



GENERAL REPORT
on the provincial audit outcomes of **FREE STATE**
2008-09



AUDITOR - GENERAL
SOUTH AFRICA



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

Auditing to build public confidence

General report

**on the provincial audit outcomes
of the Free State, 2008-09**

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Auditing to build public confidence

Our reputation promise/mission

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



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SECTION 1: FOREWORD

It gives me great pleasure to present my 2008-09 general report to the Free State Provincial Legislature, summarising the results of the audit outcomes of the Free State Provincial Government's departments and public entities for the financial year ended 31 March 2009.

This report highlights the trend of timely submission and auditing of all departments, entities and the provincial legislature for the year 2008-09, as only one report was outstanding at the date of compiling the information. The report also reflects a regression in unqualified audit opinions in 2008-09 to 36% (2007-08 – 55%) for departments. In contrast, 100% of the provincial entities received unqualified audit opinions (2007-08 – 50%). In essence, there has been no notable improvement in the audit outcomes for the four years since 2004-05. The regression in the audit outcomes of departments can mainly be ascribed to the lack of regular financial reporting and inadequate management of financial risks throughout the financial year.

The attainment of clean audit reports by all government departments and entities is a milestone I support and on which I encourage the province to concentrate, while at the same time dealing with the bigger challenges in the Departments of Health and Education. I am confident that it is possible to obtain clean audit reports if (1) chief financial officers observe the basics of financial reporting and related internal control systems, (2) audit committees and internal audit enhance the identification of key risks and key controls, as well as monitor their management, and (3) on the basis of monthly financial reports and risk management reports, the leadership is empowered to monitor results effectively and set the correct tone for the performance of the province.

A worrying trend is that 71% of the departments had a qualification on irregular expenditure whilst emphasis of matters highlighted material losses, unauthorised expenditure, fruitless and wasteful expenditure, irregular expenditure, as well as material underspending of budgets. These matters will require urgent attention by the leadership in the province.

The warning signals that we highlighted in our audit reports continue to be obstacles in the attainment of clean audits. These were found in the areas of human resource management, information systems, non-compliance with laws and regulations, and material misstatements that are rectified at the time of the audit. In this regard, it is important to stress that the roles of the chief financial officers, audit committees and internal auditors, as well as the leadership as described above, remain relevant as a solution to eliminate these signals that could result in a regression of audit outcomes if not adequately addressed.

With the exception of a few departments, this report further highlights areas where the service delivery information included in the annual reports of most departments and public entities was not credible or accurate.

Through our continued commitment to simpler, clearer and relevant reporting as well as the visibility of our audit teams, we will support and guide the executive and legislature through the various portfolio committees, including the Standing Committee on Public Accounts, to work towards achieving clean audit opinions.

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

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

Auditor-General

Auditor-General
Pretoria
November 2009



SECTION 2: EXECUTIVE SUMMARY

The executive summary that follows highlights key issues and conclusions reached on each of the main sections of this report. The reader is encouraged to refer to the main body of this report for the relevant details.

Audit outcomes for 2008-09

The Free State public sector, excluding local government, comprised the provincial legislature, 11 departments, six provincial public entities and 10 other entities in the 2008-09 financial year.

The audits of 96% (2008: 100%) of the provincial departments and the legislature, public entities and other entities that submitted financial statements on time, were completed within the legislated deadlines. The audit report on the Department of Health was only issued on 22 August 2009, as outstanding supporting documentation was still submitted by the department in the latter part of July 2009. The audit outcome of the Department of Health is included in this report. The auditors and management of the provincial legislature, departments and entities are commended for achieving this milestone.

The provincial government registered an improvement in seven audit opinions, while three audit opinions regressed for the year ended March 2009 and 15 remained unchanged. Two new entities were established during the year under review. The overall audit opinions analysed for the province were as follows: six (2008: four) financially unqualified (with no other matters), 14 (2008: 11) financially unqualified (with other matters) and seven (2008: 10) qualified.

Provincial legislature

The audit opinion on the Free State Provincial Legislature remained unchanged and was financially unqualified (with other matters) for the year ended March 2009.

Provincial departments

- The Free State Provincial Treasury achieved an improvement in its audit opinion, which was financially unqualified (with other matters) for the year ended March 2009, while three departments (27%) regressed, namely the Departments of Community Safety and Transport, Local Government and Housing, and Sport, Arts and Culture. These departments all received qualified audit opinions.
- The audit opinions on the remaining seven provincial departments (64%) remained unchanged. The opinions on the Departments of Economic Development, Tourism and Environmental Affairs, Education and the Premier remained financially unqualified (with other matters), whilst the opinions on the Departments of Agriculture, Health, Public Works and Roads and Social Development remained qualified.

Provincial public entities

- The five public entities analysed in this report all received financially unqualified audit opinions but had concerns reported in areas of internal control, governance and legislative non-compliance.
- Three public entities (60%) achieved an improvement in their audit opinions, namely the Free State Gambling and Racing Board, Free State Youth Commission and Phakisa Major Sport Events and Development Corporation, while the audit opinion on one public entity, namely the Free State Tourism Authority, remained unchanged.
- The Free State Investment Promotion Agency is a public entity which commenced operations during



the year under review and received a financially unqualified (with other matters) audit opinion for the year ended March 2009.

- The audit outcome of the Free State Development Corporation is not included in this report, as the entity only submitted consolidated annual financial statements on 4 September 2009. The audit report on the Free State Development Corporation was issued on 10 September 2009, and while the entity received an adverse opinion, this represents an improvement from the previous year when an audit opinion was disclaimed.

Other entities

- Four other entities (40%) received financially unqualified opinions (with other matters): the Central Medical Trading Account, Free State Housing Fund, Free State Liquor Authority and Small Holdings Trust Fund.
- Six other entities (60%) achieved financially unqualified audit opinions (with no other matters): the Free State Fleet Management Trading Entity, James Robertson Bursary Fund, Nature Conservation Trust Fund, Private Patients Fund Trust, Recreation Fund Trust and Thomas Robertson Bursary Fund.
- Three other entities, namely the Free State Fleet Management Trading Entity, Free State Housing Fund and Recreation Fund Trust, achieved an improvement in their audit outcomes, while the audit outcomes of six other entities, namely the Central Medical Trading Account, James Robertson Bursary Fund, Nature Conservation Trust Fund, Private Patients Fund Trust, Small Holdings Trust Fund and Thomas Robertson Bursary Fund, remained unchanged.
- The Free State Liquor Authority is an unlisted public entity which commenced operations during the year under review and received a financially unqualified (with other matters) opinion for the year ended March 2009.

Those departments and entities that achieved improved (or sustained satisfactory) audit outcomes can ascribe the improved outcomes to the achievement of good practices, dedicated commitment to clear prior year qualifications and other matters, focused monitoring of the implementation of action plans and concerted leadership effort. Although a short-term solution, the engagement of consultants by public entities also contributed to an improvement in the audit outcomes of these entities.

Those departments and public entities that regressed or failed to register improved outcomes can ascribe their performance to non-adherence to good practices or failure to address the root causes of internal control deficiencies. Leadership's attitude of not taking ownership of the financial management of departments, leadership instability, the lack of regular financial reporting and inadequate management of financial risks throughout the financial year are considered to be the major underlying drivers of poor audit outcomes. Progress in the improvement of audit outcomes is also hampered by appointing accounting officers and chief financial officers in acting positions for prolonged periods.

Audit qualification areas and root causes

The annual financial statement areas relating to capital assets (100%), receivables (57%) and irregular expenditure (71%) were the main areas that were qualified in the financial statements of provincial departments.

