



A U D I T O R - G E N E R A L



Provincial general report of the Auditor-General

ON AUDIT OUTCOMES OF THE
FREE STATE PROVINCIAL DEPARTMENTS,
PUBLIC ENTITIES AND OTHER ENTITIES
for the financial year 2007-08

PUBLISHED BY AUTHORITY

PR 307/2008

ISBN 978-0-621-38366-9



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FOREWORD

It gives me great pleasure to present my 2007-08 general report to the provincial legislature, summarising the results of the audit outcomes of the Free State provincial departments, public entities and other entities for the financial year ended 31 March 2008.

The purpose of this general report is to provide an overview of the audit outcomes at provincial departments and public entities. The main body of this report covers both provincial departments and public entities reflected under sections covering financial reporting results, performance reporting results, results of information systems audit, issues driving audit results, SCOPA resolutions not implemented, tabling of annual reports and results of other audits.

Considerable attention needs to be given to the issues of accountability and governance in the public sector. In this regard, the attainment of unqualified audit reports by all government entities is a vision we fully subscribe to in our efforts to strengthen South Africa's democracy, thereby building public confidence. The critical message we want to highlight to the legislatures and the executive is that it is possible to obtain an unqualified audit report if the following basic principles are observed and constantly monitored by leadership:

- Close leadership involvement is required to address challenges such as human resource competency and capacity issues, among others, and to monitor the implementation of action plans appropriately designed to address the various audit issues.
- Monthly in-year monitoring to include financial statements.

We trust that the analyses contained in this general report will help guide the executive and the legislatures through the various portfolio committees and the public accounts committee to work towards achieving unqualified audit opinions. Most of the problems that we identified in our audits relate to basic internal control issues that require effective monitoring by the leadership so that it can be addressed immediately. The analysis further makes specific reference to the areas where these internal control shortcomings were identified, including their level of prevalence in each sphere of government.

The Free State public sector, excluding local government, comprised 12 departments, five provincial public entities and 10 other entities.

Of the 12 provincial departments analysed:

- five (42%) departments were financially qualified (qualified): Provincial Treasury; Health; Social Development; Public Works, Roads and Transport; and Agriculture
- seven (58%) departments were financially unqualified, but had concerns in areas of internal control, governance and legislative non-compliance: the Premier; Free State Legislature; Tourism, Environmental and Economic Affairs; Education; Local Government and Housing; Public Safety, Security and Liaison; and Sport, Arts and Culture.

Of the five provincial public entities analysed:

- one (20%) public entity, namely the Free State Development Corporation, received a disclaimer of audit opinion



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- three (60%) public entities, namely the Free State Gambling and Racing Board, the Free State Youth Commission and Phakisa Major Sport Events and Development Corporation, received a qualified audit opinion
- the Free State Tourism Authority (20%) received an unqualified financial opinion with other matters.

Of the 10 other entities analysed:

- two other entities (20%), namely the Free State Housing Fund and the Recreation Trust Fund, were financially qualified
- four (40%) other entities were financially unqualified, but had concerns in areas of internal control, governance and legislative non-compliance, namely the Central Medical Trading Account, Road Building Equipment Trading Entity, Free State Government Garage Trading Entity and the Small Holdings Trust Fund
- four (40%) of the trust funds namely the (James Robertson Bursary Fund, Thomas Robertson Bursary Fund, Nature Conservation Trust Fund, Private Patient Trust Fund) were unqualified without any significant concerns on other matters.

The findings leading to the financial qualifications and other matters are generally common to the Free State provincial departments, public and other entities. The majority of audit findings on provincial departments, public and other entities that were qualified resulted from issues on asset management. Five departments, four public entities and one other entity were qualified in respect of asset management.

The root causes for the shortcomings identified in the audit reports are primarily the result of:

- inadequate governance arrangements
- insufficient leadership supervision and monitoring
- lack of capacity.

Managing and reporting on performance information for the departments and public entities have shown marked improvements, mainly due to the guidance from the National Treasury in the form of the *Framework for managing programme performance information* issued in May 2007 supported by various training initiatives and further guidance and involvement from the provincial treasury.

In conclusion, I wish to thank the staff of the AG in the Free State for their diligent efforts towards the fulfilment of our constitutional mandate. I would like to express my appreciation to the legislative members, as well as the executive for their cooperation and input during the AG's visits to present the audit outcomes of the Free State Province. Together we will continue to make every effort to collaborate in order to contribute towards strengthening our country's democracy.

Auditor-General

Pretoria

December 2008



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SECTION 1: FOLLOW-UP ON PRIOR YEAR GENERAL REPORT

1. IMPLEMENTATION OF ACTION PLANS BY LEADERSHIP

Departments compiled action plans based on prior year audit reports and management reports. The Free State Provincial Treasury has assisted departments to improve their financial management practices by way of:

- monitoring the implementation of action plans drawn up by departments based on the audit reports and management letters
- monthly monitoring of key performance indicators for financial management and the determining of fixed targets to be reached
- follow-up of departments with the lowest rating on key performance indicators
- reporting to the MEC: Treasury on financial management of departments
- compiling manuals for financial functions and the use of the financial systems and the provision of necessary training
- attending audit steering committee meetings.

2. ONGOING MONITORING AND EVALUATION OF INTERNAL CONTROLS BY THE AUDIT COMMITTEE AND INTERNAL AUDIT UNIT

The provincial treasury has compiled and submitted a report to the director-general on the effectiveness of audit committees and internal audit functions of the Free State provincial departments for action and evaluation during the 2008-09 financial year. After evaluation of this report, key performance indicators for audit committees and internal audit functions will be determined and rolled out for implementation by the departments.

3. COORDINATION BETWEEN PORTFOLIO COMMITTEE AND STANDING COMMITTEE

The Free State Legislature Standing Rules and Orders makes a very clear distinction between the powers and functions of the Public Accounts Committee (PAC) and those of any other committee. These rules also make clear provision for, and give guidance on, the PAC's relationship with other committees. Currently, chairpersons of the other portfolio committees are members of the PAC.

4. TREASURY'S MONITORING TOOL/CHECKLIST

In the 2006-07 general report, we recommended that a monitoring tool or checklist should be developed by the National Treasury, in conjunction with the provincial treasury, to enable the legislature and the executive to monitor progress made with the implementation of the relevant action plans and to assist with their respective oversight responsibilities on a periodic basis. The provincial accountant-general made a great effort in ensuring effective financial management in the Free State Province by providing proactive guidance to provincial departments, public and other entities and by monitoring the implementation of their policies and guidance. Where requested, the provincial treasury provided support to departments experiencing a lack of capacity to prepare financial statements in accordance with requirements set by the National Treasury.



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5. STRENGTHENING CAPACITY OF THE PROVINCIAL TREASURY

Strengthening of the capacity of the provincial treasury to enable an improvement of financial management practices at provincial departments and public entities was a key recommendation emanating from the 2006-07 general report. The National Treasury and the provincial treasury have embarked on the following:

- The National Treasury provided a practical guideline for the preparation of annual financial statements.
- The National Treasury provided workshops and training sessions to clear any uncertainties experienced with the compilation of annual financial statements.
- The National Treasury dealt with exemptions requested by provincial departments.
- The provincial treasury has action plans to monitor the implementation of PAC resolutions.

6. EVALUATION OF HUMAN RESOURCE STRATEGIC FRAMEWORK

Human resource management plans were implemented at most of the provincial departments. Certain departments were, however, still experiencing staff shortages in excess of the 5% norm, which contributed to a lack of proper implementation of monitoring and supervision controls.



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SECTION 2: PROVINCIAL DEPARTMENTS

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The Free State Provincial Government comprises 12 departments, all of which have been included as part of our analysis.

Audit reports in respect of the 2006-07 consolidated financial statements for provincial departments and public entities were signed on 19 March 2008, after having been received on 14 March 2008. Consolidated financial statements were indeed received earlier, although unsigned. The delay in submission was mainly due to the late submission of the financial statements for the Provincial Revenue Fund.

As the Auditor-General and the provincial treasury followed a proactive approach in conducting this audit, all schedules and agreed-upon procedures were already audited by 14 March 2008.

1.2 Overview of audit opinions on provincial departments for 2007-08

- Table 1 below provides details of the actual audit outcomes for the Free State provincial departments.

Table 1: Audit opinions on provincial departments

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	0	0%	0	0%
Disclaimer	0	0%	0	0%
Qualified	5	42%	7	58%
Financially unqualified (with other matters)	7	58%	5	42%
Financially unqualified (with no other matters)	0	0%	0	0%
Total analysed	12	100%	12	100%

Improvement has been made in the Free State Province insofar as the financial qualifications are concerned, with five (42%) departments being qualified in 2007-08 versus seven (58%) in 2006-07. Two of the departments previously qualified have moved into the financially unqualified with other matters category.



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- Table 2 below provides details of the actual audit outcomes for the Free State provincial departments for the past five years.

Table 2: Audit opinions on provincial departments for the past five years

Department	2007-08	2006-07	2005-06	2004-05	2003-04
Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualification
Legislature	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualification	Qualification
Tourism, Environmental and Economic Affairs	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualification	Qualification	Disclaimer
Provincial Treasury	Qualification	Qualification	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Health	Qualification	Qualification	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualification
Education	Financially unqualified (with other matters)	Qualification	Qualification	Qualification	Disclaimer
Social Development	Qualification	Qualification	Financially unqualified (with other matters)	Qualification	Qualification
Local Government and Housing	Financially unqualified (with other matters)	Qualification	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Public Works, Roads and Transport	Qualification	Qualification	Qualification	Qualification	Qualification
Public Safety, Security and Liaison	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualification	Qualification
Agriculture	Qualification	Qualification	Disclaimer	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Sport, Arts and Culture	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualification



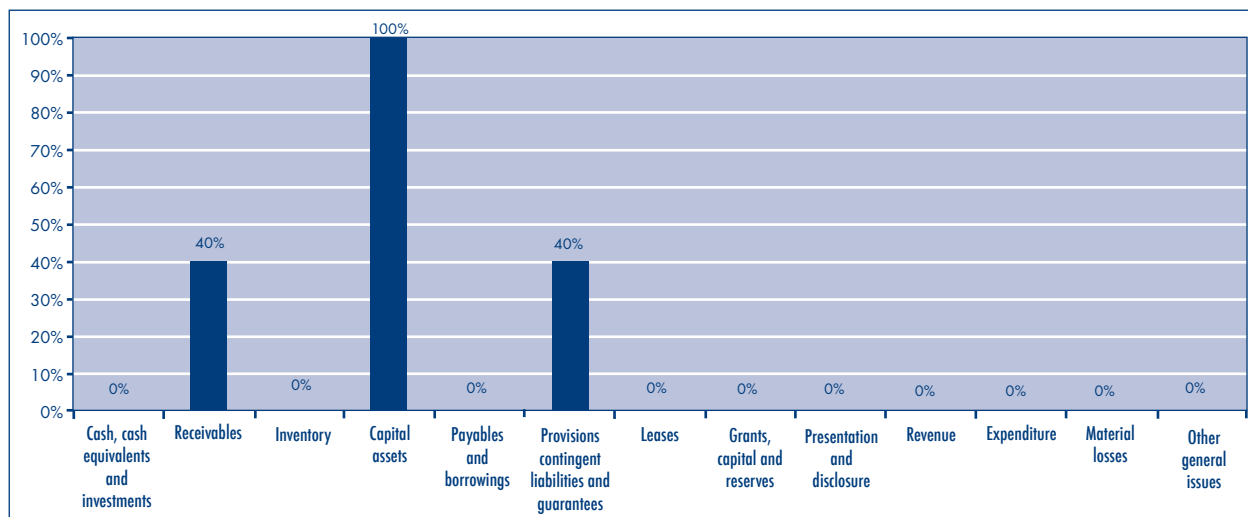
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There has been a distinct overall improvement in the audit opinions issued for the departments. There were no adverse and disclaimer audit opinions for the 2007-08 financial year and two departments which had received qualified audit opinions in the previous year, were financially unqualified for the 2007-08 financial year.

