest

Controls to account for and record movable and/or immovable assets at Cooperative Governance and Traditional Affairs, Education, Health, Police, Roads and Transport and Public Works and Rural Development are not adequate. Deficient asset management procedures and controls could result in a loss of assets not being prevented or detected timeously in future, which could result in material loss to the relevant departments.

The systems and controls at Health and Police, Roads and Transport are not appropriately designed to prevent and detect fraud, error and misstatements in the revenue process. This results from the fact that the revenue systems are manual and/or non-transversal with extensive decentralisation. Oversight controls are not effective and instances of incomplete capturing of service revenue were not prevented or detected and corrected.

SECTION 5: FINDINGS ARISING FROM AGSA SPECIFIC FOCUS AREAS

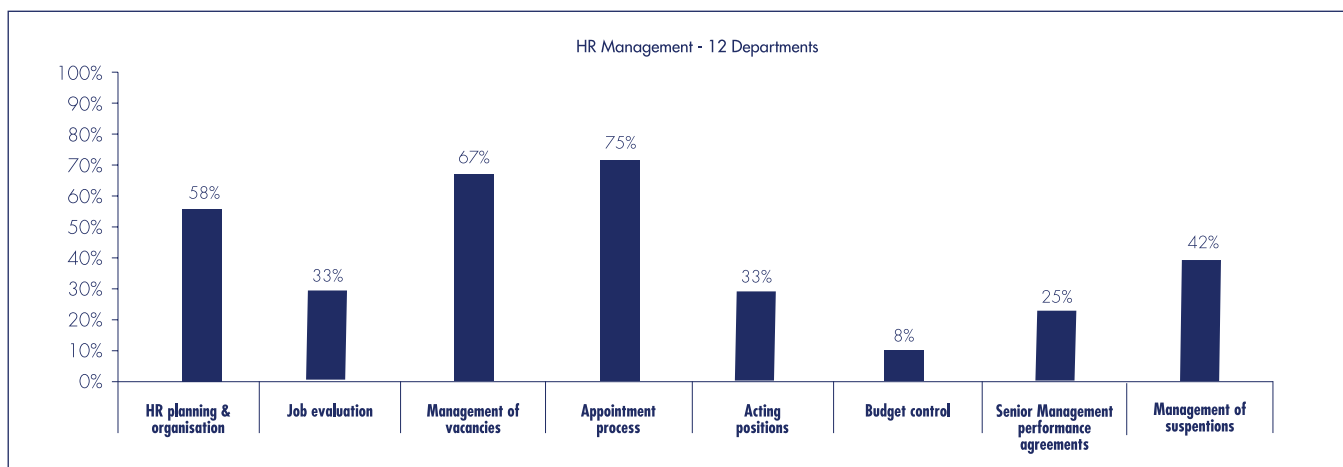
5.1 Significant findings from audits of human resource management and compensation of employees: Departments

The regularity audits of departments included an assessment of departments' compliance with the PFMA, Treasury Regulations (TR), Public Service Act, 1994 (PSA), Public Service Regulations, 2001 (PSR) and directives/determinations issued by the minister of Public Service and Administration (MPSA) that support effective human resource management and controls over compensation of employees.

The Free State Legislature was not included in the audit of human resource management and compensation of employees since the legislature is not subject to the provisions of the said laws and regulations. Consequently, only the results of 12 provincial departments have been included in the analysis of the findings that follow. Significant findings relating to compliance with prescripts that support effective human resource management were identified at all 12 provincial departments.

The figure below depicts the incidence of findings in the different areas of human resources (HR) management.

Figure 8: Findings on human resource management



All 12 departments that were audited did not comply with all the requirements for effective HR management. These weaknesses impact on the departments' financial management and ability to deliver services in accordance with their mandate.

Table 22: Overview of human resource findings

Department	The highest incidence of non-compliance on HR management	Highest incidents of weaknesses in control over compensation
Agriculture		X
Education	X	X
Health	X	X

Department	The highest incidence of non-compliance on HR management	Highest incidents of weaknesses in control over compensation
Police, Roads and Transport	X	X
Social Development	X	
Sport, Arts, Culture and Recreation	X	X

Table 23: Human resource planning and work organisation

Department	No updated and approved human resource plan	Differences between Persal establishment and approved organisational structure
Cooperative Governance and Traditional Affairs	X	X
Economic Development, Tourism and Environmental Affairs	X	
Health		X
Human Settlements	X	X
Police, Roads and Transport	X	X
Premier	X	X
Sport, Arts, Culture and Recreation	X	

Management of vacancies

The head of the department should address the gaps between the human resources required to perform the department's functions and the existing human resources by means of recruitment and retention strategies.

The average vacancy rate across all departments was 38% at year-end, with an average of 16% of the positions for senior managers being vacant. The highest overall vacancy rate was at Human Settlements at 57% and the highest senior manager vacancy rate, also at Human Settlements, was at 31%.

Lack of improvement in vacancy rates

The overall vacancy rates did not improve compared to the previous year at the following seven departments:

- Agriculture
- Economic Development, Tourism and Environmental Affairs
- Education
- Health
- Police, Roads and Transport
- Social Development
- Sport, Arts, Culture and Recreation

The vacancy rate for senior managers did not show an improvement compared to the previous year at the following five departments:

Non-compliant recruitment time frames

In terms of PSR 1/VII/C.1A.2, a funded vacant post should be advertised within six months after becoming vacant and should be filled within 12 months. PSR 1/VII/C.1A.3 requires that if a department does not comply with the regulation, the reasons for such non-compliance should be recorded in writing.