These qualifications can be attributed to deficiencies in the control environment, the design and implementation of control activities and monitoring by the leadership, audit committees and internal audit units.



Neither the provincial legislature nor any of the public entities or provincial other entities received qualified audit opinions.

Key systemic issues

Commitments and initiatives of the executive

Following the 2007-08 general report, the executive requested the Free State Provincial Treasury to assist departments in improving their financial management practices by means of the following initiatives:

- The provincial treasury compiled draft action plans for all departments and public entities based on prior year audit reports and management reports. These entities were then required to document to whom the specific responsibility had been assigned, the target date as well as the measures envisaged to address the root causes. The provincial treasury monitored the implementation of the action plans on a monthly basis and feedback was provided to departments and entities.
- The provincial treasury facilitated a CFO forum where the AGSA was also present and made a presentation on transversal matters identified previously which required specific attention from chief financial officers.
- The provincial treasury embarked on a programme of support for all departments and assisted with pre-review and timely submission of annual financial statements to the AGSA.
- Ongoing interaction took place between the departments, the provincial treasury and the AGSA, dealing with audit progress, possible outcomes and the identification of transversal risks.

Further commitments and initiatives which impacted positively on the audit outcomes for 2008-09 included:

- coordination between portfolio committees and standing committees
- ongoing monitoring and evaluation of internal controls by the audit committees and internal audit
- strengthening the capacity of the provincial treasury.

Provincial treasury initiatives to improve audit outcomes

The provincial treasury further assisted departments and entities to improve their financial management practices by means of the following initiatives:

- Ensuring provincial treasury representation on audit steering committees of all departments and entities that received a qualified/disclaimer of opinion in 2007-08.
- Establishing a technical committee between the AGSA and the provincial treasury to deal with all matters related to the audit of annual financial statements on a weekly basis.
- Preparation of a detailed timetable for the process of preliminary and final annual financial statements, which was accepted and signed off by all departments.
- Issuing several circulars relating to the preparation and audit of annual financial statements.
- Providing training on the preparation guide as issued by the National Treasury and the completion of the Excel template and other important matters as per the guidance issued by the provincial treasury.

Despite the initiatives by the provincial treasury, an overall regression in the audit outcomes of departments was noted. This can be attributed to the fact that the provincial treasury monitored the progress made by departments against their action plans based on written representations received from the departments. Progress against departmental action plans was monitored in isolation.



The commitment, involvement and contribution of executive leadership with regard to the achievement of unqualified audit opinions on the provincial departments were insufficient. The executive leadership, including the oversight committees, portfolio committees and legislature, will have to take responsibility for driving positive change in the province if provincial departments are to achieve favourable audit outcomes that are sustainable. During the Auditor-General's 2009 roadshow in the province, the Member of the Executive Committee responsible for Finance agreed that a comprehensive action plan for the province would be formulated to address the regression of audit opinions in the province.

Warning signals requiring attention

Non-compliance with applicable legislation

Non-compliance with legislation that did not have an impact on the financial statements was reported at all provincial departments, 80% of public entities and 60% of provincial other entities. This non-compliance related mainly to the PFMA and Treasury Regulations and other applicable legislation relating to supply chain management. Inadequate supervision and monitoring by the leadership of departments and entities contributed to the negative findings in this area. The right leadership tone, together with the support of internal audit, is necessary to establish a strong control environment and ensure compliance. No non-compliance with applicable legislation was reported for the provincial legislature.

Misstatements in financial statements corrected as a result of the audit

Material misstatements in the annual financial statements submitted for auditing were corrected at the provincial legislature, 91% of departments, all public entities and three other entities. These misstatements could have been detected by the departments and entities had the internal controls pertaining to financial reporting processes been effective and the financial reporting activities and deliverables been supervised and reviewed diligently.

Results of audits of information systems

The user account management processes of the provincial legislature, 11 provincial departments and three public entities (including the Free State Development Corporation) were subjected to information system audits during the year under review. The incidence of key findings resulting from the audits was as follows:

- A lack of user account management procedures was identified at 80% of the entities.
- At 73% of the entities, users' access to information systems was not periodically reviewed to ensure that they remained commensurate with their job responsibilities and access request forms were either not completed or inconsistently completed.
- At 87% of the entities, activities of system administrators/controllers were not reviewed by an independent person.
- Inactive or unused user IDs were not timeously removed from the system or deactivated at 80% of the entities, while at 53% of the entities, password reset forms were either not completed or were not consistently completed.

These deficiencies may be used by unscrupulous officials to commit/conceal fraudulent transactions.



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

The regularity audits of departments included an assessment of departments' compliance with the laws and regulations that support effective human resource management and controls over compensation of employees.

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

The incidence of key findings resulting from the audit of human resource management and compensation of employees is set out in section 8 of this report.

The deficiencies noted can be attributed to the lack of ongoing monitoring and supervision and the fact that internal control deficiencies are not identified and communicated in a timely manner to allow for appropriate corrective action to be taken.

It is evident from the significant findings raised that management of the said departments have not taken sufficient and appropriate action to address internal control deficiencies which have been previously reported by the AGSA and that actions to remedy the deficiencies will have to be prioritised.

Audit of performance information

The results of the audit of performance information were analysed for 54% of the institutions that constitute the Free State Provincial Government.

With regard to the remaining 46% of institutions, no significant findings were reported for the Free State Legislature and two departments, namely the Free State Provincial Treasury and the Department of Local Government and Housing. The results of all provincial public entities, with the exclusion of the Free State Development Corporation, were analysed, while eight of the 10 provincial other entities did not report on their performance and no significant findings were noted for the Free State Fleet Management Trading Entity.

The incidence of key findings resulting from the audit of performance information is detailed in section 9 of this report.

The leadership of the province should implement processes to ensure greater credibility of performance information, as it reflects the service delivery achievements of the provincial government.

The legislature, provincial departments and entities should make full use of the opportunity in 2009-10 to prepare for the audit opinion that is to be expressed on the performance information presented in their annual reports in future.

Consolidated financial statements

The annual financial statements of the Provincial Revenue Fund and consolidated annual financial statements of the Free State Province were received on 31 August 2009. The audit report on the Provincial Revenue Fund was issued on 14 October 2009 and the report on factual findings on the consolidated financial statements was issued on 20 October 2009.



Status of tabling of annual reports

The annual reports of the Free State Legislature, all departments and public entities for the year ended 31 March 2009, save for the Free State Development Corporation, were tabled as required.

Status report on performance audits, investigations and special audits

The following performance audits were conducted at provincial departments during the year:

- Performance audit of the infrastructure delivery process at the Departments of Education and Health. These reports are expected to be tabled in November 2009.
- Performance audit of the allocation of housing subsidies to municipal employees and the administration of low-cost housing projects by departments. This report was tabled during July 2008.
- Performance audit of entities that are connected with government employees and doing business with the departments of the Free State Provincial Administration. The report covered the period 1 April 2005 to 31 March 2007 and was tabled in the Free State Legislature on 26 June 2009.

Investigations into alleged irregularities in respect of the procurement system at the Department of Public Works and Roads and the Free State Development Corporation were conducted during the year. These reports are expected to be tabled between November 2009 and May 2010.

The AGSA was engaged by the Department of the Premier to perform agreed-upon procedures regarding the financial position and expenditure of certain projects of the Official Development Assistance Programme of the Flanders International Cooperation Agency. We envisaged tabling our report in this regard during November 2009.