1.3 Qualification details

Figure 1 below provides a breakdown of all the audit findings which gave rise to the qualified audit opinions. It also provides an indication of the percentage of the provincial departments that were qualified per audit finding. The audit findings are split between items in the balance sheet (statement of financial position) highlighted in blue bars and the income statement (statement of financial performance) highlighted in green bars.

Figure 1: Provincial departments (5) that were qualified per audit finding



Overall conclusion

The provincial treasury and the Departments of Health; Social Development; Public Works, Roads and Transport; and Agriculture received qualified audit opinions, based on the following:

- The provincial treasury experienced problems with the LOGIS system not being able to differentiate between disposals and corrections made on the system. This was only realised at a late stage and reconciliation could not be done in time to avoid a qualification.
- The Department of Health was qualified on assets, receivables and commitments. The root causes for the qualifications were mainly as a result of policies and procedures not being effectively communicated downward to operational staff due to insufficient supervision and monitoring. Key officials were also not readily available during the audit to deal with audit-related matters and clear these in a timely manner.
- The Department of Social Development did not adequately monitor that the required action is taken to proactively correct the controls regarding asset management. Furthermore, key officials were not readily available during the audit to deal with audit-related matters and clear these in a timely manner.



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- The Department of Public Works, Roads and Transport received exemption from the National Treasury not to use revaluated asset figures. However, the department continued to revalue their assets in an attempt to disclose a more realistic asset figure. In this process fundamental errors were made and the department received a qualification on capital assets. The department used e-natis data without verifying the accuracy of the information and therefore received a qualified opinion on receivables and provisions.
- The Department of Agriculture did not adequately monitor that the required action is taken to proactively correct controls regarding asset management. Key officials were also not readily available during the audit to deal with audit-related matters and clear these in a timely manner.

The provincial departments are facing the following challenges relating to assets:

- The compilation of updated fixed asset registers which comply with all the requirements outlined by the National Treasury.
- Adequate asset registers are not maintained by all departments.
- The National Treasury granted the Department of Education exemption from reporting on the asset register in the 2007-08 financial statements.
- Physical verification of assets in the asset register was not possible in all instances.
- No evidence could be provided for the process followed to value assets. Not all steps were taken to ensure that all capital assets of which the department is the custodian were included in the asset register.

1.4 Audit findings in respect of other matters

The audit findings reported under “other matters” draw attention to the matters that are ancillary to the AG’s responsibilities in the audit of the financial statements.

The number of departments with findings on other matters increased from five in 2006-07 to seven in the current year under review (see table 1). Departments are experiencing continuing difficulties, specifically, in complying with legislative requirements and in terms of audit committees and internal audit functions not substantially fulfilling their responsibilities during 2007-08.

Material non-compliance with relevant legislation

Most instances of material non-compliance with relevant legislation not affecting the financial statements relating to non-compliance with the PFMA and Treasury Regulations were reported in nine (75%) provincial departments. Inadequate supervision and monitoring by the leadership (accounting officers, chief financial officers and relevant managers) had, in part, contributed to the negative audit findings in this area. The right leadership tone, with the support of internal audit, is necessary to establish a strong control environment and ensure compliance.

Matters of governance

Ninety-two per cent of provincial departments had concerns raised on matters of governance, which included findings on audit committees and internal audit functions. Only the Premier had no issues reported on under matters of governance.



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The existence of good risk management and internal control practices, which include audit committees as well as internal audit functions, contributed greatly to the achievement of unqualified audit opinions. Internal audit units and audit committees are essential elements in the management review process as they contribute to the design and maintenance of sound internal controls.

Audit committees and an internal audit function were in operation throughout the financial year in 83% and 92% of departments, respectively. However, only 67% and 75% of the departments had audit committees and internal audit functions, respectively, that operated in terms of approved written terms of reference or internal audit plans. Even lower percentages of the audit committees and internal audit functions substantially fulfilled their responsibilities for the year.

The majority of the prior year's external audit recommendations has been substantially implemented by departments.

Significant difficulties were experienced during the audits of the Departments of Health and Public Works, Roads and Transport concerning delays in the submission of required information.

Material misstatements

Fewer departments (five or 42%) had to effect material corrections to their financial statements due to errors, omissions and inconsistencies identified by the auditors, compared to eight (73%) departments in 2006 -07.

While there has been improvement in the quality of financial statements, the next few years will pose greater challenges to departments with the ongoing transition to accrual accounting. In order to deal with the prevalence of material misstatements in financial statements that have to be corrected during the audit period, departments need to:

- re-emphasise the role of chief financial officers in the preparation of regular management accounts, particularly related to issues of disclosure associated with the ongoing transition to accrual accounting
- subject the financial statements to a quality review before submitting them for auditing in order to resolve contentious accounting issues at the earliest opportunity, while internal audit and audit committees can play a crucial role in the review process of the financial statements
- work closely with the National Treasury and the provincial treasury to improve financial management and controls in order to produce quality financial statements that comply with the relevant standards.

2. PERFORMANCE REPORTING RESULTS

2.1 Introduction

The AG continued to report on the auditing of performance information in line with the relevant phasing-in approach. For 2007-08, the review was extended to the controls and systems used in generating and reporting on performance information.

2.2 Results of the audit of performance information

During the financial year under review, the National Treasury introduced the *Framework for managing*



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programme performance information supported by various training initiatives and further guidance from the provincial treasury to improve the process of managing and reporting on performance information.

There has been improvement in the management of, and reporting on, performance information in that the number of departments with no findings increased from 25% in 2006-07 to 33% in 2007-08.

As the future reporting responsibilities in this area increase, the solid compliance base demonstrated by many departments should be used as a stepping stone to further improve the management of, and reporting on, performance information, while at the same time maximising the impact of key service delivery priorities.

3. INFORMATION SYSTEMS AUDIT

3.1 Introduction

Information systems (IS) controls are significant in determining the effectiveness of internal controls. Weak IS controls severely diminish the reliability of other internal controls associated with an application. Without effective IS controls, other controls may be rendered ineffective by override, circumvention or modification.

3.2 Results of the information systems audit

During the year under review the IS controls relating to the management of user accounts were evaluated. User account management is the systematic process of managing the access of users to the network and applications and includes the establishment, review, disabling and removal of user accounts.

The user account management process was audited at 10 of the Free State provincial departments and the following key findings were identified:

Audit finding	% Departments with findings
User account management standards and procedures	
Incomplete user account management procedures	100%
Access request authorisation	
Access request forms not consistently completed	100%
Application security	
Lack of segregation of duties	70%
Excessive access rights assigned to users	70%
Inactive accounts not timeously deactivated	100%
User access levels not periodically reviewed	90%
User identifications not uniquely assigned	70%



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4. ISSUES DRIVING AUDIT RESULTS

4.1 Introduction

The following benchmark information can be considered to be the basic good practice indicators which are relevant for achieving financially unqualified audit opinions as well as for reporting performance results:

- Clear trail of supporting documentation
- Quality of financial statements and management information
- Timeliness of financial statements and management information
- Availability of key officials during audits
- Development of, and compliance with, risk management and good internal control practices
- Supervision and monitoring (leadership effectiveness)

4.2 Achievement against good practice indicators

Table 3 below presents the results of the 12 Free State provincial departments achieving the above good practice indicators.

Table 3: Results of good practice indicators for the Free State provincial departments (12) for 2007-08

No.	Good practices	Percentage of total departments achieving good practice indicators ¹
1	Clear trail of supporting documentation that is easily available and provided timeously	67%
2	Quality of financial statements and management information	58%
3	Timeliness of financial statements and management information	100%
4	Availability of key officials during audits	67%
5	Development of, and compliance with, risk management and good internal control and governance practices	8%
6	Leadership/supervision/monitoring	42%

- **Clear trail of supporting documentation**

While the majority (67%) of departments' supporting documentation was easily accessible, a few (33%) have to do more to ensure that sufficient appropriate audit evidence is available to support the transactions and balances in the financial statements. Significant difficulties were experienced during the audits of the Departments of Health; and Public Works, Roads and Transport concerning delays in providing (or the unavailability of expected) information. The management of documentation requires improvement to ensure that it is readily available and furnished for audit purposes in a more timely manner.

¹ This would serve as a baseline to monitor future improvement



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- **Quality annual financial statements**

While departments have continued to make progress in response to challenges to submitting quality financial statements, challenges still remain for five (42%) departments, namely the Departments of Health; Tourism, Environmental and Economic Affairs; Social Development; Local Government and Housing; and Public Works, Roads and Transport. Material corrections to the financial statements mainly relate to issues of disclosure associated with the ongoing transition to accrual accounting. The quality of the financial information in this case is a reflection of inadequate monitoring and capacity within the departments. Processes need to be further refined in order to accurately collate information for the preparation and presentation of the financial statements as mentioned in section 1.4 above.

- **Timeliness of annual financial statements**

While the quality of financial statements is important, as mentioned before, the timely submission of financial statements for auditing is equally important. Good planning for the financial statement preparation process has ensured that all departments (100%) had submitted their financial statements for auditing by the legislated deadline of 31 May.

- **Availability of key officials**

There has been a notable improvement in the availability of key officials (heads of departments and chief financial officers) during the audit to deal with audit-related matters and to clear these in a timely manner. This went a long way towards avoiding qualifications, because officials received earlier notice of audit findings and could take corrective action before the final conclusions that lead to an audit opinion.

- **Development of, and compliance with, risk management and good internal control and governance practices**

Effective risk management and internal control practices continue to be a challenge for the majority (92%) of the departments. Contrary to legislative requirements, fraud prevention plans and risk management strategies either did not exist or were not regularly updated and monitored at the majority of departments. Management did not provide the necessary priority to risk management during the year. Furthermore, at only three (25%) of the departments, the internal audit function substantially fulfilled its responsibility for the year, as required by the Treasury Regulations, namely the Departments of Social Development; Premier; and Public Works, Roads and Transport.