The recruitment time frames were tested for senior management as well as posts in finance, internal audit and a service delivery component where the vacancy rate is above 5%. The following table provides detail on the five departments which have not complied with the recruitment time frames and where the reasons for non-compliance were not recorded:

Table 24: Summary of departments not complying with recruitment timeframes

Department	Component				Reasons for non-compliance not recorded
	Senior management	Finance	Internal audit	Other service delivery component	
Education	X	X	X	X	X
Health	X				X
Police, Roads and Transport	X	X	X	X	X
Social Development	X	X	X	X	X
Sport, Arts, Culture and Recreation			X		X

Appointment processes

The recruitment and selection processes ensure that candidates with the appropriate qualifications and experience to meet the requirements of the specific post are appointed.

Verification checks not performed

A directive was issued by the MPSA (effective 1 January 2008) which states that a process should be followed to check criminal and financial/asset records and to verify citizenship, financial status, qualifications and previous employment for all new appointments.

The process was not effectively implemented at the seven departments depicted in the table below:

Table 25: Summary of departments not performing verification checks on new appointments

Department	Appointments without verification checks	Appointments with incomplete verification checks
Agriculture	X	
Education	X	X
Free State Provincial Treasury		X

Department	Appointments without verification checks	Appointments with incomplete verification checks
Health	X	
Police, Roads and Transport	X	
Social Development	X	
Sport, Arts, Culture and Recreation	X	X

Appointments in unadvertised posts

Appointments were made at the following two departments during the period, but the posts were not advertised as required by PSR 1/VII/C2 to ensure that the most suitable candidate is appointed:

- Police, Roads and Transport, resulting in irregular expenditure of R1 668 100.
- Social Development. The extent of irregular expenditure cannot be determined due to a limitation of scope.

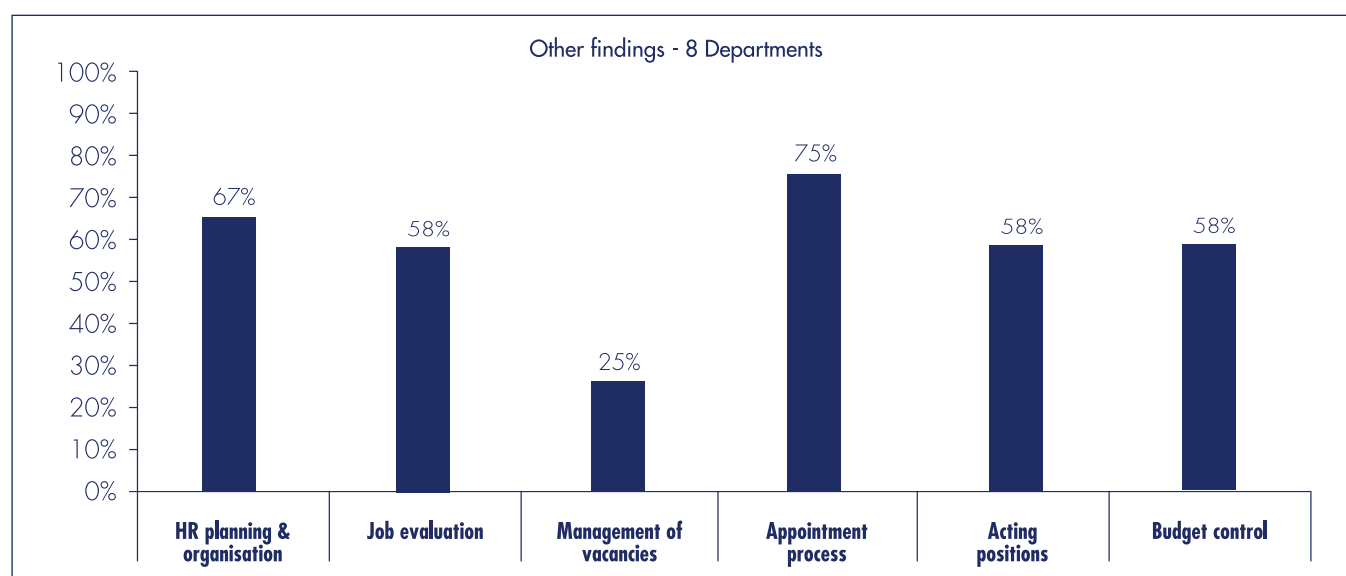
Lack of written contracts of employment

In terms of PSR 1/VII/B1(g), each employee should, upon appointment, be provided with a written contract of employment, including the terms and conditions of her or his service. Employees at the following six departments were not provided with the required contract upon appointment:

- Education
- Health
- Human Settlements
- Police, Roads and Transport
- Premier
- Sport, Arts, Culture and Recreation

Figure 9 depicts the incidence of weakness in control over compensation of employees.