SECTION 3: AUDIT OUTCOMES FOR 2008-09

3.1 Status of completion of audits

The Free State Provincial Government comprises the Free State Provincial Legislature, 11 departments, six provincial public entities and 10 provincial other entities. This report presents the 2008-09 audit outcomes of the legislature, 11 departments, five provincial public entities and 10 provincial other entities. The reason for the non-inclusion of one public entity is provided in paragraph 3.4 of this report.

Table 1: Status of completion of the 2008-09 audits

Entity	Total	Audits completed	Audits outstanding	% of completion
Provincial legislature	1	1	0	100%
Provincial departments	11	11	0	100%
Provincial public entities	6	5	1	83%
Provincial other entities	10	10	0	100%
Total	28	27	1	96%

Tables 2(a) – 2(d) below present the 2008-09 audit outcomes of the Free State Province. Details of balance sheet and income statement qualification areas are provided in section 5 of this report.

3.2 Audit outcome of the provincial legislature

Table 2(a): Audit opinion on the provincial legislature for the current and previous financial years

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	0	0%	0	0%
Adverse	0	0%	0	0%
Qualified	0	0%	0	0%
Financially unqualified (with other matters)	1	100%	1	100%
Financially unqualified (with no other matters)	0	0%	0	0%
Total entities	1	100%	1	100%

No change in audit outcome

The audit outcome of the provincial legislature remained unchanged from the year ended March 2008. The Free State Legislature was unable to achieve a clean audit opinion and remained financially



unqualified (with other matters), as management did not prioritise the development and implementation of good internal control and governance practices due to capacity constraints in the legislature.

3.3 Audit outcomes of provincial departments

Table 2(b): Audit opinions on provincial departments for the current and previous financial years

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	0	0%	0	0%
Adverse	0	0%	0	0%
Qualified	7	64%	5	45%
Financially unqualified (with other matters)	4	36%	6	55%
Financially unqualified (with no other matters)	0	0%	0	0%
Total entities	11	100%	11	100%

All 11 departments are reported on, of which one registered an improved audit outcome, three regressed and seven registered the same audit outcomes as for the year ended March 2008. The movement in audit outcomes and the reasons are set out below:

Improvements

The audit opinion on one department (9%), namely the Free State Provincial Treasury, improved from qualified to financially unqualified (with other matters). The improvement can be credited to effective leadership, supervision and monitoring in the department and the consequent achievement of all good practices.

Regressions

The audit opinions on the following three departments (27%) regressed from financially unqualified (with other matters) to qualified:

- Department of Community Safety and Transport (formerly the Department of Public Safety, Security and Liaison): The transfer of the traffic and transport functions from the Department of Public Works and Roads was inadequately planned and administered due to leadership instability in the department and the lack of effective oversight and direction by the acting accounting officer. The chief financial officer did not develop and implement sufficient control measures to address qualifications that originated in the transferring department, and capacity constraints hampered progress in this regard.
- Department of Local Government and Housing: Consultants did not transfer the necessary skills and competencies to the asset management unit, resulting in a regression in the audit outcome. Furthermore, the inadequacy of risk assessment processes resulted in insufficient control measures being implemented by the chief financial officer.



- Department of Sport, Arts and Culture: The regression in the audit outcome can be attributed to the lack of monitoring and supervision of internal controls by the chief financial officer.

No change in audit outcomes

The audit outcomes of seven departments (64%) remained unchanged from the year ended March 2008. The audit opinions on the following three departments remained financially unqualified (with other matters):

- Department of Economic Development, Tourism and Environmental Affairs: The department did not register an improvement in its audit outcome due to insufficient monitoring and supervision of internal controls by the chief financial officer and capacity constraints in the internal audit unit. The accounting officer also did not prioritise the appointment of the audit committee upon expiration of the previous committee's term.
- Department of Education: The department did not progress toward a clean audit opinion due to insufficient monitoring and supervision of internal controls by the chief financial officer and capacity constraints in the internal audit unit.
- Department of the Premier: The department was unable to attain a clean audit opinion and the opinion remained financially unqualified (with other matters) due to capacity constraints in the internal audit unit that were not addressed, with the result that the internal audit unit was not able to substantially fulfil its legislative responsibilities for the year.

The audit opinions on the following four departments remained financially qualified:

- Department of Agriculture: The department did not achieve an improvement in their audit outcome due to leadership instability, inadequate involvement of the accounting officer during the audit and key officials being appointed in acting positions for prolonged periods of time. Due to the instability regarding the position of chief financial officer, insufficient direction was provided to the department.
- Department of Health: The department's failure to register an improvement in the audit outcome can be attributed to critical vacancies which could not be filled due to the cash flow constraints that the department faced and the resultant moratorium placed on all appointments. The accounting officer was not sufficiently involved during the audit and the chief financial officer was appointed on a month-to-month basis and therefore did not take sufficient action to address audit findings.
- Department of Public Works and Roads (formerly the Department of Public Works, Roads and Transport): The department did not progress toward a clean audit opinion due to a lack of discipline and insufficient monitoring and supervision by the senior managers in the supply chain management and property management directorates. The property management directorate reported directly to the accounting officer and not to the chief financial officer. The inappropriate reporting lines resulted in insufficient oversight in the property management section, where the potential for material misstatement due to fraud was not adequately assessed, monitored or mitigated. Furthermore, the former accounting officer was not involved during the audit.
- Department of Social Development: The department did not progress towards an unqualified audit opinion due to insufficient monitoring and supervision of internal controls and the lack of direction by the chief financial officer.

Despite the initiatives undertaken by the Free State Provincial Treasury to assist provincial departments in the 2008-09 financial year, an overall regression in audit outcomes of departments was noted. This is attributed to leadership not taking ownership of the financial management of the departments and the leadership instability in the province due to frequent changes in political and administrative leadership. It is imperative that the leadership of the province, including the executive, oversight committees,



management and the provincial treasury, collaborate to improve the financial management and accountability in those departments where the audit outcomes have regressed or where no improvement is evident. The leadership should be assisted by internal audit and the audit committees to monitor the implementation of action plans and the maintenance of sound internal controls and financial management practices.

Departments that reflected a regression in audit outcomes or failed to register improved audit outcomes can ascribe such failure to not having implemented good practices and/or to not having addressed the root causes of internal control deficiencies. These root causes are analysed in section 5 of this report for all entities that received a qualified audit opinion.

3.4 Audit outcomes of provincial public entities

Table 2(c): Audit opinions on provincial public entities for the current and previous financial years

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	0	0%	0	0%
Adverse	0	0%	0	0%
Qualified	0	0%	3	75%
Financially unqualified (with other matters)	5	100%	1	25%
Financially unqualified (with no other matters)	0	0%	0	0%
Total reported on	5	100%	4	100%
Total not reported on	1	17%	1	20%
Total entities	6	100%	5	100%

Five out of six provincial public entities (83%) are reported on, three of which registered improved audit outcomes, one registered the same audit outcome as for the year ended March 2008 and one had not been reported on previously. The movement in audit outcomes and the reasons are set out below:

Improvements

The following three provincial public entities (60%) improved from qualified to financially unqualified (with other matters):

- Free State Gambling and Racing Board: Although management made a concerted effort to address the matters that led to qualifications previously, concerns were still reported regarding the availability of a clear trail of supporting documentation, the quality of the financial statements and availability of key officials during the audit. These matters can be attributed to inadequate leadership by the accounting officer and insufficient monitoring and supervision of document management and financial reporting processes by the chief financial officer.