- **Leadership, supervision and monitoring**

Leadership sets a proper "tone at the top" to create a sound control environment. The leadership must ensure that competent and skilled staff members are employed, particularly in the finance and accounting division. Effective leadership and oversight are needed to monitor the performance of management, especially as far as financial management is concerned. A lack of monitoring is the root cause of an ineffective system of internal control which gave rise to audit qualifications.

The practice of supervision and monitoring, especially as far as financial management is concerned, was evident in only 42% of the provincial departments, namely the Departments of Health; Education; Premier; Public Safety, Security and Liaison; and Tourism, Environmental and Economic Affairs.



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5. SCOPA RESOLUTIONS

5.1 Introduction

As part of the International Standards on Auditing, ISA 720, *Other information in documents containing audited financial statements*, we are expected to include the review of the SCOPA resolutions included in the accounting officer's report. The table below indicates, where applicable, the status of the implementation of such resolutions.

5.2 SCOPA resolutions not yet implemented

Three of the departments, namely Premier; Public Safety, Security and Liaison; and Sport, Arts and Culture implemented all the resolutions resulting from the 2006-07 audits. No resolutions were taken by the public accounts committee resulting from the audit of the legislature during 2006-07.

The remaining departments took a concerted effort in implementing resolutions, with the highest rate of non-implementation being 40% by the Departments of Agriculture; and Local Government and Housing. In the majority of instances, the resolutions not yet implemented related to investigations not yet finalised.

No.	Department	No. of resolutions	Resolutions not yet implemented
1	Premier	8	0
2	Legislature	0	0
3	Tourism, Environmental and Economic Affairs	12	3
4	Provincial Treasury	12	3
5	Health	9	3
6	Education	13	3
7	Social Development	11	3
8	Local Government and Housing	10	4
9	Public Works, Roads and Transport	9	3
10	Public Safety, Security and Liaison	5	0
11	Agriculture	10	4
12	Sport, Arts and Culture	6	0

The efforts made by the departments in implementing the resolutions are evident from the improvement in the audit opinions.

6. TABLING OF ANNUAL REPORT

6.1 Introduction

In accordance with section 65 of the PFMA the executive authority responsible for the department must table in the provincial legislature the annual report and financial statements as well as the audit report, within one month of receipt of the audit report.



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6.2 Status of annual reports tabled

No	Department	Tabled (Y/N)
1	Premier	Y
2	Legislature	Y
3	Tourism, Environmental and Economic Affairs	Y
4	Provincial Treasury	Y
5	Health	Y
6	Education	Y
7	Social Development	Y
8	Local Government and Housing	Y
9	Public Works, Roads and Transport	Y
10	Public Safety, Security and Liaison	Y
11	Agriculture	Y
12	Sport, Arts and Culture	Y

7. SUMMARY OF OTHER AUDITS

7.1 Performance auditing

A performance audit is described as an independent auditing process to evaluate the measures instituted by management to ensure that resources have been procured economically and are used efficiently and effectively.

Performance auditing is concerned with the auditing of economy, efficiency and effectiveness and embraces:

- auditing of economy in relation to the acquisition of resources in the right quantity, of the right quality, at the right time and place at the lowest possible cost
- auditing of the efficiency of utilisation of human, financial and other resources and the optimal relationship between the output of goods, services or other results and the resources used to produce them
- auditing of the effectiveness of performance in relation to achievement of the policy objectives, operational goals and other intended effects of the audited entity.



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7.2 Results of performance auditing

The following performance audits have been completed at the date of this report or were work-in-progress (WIP) as at 31 July 2008:

Department	Report description	Expected date of tabling
Local Government and Housing	Allocation of housing subsidies to municipal employees and the administration of low-cost housing projects by the department	August 2008
Free State: Transversal Audit	Entities that are connected with government employees and doing business with the departments	November 2008
Free State: Department of Education	Investment in infrastructure	September 2009
Free State: Department of Health	Investment in infrastructure	September 2009

7.3 Investigations

"Investigation" as contemplated in section 5(1)(d) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) is defined as an independent and objective process where procedures are performed in accordance with guidelines issued by the AG to facilitate the investigation of financial misconduct, maladministration and impropriety, which may result in legal proceedings for adjudication, and ensure probity in the accounts, financial statements and financial management of an institution referred to in section 4(1) and section 4(3) of the PAA. An investigation may be performed where the AG:

- considers it to be in the public interest,
- receives a complaint relating to such institution or its affairs, or
- receives a request relating to such institution or its affairs, and
- deems it appropriate. This will result in a report (as contemplated in section 20 of the PAA) or a special report (as contemplated in section 29 of the PAA).

7.4 Results of investigations

Department	Report description	Expected date of tabling
Department of Health	Procurement	26 February 2008
Free State: Department of Tourism, Environmental and Economic Affairs	Possible game theft and procurement process	14 May 2008
Free State: Ten Provincial Departments	Credit card and subsistence and travelling expenses	30 November 2008



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SECTION 3: PROVINCIAL PUBLIC ENTITIES

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The Free State Provincial Government includes five public entities.

1.2 Overview of audit opinions on provincial public entities for 2007-08

- Table 1 below provides details as to the actual audit outcomes for the Free State provincial public entities.

Table 1: Audit opinions on provincial public entities

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	0	0%	0	0%
Disclaimer	1	20%	1	20%
Qualified	3	60%	2	40%
Financially unqualified (with other matters)	1	20%	2	40%
Financially unqualified (with no other matters)	0	0%	0	0%
Total analysed	5	100%	5	100%

More reports received a qualified opinion (60%) compared to the previous year (40%). There was an improvement in the audit report of the Free State Tourism Authority, which had received a disclaimer of opinion in the previous year versus the financially unqualified (with other matters) opinion expressed for the 2007-08 financial year. However, the Free State Development Corporation received a disclaimer of opinion for 2007-08 versus the qualified opinion received in 2006-07.



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- Table 2 below provides details of the actual audit outcomes for the Free State provincial public entities for the past three years.

Table 2: Audit opinions on provincial public entities for the past three years

Public entity	2007-08	2006-07	2005-06
Free State Development Corporation	Disclaimer	Qualification	Qualification
Free State Gambling and Racing Board	Qualification	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Free State Tourism Authority	Financially unqualified (with other matters)	Disclaimer	None
Free State Youth Commission	Qualification	Qualification	Financially unqualified (with other matters)
Phakisa Major Sport Events and Development Corporation	Qualification	Financially unqualified (with other matters)	Qualification

Only one of the five public entities received an unqualified audit report. This entity (Free State Tourism Authority) improved from a disclaimer of audit opinion in the previous year. The reason for the improvement is that the functions and transactions relating to the Macufe Festival no longer resorted under the Free State Tourism Authority. For 2007-08, the Macufe Festival resorted under the Department of Tourism, Environmental and Economic Affairs, where it resulted in unauthorised expenditure and irregular expenditure being reported due to inadequate control and monitoring of the festival expenditure.

There are two entities which deteriorated from being financially unqualified in the previous year to being qualified in the 2007-08 financial year. The Free State Gambling and Racing Board could not rectify the breakdown in the computerised asset register system in time. Phakisa Major Sport Events and Development Corporation made use of consultants in previous years, while personnel did not have sufficient skills to review the residual values and useful life of property, plant and equipment during the 2007-08 financial year.

Furthermore, the Free State Development Corporation deteriorated from a qualified audit report to a disclaimer of audit opinion during the 2007-08 financial year because new joint venture companies had not been consolidated.

The Free State Youth Commission remained qualified from the previous year.

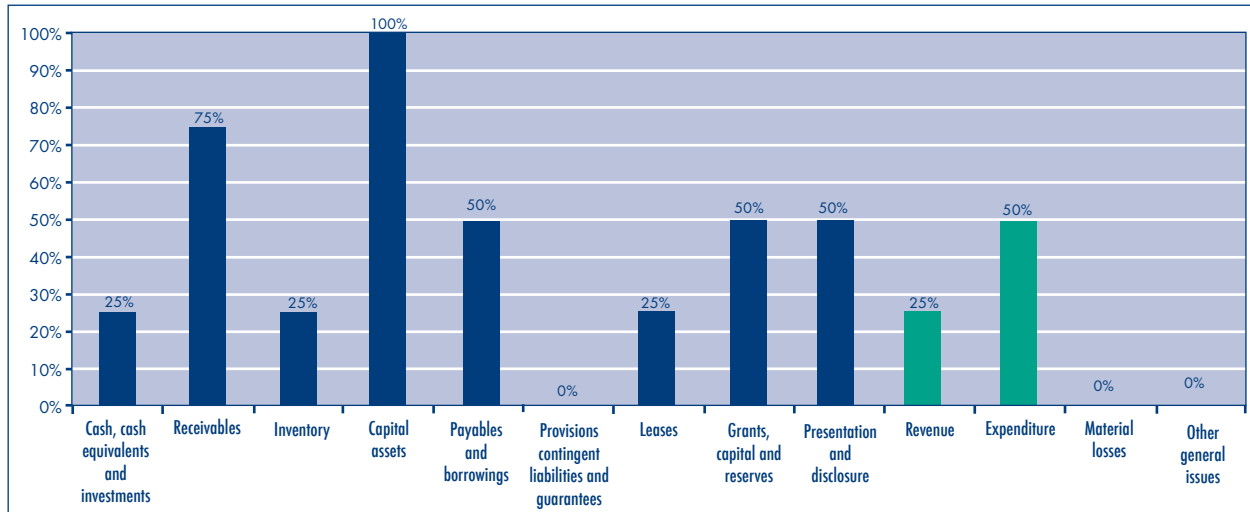
1.3 Qualification details

Figure 1 below provides a breakdown of all the audit findings which gave rise to the qualified audit opinions. It also provides an indication of the percentage of the provincial public entities that were qualified per audit finding. The audit findings are split between items in the balance sheet (statement of financial position) highlighted in blue bars and the income statement (statement of financial performance) highlighted in green bars.



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Figure 1: Provincial public entities (4) that were qualified per audit finding



Overall conclusion

The main reasons for the four public entities receiving either a disclaimer or qualified audit opinion were the following:

- The Free State Development Corporation received a disclaimer of audit opinion. The new joint venture companies were not consolidated as the new joint venture companies did not submit financial statements for consolidation.
- The Free State Gambling and Racing Board received a qualified audit opinion as they could not rectify the breakdown in the computerised asset register system in time. The breakdown was noted during the audit and was not detected by adequate supervision and monitoring controls.
- Phakisa Major Sport Events and Development Corporation made use of consultants in previous years, while own staff did not have sufficient skills to review the residual values and useful life of property, plant and equipment during 2007-08. This resulted in a qualified audit opinion.
- The Free State Youth Commission received a qualified audit opinion as the accuracy of an amount received could not be verified due to a lack of supporting documentation.