Figure 9: Findings on compensation of employees



Sick and incapacity leave

Sick leave – Non-compliance and lack of monitoring

In terms of PSR 1/V/F(c), the head of the department should ensure that sick leave is not abused. The table below identifies the seven departments that did not comply with the DPSA's Determination on leave of absence in the public service (leave determination), which requires that medical certificates be submitted, and/or did not implement processes and procedures to monitor sick leave in order to prevent abuse thereof:

Table 26: Summary of departments with findings on sick leave

Department	Medical certificates not submitted		No processes and procedures to monitor sick leave
	Sick leave of more than three days	Sick leave that was third incident in an eight-week cycle	
Cooperative Governance and Traditional Affairs	X	X	
Economic Development, Tourism, and Environmental Affairs	X	X	
Education	X	X	X
Health	X		
Police, Roads and Transport	X		X
Social Development	X	X	X
Sport, Arts, Culture and Recreation	X	X	X

Incapacity leave incorrectly granted

In terms of the leave determination, incapacity leave is additional sick leave granted conditionally at the employer's discretion, read with the DPSA's Policy and procedure on incapacity leave for ill-health retirement (PILIR). The determination and policy provide clear and specific requirements on how incapacity leave should be dealt with and the number of days that may be granted.

The table below identifies the seven departments where more temporary or permanent incapacity leave was granted than the employee was entitled to and/or where the requirements of the determination and the policy were not met:

Table 27: Summary of departments where incapacity leave was calculated incorrectly

Department	More temporary/permanent incapacity leave granted than employee was entitled to	Non-compliance with determination and policy
Economic Development, Tourism and Environmental Affairs		X
Education	X	X
Health	X	X
Police, Roads and Transport		X
Premier		X
Social Development		X
Sport, Arts, Culture and Recreation	X	X

Leave administration

Overstated leave credits

In terms of PSR 1/V/F(b), the head of the department should record all leave taken by an employee accurately and in full. No/inadequate controls were implemented at the departments mentioned below to ensure that all leave taken by employees was captured and that it was done timeously.

As a result, the annual/capped leave credits at the following six departments have been overstated:

- Cooperative Governance and Traditional Affairs
- Education
- Health
- Police, Roads and Transport
- Premier
- Sport, Arts, Culture and Recreation

Negative capped leave

In terms of the leave determination, an employee may not be granted annual leave with full pay in excess of the annual leave that the employee is entitled to, plus capped leave in respect of persons who had been in service prior to 1 July 2000. If, due to a bona fide error, an employee had been granted annual leave with full pay in excess of the days to his/her credit at that time, such excess should be deducted from the subsequent leave cycle.

Employees at the following six departments had negative capped leave credits which were not deducted from their annual leave and were not recovered via unpaid leave:

- Cooperative Governance and Traditional Affairs
- Education
- Health
- Police, Roads and Transport
- Social Development
- Sport, Arts, Culture and Recreation

Family responsibility leave incorrectly granted

In terms of the leave determination, the number of family responsibility leave days taken should not exceed five days within an annual leave cycle, unless special circumstances warrant further leave at the discretion of the head of department. Employees at the following two departments took more than five days of family responsibility leave, although no special circumstances existed as approved by the head of department:

- Education
- Health

Management of overtime

PSR 1/V/D2 determines the circumstances under which employees may be compensated for overtime worked. The table below identifies the nine departments where non-compliance with the regulation occurred and overtime was incorrectly calculated:

Table 28: Summary of departments where overtime paid was incorrectly calculated

Department	No written policy on overtime	Overtime not approved in advance	Overtime not limited to 30% of employee's monthly salary	Overtime incorrectly calculated
Agriculture	X			X
Cooperative Governance and Traditional Affairs	X		X	
Economic Development, Tourism and Environmental Affairs	X			
Education			X	X
Health		X		X
Human Settlements	X		X	
Police, Roads and Transport	X	X	X	X
Premier				X
Social Development		X	X	X

Service terminations

In terms of the section 38 of the PSA, overpayments should be recovered from an employee by way of a deduction from moneys owing to him/her, except if the amount is written off.

The table below identifies the eight departments where employees whose services had been terminated/who were deceased were not removed from the payroll in time, resulting in overpayments. At year-end, a number of the departments had not recovered the overpayment or reclassified it as debt:

Table 29: Summary of departments where resigned/retired employees are not timeously removed from Persal

Department	Overpayments made to terminated/deceased employees	Overpayments not recovered/reclassified at year-end
Agriculture	X	
Education	X	X
Health	X	X
Human Settlements		
Police, Roads and Transport	X	X
Premier	X	
Public Works and Rural Development	X	
Social Development	X	X



Payroll control

In terms of TR 8.3.4, the person in charge at the respective pay points must certify that all persons listed on the payroll report are entitled to payment. TR 8.3.5 requires that the payroll report must be returned to the CFO within 10 days of being certified, and that the accounting officer must ensure that all pay-point certificates are received on a monthly basis.

Instances were found at the following nine departments that indicate that the prescribed control is not fully implemented:

Table 30: Summary of departments where payroll internal controls are not properly functioning

Department	Monthly payroll reports not certified	Certified payrolls not returned within 10 days to finance department	Completeness of certified payroll reports not checked	Corrective action not taken timeously where discrepancies were noted
Agriculture		X		
Cooperative Governance and Traditional Affairs		X	X	
Education		X		
Health		X	X	
Human Settlements				
Police, Roads and Transport		X	X	
Premier				
Public Works and Rural Development	X		X	
Sport, Arts, Culture and Recreation	X	X	X	X

Overall conclusion

It is evident from the above analysis that internal control deficiencies relating to HR management and compensation of employees are not identified and, if identified, are not communicated in a timely manner to allow for appropriate corrective action to be taken. Furthermore, management does not adequately monitor and supervise processes relating to HR management and compensation of employees to ensure compliance with applicable laws and regulations.