- Free State Youth Commission: Although management's efforts to address the matters that led to qualifications previously are acknowledged, concerns were still reported regarding the availability of a clear trail of supporting documentation, the quality of the financial statements and availability of key officials during the audit. These matters can be attributed to inadequate leadership by the accounting officer and insufficient monitoring and supervision of document management and financial reporting processes by the chief financial officer.
- Phakisa Major Sport Events and Development Corporation: Although management took adequate and appropriate action to address matters that led to qualifications previously, management did not prioritise the development of, and adequately monitor and supervise compliance with, risk management and good internal control and governance practices. Furthermore, inadequate leadership and direction by the accounting officer impacted on the availability of key officials during the audit.

No change in audit outcome

The audit outcome of one provincial public entity (20%), namely the Free State Tourism Authority, remained unchanged from the year ended March 2008. The audit opinion on the public entity remained financially unqualified (with other matters). Management neither prioritised the development and implementation of risk management and good internal control and governance practices, nor effectively monitored compliance in this regard.

Not previously reported

The Free State Investment Promotion Agency was established in terms of the Free State Investment Promotion Agency Act, 1998 (Act No. 18 of 1998) and was listed as a provincial public entity on 3 March 2009. The public entity commenced operations during the year under review and received a financially unqualified (with other matters) audit opinion for the year ended March 2009.

Not reported on

Although the Free State Development Corporation submitted separate annual financial statements by 31 May 2009, the corporation did not consolidate the financial statements of 16 subsidiaries and one associate which it had acquired in previous financial years. The entity submitted consolidated annual financial statements on 4 September 2009, but the financial results for all subsidiaries and the associate had still not been included in the consolidation. Consequently, an adverse audit opinion was issued on 10 September 2009. The adverse opinion, however, represents an improvement in audit outcome since an audit opinion was disclaimed in the previous financial year.

The improvement in the audit outcomes of public entities is encouraging and the dedicated effort by management to clear the previous year's qualifications is acknowledged. Although this represents a short-term solution, four of the public entities engaged the services of consultants during the 2008-09 financial year, which contributed to the improvement in audit outcomes. The sustainability of these favourable outcomes is in jeopardy unless adequate skills transfer is specified as a key objective in agreements with consultants.

The compilation of financial statements and management accounts on a monthly basis is critical to ensure that financial risks are adequately managed during the financial year and that the positive audit outcomes achieved by these public entities are stabilised. The executive leadership, with the assistance of internal audit and the audit committees, should monitor adherence to this requirement on a continuous basis. Provincial public entities that failed to register improved audit outcomes can ascribe such failure to not



having implemented good practices and/or to not having addressed the root causes of internal control deficiencies.

3.5 Audit outcomes of provincial other entities

Table 2(d): Audit opinions on provincial other entities for the current and previous financial years

Type of audit opinion	2008-09		2007-08	
	Number	%	Number	%
Disclaimer	0	0%	0	0%
Adverse	0	0%	0	0%
Qualified	0	0%	2	20%
Financially unqualified (with other matters)	4	40%	4	40%
Financially unqualified (with no other matters)	6	60%	4	40%
Total entities	10	100%	10	100%

All 10 provincial other entities are reported on, three of which registered improved audit outcomes, six registered the same audit outcomes as for the year ended March 2008, one merged with another provincial other entity during the year under review and one was not previously reported on. The movement in audit outcomes and the reasons are set out below.

Improvements

- The opinion on the Free State Housing Fund improved from qualified to financially unqualified (with other matters). Although management took adequate and appropriate action to address matters that previously led to qualifications, concerns were still reported regarding the quality of the financial statements and governance deficiencies which had not been adequately addressed. These matters resulted from inadequate monitoring and supervision of the financial reporting processes by the chief financial officer and the delay in approving the audit committee charter by the chairperson of the audit committee.
- The Recreation Fund Trust's audit opinion improved from qualified to financially unqualified (with no other matters). Management's efforts to address the matters previously qualified are acknowledged. The improvement in the audit outcome can be credited to management's commitment and the consequent achievement of good practices.
- On 1 April 2008, the Road Building Equipment Trading Entity was incorporated into the Government Garage Trading Entity to form the Fleet Management Trading Entity. The audit opinion on the Free State Fleet Management Trading Entity was financially unqualified (with no other matters) for the year ended March 2009, while the Government Garage and Road Building Equipment Trading Entities both received financially unqualified (with other matters) opinions in the previous financial year. The improvement can be credited to management's commitment and the consequent achievement of all good practices.

No change in audit outcomes

The audit outcomes of six provincial other entities remained unchanged from the year ended March 2008. The audit opinions on the following four other entities remained financially unqualified (with no other matters):

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

The fact that the entities sustained satisfactory audit outcomes can be credited to management's commitment and the consequent achievement of good practices.

The following two other entities retained financially unqualified (with other matters) audit opinions:

- Central Medical Trading Account: Although the entity sustained a financially unqualified opinion, the lack of progress towards a clean audit opinion can be attributed to inadequate monitoring and supervision of internal control and financial reporting processes by the chief financial officer, and the fact that the accounting officer did not prioritise the establishment of an audit committee to ensure appropriate oversight and direction over internal audit.
- Small Holdings Trust Fund: Although the entity sustained a financially unqualified opinion, the lack of progress towards a clean audit opinion can be attributed to the delay in approving the audit committee charter by the chairperson of the audit committee.

Not previously reported

The Free State Liquor Authority is an unlisted public entity which was established in terms of the Free State Liquor Act, 2007 (Act No. 3 of 2007). The entity commenced operations during the year under review and received a financially unqualified (with other matters) audit opinion for the year ended March 2009.

Other entities that failed to register improved audit outcomes can ascribe such failure to not having implemented good practices and/or to not having addressed the root causes of internal control deficiencies.

3.6 Five-year review of audit outcomes

Table 3 below presents a comparison between the audit outcomes of the Free State Provincial Legislature and departments for 2008-09 and 2004-05, and between the audit outcomes of the entities (public and other entities) for 2008-09 and 2005-06.



Table 3: Comparison between audit outcomes for 2008-09 and 2004-05 for provincial legislature and departments and between audit outcomes for 2008-09 and 2005-06 for entities

Type of audit opinion	Provincial legislature		Provincial departments		Entities	
	2008-09	2004-05	2008-09	2004-05	2008-09	2004-05
Disclaimer	0	0	0	0	0	0
Adverse	0	0	0	0	0	0
Qualified	0	1	7	5	0	5
Financially unqualified (with other matters)	1	0	4	6	9	9
Financially unqualified (with no other matters)	0	0	0	0	6	0
Total reported on	1	1	11	11	15	14
Total not reported on	0	0	0	0	1	0
Total entities	1	1	11	11	16	14

The improved audit outcomes from 2004-05 and 2005-06 to 2008-09 may not be sustainable if the entities and legislature do not put action plans in place to address the audit findings that resulted in audit adjustments in the current financial year.

Leadership oversight and monitoring needs to be improved to ensure that proper document management is enforced and accurate information is available. Accounting disciplines such as the preparation of regular and detailed management accounts that are supported by appropriate reconciliations and schedules should assist in the preparation of quality financial statements.

The governance structures (oversight committees, audit committees and internal audit) within most departments have not improved. The provincial treasury has committed itself to improve the current governance structures which would enable them to be more effective.

The increase in the number of entities from 2005-06 to 2008-09 is attributed to the establishment of the Free State Investment Promotion Agency and Free State Liquor Authority in the year ended March 2009. Audit outcomes for entities are only presented from 2005-06 due to unavailability of earlier data.

SECTION 4: KEY SYSTEMIC ISSUES

Audit outcomes can be and are influenced by a number of role players in addition to the management of individual entities. This section of the report gives an overview of the commitments and contributions of key role players, particularly with regard to key systemic issues impacting on financial management and accounting.