1.4 Audit findings in respect of other matters

The audit findings reported under “other matters” draw attention to the matters that are ancillary to the AG’s responsibilities in the audit of the financial statements.

Material non-compliance with relevant legislation

Material non-compliance with relevant legislation not affecting the financial statements related to non-compliance with the PFMA and Treasury Regulations and was reported on at all five public entities (100%). The inadequate supervision and monitoring by the leadership (accounting authorities, chief financial officers and relevant managers) had, in part, contributed to the negative audit findings in this area. Two public entities, namely the Free State Gambling and Racing Board and the Phakisa Major Sport Events and



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Development Corporation reported non-compliance with their enabling legislation. The right leadership tone, with the support of internal audit, is necessary to establish a strong control environment and ensure compliance.

Matters of governance

All five (100%) public entities had concerns raised on matters of governance, which included findings on audit committees, the timely availability of supporting documentation and implementation of external audit recommendations.

The audit committees and internal audit functions for the majority of provincial public entities were in operation throughout the financial year. However, only one (20%) public entity had an internal audit function operating in terms of an approved internal audit plan. Audit committees and internal audit functions substantially fulfilled their responsibilities during the year in 60% and 20% of the instances, respectively.

Difficulties were experienced at three of the public entities (60%) concerning delays in providing or the unavailability of expected information and/or the unavailability of senior management.

The majority of the prior year's external audit recommendations have been substantially implemented with the exception of the Free State Development Corporation and the Free State Youth Commission.

Material misstatements

Four public entities (80%) had to effect material corrections to their financial statements after the auditors identified errors, omissions and inconsistencies. The figure remained unchanged since 2006-07. Phakisa Major Sport Events and Development Corporation was the only public entity which did not make material corrections to their financial statements. This reflects the increasingly complex accounting environment in which public entities operate, which requires the chief financial officers of the public entities to work more closely with the provincial treasury in order to produce quality financial statements that comply with the established accounting framework.

The details of the material corrections to the financial statements have been included in the relevant management reports of the public entities.

2. PERFORMANCE REPORTING RESULTS

2.1 Results of the audit of performance information

The *Framework for managing programme performance information* introduced by the National Treasury, supported by various training initiatives during the financial year under review, has led to public entities improving the process of managing and reporting on performance information, with an increase of public entities with no audit findings from 40% in 2006-07 to 60% in 2007-08.

As in the case of departments, the solid compliance base demonstrated by many public entities should be used as a stepping stone for the management of, and reporting on, performance information, while at the same time maximising the impact of key service delivery priorities.



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3. INFORMATION SYSTEMS AUDIT

No information systems audits were performed at the Free State public entities for 2007-08.

4. ISSUES DRIVING AUDIT RESULTS

4.1 Achievement against good practice indicators

Table 3 below presents the results of the Free State provincial public entities achieving the above good practice indicators.

Table 3: Results of good practice indicators for the Free State provincial public entities (five) for 2007-08

No.	Good practices	Percentage of total public entities achieving good practice indicators ²
1	Clear trail of supporting documentation that is easily available and provided timeously	60%
2	Quality of financial statements and management information	20%
3	Timeliness of financial statements and management information	100%
4	Availability of key officials during audits	100%
5	Development of, and compliance with, risk management and good internal control and governance practices	0%
6	Leadership/supervision/monitoring	60%

• **Clear trail of supporting documentation**

Some 60% (three of five) of public entities displayed this good practice. This good practice was not evident at the Free State Development Corporation owing to inadequate leadership and a lack of capacity and at the Free State Youth Commission a new management team was appointed during the 2007-08 financial year. This needs to be improved, because the availability of supporting documentation contributes significantly to the efficiency of the audit and public entities are encouraged to further improve in this regard.

• **Quality annual financial statements**

While public entities have continued to make progress in response to challenges in submitting quality financial statements, challenges still remain for one (20%) public entity, namely Phakisa Major Sport Events and Development Corporation. Material corrections to the financial statements mainly relate to issues of disclosure associated with the ongoing transition to accrual accounting. In this regard, processes need to be further refined in order to accurately collate information for the preparation and presentation of the financial statements as mentioned in section 1.4 above. The reason for this was primarily the lack of adequately qualified accounting personnel.

² This would serve as a baseline to monitor future improvement



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- **Timeliness of annual financial statements**

As in the case of departments, good planning for the financial statement preparation process has ensured that all public entities (100%) had submitted their financial statements for auditing by the legislated deadline of 31 May.

- **Availability of key officials**

All five public entities' key officials were available during the audit of public entities, which went a long way to clear audit findings in a timely manner.

- **Development of, and compliance with, risk management and good internal control and governance practices**

Effective risk management and internal control practices continue to pose a challenge for all five public entities. Contrary to legislative requirements, fraud prevention plans and risk management strategies either did not exist or were not regularly updated and monitored at the majority of public entities. Management did not give the necessary priority to risk management during the year. Only at one (20%) of the entities, namely the Free State Development Corporation, did the internal audit unit substantially fulfil its responsibilities for the year.

- **Leadership, supervision and monitoring**

Adequate supervision and monitoring were only present at 60% (three of five) of public entities. At the Free State Gambling Board and the Phakisa Major Sport Events and Development Corporation the lack of supervision and monitoring by the leadership (accounting authorities, chief financial officers and relevant managers) has in part contributed to the negative audit findings, which could have been avoided. The right leadership tone is necessary to establish a strong control environment and ensure compliance. In addition, oversight by the parent departments needs to be enhanced. A lack of monitoring is the root cause of an ineffective system of internal control which gave rise to audit qualifications.

5. SCOPA RESOLUTIONS

5.1 SCOPA resolutions not yet implemented

The Free State Development Corporation and the Free State Tourism Authority did not implement the 2006-07 resolutions applicable to them. Phakisa Major Sport Events and Development Corporation implemented 50% of the resolutions taken.

The Free State Tourism Authority did not implement the resolutions as officials did not realise the extent of actions required to fully address the resolution. Both the Free State Development Corporation and the Phakisa Major Sport Events and Development Corporation displayed a lack of accountability and a lack of taking ownership of resolutions.



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Public entity	No. of resolutions	Resolutions not yet implemented
Free State Development Corporation	1	1
Free State Gambling and Racing Board	1	0
Free State Tourism Authority	1	1
Free State Youth Commission	1	0
Phakisa Major Sport Events and Development Corporation	2	1

6. TABLING OF ANNUAL REPORT

6.1 Status of annual reports tabled

No.	Public entity	Tabled (Y/N)
1	Free State Development Corporation	Y
2	Free State Gambling and Racing Board	Y
3	Free State Tourism Authority	Y
4	Free State Youth Commission	Y
5	Phakisa Major Sport Events and Development Corporation	Y

7. SUMMARY OF OTHER AUDITS

7.1 Performance auditing

No performance audits were performed at the Free State public entities for 2007-08.

7.2 Investigations

Results of investigations

Public entity	Report description	Expected date of tabling for WIP
Free State Development Corporation	Procurement process, joint ventures and associate companies, granting of loans	30 June 2009



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SECTION 4: PROVINCIAL OTHER ENTITIES

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The Free State Provincial Government includes 10 other entities compared to eight other entities audited in the prior year. The James Robertson and the Thomas Robertson Trust Funds were audited for the first time during 2007-08.

1.2 Overview of audit opinions on provincial other entities for 2007-08

- Table 1 below provides details of the actual audit outcomes for the Free State provincial other entities.

Table 1: Audit opinions on provincial other entities

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Adverse	0	0%	0	0%
Disclaimer	0	0%	0	0%
Qualified	2	20%	2	25%
Financially unqualified (with other matters)	4	40%	5	63%
Financially unqualified (with no other matters)	4	40%	1	12%
Total analysed	10	100%	8	100%

More entities received a financially unqualified opinion (with no other matters) compared to the previous year (40% vs 12%). The Recreation Trust Fund moved from a financially unqualified opinion (with other matters) to a qualified opinion in 2007-08, due to poor control over the availability of documentation.

- Table 2 below provides details of the actual audit outcomes for the Free State provincial other entities for the past three years.



A U D I T O R - G E N E R A L

Table 2: Audit opinions on provincial other entities for the past three years

Other entity	2007-08	2006-07	2005-06
Central Medical Trading Entity	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualification
Government Garage Trading Entity	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Road Building Equipment Trading Entity	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualification
Free State Housing Fund	Qualification	Qualification	Qualification
Small Holdings Trust Fund	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
James Robertson Bursary Fund	Financially unqualified (with no other matters)	None	None
Nature Conservation Fund	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)
Recreation Trust fund	Qualification	Financially unqualified (with other matters)	Financially unqualified (with no other matters)
Patient Private Patient Trust Fund	Financially unqualified (with no other matters)	Qualification	Financially unqualified (with no other matters)
Thomas Robertson Bursary Fund	Financially unqualified (with no other matters)	None	None

The James Robertson and the Thomas Robertson Trust Funds were audited for the first time during 2007-08, as their deeds of trusts were obtained only during 2007-08. Both these trust funds received a financially unqualified opinion (with no other matters).

Of the two other entities where a qualified opinion was expressed during 2006-07, the Free State Housing Fund remained qualified, while the Private Patient Trust Fund moved to financially unqualified (with no other matters).

The Recreation Trust Fund received a qualified opinion due to poor control over the availability of documentation.

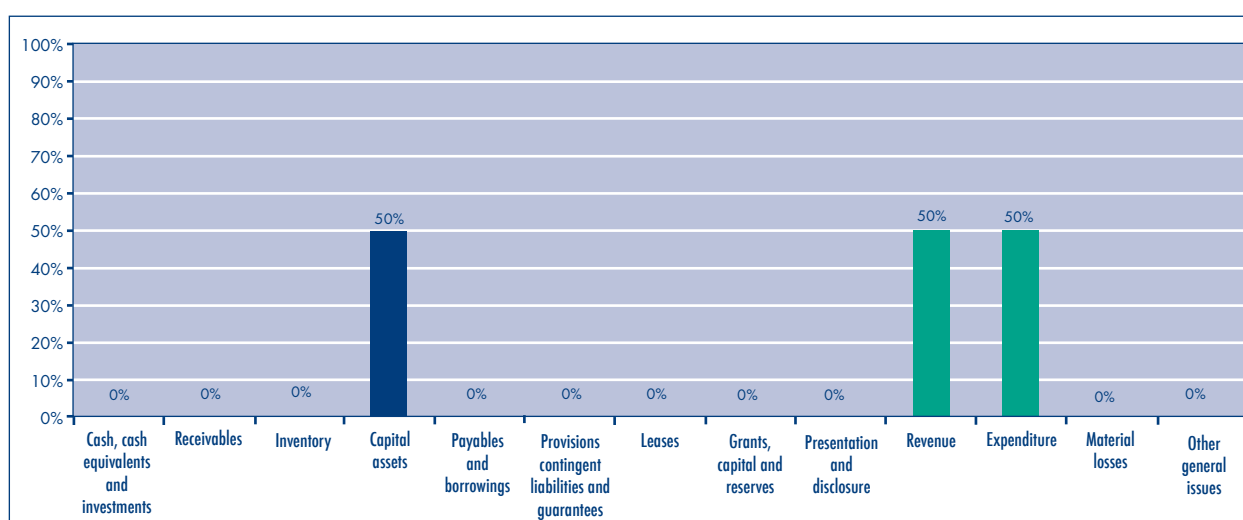
Four other entities with financially unqualified (with other matters) opinions maintained their opinions. The Nature Conservation Fund maintained its opinion of financially unqualified (with no other matters).