5.2 Significant findings from audits of procurement and contract management

Eleven departments and three entities incurred irregular expenditure totalling R658 576 376, mainly due to proper supply chain management processes not being followed. It should be noted that a material limitation was placed on the scope of the audit of procurement and contract management at Police, Roads and Transport, because management did not provide the auditors with supporting documentation for tenders awarded totalling R753 879 950. This amount of potential irregular expenditure has not been reflected in the

paragraphs below. The regularity audits included an assessment of the procurement processes and contract management of the auditees as well as the controls to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that prevents and detects fraud, non-performance by suppliers and non-compliance with SCM legislation.

As is evident from the analysis of irregular expenditure (paragraph 4.1.3.2), the most irregular expenditure incurred by the departments and entities resulted from non-compliance with SCM legislation. The detailed findings are presented below:

5.2.1 Interest in suppliers

The performance audit report entitled "Performance audit of entities that are connected with government employees and doing business with provincial departments" was tabled in the Free State Legislature on 26 June 2009. The report disclosed that employees and spouses of employees were doing business with their own departments through companies and close corporations in which they are directors or members.

Legislation does not prohibit such practices 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. The report also disclosed non-compliance with this legislation and a number of other irregularities in the SCM process at the departments.

The allegations in the report of corruption, improper conduct and failure to comply with the SCM system was either not investigated by the following departments within a reasonable time or was not appropriately dealt with after being investigated:

- Education – 12 instances
- Health – no evidence of the follow-up and action taken
- Police, Roads and Transport – two instances

The 2009-10 regularity audits included a similar assessment of interest by employees and their close family members as directors and/or members in companies and closed corporations, respectively, who are suppliers to the auditee. Where interest in suppliers was identified, a sample was tested to determine whether there was compliance with the legislation applicable to departments and public entities. The table below lists the auditees where interests were identified and details the resultant findings:

Table 31: Summary of departments with employees/close family members' interest in suppliers

Auditee	Interest not declared by supplier	Employee involved in process of making award to supplier	Employee did not disclose conflict of interest	No approval for employee to perform remunerative work outside employment (departments only)	Interest not included in annual declaration of senior manager (departments only)
Police, Roads and Transport	X	X	X		
Health	X		X		X

Auditee	Interest not declared by supplier	Employee involved in process of making award to supplier	Employee did not disclose conflict of interest	No approval for employee to perform remunerative work outside employment (departments only)	Interest not included in annual declaration of senior manager (departments only)
Education				X	
Premier				X	
Free State Gambling and Racing Board					X
Free State Tourism Authority					X

5.2.2 Procurement process

Three price quotations not invited

In terms of Practice Note (P/N) 8 of 2007-08, accounting officers/authorities should invite and accept written price quotations for requirements up to an estimated value of R500 000 from as many suppliers as possible. If it is not possible to obtain at least three written price quotations, the reasons should be recorded and approved by the accounting officer/authority or his/her delegate.

At the following auditees irregular expenditure was incurred as goods or services were procured without inviting at least three price quotations and the deviation was not approved and/or the deviation was approved although it was possible to obtain three price quotations:

Table 32: Deviations from obtaining three quotations not approved/justified

Department / Entity	Deviation not approved	Approved deviation not justified	Irregular expenditure incurred
Cooperative Governance and Traditional Affairs	X	X	R1 058 626
Economic Development, Tourism and Environmental Affairs	X		R15 048
Education	X		R5 905 644
Health	X	X	R1 657 179
Human Settlements	X	X	R892 901
Police, Roads and Transport	X	X	R5 599 347
Public Works and Rural Development		X	R1 314 947
Social Development	X	X	R1 038 884
Sport, Arts, Culture and Recreation	X		R515 000
Free State Tourism Authority	X	X	R1 545 096
Free State Youth Commission	X		R7 780
Total			R19 550 452

Deviation from competitive bidding without approval

Treasury Regulation (TR) 16A6.4 states that if in a specific case it is impractical to invite competitive bids, the accounting officer/authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids are recorded and approved by the accounting officer/authority.

At the following auditees irregular expenditure was incurred as the deviation from competitive bidding was not approved:

Table 33: Summary of departments where deviations from competitive bidding were not approved

Department/Entity	Irregular expenditure incurred
Cooperative Governance and Traditional Affairs	R2 888 766
Human Settlements	R13 962 607
Sport, Arts, Culture and Recreation	R9 628 000
Free State Tourism Authority	R2 721 948
Total	R29 201 321

Deviation from competitive bidding not justified

P/N 6 of 2007-08 states that the provision in TR16A6.4 should be utilised strictly to procure goods and services of critical importance and only in specific cases where it is impractical to invite competitive bids and where immediate action is necessary or if the goods and services required are produced by, or available from, sole service providers.

The P/N further states the following: An effective SCM system requires an accounting officer/authority to ensure that the resources required to support the strategic and operational commitments of an institution are properly budgeted for and procured at the correct time. Planning for the procurement of such resources should take into account the period required for competitive bidding processes – a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes. Accounting officers/authorities should also put in place their own control measures to deal with foreseeable cases of emergency that occur within their area of functionality. These measures may include the arrangement of strategic or specific term contracts with suitable service providers with a view to ensuring that the required goods or services are available immediately when cases of emergency occur.