4.1 Initiatives to improve audit outcomes

4.1.1 Implementation of action plans by leadership and other contributions by key role players

The Free State Provincial Treasury compiled draft action plans for all departments and public entities based on prior year audit reports and management reports. These entities were then required to document to whom the specific responsibility had been assigned, the target date, as well as the measures envisaged to address the root causes. The provincial treasury monitored the implementation of the action plans on a monthly basis and feedback was provided to departments and entities.

The executive requested the Free State Provincial Treasury to assist departments in improving their financial management practices by means of the following:

- Updating the key performance indicators for accounting to include matters identified during prior year audits. Monthly evaluations were performed and matters were reported to all chief financial officers, the CEO: Treasury and MEC: Finance and a summary was provided to the National Treasury. New key performance indicators were developed for banking-related matters and rolled out from January 2009. Monthly assessments were performed and reports were issued to departments.
- The provincial treasury facilitated a CFO forum where the AGSA was also present and made a presentation on transversal matters identified previously which required the specific attention of chief financial officers.
- The treasury evaluated and commented on the annual financial statements of eight provincial departments and six public entities during May 2009 to eliminate errors in the financial statements prior to submission on 31 May 2009.
- Ongoing interaction between the departments, the provincial treasury and the AGSA dealing with audit progress, possible outcomes and the identification of transversal risks.
- The provincial treasury assisted in resolving matters related to the transfer of functions between the Departments of Public Works and Roads and Community Safety and Transport.
- The provincial treasury also assisted in resolving matters related to the Free State Liquor Authority and the Department of Economic Development, Tourism and Environmental Affairs.

Despite the initiatives by the provincial treasury, an overall regression in audit outcomes of departments was noted. This can be attributed to the fact that the provincial treasury monitored the progress made by departments against their action plans based on written representations received from the departments. Progress against departmental action plans was monitored in isolation. A consolidated action plan was not compiled for the province and the provincial treasury did not monitor progress holistically for the entire province. The provincial treasury will need to intensify efforts and consider strengthening capacity to actively monitor and verify reported progress in those departments where the audit outcomes have regressed or where no improvement is evident.

The commitment, involvement and contribution of executive leadership with regard to the achievement of unqualified audit opinions on the provincial departments are insufficient. The executive leadership,



including the oversight committees, portfolio committees and legislature, will have to take responsibility for driving positive change in the province if provincial departments are to achieve favourable audit outcomes that are sustainable. The leadership should also be assisted by internal audit and audit committees to monitor the implementation of action plans and the maintenance of sound internal controls.

4.1.2 Ongoing monitoring and evaluation of internal controls by audit committees and internal audit

The provincial treasury has developed key performance indicators for audit committees and internal audit functions and rolled them out for implementation by the departments and public entities. Official assessments were performed and communicated to the relevant stakeholders in March 2009.

Three internal audit forums were held during the year under review to enhance capacity and a training session was held to assist internal audit staff with the evaluation of annual financial statements.

4.1.3 Coordination between portfolio and standing committees

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.

4.1.4 Treasury's monitoring tool/checklist

Strengthening of the capacity of the provincial treasury to enable 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 treasuries embarked on the following initiatives during the year under review:

- The National Treasury provided a practical guideline for the preparation of annual financial statements.
- The National Treasury provided workshops and training sessions to clarify any uncertainties regarding the compilation of annual financial statements.
- The National Treasury dealt with exemptions requested by provincial departments.
- The National Treasury developed frequently asked questions and appropriate answers and published them on their website to assist end users.
- The provincial treasury emphasised all the changes from the previous year by means of a separate communication and also informed users of all updates on the website throughout the audit process. The provincial treasury updated the key performance indicators for accounting to include matters identified during the 2007-08 audits. Monthly evaluation and reporting was performed and feedback was provided to all chief financial officers, the CEO: Treasury and MEC: Finance, with a summary provided to the National Treasury. New key performance indicators were developed for banking-related matters and rolled out from January 2009. Monthly assessments were done and reports were issued to departments.
- During February and March 2009 all matters that needed to be addressed before year-end were communicated to the accounting officers and the clearance of the asset and liability accounts was monitored to ensure year-end closure.
- The provincial treasury evaluated the template and guide for the preparation of annual financial statements and provided comments/inputs to the National Treasury for rectification/clarification purposes.

- Officials from the provincial treasury assisted departments with the completion of the annual financial statements template and provided clarity with regard to various matters contained in the preparation guide for the compilation of annual financial statements.
- The provincial treasury monitored the submission of financial statements by provincial departments and entities on or before 31 May 2009.
- Regular PAG forums were held during the financial year under review, which also contributed to enhanced processes.
- The draft interim reporting tool is currently being evaluated for implementation during the 2009-10 financial year.

4.1.5 Strengthening capacity of the provincial treasury

A specific official in the Office of the national Accountant-General is allocated to the Free State to assist the provincial treasury in any matter related to the annual financial statements.

A GRAP training session was conducted from 2 – 5 March 2009 by consultants appointed by the National Treasury, which was attended by officials from the provincial treasury and the different entities.

4.1.6 Evaluation of human resource strategic framework

A formal human resource management plan approved by the executive authority was still not in place in six of the provincial departments. In a seventh department, the human resource management plan was not submitted in order to evaluate the status. 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.

4.2 Impact of initiatives of other role players

The Free State Provincial Treasury further assisted departments to improve their financial management practices by means of the following:

- Attendance of audit steering committee meetings. Officials from the provincial Accountant-General's Office attended the audit steering committee meetings of all departments and entities that had received a qualified/disclaimer of audit opinion in 2007-08.
- A technical committee was established by the Auditor-General and the provincial treasury to deal with all matters related to the audit of annual financial statements on a weekly basis.
- A detailed timetable was prepared for the process of preliminary and final annual financial statements, which was accepted and signed off by all departments. A letter was also issued to public entities, requesting them to capture their comparative financial information and provide it to the provincial treasury for review.
- During February and March 2009 all matters that needed to be addressed for year-end closure were communicated to the accounting officers and the clearance of the asset and liability accounts was monitored to ensure year-end closure.
- The following circulars were issued:
 - § PAG: Accounting A9 of 2008/09: Processes and guidance for the compilation of AFS for the 2008/09 financial year
 - § PAG: Accounting A10 of 2008/09: Financial year closure



- § PAG: Accounting A12 of 2008/09: Annual financial statements/Annual report for the 2008/09 financial year - entities
- § PAG: Accounting A13 of 2008/09: Annual financial statements/Annual report for the 2008/09 financial year - departments

- The following training was provided:

- § Training was provided on 24 March 2009 on the preparation guide as issued by the National Treasury.
- § Training was provided to all entities on 2 – 3 April 2009 on the completion of the Excel template and other important matters as per the guidance issued by the provincial treasury.

The AGSA contributed to the achievement of improved audit outcomes in the province by means of the following initiatives:

- The Auditor-General conducted debriefing discussions with the Speaker, the Premier and various members of the executive and accounting officers, at which the importance of effective implementation of action plans by leadership was highlighted.
- The need for the preparation of proper hand-over reports by the executive following the elections in April 2009 was also emphasised in interactions with the executive leadership of the province.
- There was extensive interaction between the AGSA and the legislature, provincial departments and entities to discuss audit findings. In many cases departments were given the opportunity to further address and rectify errors. This resulted in a large amount of audit adjustments to the financial statements submitted for auditing. This also had a positive impact on relationships with the management of departments, audit committees and executive.
- The AGSA also contributed to the enhancement of the accountability process by briefing the Public Accounts Committee on audit reports and providing support with the drafting of resolutions.