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1.3 Qualification details

Figure 1 below provides a breakdown of all the audit findings which gave rise to the qualified audit opinions. It also provides an indication of the percentage of the provincial other entities that were qualified per audit finding. The audit findings are split between items in the balance sheet (statement of financial position) highlighted in blue bars and the income statement (statement of financial performance) highlighted in green bars.



Overall conclusion

The main reasons for the two other entities receiving a qualified audit opinion were as a result of the following:

- The Free State Housing Fund took a decision during the previous financial year to sell certain houses. As the sales did not realise, the accounting standards require that such property be classified as property, plant and equipment. The Housing Fund, however, classified these assets as non-current assets. Due to a lack of adequate monitoring this was not detected before the submission of the financial statements for audit purposes. Furthermore, key officials were not readily available during the audit to deal with audit-related matters and clear these in a timely manner.
- The Recreation Trust Fund is a small entity controlled by a single person and as a result the processes and controls are not always effective.

1.4 Audit findings in respect of other matters

The audit findings reported under "other matters" draw attention to the matters that are ancillary to the AG's responsibilities in the audit of the financial statements.

Material non-compliance with relevant legislation

Material non-compliance with relevant legislation not affecting the financial statements related to non-compliance with the PFMA and Treasury Regulations was reported in the case of two (20%) other entities, namely, the Central Medical Trading Entity and the Small Holdings Trust Fund.



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Matters of governance

Only the Road Building and Government Garage Trading Entities had fully functional audit committees and internal audit functions.

Only 40% of the other entities had audit committees in operation throughout the financial year. However, only 20% of the other entities had audit committees operating in terms of approved, written terms of reference. Of the audit committees in operation, only 20% substantially fulfilled their responsibilities for the year.

Internal audit functions were in operation throughout the financial year at 50% of the other entities. However, only 20% of the other entities had internal audit functions operating in terms of internal audit plans and only 20% of the internal audit functions substantially fulfilled their responsibilities for the year.

Significant difficulties were experienced during the audits of the Free State Housing Fund and the Recreation Trust Fund concerning delays in the submission of required information.

The majority of the prior year's external audit recommendations have been substantially implemented with the exception of the Recreation Trust Fund and the Private Patient Trust Fund.

Material misstatements

Three of the other entities (30%) had to effect material corrections to their financial statements due to errors, omissions and inconsistencies identified by the auditors. This reflects the increasingly complex accounting environment in which the other entities operate.

The details of the material corrections to the financial statements have been included in the relevant management reports of the other entities.

2. PERFORMANCE REPORTING RESULTS

The AG continued to report on the auditing of performance information in line with the relevant phasing-in approach. For 2007-08, the review was extended to the controls and systems used in generating and reporting on performance information. The audit of performance information for other entities forms part of the information submitted at the provincial departments.

3. INFORMATION SYSTEMS AUDIT

No information systems audits were performed at the Free State other entities for 2007-08.



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4. ISSUES DRIVING AUDIT RESULTS

4.1 Achievement against good practice indicators

Table 3 below presents the results of the Free State other entities achieving the above good practice indicators.

Table 3: Results of good practice indicators for the Free State provincial other entities for 2007-08

No.	Good practices	Percentage of total other entities achieving good practice indicators ³
1	Clear trail of supporting documentation that is easily available and provided timeously	80%
2	Quality of financial statements and management information	70%
3	Timeliness of financial statements and management information	100%
4	Availability of key officials during audits	90%
5	Development of, and compliance with, risk management and good internal control and governance practices	80%
6	Leadership/supervision/monitoring	70%

- **Clear trail of supporting documentation**

While the majority (80%) of other entities' supporting documentation was easily accessible, a few (20%) have to do more to ensure that sufficient appropriate audit evidence is available to support the transactions and balances in the financial statements. Significant difficulties were experienced during the audits of the Free State Housing Fund and the Recreation Trust Fund concerning delays in providing or the unavailability of expected information. The management of documentation requires improvement to ensure that it is readily available and furnished in a more timely manner for audit purposes.

- **Quality annual financial statements**

Seven (70%) of the other entities had prepared and submitted better quality financial statements for audit purposes. The production of periodic management information should be enhanced and reviewed to ensure the credibility thereof. Financial statements should be subjected to a quality review process prior to submission for auditing. Greater effort is required from the Free State Housing Fund, the Recreation Trust Fund and the Central Medical Trading Account to improve this further with the support of the National Treasury and provincial treasury to clarify technical accounting issues in a timely manner.

³ This would serve as a baseline to monitor future improvement



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- **Timeliness of annual financial statements**

As in the case of departments, good planning for the financial statement preparation process has ensured that all other entities (100%) had submitted their financial statements for auditing by the legislated deadline of 31 May.

- **Availability of key officials**

In 90% of other entities key officials were available during the audit of public entities, which assisted in clearing audit findings in a timely manner. At the Free State Housing Fund problems were experienced with the availability of key officials to assist with the submission of audit information.

- **Development of, and compliance with, risk management and good internal control and governance practices**

The Free State other entities have made important advances in establishing effective governance arrangements.

Effective risk management and internal control practices, however, continue to pose a challenge for the Free State Housing Fund and the Small Holdings Trust Fund. In the case of 80% of other entities, risk management strategies and plans, including fraud prevention plans, have been reviewed and updated regularly for changing circumstances.

- **Supervision and monitoring**

Adequate supervision and monitoring were evident in seven (70%) of the other entities. In the case of the Free State Housing Fund, Recreation Trust Fund and the Small Holdings Trust Fund, endeavours to improve supervision and monitoring should be renewed. Oversight by parent departments also needs to be enhanced.

5. SCOPA RESOLUTIONS

The audit reports on these other entities are published in the annual report of the parent department and are dealt with during the hearings of the provincial departments. Recommendations are included in the resolutions of the department for implementation and monitoring.



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6. TABLING OF ANNUAL REPORT

6.1 Status of annual reports tabled

No.	Other entity	Tabled (Y/N)
1	Central Medical Trading Entity	Y
2	Government Garage Trading Entity	Y
3	Road Building Equipment Trading Entity	Y
4	Free State Housing Fund	Y
5	Small Holdings Trust Fund	Y
6	James Robertson Bursary Fund	Y
7	Nature Conservation Fund	Y
8	Recreation Trust fund	Y
9	Patient Private Patient Trust Fund	Y
10	Thomas Robertson Bursary Fund	Y

7. SUMMARY OF OTHER AUDITS

7.1 Performance auditing

No performance audits were performed at the Free State other entities for 2007-08.

7.2 Investigations

No investigations were performed at the Free State other entities for 2007-08.



A U D I T O R - G E N E R A L

SECTION 5: CONCLUSION

The Free State Province 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 and provincial treasuries, to turn the situation around.

There was an improvement in the provincial departments as two less departments received a qualified audit opinion. This was the result of the good practices present in the departments, which need to be maintained and improved. Departments should focus on addressing the shortcomings around capital assets, receivables and provisions, contingent liabilities and guarantees, and addressing critical skill challenges. Senior management should ensure efficient monitoring and supervision to address areas of non-compliance with legislation. Since internal audit functions are crucial to assist management in establishing a sound internal control environment and ongoing evaluation and monitoring of management's compliance with predefined controls and progress with implementing the action plans, the internal audit functions should be strengthened. The availability of key officials is critical during the audit process and should be strengthened.

Public entities need to take drastic steps to improve their financial administration to avoid disclaimer and qualified opinions. Public entities should focus on addressing the shortcomings around capital assets, receivables, grants, capital and reserves, expenditure and addressing critical skill challenges. Non-compliance with legislation and quality of financial statements remain a challenge for public entities and senior management should become more involved to ensure efficient monitoring and supervision to address these areas. Again, emphasis should be placed on capacitating the internal audit functions and the availability of key officials during the audit process is critical in driving for a different audit outcome.

A definite improvement in the financial status of other entities was noted. This was the result of the good practices present in the departments, which needs to be maintained and improved. Other entities should focus on addressing the shortcomings around capital assets and the availability of supporting documentation.

The critical message we are leaving with the legislators and the executive in this report is that it is possible to obtain an unqualified audit report if the good practice indicators are in place and constantly monitored by the leadership.

We are confident that the challenges are not insurmountable and remain committed to working with the legislatures 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.



A U D I T O R - G E N E R A L

ANNEXURE 1 : FREE STATE

Classification	Department	Portfolio	Audit opinion 2007-08	Audit opinion 2004-07	Cash, cash equivalent and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingent liabilities and guarantees	Leases	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses	Other general issues	Non-compliance	Governance findings	Material misstatements	Clear trail of supporting documentation that is easily available and provided in time	Quality of financial statements and management information	Timeliness of financial statements and management information	Availability of key officials during audits	Development of, and compliance with, risk management and good internal control and governance practices	Leadership / supervision / monitoring
PD	Agriculture	FS	Qualification	Qualification																						
PD	Health	FS	Qualification	Qualification																						
PD	Provincial Treasury	FS	Qualification	Qualification																						
PD	Public Works, Roads and Transport	FS	Qualification	Qualification																						
PD	Social Development	FS	Qualification	Qualification																						
D	Education	FS	Financially unqualified (with other matters)	Qualification																						
PD	Free State Legislature	FS	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Local Government and Housing	FS	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Office of the Premier	FS	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Public Safety, Security and Liaison	FS	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Sport, Arts and Culture	FS	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PD	Tourism, Environmental and Economic Affairs	FS	Financially unqualified (with other matters)	Financially unqualified (with other matters)																						
PE	Free State Development Corporation	FS	Disclaimer	Qualification																						
PE	Free State Gambling and Racing Board	FS	Qualification	Financially unqualified (with other matters)																						
PE	Free State Youth Commission	FS	Qualification	Qualification																						
PE	Phakisa Major Sport Events and Development Corporation	FS	Qualification	Financially unqualified (with other matters)																						
PE	Free State Tourism Authority	FS	Financially unqualified (with other matters)	Disclaimer																						



A U D I T O R - G E N E R A L

ANNEXURE 2: FREE STATE AUDIT REPORTS SUMMARIES FOR PROVINCIAL DEPARTMENTS

1. AGRICULTURE

Qualification

- Tangible capital assets
 - Various assets amounting to R3 287 820 recorded in the Logis asset register could not be physically verified and various assets in possession of the department could not be traced to the asset register owing to:
 - the Logis asset register not indicating asset bar codes
 - the locations in the Logis asset register not being accurate or sufficiently detailed to identify the location of assets
 - asset descriptions not being sufficiently detailed to identify assets.
 - the department not performing a physical verification of assets at all locations to reconcile this with the Logis asset register at year-end.
 - The value of assets that could not be traced to the Logis fixed asset register could not be determined as sufficient information was not available.