At the following auditees irregular expenditure was incurred, as a deviation from competitive bidding was approved on the basis of it being an emergency or urgent, even though immediate action was not necessary and sufficient time was available for a bidding process and/or proper planning would have prevented such emergency:

Table 34: Summary of departments where approved deviation from competitive bidding was not justified – urgent/emergency

Department/Entity	Irregular expenditure incurred
Cooperative Governance and Traditional Affairs	R10 464 014
Police, Roads and Transport	R73 321 888
Public Works and Rural Development	R26 196 855
Free State Tourism Authority	R304 203
Total	R110 286 960



At the following auditees irregular expenditure was incurred as deviations from competitive bidding were approved in accordance with TR 16A6.4 on the basis of the goods and services only being produced by, or available from, a sole service provider, although there was no evidence of a thorough market analysis having been performed and/or other evidence of suitable suppliers available in the market:

Table 35: Summary of departments where approved deviation from competitive bidding was not justified – Sole supplier

Department	Irregular expenditure incurred
Social Development	R1 601 522

Awards to suppliers who failed to provide valid tax clearance certificates

In terms of TR 16A9.1(d) and regulation 16 of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA), a bid should be rejected if the supplier fails to provide written proof from SARS that the supplier either has no outstanding tax obligations or has made arrangements to meet outstanding tax obligations.

At the following departments irregular expenditure was incurred as awards were made to suppliers who failed to provide written proof from the SARS that their tax was in order:

Table 36: Summary of departments where payments were made to suppliers without proof of tax compliance

Department	Irregular expenditure incurred
Cooperative Governance and Traditional Affairs	R328 220
Premier	R154 000
Health	R181 767
Total	R663 987

Preference point system not applied

In terms of section 2(a) of the PPPFA, a preference point system must be followed for procurement above R30 000.

At the following departments irregular expenditure was incurred as a result of the preference point system not being applied:

Table 37: Summary of departments where expenditure was incurred without applying preference points as required

Department / Entity	Irregular expenditure incurred
Health	R178 980
Police, Roads and Transport	Cannot determine due to limitation of scope
Public Works and Rural Development	R1 314 947
Social Development	R30 000
Free State Tourism Authority	R442 301

Award to supplier that did not have highest points

In terms of section 2(f) of the PPPFA, the contract must be awarded to the tenderer who scores the highest points based on price, functionality (if applicable) and preference points, unless objective criteria justify awarding the contract to another tenderer.

At the following departments irregular expenditure was incurred as awards were made to suppliers who did not score the highest points while no objective criteria justified such award:

Table 38: Summary of departments where awards were made to suppliers who did not receive the highest points

Department	Irregular expenditure incurred
Health	R40 134 784
Police, Roads and Transport	Cannot determine due to limitation of scope
Public Works and Rural Development	R4 772 725

No prospective supplier list

In terms of P/N 8 of 2007-08, accounting officers/authorities should compile a list of prospective suppliers per commodity and type of service to be used for inviting price quotations. The prospective supplier list provides a fair opportunity for entities to be invited to submit price quotations.

A list of prospective suppliers was not in place at Cooperative Governance and Traditional Affairs and Human Settlements.

5.2.3 Contract managementContract amendments/extensions/renewals without approval

In terms of TR 8.2.1, an official of an institution may not spend or commit public money except without the approval of the accounting officer or a properly delegated or authorised official.

At the following departments irregular expenditure was incurred as contracts were amended, extended or renewed without approval by the accounting officer or a delegated official:

Table 39: Summary of departments where amendments, extensions and/or renewals were made to contracts without approval

Department	Irregular expenditure incurred
Health	R3 435 207
Police, Roads and Transport	Cannot determine due to limitation of scope

Contract amendments/extensions/renewals resulted in circumvention of competitive bidding

In terms of sections 38(1)(a)(iii) and 51(a)(iii) of the PFMA, an SCM system must be fair, equitable, transparent, competitive and cost-effective. When a contract expires, it is expected that a competitive bidding process should be followed to appoint a supplier to provide goods and services.

At the following departments irregular expenditure was incurred as contracts were extended or renewed to such an extent that competitive bidding processes were being circumvented:

Table 40: Summary of departments where amendments, extensions and/or renewals were made to circumvent competitive bidding

Department	Number of contracts	Irregular expenditure incurred
Health	1	R12 834 066
Police, Roads and Transport	Unknown	Cannot determine due to limitation of scope

Non-performance by suppliers

In terms of the general conditions of contract, as promulgated by P/N 1 of 2003 and issued in terms of TR 16A6.3(a), the delivery of the goods and performance of services shall be made by the supplier, in accordance of the time schedule prescribed by the purchaser in the contract. If the supplier fails to deliver any or all of the goods or to perform the services within the period(s) specified in the contract, the purchaser should deduct a penalty from the contract price or terminate the contract.

Furthermore, all accepted price quotations should be delivered on in accordance with the agreed-upon quality and timelines.