4.3 Accounting reforms

In terms of the power vested in him under section 3(2)(b) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), read with section 28 of the Powers, Privileges and Immunities Act, 1996 (Act No. 3 of 1996), the Speaker of the Free State Legislature has the authority to approve deviations from the prescribed basis of accounting for the Free State Legislature.

During July 2009, the Speaker approved deviations from the modified cash basis of accounting with regard to appropriated funds, departmental revenue, aid assistance, retained funds, assets, key management, donations and gifts for the year ended 31 March 2009, which resulted in the legislature applying an entity-specific basis of accounting for the year under review.

All provincial departments prepared their financial statements in accordance with the modified cash basis of accounting determined by the National Treasury.

While several applications for deviation from the modified cash basis of accounting were made to the provincial treasury, the National Treasury only approved deviation from the modified cash basis of accounting for two provincial departments (18%) for the 2008-09 financial year, namely the Departments of Education and Public Works and Roads. Both deviations related to assets.

The National Treasury approved a deviation for the Department of Education on 29 May 2009, which granted the department exemption from reporting on major and minor assets in the financial statements.



This exemption was also granted in the previous financial year.

On 31 March 2009, the Department of Public Works and Roads was granted exemption from the recognition of immovable assets at cost as at 1 April 2008. Accordingly, this opening balance was stated at fair value in the financial statements. The National Treasury also granted exemption from recognising immovable assets where uncertainty existed with regard to the ownership of immovable assets between the national and provincial spheres of government.

The National Treasury did not approve any deviations from the prescribed basis of accounting for provincial public entities or other entities.



SECTION 5: ANALYSIS OF AUDIT QUALIFICATION AREAS AND ROOT CAUSES

This section of the report provides details on specific areas of the income statement and/or balance sheet of entities that received qualified audit opinions. Details are provided under separate headings for the provincial legislature, departments, provincial public entities and provincial other entities. An analysis is provided of root causes of qualifications.

5.1 Provincial legislature

5.1.1 Balance sheet and income statement areas qualified: provincial legislature

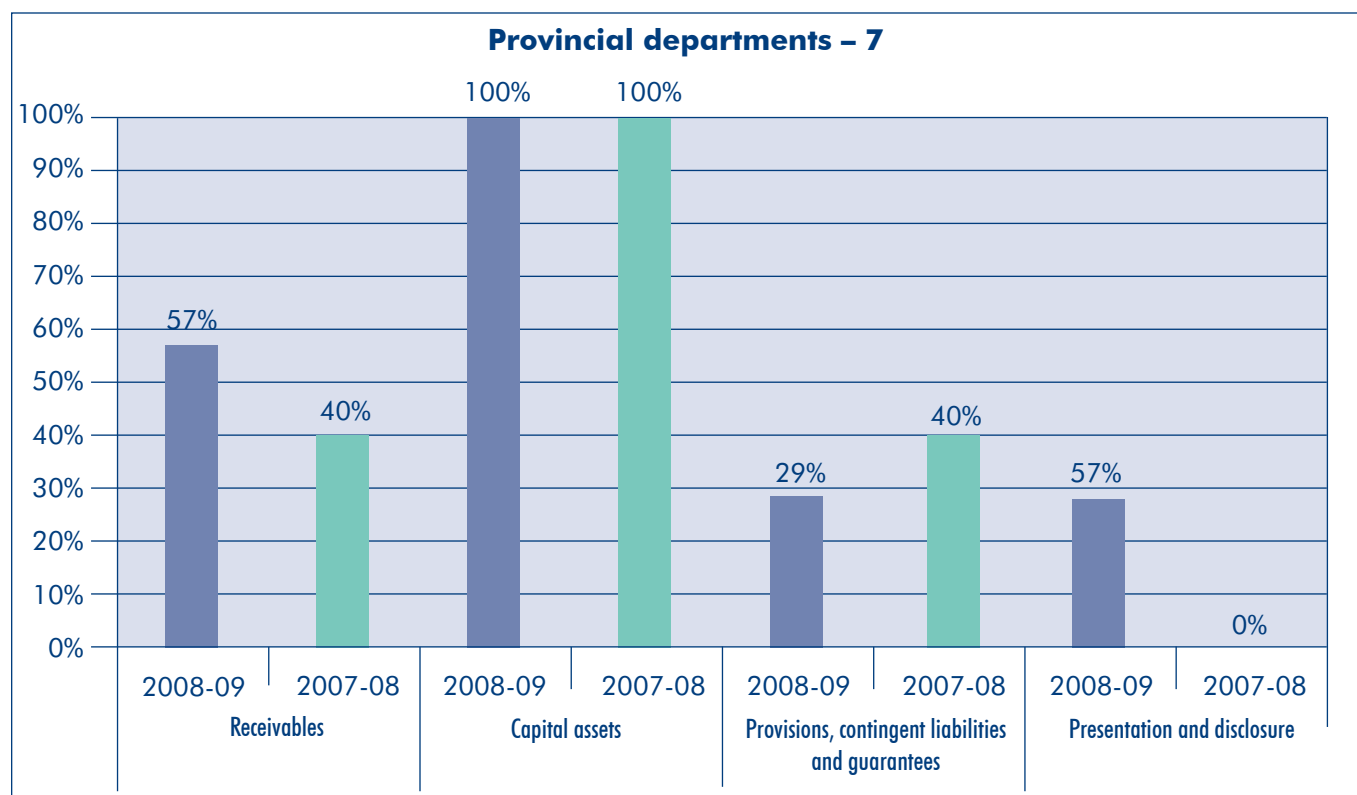
As reported in paragraph 3.2 of this report, the Free State Legislature received a financially unqualified audit opinion for the year ended March 2009.

5.2 Provincial departments

5.2.1 Balance sheet and income statement areas qualified: provincial departments

Figure 1(a) below provides a breakdown of those balance sheet findings which gave rise to qualified audit opinions. The graph depicts the number of departments that had qualified audit opinions in key areas of their balance sheets (statements of financial position). Details of the nature of qualifications are provided in those qualification areas where these percentages exceeded 50%.

Figure 1(a): Areas qualified in the statement of financial position (seven departments qualified)



Analysis of areas qualified

Capital assets

Qualifications in this area related to both movable and immovable tangible capital assets, with all seven (100%) departments qualified regarding movable capital assets and two (29%) departments qualified regarding immovable assets.

Movable capital assets

Provincial departments qualified in this area

The highest incidence of qualifications for provincial departments related to movable capital assets. The following departments were qualified in this area:

- Agriculture
- Community Safety and Transport
- Health
- Local Government and Housing
- Public Works and Roads
- Social Development
- Sport, Arts and Culture

Key findings in this area

The key findings in this area can be summarised as follows:

- Lack of information to verify the completeness, existence and valuation of movable capital assets (major and minor assets) recorded in the asset registers and disclosed in the financial statements
- Inadequate audit evidence to support adjustments to opening balances of capital assets
- Lack of unique asset identification numbers
- Incomplete or insufficient detail in asset registers to physically verify assets
- Untraceable assets
- Non-compliance with the accounting framework regarding the valuation of minor assets

Immovable capital assets

Provincial departments qualified in this area

The following two departments were qualified regarding immovable capital assets:

- Health
- Public Works and Roads

Key findings in this area

The key findings in this area can be summarised as follows:

- Lack of information to verify the completeness, existence and valuation of immovable tangible capital assets as disclosed in the financial statements



- Insufficient information in the fixed asset register to enable the recalculation of the fair values (deemed cost) of non-residential buildings, land and quarries
- Lack of certificates of completion for capital improvements funded by other provincial departments to support additions to non-residential buildings and consequently the ownership of the capitalised immovable assets
- Opening balance of immovable assets adjusted for erven to be transferred to private individuals, although at year-end ownership still vested in the Department of Public Works as transfer had not yet been effected
- Fixed asset register not updated with the addition of 22 new quarries established during the year and secondary roads were omitted from the fixed asset register
- The qualification in the audit report of the Department of Public Works and Roads related only to immovable assets where ownership vested in the Free State Provincial Government and of which the department was the appointed custodian. The qualification did not extend to any immovable assets where uncertainty existed with regard to ownership between the national and provincial spheres of government.