Emphasis of matter

- Irregular expenditure
 - Irregular expenditure to the amount of R3 784 000 was incurred during the current financial year due to non-adherence to supply chain management requirements. The total irregular expenditure which was still under investigation, including amounts from prior years, was R55 801 000.

Other matters

- Internal controls
 - The root causes that gave rise to the inefficiencies in the system of internal control, which led to the qualification of tangible capital assets were identified as the control activities and monitoring.
- Non-compliance with applicable legislation
 - Public Finance Management Act
 - The department has not appropriately maintained an asset register to record major and minor assets, including biological, cultivated and intangible assets, and enable the safeguarding and maintenance of these assets.
 - Treasury Regulations
 - Payments amounting to R18 877 764 were not made within 30 days of the date of receipt of the invoice.



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- No formal risk assessment was conducted or completed during the prior and current financial year.
- Matters of governance
 - The audit committee did not substantially fulfil its responsibilities for the year.
 - The internal audit function did not substantially fulfil its responsibilities for the year.
 - The prior year's external audit recommendations have not been substantially implemented.

2. EDUCATION

Financially unqualified (with other matters)

Emphasis of matter

- Amendments to the applicable basis of accounting
 - The National Treasury approved a deviation from the basis of accounting applicable to the department on 21 May 2008, which granted the department exemption from reporting on the asset register in the 2007-08 financial statements.
- Unauthorised expenditure
 - Unauthorised expenditure to the amount of R98 455 000 was incurred, as a result of the overspending of various main divisions within the department's vote.

Other matters

- Non-compliance with applicable legislation
 - Public Finance Management Act and Treasury Regulations
 - A fraud and anti-corruption policy was only approved after year-end.
 - Adequate internal controls were not in place to safeguard all the assets of the department.
- Matters of governance
 - The internal audit function did not substantially fulfil its responsibilities for the year.

3. FREE STATE LEGISLATURE

Financially unqualified (with other matters)

- Matters of governance
 - The audit committee did not substantially fulfil its responsibilities for the year.



A U D I T O R - G E N E R A L

- The Free State Legislature did not have an internal audit function in operation throughout the financial year.

4. HEALTH

Qualified

- Capital assets
 - Documentation could not be provided to support the valuation of assets to the value of R66 992 549.
 - Although the department prepared a reconciliation of the valuation of capital assets as disclosed in the financial statements to the value as contained in its Logis asset registers, a difference of R1 248 000 existed that could not be adequately explained.
 - Assets that have been disposed of or otherwise written off to the value of R838 549 were still included in the asset registers.
 - A significant number of assets were identified that were either not included in the asset register or not adequately referenced to the asset register by means of a unique identification number that could be used to trace the asset.
 - Assets with a disclosed cost price of R15 735 656 could not be physically verified.
 - Internal asset transfers within the department to the value of R846 419 were incorrectly reflected as disposals and were deducted from the value of assets as disclosed, resulting in the understatement of capital assets by the indicated amount.
 - A detailed listing of adjustments effected to the balance of capital assets that agrees to the disclosed amount of R28 223 000 could not be provided.
- Receivables for departmental revenue
 - It was not possible to gain adequate audit assurance as to the valuation of receivables for departmental revenue to the value of R120 396 000 as it was identified that the department did not obtain or retain adequate documentation to support patient income which was utilised to classify patients in terms of the Uniform Patient Fee Structure. As a result it was not possible to verify whether patients have been correctly classified and, consequently, whether medical services have been levied at the correct and approved rates.
- Commitments
 - Documentation to support the occurrence, accuracy and completeness of the payments that was used in the calculation of the value of commitments relating to the departmental bids approved and contracted could not be provided. Furthermore, it was identified that infrastructure commitments were not complete as various contracts were not included in the calculation of the value of these commitments.



A U D I T O R - G E N E R A L

Emphasis of matter

- Unauthorised expenditure
 - The department incurred unauthorised expenditure to the value of R132 017 000. In terms of the disclosed unauthorised expenditure, the departments' accruals have increased exponentially over the previous three financial years from R44 855 000 in 2005-06 to R60 608 000 in 2006-07 and R176 110 000 in 2007-08, due to funding constraints. Furthermore, it was identified that the department has disclosed in its statement of financial position the net result of the transactions with the public-private partnership under its administration. The net result of these transaction resulted in a cash outflow of R6 165 534 and related to expenditure on capital infrastructure for the department. When considering the unauthorised expenditure for the year under review cognisance should be taken of these figures as they relate to 2007-08 spending, although not included in the statement of financial position or in the appropriation statement in terms of the basis of accounting. Had these amounts been taken into account the total overexpenditure of the department would have been R271 872 534.

Other matters

- Internal controls
 - The root causes that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion were identified as follows:
 - Capital assets - Information and communication + monitoring
 - Receivables for departmental revenue - Control environment, control activities, information and communication + monitoring.
 - Commitments - Control activities, Information and communication + monitoring
- Non-compliance with applicable legislation
 - Treasury Regulations
 - The department did not pay all suppliers within 30 days from receipt of the invoice.
 - Banking was not always done within the time frames as prescribed.
 - No interest was levied on outstanding patient fees.
 - The department did not disclose in its financial statements the value of patient fee debtors that have been written off during the financial year under review.
 - No proof could be provided at several of the medical institutions audited that adequate measures had been taken to follow-up on outstanding patient fee accounts before such accounts were written off.
 - Public Finance Management Act
 - It could not be confirmed that the accounting officer complied with his responsibilities in terms of section 38(1)(a)(i) of the PFMA as the departmental inventory control processes were not effective during the financial year under review and would not have protected the department against material losses or allowed the department to accurately determine the extent of inventory losses.



A U D I T O R - G E N E R A L

- As a result of the incomplete records on irregular expenditure the department did not report the particulars of all identified irregular expenditure to the provincial treasury.
- Matters of governance
 - The department did not have an audit committee in operation throughout the financial year.
 - The internal audit function did not operate in terms of an approved internal audit plan.
 - The internal audit function did not substantially fulfil its responsibilities for the year.
 - The financial statements submitted for audit purposes were subject to material amendments resulting from the audit.
 - Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
 - The prior year's external audit recommendations have not been substantially implemented.

5. LOCAL GOVERNMENT AND HOUSING

Financially unqualified (with other matters)

Emphasis of matters

- Material underspending of the budget
 - As disclosed in the appropriation statement, the department has underspent the allocated funds for the financial year under review by a total amount of R110,1 million, with the main underspending being in respect of the integrated housing and human settlement grant.

Other matters

- Non-compliance with applicable legislation
 - Treasury Regulations
 - Payments to suppliers were not always made within 30 days.
- Matters of governance
 - The audit committee did not operate in accordance with approved, written terms of reference.
 - The audit committee did not substantially fulfil its responsibilities for the year.
 - The internal audit function did not operate in terms of an approved internal audit plan.
 - The internal audit function did not substantially fulfil its responsibilities for the year.
 - The financial statements submitted for audit purposes were subject to material amendments resulting from the audit.



A U D I T O R - G E N E R A L

6. PUBLIC SAFETY, SECURITY AND LIAISON

Financially unqualified (with other matters)

Other matters

- Matters of governance
 - The department did not have an audit committee in operation throughout the financial year.
 - The audit committee did not operate in accordance with approved, written terms of reference.
 - The audit committee did not substantially fulfil its responsibilities for the year.
 - The internal audit function did not operate in terms of an approved internal audit plan.
 - The internal audit function did not substantially fulfil its responsibilities for the year.

7. PUBLIC WORKS, ROADS AND TRANSPORT

Qualification

- Tangible capital assets
 - Contrary to the accounting policy requirement, the department fair valued all tangible capital assets without considering the cost of the assets. Due to the lack of sufficient supporting documentation regarding the cost of the assets, the extent of the resulting misstatement could not be quantified.
 - No processes were in place to identify costs relating to capital improvements made to any provincial property of which the department is the appointed custodian, and accurately account therefore.
 - Although the method used was correct to value buildings, the data available for the calculation was insufficient in determining the accuracy of the fair value of assets.
 - A difference of R834 665 for the disposals of tangible capital assets as per the Logis asset register could not be explained or substantiated.
- Receivables for departmental revenue
 - Due to shortcomings in the departmental processes relating to the retention and safeguarding of documentation, the department could not submit a significant number of vehicle registration files. Various unspecified transactions were also included in the tax revenue debtors.
 - Due to the lack of sufficient, appropriate audit evidence, it was not possible to verify the completeness and valuation of the traffic fines receivable of R31 825 000.
- Provisions
 - Due to the deficiencies found in the departmental processes, adequate audit assurance could also not be obtained regarding the valuation of the provision for eNaTIS debtors, disclosed as R56 743 000.



A U D I T O R - G E N E R A L

Emphasis of matter

- Unauthorised, fruitless and wasteful expenditure
 - Unauthorised expenditure to the amount of R 392 233 000 was incurred due to a programme being overspent by R22 160 000 and previous year's unauthorised expenditure amounting to R370 073 000 not resolved.
 - Fruitless and wasteful expenditure to the amount of R5 867 000 was incurred due to interest of R5 696 000 being paid on an overdrawn bank account and the previous year's fruitless and wasteful expenditure amounting to R171 000 not being resolved.
- Restatement of corresponding figures
 - The comparative figure for 31 March 2007 for cash and cash equivalents has been restated to include an amount of R725 120 which represents the cash held in the bank account of the Free State Government Garage Trading Entity on behalf of the department. This figure was incorrectly included in voted funds to be surrendered to the revenue fund in the prior year.

Other matters

- Internal controls
 - The root causes that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion were identified as follows:
 - Tangible capital assets - Control activities + monitoring
 - Receivables for departmental revenue - Control activities
 - Provisions - Control activities
- Non-compliance with applicable legislation
 - Public Finance Management Act and Treasury Regulations
 - Voted and other non-budgeted funds amounting to R178 495 084 were not surrendered to the provincial revenue fund.
 - Payables amounting to R13 171 856 were not settled within 30 days from date of receipt of the invoice.
 - Proper control systems were not implemented to ensure that irregular expenditure of R5 458 000 was investigated, condoned and recorded in a control register as prescribed by the provincial treasury.
 - Proper control systems were not implemented to ensure that assets were completely and accurately recorded in the asset registers, uniquely numbered to ensure identification and safeguarded to ensure existence thereof.
- Matters of governance
 - The financial statements submitted for audit purposes were subject to material amendments resulting from the audit.