At the following departments no action was taken against the suppliers when goods and services were not provided in accordance with the requirements of the contract or the accepted quotation:

Table 41: Summary of departments where suppliers' non-performance was not addressed

Department	Number of contracts	Irregular expenditure incurred
Agriculture	1	R1 028 212
Police, Roads and Transport	Unknown	Cannot determine due to limitation of scope

Payments made for goods and services not received

At the following three departments and one entity payments were made for goods and services that were not received:

Table 42: Summary of departments where payments were made for goods/services not received

Department / Entity	Irregular expenditure incurred
Agriculture	R16 000
Health	Cannot determine due to limitation of scope
Social Development	R229 548
Free State Tourism Authority	R247 500

Overall conclusion

Weaknesses in internal control and non-compliance with laws and regulations relating to procurement and contract management resulted mainly from the lack of ongoing monitoring and supervision by management and leadership. The leadership and management of departments and entities should establish and encourage a culture of compliance with laws and regulations to ensure that irregular expenditure is eliminated. The correct leadership tone, together with the support of audit committees and internal audit units, is required to develop this culture. All identified instances of non-compliance with laws and regulations resulting in irregular expenditure should be investigated and appropriate action should be taken where necessary.

5.3 Transversal performance audits completed during the financial year

Infrastructure audit

Background

The AGSA conducted performance audits of the infrastructure delivery process at the Departments of Health and Education as part of a transversal performance audit on infrastructure delivery at all the provinces, except the Northern Cape.

High-level overview of the infrastructure delivery process

The infrastructure delivery process includes the following main phases:

- Demand management (needs determination, budgeting, planning)
- Acquisition management (tender process, appointment of contractors)
- Project management and information
- Commissioning and utilisation

Key risks in the infrastructure delivery process

Various insufficient management processes (policy making, planning, organising, coordination and monitoring) were identified during the performance audit of the infrastructure delivery process.

There is a need in the public sector for management to respond to key risks in a timelier manner.

Demand management

- The need for schools and hospitals is not always correctly identified and prioritised as the process followed for needs determination is not always approved and well understood, or inadequate information is used to identify the need for facilities. The needs for the various projects were not reassessed or amendments were not made to the original plans to ensure that it was still relevant on the commencement date and in accordance with new infrastructure technology.

Acquisition management

- The applicable legislation and regulations are not consistently applied by the bid adjudication committees during the tender evaluation process. Not all the irregular expenditure due to deviations from the SCM process is identified and reported by the auditees.

Project management and information

- Projects are not effectively monitored by staff from the respective departments and the implementing agents. Corrective actions are not instituted timeously against the contractors concerned. Delays were experienced in the completion of the projects and penalties were not always charged for the late completion of projects.
- The quality of the construction work is unsatisfactory, additional costs were incurred to complete the projects and the completion of the facilities was delayed. Replacement contractors were not appointed in time to ensure that projects were completed within the set target dates.

Commissioning and utilisation

- There is a lack of effective coordination within and between departments, which results in facilities not being properly equipped and staffed to support effective service delivery.
- Additional costs are incurred on the account of the departments to correct it.

Overall conclusion

The following systemic issues relating to the infrastructure delivery process will have to be addressed:

- The highest priorities for infrastructure were not always addressed first as needs were not always well understood or inadequate information was used during the decision-making process.
- Infrastructure projects were not supervised, monitored and controlled effectively due to insufficient technical skills.

- The applicable legislation and regulations were not correctly applied during the appointment of contractors and consultants due to a lack of supervision and training.
- The commissioning and utilisation of completed infrastructure projects were delayed due to ineffective coordination between role players.
- All audit procedures deemed necessary could not be executed due to poor document management and the subsequent unavailability of documentation.

The way forward

The accounting officer for the Department of Education responded positively on the management reports and the responses from the Department of Health are still outstanding. Education indicated that wide-ranging corrective actions will be implemented. These include:

- an improved needs determination and planning process
- that compliance with supply chain management practices are ensured
- improved project management
- that the utilisation of infrastructure will be optimised.

To follow up on the implementation of the corrective actions, the AGSA will audit infrastructure as part of annual regularity audits, evaluate the implementation of corrective actions and conduct a follow-up performance audit if necessary.

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 the departments and public entities. The AGSA issues separate audit reports for consolidated departments and the legislature, and for entities. Agreed-upon procedures are performed on the provincial consolidated financial statements. The status of the agreed-upon procedures engagement for the consolidated financial statements as at 31 March 2010 is reflected in table 37 below.

Table 43: Status of audit of consolidated financial statements

Province	Departments - audit completed		Public entities - audit completed	
	2009-10	2008-09	2009-10	2008-09
	Y / N	Y / N	Y / N	Y / N
Free State	N	Y	N	Y

The consolidated financial statements for the departments and public entities for the 2009-10 year were received on 31 August 2010. The audit is currently in progress and the anticipated reporting date is 30 September 2010.

SECTION 7: STATUS OF TABLING OF ANNUAL REPORTS

7.1 Summary of annual reports tabled

Table 44: Annual reports tabled by departments and public entities

Type of auditee	Percentage of reports tabled at 31 August 2010	
	2009-10	2008-09
Departments	0%	100%
Public entities	0%	100% *
Total	0%	100%

* The annual report of the Free State Development Corporation (late submission of consolidated annual financial statements for audit purposes) for 2008-09 was only tabled on 15 March 2010.

Annual reports of departments and entities for 2009-10 have not yet been tabled in the legislature.