Fraud risk related to capital assets

The risk of fraud relating to the misappropriation of movable and immovable capital assets was significantly increased by the following deficiencies:

- Inadequate record keeping regarding capital assets
- Lack of complete and timely reconciliation of assets

Management must ensure that these risks are adequately assessed in the risk assessments and should be vigilant regarding the said fraud risk indicators.

Exemptions relating to capital assets

- Department of Education: The National Treasury granted exemption from reporting on assets in both the 2007-08 and 2008-09 financial years. This exemption was granted as a result of the significant impact of identified system errors on Logis, which rendered the department's asset register unreliable.
- Department of Public Works and Roads:
 - § The department was granted exemption from the recognition of immovable assets at cost as at 1 April 2008. Accordingly, this opening balance was stated at fair value in the financial statements.
 - § The National Treasury granted exemption from recognising immovable assets where uncertainty existed with regard to the ownership of immovable assets between the national and provincial spheres of government.

Recommended remedial action

The following remedial action is recommended to address the qualifications in this area:

- The National Treasury must provide comprehensive, clear, timely and authoritative guidance in relation to movable assets and immovable assets in the 2009-10 financial year.
- The Free State Provincial Treasury must guide and assist departments in addressing their specific challenges regarding asset management.



- Chief financial officers must ensure that assets are verified at regular intervals during the year and that asset records are reconciled with the results of such periodic verification procedures.
- Chief financial officers should also ensure that the departments comply with the requirements of the accounting framework regarding the valuation of assets.
- Internal audit units should be tasked to focus on asset management and compliance with section 38(1)(d) of the PFMA should be closely monitored by audit committees, the provincial treasury and the collective leadership in the province.
- The accurate recording and valuation of immovable assets in the financial statements for the year ended March 2010 is dependent on a complete and accurate provincial immovable asset register. A project plan for the development of this register is required, and while this process must be driven by the Department of Public Works and Roads as custodian of immovable assets in the province, the success of this project will require the collective effort and support of all provincial departments and the provincial treasury.

Receivables

Departments qualified in this area

Four (57%) of the seven provincial departments were qualified regarding receivables. The departments qualified in this area were:

- Agriculture
- Community Safety and Transport
- Health
- Public Works and Roads

Key findings in this area

The key findings in this area can be summarised as follows:

- Lack of information to support the existence, completeness and valuation of receivables for vehicle registrations and related fines and penalties, fees levied for medical services rendered and rentals receivable for the letting of state property.
- These receivables are not maintained on the primary financial reporting systems of government, since these systems cannot account for transactions on an accrual basis.
- Staff debt relating to the overpayment of overtime and acting allowances was not recognised at one department.

Fraud risk related to receivables for departmental revenue

While the risk of fraud relates more to the misappropriation of cash received in respect of departmental revenue than to the receivables in this regard, the risk is nevertheless significantly increased by the following circumstances:

- Accounting records for departmental revenue and receivables are not maintained on the primary financial reporting systems of government, since these systems cannot account for transactions on an accrual basis.
- The geographical spread of the locations at which cash is received for departmental revenue and the lack of sound internal controls at these locations.
- Lack of complete and timely reconciliation of departmental revenue and the related receivables.



Management must ensure that these risks are adequately assessed in the risk assessments and should be vigilant regarding the said fraud risk indicators.

Recommended remedial action

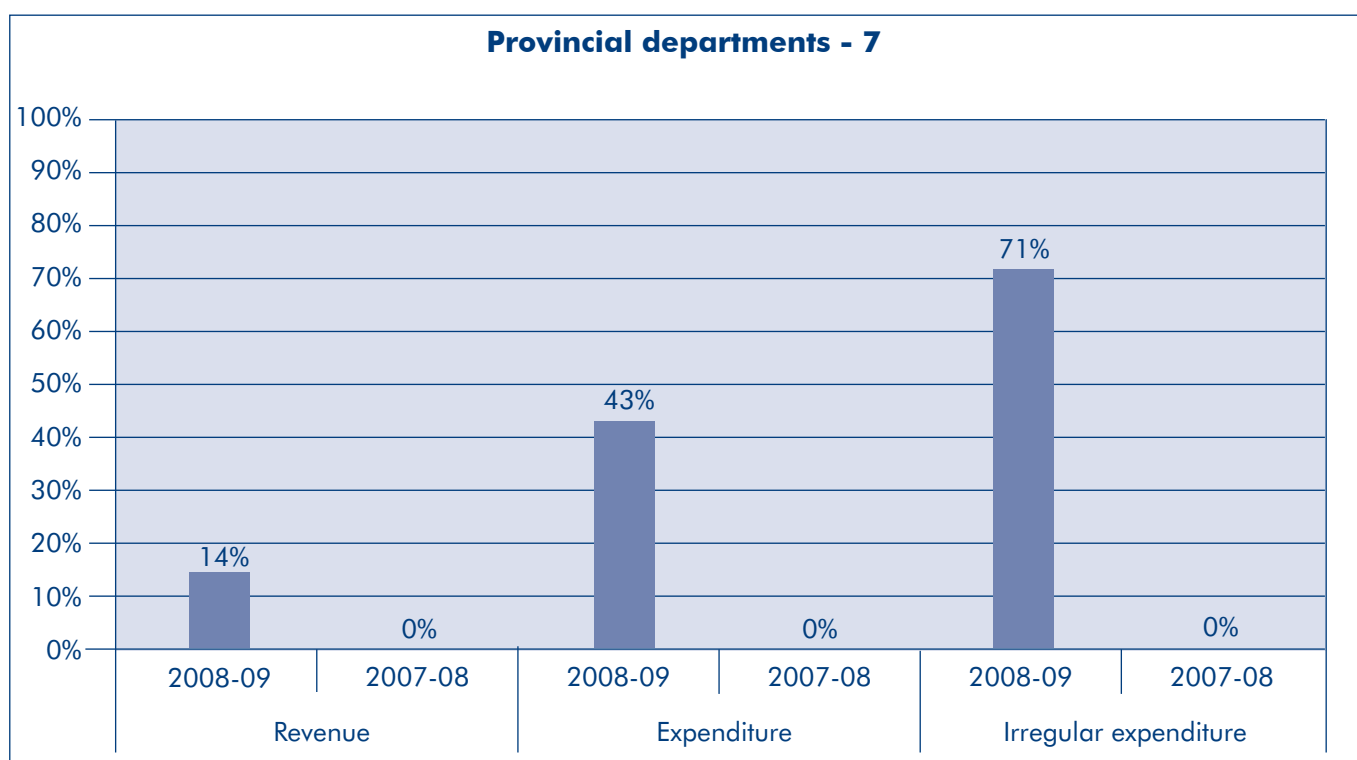
The following remedial action is recommended to address the qualifications relating to receivables:

- Chief financial officers must ensure that all compensating controls implemented regarding receivables for departmental revenue are monitored on a daily basis.
- Chief financial officers must interrogate the accounting records for these receivables on an ongoing basis in order to ensure the accuracy thereof.
- The provincial treasury must guide and assist departments to find sustainable, workable solutions and must ensure that new systems implemented in future address these challenges.