A U D I T O R - G E N E R A L

- Difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
- The prior year's external audit recommendations have not been substantially implemented.

8. OFFICE OF THE PREMIER

Financially unqualified (with other matters)

Emphasis of matter

- Irregular expenditure
 - Irregular expenditure to the amount of R1 969 000 was incurred.

Other matters

- Non-compliance with applicable legislation
 - Public Finance Management Act
 - The strategic plan for the years 2007-08 to 2009-10 did not include:
 - o details of proposed acquisitions of fixed or movable capital assets, rehabilitation and maintenance of physical assets
 - o details of proposed acquisitions of financial assets and plans for the management of financial assets and liabilities.

9. PROVINCIAL TREASURY

Qualification

- Tangible capital assets
 - No documentation detailing how the amount for tangible capital asset disposals was determined could be provided. Neither could it be confirmed whether these assets were originally recorded in the asset register.

Emphasis of matter

- Restatement of corresponding figures
 - The corresponding figures for 31 March 2007 have been restated as a result of 13th cheque payments amounting to R3 017 000 being incorrectly allocated to other non-pensionable allowances within the compensation of employee note to the financial statements. In terms of the applicable basis of accounting as determined by the National Treasury, 13th cheque payments should be disclosed as part of services based within compensation of employee benefits.



A U D I T O R - G E N E R A L

Other matters

- Internal controls
 - The root causes for the qualification of tangible capital assets were identified as deficiencies in the control environment and the control activities.
- Matters of governance
 - The internal audit function did not substantially fulfil its responsibilities for the year.

10. SOCIAL DEVELOPMENT

Qualification

- Tangible capital assets
 - All assets were not accounted for in the asset register, assets transferred were not removed from the register and furthermore all assets were not uniquely numbered.

Emphasis of matter

- Irregular expenditure
 - Irregular expenditure to the amount of R49 300 000 (31 March 2007: R46 318 000) was incurred, as the department made transfer payments in contravention of the requirements of Treasury Regulation 8.4.

Other matters

- Internal controls
 - The root causes that gave rise to the inefficiencies in the system of internal control, which led to the qualification of tangible capital assets were identified as the control environment, control activities and monitoring.

- Non-compliance with applicable legislation

Treasury Regulations

- Proof could not be obtained that the strategic plan of the department was tabled in the provincial legislature at least seven days prior to the discussion of the department's budget.
- Proof could not be obtained that the accounting officer established procedures for quarterly reporting to the executive authority to facilitate effective performance monitoring, evaluation and corrective action.
- For payments totalling R1 124 981 it was determined that these accounts had not been settled within 30 days of the date of the receipt of an invoice.



A U D I T O R - G E N E R A L

- Matters of governance
 - The audit committee did not operate in accordance with approved, written terms of reference.
 - The audit committee did not substantially fulfil its responsibilities for the year.
 - The financial statements submitted for auditing were subject to material amendments resulting from the audit.
 - The prior year's external audit recommendations have been not been substantially implemented.

11. SPORT, ARTS AND CULTURE

Financially unqualified (with other matters)

Emphasis of matter

- Irregular expenditure
 - Irregular expenditure to the amount of R21,8 million was incurred mainly due to proper supply chain management procedures not being followed and proper documentation not being available.

Other matters

- Non-compliance with applicable legislation
 - Treasury Regulations
 - A risk management strategy was not in place at the department for the financial year under review.
 - Evidence that the accounting officer maintained appropriate measures to ensure that transfers and subsidies to entities were applied for their intended purposes could not be confirmed in all instances as audited financial statements from entities to whom money was allocated could not be submitted.
- Matters of governance
 - The internal audit function did not substantially fulfil its responsibilities for the year.

12. TOURISM, ENVIRONMENTAL AND ECONOMIC AFFAIRS

Financially unqualified (with other matters)

Emphasis of matters

- Unauthorised expenditure
 - Unauthorised expenditure to the amount of R17 524 000 was not authorised at year-end.
 - Unauthorised expenditure to the amount of R13 713 000 was incurred during the financial year, due to the administration budget being exceeded and the transversal function budget being exceeded as the Macufe Festival expenses were not budgeted for.



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- Irregular expenditure
 - It has not yet been decided whether irregular expenditure of R9 353 000 at year-end was to be condoned.
 - Irregular expenditure to the amount of R4 064 000 was incurred during the financial year, due to the following:
 - The supply chain management policy had not been followed with the payment of R3 000 000 in respect of the Macufe Festival.
 - Tax clearance certificates of R421 000 had not been obtained.
 - Adequate quotations for a payment of R30 000 had not been obtained.
 - Payments to the amount of R581 000 had not been approved by the delegated authority.
 - A payment of R32 000 was made for furniture that had not yet been received at the reporting date.

Other matters

- Non-compliance with applicable legislation
 - Treasury Regulations
 - No tax clearance certificates had been obtained for Macufe Festival expenses amounting to R8 313 064. This expenditure was also reported as unauthorised expenditure in the financial statements.
 - For payments amounting to R13 841 184 in respect of the Macufe Festival it could not be confirmed whether the accounts had been settled within 30 days of the date of the receipt, as the date on which the invoice had been received could not be determined.
- Matters of governance
 - The audit committee did not substantially fulfil its responsibilities for the year.
 - The internal audit function did not substantially fulfil its responsibilities for the year.
 - The financial statements submitted for auditing were subject to material amendments resulting from the audit.



A U D I T O R - G E N E R A L

ANNEXURE 3: FREE STATE AUDIT REPORTS SUMMARIES FOR PROVINCIAL PUBLIC ENTITIES

1. FREE STATE DEVELOPMENT CORPORATION

Disclaimer

- Investments in associates
 - Inspection of audit evidence provided indicated that some of the disclosed investments in associates should have been recognised and presented as joint ventures.
 - The year-end of the companies is different from the year-end of the Free State Development Corporation (FDC). In addition, various audited financial statements were not available and were not taken into consideration for consolidation purposes.
 - There was a lack of sufficient appropriate audit evidence to quantify the extent of the resulting misstatement or to determine the affected account balances, classes of transactions and disclosures in the group financial statements.
- Investment property
 - The fair values of the investment properties of the subsidiaries were not taken into account in the balances reported.
 - Sufficient appropriate audit evidence could not be presented as assurance that the residual values and the useful lives of investment properties were reviewed at year-end.
 - Sufficient and appropriate audit evidence as assurance that information used by the valuers in determining the market values of the investment properties could not be obtained. Properties, registered in the name of the FDC, were identified on the valuator's report which was not included in the investment property balance of the FDC.
 - The following findings remained unresolved from the previous year's audit report and are therefore relevant for the purpose of reporting on comparative information:
 - Investment properties were impaired during the previous year. However, a report could not be obtained from the valuator, indicating the methods and assumptions used in determining fair value.
 - A comparison between the information obtained from the valuator and the investment property register revealed a difference of R32 994 472 in the previous year.
 - As per the previous year's report, investment properties amounting to R56 945 000 were impaired in full in the previous year.
- Loans and receivables
 - Sufficient appropriate audit evidence could not be presented as assurance that an impairment assessment had been performed for associate company loans amounting to R25 096 000 and for business loans amounting to R57 858 000.
 - Sufficient appropriate audit evidence could not be presented as assurance that all the related loans had been impaired.



A U D I T O R - G E N E R A L

- Not all information and explanations could be obtained to ensure the correctness of the classification of non-current and current loans and receivables.
- Trade and other payables
 - Sufficient appropriate audit evidence could not be presented as assurance that consideration was given to the reclassification of rental deposits as income at year-end.
- Inventory
 - Sufficient appropriate audit evidence could not be presented as assurance that the net realisable value of residential stands amounting to R5 865 000 (2007: R5 979 000) was assessed.
- Deferred income
 - Sufficient disclosure was not made in order to justify the reclassification of previously recorded loans as deferred income.
- Property, plant and equipment
 - Sufficient appropriate audit evidence could not be presented as assurance that the residual values and the useful lives of property, plant and equipment were reviewed at year-end.
- Financial instrument disclosures
 - Items of income, expenses, gains, losses, collaterals and fair values relating to classes of financial instruments were not disclosed.

Emphasis of matters

- Irregular, fruitless and wasteful expenditure
 - Fruitless and wasteful expenditure amounting to R304 000 (2007: R506 000) was incurred and irregular expenditure amounting to R314 000 was incurred.
- Restatement of corresponding figures
 - The corresponding figures were restated due to investments in associates that have been incorrectly accounted for and post-acquisition profits that were incorrectly accounted for in the separate financial statements of the corporation.
 - The comparative information was reclassified for various reasons.



A U D I T O R - G E N E R A L

Other matters

- Internal controls
 - Control activities were identified as the root cause that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion of:
 - investments in associates
 - investment property
 - loans and receivables
 - trade and other payables
 - inventory
 - deferred income
 - property, plant and equipment
 - financial instrument disclosure.
- Non-compliance with applicable legislation
 - Public Finance Management Act, 1999
 - All information, returns, documents, explanations and motivations required during the audit, were not submitted.
 - Invoices were identified that were not paid within the agreed credit terms.
 - Treasury Regulations
 - The shareholder's contract was not signed by the chief executive officer or the relevant party representing the Department of Tourism, Environmental and Economic Affairs.
- Matters of governance
 - The internal audit function did not operate in terms of an approved internal audit plan.
 - The financial statements submitted for audit purposes were subject to material amendments resulting from the audit.
 - Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
 - The prior year's external audit recommendations were not substantially implemented.
 - Resolutions of the public accounts committee were not substantially implemented.

2. FREE STATE GAMBLING AND RACING BOARD

Qualification

- Property, plant and equipment
 - The entity's asset register contained 80 assets, with an original cost price of R1 624 359, that had a carrying amount of zero at the financial year-end owing to these assets having been depreciated to below their residual value at year-end. These assets were still in active use at the entity and should have been reflected at a value that equated the possible economic benefits that management still expected to derive from the use of these assets.