7.2 List of departments and public entities whose annual reports were not tabled

The following departments and public entities are required by legislation to submit their annual reports in the Free State Legislature for tabling by 30 September 2010. These annual reports will be tabled on 8 October 2010, being the first scheduled sitting of the House after recess.

Table 45: Annual reports not tabled

No.	Auditee
1	Agriculture
2	Central Medical Trading Account
3	Cooperative Governance and Traditional Affairs
4	Economic Development, Tourism and Environmental Affairs
5	Education
6	Free State Fleet Management Trading Entity
7	Free State Gambling and Racing Board
8	Free State Housing Fund
9	Free State Investment Promotion Agency
10	Free State Legislature
11	Free State Liquor Authority
12	Free State Provincial Treasury
13	Free State Tourism Authority
14	Free State Youth Commission
15	Health
16	Human Settlements
17	James Robertson Bursary Fund
18	Nature Conservation Trust Fund



No.	Auditee
19	Phakisa Major Sport Events and Development Corporation
20	Police, Roads and Transport
21	Premier
22	Private Patients Fund Trust
23	Public Works and Rural Development
24	Recreation Fund Trust
25	Social Development
26	Sport, Arts, Culture and Recreation
27	Thomas Robertson Bursary Fund

CONCLUDING COMMENTS

The Free State faces a number of challenges as highlighted in this report which will require a coordinated effort by the leadership of the province, with the support of the National Treasury and the Provincial Treasury, to improve in those areas of concern.

Departments and public entities should focus on addressing shortcomings around movable and immovable capital assets and increasing trends in irregular expenditure need urgent action plans to be formulated and strictly monitored to prevent recurrence. A further area of concern is that of budgetary control and monitoring of spending against the budget on an ongoing basis. The extent of underexpenditure is of concern, as it has a direct impact on service delivery and/or could raise questions about the quality of public services. It requires proper planning, execution and oversight by leadership of projects to ensure service delivery.

The leadership of the province will need to play a closer and timelier monitoring role and the leadership tone set by the heads of department is critical in addressing the disclaimers of opinion and preventing further regression in audit outcomes in the province. Leadership should also prioritise actions to address leadership instability in order to enhance direction provided to, and accountability of, staff. The managements of departments and public entities need to take committed steps to improve their financial administration to avoid qualified opinions. The immediate focus should be on adherence to essential key daily and monthly financial controls and proper record keeping. The transfer of skills by consultants is vital in ensuring that management and finance units in departments and entities are capacitated to assume full responsibility for the functions and work currently performed by consultants and to ensure a sustainable result.

The repetitive audit findings on non-compliance with legislation and the poor quality of financial statements are also cause for concern. Senior management should ensure efficient monitoring and ongoing supervision to address areas of non-compliance with legislation. Internal audit is a crucial function in assisting management to establish a sound internal control environment and perform ongoing evaluation and monitoring of management's compliance with predefined controls and progress in implementing the action plans. The level of oversight by audit committees should also be strengthened.

Attention is also drawn to the importance of the departments, provincial public and other public entities needing to ensure that the necessary systems and controls are in place that will result in accurate reporting,

continuous monitoring of achievement of the measurable objectives and overall compliance with the reporting requirements in respect of predetermined objectives.

I wish to reiterate the critical message to the legislators and the executive that it is possible to achieve unqualified audit reports with clean administrations if key controls are institutionalised and constantly monitored by the leadership.

I am, however, confident that the challenges are not insurmountable and remain committed to working with the legislature and executive to assist in the process of identifying and disseminating 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 GENERAL REPORT

ANNEXURE 1: Listing of names with audit outcomes, areas qualified and findings on predetermined objectives

ANNEXURE 2: Listing of names with findings related to compliance with laws and regulations

ANNEXURE 3: Listing of entities with dates on which the annual reports were tabled

ANNEXURE 1: Listing of names with audit outcomes, areas qualified and findings on predetermined objectives

Number	Auditee	Audit outcome 2009-10	Audit outcome 2008-09	Financial statement qualification areas								Findings on predetermined objectives			
				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	Reported information not useful	Reported information not reliable	Information not submitted for audit by 31 May 2010
Audits conducted by the AGSA															
Departments															
1	Agriculture	Financially unqualified ¹	Qualified												
2	Cooperative Governance and Traditional Affairs	Qualified	Qualified												
3	Economic Development, Tourism and Environmental Affairs	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with other matters												
4	Education	Qualified	Financially unqualified with other matters												
5	Free State Legislature	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with other matters												
6	Free State Provincial Treasury	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	Financially unqualified with other matters												
7	Health	Disclaimer	Qualified												
8	Human Settlements	Qualified	New department												
9	Police, Roads and Transport	Disclaimer	Qualified												
10	Premier	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with other matters												
11	Public Works and Rural Development	Qualified	Qualified												
12	Social Development	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Qualified												

ANNEXURE 1: Listing of names with audit outcomes, areas qualified and findings on predetermined objectives

Number	Auditee	Audit outcome 2009-10	Audit outcome 2008-09	Financial statement qualification areas								Findings on predetermined objectives			
				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	Reported information not useful	Reported information not reliable	Information not submitted for audit by 31 May 2010
13	Sport, Arts, Culture and Recreation	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Qualified												
14	Provincial Revenue Fund	Audit outstanding	Financially unqualified with no other matters												
Public entities															
15	Central Medical Trading Account	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with other matters												
16	Free State Development Corporation	Audit outstanding	Adverse												
17	Free State Fleet Management	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	Financially unqualified with no other matters												
18	Free State Gambling and Racing Board	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with other matters												
19	Free State Housing Fund	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	Financially unqualified with other matters												
20	Free State Investment Promotion Agency	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with other matters												
21	Free State Liquor Authority	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with other matters												
22	Free State Political Parties Fund	Audit outstanding	Audit outstanding												

ANNEXURE 1: Listing of names with audit outcomes, areas qualified and findings on predetermined objectives

Number	Auditee	Audit outcome 2009-10	Audit outcome 2008-09	Financial statement qualification areas								Findings on predetermined objectives			
				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	Reported information not useful	Reported information not reliable	Information not submitted for audit by 31 May 2010
23	Free State Tourism Authority	Qualified	Financially unqualified with other matters												
24	Free State Youth Commission	Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	Financially unqualified with other matters												
25	James Robertson Bursary Fund	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	Financially unqualified with no other matters												
26	Nature Conservation Trust Fund	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	Financially unqualified with no other matters												
27	Phakisa Major Sport Events and Development Corporation	Financially unqualified with findings on internal controls	Financially unqualified with other matters												
28	Private Patients Fund Trust	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	Financially unqualified with no other matters												
29	Recreation Fund Trust	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	Financially unqualified with no other matters												
30	Thomas Robertson Bursary Fund	Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	Financially unqualified with no other matters												
31	Universitas Academic Hospital Board	Audit outstanding	Audit outstanding												

ANNEXURE 2: Listing of names with findings related to compliance with laws and regulations

Number	Auditee	Prohibited action/ non-adherence															
		Annual budget	Responsibilities	Delegation of responsibilities	Audit committee	Internal audit unit	Payments	Transfer of funds and subsidies	Misconduct /disciplinary /criminal proceedings	Plans (Strategic/corporate)	Management of losses and claims	Conditional allocations	Companies Act requirements	Entity specific legislation	HR management	Procurement (SCM)	SCM issue that resulted in irregular expenditure
Audits conducted by the AGSA																	
Departments																	
1	Agriculture																
2	Cooperative Governance and Traditional Affairs																
3	Economic Development, Tourism and Environmental Affairs																
4	Education																
5	Free State Legislature																
6	Free State Provincial Treasury																
7	Health																
8	Human Settlements																
9	Police, Roads and Transport																
10	Premier																
11	Public Works and Rural Development																
12	Social Development																
13	Sport, Arts, Culture and Recreation																
Public entities																	
14	Central Medical Trading Account																
15	Free State Fleet Management Trading Entity																
16	Free State Gambling and Racing Board																
17	Free State Housing Fund																
18	Free State Investment Promotion Agency																
19	Free State Liquor Authority																

ANNEXURE 2: Listing of names with findings related to compliance with laws and regulations

Number	Auditee	Prohibited action/ non-adherence													
		Annual budget	Responsibilities	Delegation of responsibilities	Audit committee	Internal audit unit	Payments	Transfer of funds and subsidies	Misconduct/disciplinary/criminal proceedings	Plans (Strategic/corporate)	Management of losses and claims	Conditional allocations	Companies Act requirements	Entity specific legislation	HR management
20	Free State Tourism Authority														
21	Free State Youth Commission														
22	Nature Conservation Trust Fund														
23	Phakiso Major Sport Events and Development Corporation														
24	Private Patients Fund Trust														
25	Recreation Fund Trust														
26	Thomas Robertson Bursary Fund														
27	James Robertson Bursary Fund														

ANNEXURE 3: Listing of entities with dates on which the annual reports were tabled

Number	Auditee	Date of tabling of annual report
Audits conducted by the AGSA		
Departments		
1	Premier	8 October 2010
2	Free State Legislature	8 October 2010
3	Economic Development, Tourism and Environmental Affairs	8 October 2010
4	Provincial Treasury	8 October 2010
5	Health	8 October 2010
6	Education	8 October 2010
7	Social Development	8 October 2010
8	Cooperative Governance and Traditional Affairs	8 October 2010
9	Public Works and Rural Development	8 October 2010
10	Police, Works and Roads	8 October 2010
11	Agriculture	8 October 2010
12	Sport, Arts, Culture and Recreation	8 October 2010
13	Human Settlements	8 October 2010
Public entities		
14	Central Medical Trading Account	8 October 2010
15	Free State Fleet Management Trading Entity	8 October 2010
16	Free State Gambling and Racing Board	8 October 2010
17	Free State Housing Fund	8 October 2010
18	Free State Investment Promotion Agency	8 October 2010
19	Free State Liquor Authority	8 October 2010
20	Free State Tourism Authority	8 October 2010
21	Free State Youth Commission	8 October 2010
22	James Robertson Bursary Fund	8 October 2010
23	Nature Conservation Trust Fund	8 October 2010
24	Phakisa Major Sport Events and Development Corporation	8 October 2010
25	Private Patient Trust Fund	8 October 2010
26	Recreation Trust Fund	8 October 2010
27	Thomas Robertson Trust Fund	8 October 2010

(Footnotes)

1 Financially unqualified with findings on predetermined objectives and /or compliance with laws and regulations

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A U D I T O R - G E N E R A L
S O U T H A F R I C A