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- The asset register submitted for audit purposes was not accurate and complete and contained several calculation errors. The following deficiencies regarding the asset register were identified:
 - The total carrying value of the entity's assets of R3 144 000 was R309 789 more than the total carrying value as per the asset register.
 - The total revaluations for the year, according to the asset register, amounted to R309 231 while the revaluation amount equalled R18 668.
 - The opening value of the asset register at cost was R302 065 less than the opening value of the assets at cost amounting to R5 562 000.
 - The fixed asset register did not contain unique identification numbers for all assets included in the register.
 - Assets, with an original cost price amounting to R420 154, had no date of purchase indicated in the asset register.
 - The entity was unable to provide adequate supporting documentation for a journal amounting to R255 424 that was processed to account for the disposal of a vehicle during the current year.
 - The way in which the entity disclosed the revaluations performed in the entity's asset register, made it impossible to confirm that the entire class of property, plant and equipment to which that asset belongs should be revalued.
- Related-party transactions
 - Compensation paid to key management amounting to R128 846 was not disclosed.
- Financial instruments
 - The entity did not disclose the fair value of its financial instruments. Furthermore, several qualitative disclosures relating to the different risks arising from the entity's financial statements and how these risks were managed, were not disclosed.

Other matters

- Internal controls
 - Monitoring was identified as the root cause that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion on:
 - property, plant and equipment
 - related-party disclosure
 - financial instruments.
- Non-compliance with applicable legislation
 - Free State Gambling and Racing Act, 1996 (Act No. 6 of 1996)
 - The entity did not comply with various sections of the Free State Gambling and Racing Act, 1996, regarding the composition of the board.



A U D I T O R - G E N E R A L

- Matters of governance
 - The public entity did not have an internal audit function in operation throughout the financial year.
 - The internal audit function did not operate in terms of an approved internal audit plan.
 - The internal audit function did not substantially fulfil its responsibilities for the year.
 - The financial statements submitted for audit purposes were subject to material amendments resulting from the audit.
 - Difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.

3. FREE STATE TOURISM AUTHORITY

Financially unqualified (with other matters)

Emphasis of matters

- Unauthorised, irregular or fruitless and wasteful expenditure as well as material losses through criminal conduct
 - The board has not yet decided whether irregular expenditure to the amount of R8 354 000 incurred during the previous financial year is to be condoned.
 - Fruitless and wasteful expenditure to the amount of R74 000 was incurred during the financial year as penalties and interest were paid as a result of non-compliance with tax legislation. As also disclosed in note 30.2 the board has not yet decided whether fruitless and wasteful expenditure to the amount of R63 000 incurred during the previous financial year was to be recovered.

Other matters

- Non-compliance with applicable legislation
 - Treasury Regulations:
 - A risk assessment and a fraud prevention plan were not implemented.
 - A framework of acceptable levels of significance was not developed.
- Matters of governance
 - The public entity did not have an audit committee in operation throughout the financial year.
 - The public entity did not have an internal audit function in operation throughout the financial year.
 - The financial statements submitted for auditing were subject to material amendments resulting from the audit.
 - Resolutions of the public accounts committee were not substantially implemented.



A U D I T O R - G E N E R A L

4. FREE STATE YOUTH COMMISSION

Qualification

- Income
 - Income of R1 581 807 was recorded in the general ledger on 11 May 2007. The receipts only indicated the amount of R581 807, resulting in a discrepancy of R1 000 000.
- Office lease and rental expenditure
 - The operating lease with fixed rental increases for office lease and rental as recorded in the statement of financial performance to the amount of R488 477 was not recognised on a straight-line basis over the lease term. This was the result of a decision taken by management to record the lease expense by recognising only the actual cash outflow. Had the lease been recognised on the straight-line basis, office lease and rental expenditure would have been stated at R574 610 and payables and deficit for the period would have been increased by R86 133.
- Equipment rentals expenditure
 - Management entered into finance leases for the acquisition of photocopier machines, fax server, computer laptops with printers and the telephone system. These leases were incorrectly recorded in the financial records as operating leases. Furthermore, disclosure notes in respect of these leases were omitted from the financial statements. Management is of the opinion that these leases were operating leases and did not adjust the financial statements. Had these leases been provided for as finance leases, the liabilities as well as property, plant and equipment would have been increased by R559 342 and equipment rentals decreased by R255 067.
- Expenses
 - The commission could not provide supporting documentation for expenditure transactions to the amount of R407 903.
- Accumulated surplus
 - The public entity incorrectly applied reserve accounting in respect of grants received resulting in the understatement of income and expenditure, as disclosed in the statement of financial performance, by R488 969 and R190 146 respectively.
 - The public entity failed to account for a grant received in respect of Premiers Youth Awards to the amount of R76 050, resulting in the understatement of revenue and overstatement of accounts payable by the same amount.
 - As the entity decided not to entirely restate the corresponding figures for 31 March 2007 a surplus of R260 376 for 31 March 2007 was disclosed in the statement of changes in net assets, but the statement of financial performance still reflected a deficit of R38 447.



A U D I T O R - G E N E R A L

- Property, plant and equipment
 - Management did not perform a review of useful lives and residual values of all assets during the financial year under review.

Emphasis of matters

- Unauthorised, irregular and fruitless and wasteful expenditure
 - Fruitless and wasteful expenditure to the amount of R31 026 was incurred as penalties and interest were paid to the South African Revenue Service due to late payment of salary-related payment deductions and interest paid due to late payments to suppliers.
 - Unauthorised expenditure to the amount of R1 184 352 was incurred as the operational budget was overspent.
 - Irregular expenditure to the amount of R522 537 was incurred as finance leases were entered into without proper procurement procedures being followed and without expenditure being properly authorised.

Other matters

- Internal controls
 - The root causes that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion were identified as follows:
 - Income – Control activities
 - Office lease and rental expenditure – Control environment
 - Equipment rentals expenditure – Control environment
 - Expenses – Control activities
 - Accumulated surplus – Control environment
 - Property, plant and equipment – Control activities
- Non-compliance with applicable legislation
 - Public Finance Management Act
 - No proof could be obtained that disciplinary steps were taken as a result of fruitless and wasteful expenditure.
 - The annual report of 2006-07 was not tabled within five months after the end of the financial year.
 - Approved delegation of powers was not maintained by the Free State Youth Commission.
 - Treasury Regulations
 - Risk assessments were not conducted and the fraud prevention plan was not reviewed on a regular basis.
 - The Free State Youth Commission did not have an approved Supply Chain Management Policy.



A U D I T O R - G E N E R A L

- Matters of governance
 - The public entity did not have an internal audit function in operation throughout the financial year.
 - The financial statements submitted for audit purposes were subject to material amendments resulting from the audit.
 - Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
 - The prior year's external audit recommendations were not substantially implemented.
 - Resolutions of the public accounts committee were not substantially implemented.

5. PHAKISA MAJOR SPORT EVENTS AND DEVELOPMENT CORPORATION

Qualification

- Property, plant and equipment
 - Paragraph 51 of the South African Statement of Generally Accepted Accounting Practice, IAS 16 (AC123) *Property, Plant and Equipment* states that the residual value and the useful life of an asset shall be reviewed at least at each financial year-end. The corporation did not review the residual values and the useful lives of property, plant and equipment at year-end. The information system of the corporation did not allow me to determine the resulting misstatement of property, plant and equipment, depreciation, profit for the year and retained earnings as disclosed in the group financial statements.

Other matters

- Internal controls
 - The root cause for the qualification of property, plant and equipment was identified as deficiencies in the control activities.
- Non-compliance with applicable legislation

Phakisa Act

- Current board members were appointed for a period of three years and not 18 months as required by legislation.
- Matters of governance
 - The audit committee did not substantially fulfil its responsibilities for the year.
 - The internal audit function did not operate in terms of an approved internal audit plan.
 - The internal audit function did not substantially fulfil its responsibilities for the year.



A U D I T O R - G E N E R A L

ANNEXURE 4: FREE STATE AUDIT REPORTS SUMMARIES FOR PROVINCIAL OTHER ENTITIES

1. CENTRAL MEDICAL TRADING ACCOUNT

Financially unqualified (with other matters)

Emphasis of matters

- Irregular expenditure
Irregular expenditure to the amount of R1 564 140 was incurred as proper quotation and approval procedures were not followed.

Other matters

- Non-compliance with applicable legislation
Payments amounting to R51 398 121 were not made within 30 days of the date of receipt of the invoice.
- Matters of governance
 - The trading entity did not have an audit committee in operation throughout the financial year.
 - The internal audit function did not operate in terms of an approved internal audit plan.
 - The internal audit function did not substantially fulfil its responsibilities for the year.
 - The financial statements submitted for audit purposes were subject to any material amendments resulting from the audit.

2. FREE STATE HOUSING FUND

Qualification

- Non-current assets held for sale
 - Assets to the amount of R8 276 000 that did not meet the criteria for classification as non-current assets held for sale but were incorrectly classified as such. Non-current assets held for sale were therefore overstated and property, plant and equipment understated by R8 276 000.

Other matter

- Internal controls
 - The root causes for the qualification of non-current assets held for sale were identified as deficiencies in the control environment and information and communication.
- Matters of governance
 - The audit committee did not operate in accordance with approved, written terms of reference.



A U D I T O R - G E N E R A L

- The audit committee did not substantially fulfil its responsibilities for the year.
- The internal audit function did not operate in terms of an approved internal audit plan.
- The internal audit function did not substantially fulfil its responsibilities for the year.
- The financial statements submitted for audit purposes were subject to material amendments resulting from the audit.

3. GOVERNMENT GARAGE TRADING ENTITY

Financially unqualified (with other matters)

Other matters

- Matters of governance
The financial statements submitted for audit purposes were subject to material amendments resulting from the audit.

4. JAMES ROBERTSON BURSARY FUND

Financially unqualified (with no other matters)

5. NATURE CONSERVATION TRUST FUND

Financially unqualified (with no other matters)

6. PRIVATE PATIENT TRUST FUND

Financially unqualified (with no other matters)

7. RECREATION TRUST FUND

Qualification

- Expenditure
Sufficient and appropriate supporting evidence could not be submitted regarding expense transactions amounting to R6 675.
- Revenue
Sufficient and appropriate evidence could not be submitted regarding project revenue amounting to R2 435.



A U D I T O R - G E N E R A L

Other matters

- Internal controls
 - Control activities and monitoring were identified as the root cause that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion on:
 - expenditure
 - revenue.
- Matters of governance

The financial statements submitted for audit purposes were subject to any material amendments resulting from the audit.

8. ROAD BUILDING EQUIPMENT TRADING ENTITY

Financially unqualified (with no other matters)

9. SMALL HOLDINGS TRUST FUND

Financially unqualified (with other matters)

Other matters

- Non-compliance with legislation

It could not be determined whether the accounting officer had discharged his responsibilities for the safe keeping and proper use of trust money, as a trust deed could not be obtained.
- Matters of governance
 - The audit committee did not operate in accordance with approved, written terms of reference.
 - The audit committee did not substantially fulfil its responsibilities for the year.
 - The internal audit function did not operate in terms of an approved internal audit plan.
 - The internal audit function did not substantially fulfil its responsibilities for the year.
 - The financial statements submitted for audit purposes were subject to any material amendments resulting from the audit.

10. THOMAS ROBERTSON TRUST FUND

Financially unqualified (with no other matters)



Accountability

Integrity

Independence

Impartiality