5.2.2 Income statement areas qualified: provincial departments

Figure 2(a) below provides a breakdown of those income statement findings which gave rise to qualified audit opinions. It provides an indication of the percentage of departments that were qualified per income statement area. Details on the nature of qualifications are provided in those qualification areas where percentages exceeded 50%.

Figure 1(b): Areas qualified in the statement of financial performance (seven departments qualified)



Analysis of areas qualified

Irregular expenditure

Departments qualified in this area

The financial statements of five (71%) of the seven departments qualified were qualified on the basis of irregular expenditure. The departments qualified in this area, as well as the amount of irregular expenditure incurred in the 2008-09 and 2007-08 financial years, are as follows:

Department	Irregular expenditure 2008-09	Irregular expenditure 2007-08
• Agriculture	R14 908 000	R3 895 000
• Community Safety and Transport	R8 148 000	R0
• Health	R157 082 000	R116 804 000
• Local Government and Housing	R4 577 000	R2 174 000
• Public Works and Roads	R87 055 000	R1 466 000

Of the total amount of R271 770 000 (2008: R124 339 000) of irregular expenditure incurred in the current year, R182 767 000 (2008: R2 335 000) was condoned.

Key findings in this area

The key findings in this area can be summarised as follows:

- Irregular expenditure was identified during the audit and had not been prevented or detected by the departments' systems of internal control.
- Management could not provide evidence that they had properly identified, investigated and recorded all irregular expenditure transactions during the year under review. Consequently, the completeness of irregular expenditure as disclosed in the financial statements could not be confirmed.

Fraud risk related to irregular expenditure

The risk of fraud relating to the irregular expenditure is significantly increased by the following deficiencies:

- Lack of adequate internal control measures and processes to identify and record irregular expenditure
- Insufficient monitoring regarding non-compliance with laws and regulations
- Investigations regarding irregular expenditure not being performed on a timely basis, if at all

Management must ensure that these risks are adequately assessed in the risk assessments and should be vigilant regarding fraud risk indicators and the potential for irregular expenditure to be driven by irregularities.



Recommended remedial action

The following remedial action is recommended to address the qualifications in this area:

- Chief financial officers must monitor adherence to the policy framework regarding irregular expenditure and report irregular expenditure to the provincial treasury on a monthly basis.
- Management must ensure that these risks are adequately assessed in the risk assessments and that appropriate control measures are implemented to mitigate the assessed risk.
- Internal audit and audit committees must ensure that control deficiencies in this area are communicated to management in a timely manner to enable the design and implementation of adequate and appropriate internal controls to prevent the occurrence of non-compliance and the resultant irregular expenditure.

5.2.3. Analysis of root causes of qualifications: provincial departments

Qualified annual financial statements result from deficiencies in the system of internal control. These deficiencies are termed "root causes". These root causes relate to the five recognised components of an effective system of internal control, which are the following:

- Control environment
- Risk assessment and objective setting
- Control activities
- Information and communication
- Monitoring

This section of the report sets out the root causes of qualifications in provincial departments. In some instances deficiencies existed in more than one internal control component.

Department of Agriculture

Areas of concern

Receivables, movable capital assets, expenditure and irregular expenditure

Root causes of qualifications

- Leadership instability
- Inadequate leadership oversight
 - § The former chief financial officer had been appointed in an acting position for the previous two financial years until November 2008 and the current chief financial officer had been appointed in an acting position since December 2008.
 - § The instability in the chief financial officer position resulted in insufficient direction being provided to the department.
 - § The acting chief financial officer was on extended sick leave during the audit and the accounting officer was also not available during the audit.
- Staff did not have a clear understanding of the accounting framework for assets.
- Insufficient control activities, monitoring and supervision
 - § The chief financial officer did not sufficiently monitor the recording and reconciliation of asset records.



- § Control activities and monitoring were ineffective and did not ensure that all non-compliance with applicable legislation that resulted in irregular expenditure was identified and reported.

Department of Community Safety and Transport (formerly the Department of Public Safety, Security and Liaison)

Areas of concern

Receivables, movable capital assets, provisions, revenue and irregular expenditure

Root causes of qualifications

- Leadership instability
- Inadequate leadership oversight
 - § The transfer of the traffic and transport functions from the Department of Public Works and Roads was inadequately planned and administered due to the lack of effective oversight and direction by the acting accounting officer.
 - § The acting accounting officer's involvement in the audit was inadequate.
- Capacity constraints
- Insufficient control activities, monitoring and supervision
 - § The chief financial officer did not develop and implement sufficient control measures to address qualifications that originated in the transferring department.
 - § Adequate control measures were also not developed and implemented to assess, monitor and mitigate non-compliance with applicable legislation that resulted in irregular expenditure.
- Information and communication
 - § Financial information relating to the disclosure notes was not maintained on appropriate accounting systems or on a regular basis. The financial reporting systems used by government do not support accrual accounting and the department thus has to maintain these accounting records by alternative means. Most of the information supporting disclosure notes is therefore not system generated and is only prepared at year-end, which impacts on the reliability of the financial information.

Department of Health

Areas of concern

Receivables, movable capital assets, immovable capital assets, provisions, presentation and disclosure, expenditure and irregular expenditure

Root causes of qualifications

- Inadequate leadership oversight
 - § The accounting officer was not sufficiently involved during the audit.
 - § The chief financial officer was appointed on a month-to-month basis and therefore did not take sufficient action to address audit findings.
- Capacity constraints
 - § Critical vacancies existed within the supply chain management chief directorate. Due to the cash flow constraints that the department faced, a moratorium was placed on all appointments. These critical vacancies resulted in numerous errors and inconsistencies in



financial reporting information that the department's internal processes did not prevent or detect.

- Inadequate risk assessment
 - § In the risk assessment, management either assigned inappropriate likelihood and impact ratings to financial management and accounting risks, or omitted such ratings.
- Information and communication
 - § Financial information relating to the disclosure notes was not maintained on appropriate accounting systems or on a regular basis. The financial reporting systems used by government do not support accrual accounting and the department thus has to maintain these accounting records by alternative means. Most of the information supporting disclosure notes is therefore not system generated and is only prepared at year-end, which impacts on the reliability of the financial information.

Department of Local Government and Housing

Areas of concern

Movable capital assets and irregular expenditure

Root causes of qualifications

- Staff did not have a clear understanding of the accounting framework for assets and consultants did not transfer the necessary skills and competencies to the asset management unit.
- Inadequate risk assessment and insufficient control activities
 - § The inadequacy of risk assessment processes resulted in insufficient control measures being implemented by the chief financial officer.

Department of Public Works and Roads (formerly the Department of Public Works, Roads and Transport)

Areas of concern

Receivables, movable capital assets, immovable capital assets, presentation and disclosure, expenditure and irregular expenditure

Root causes of qualifications

- Inadequate leadership oversight
 - § The accounting officer did not take sufficient or appropriate action to address the lack of discipline in the supply chain management and property management directorates.
 - § The property management directorate reported directly to the accounting officer and not to the chief financial officer. The inappropriate reporting lines resulted in insufficient oversight in the property management section.
 - § The accounting officer was not involved during the audit.
- Lack of commitment and insufficient monitoring and supervision
 - § Senior management in the supply chain management and property management directorates did not take adequate and appropriate action to address audit findings that had been reported for several years.
 - § Monitoring and supervision by the senior managers in the supply chain management and property management directorates were insufficient.

- Inadequate risk assessment
 - § In the risk assessment, management either assigned inappropriate likelihood and impact ratings to financial management and accounting risks, or omitted such ratings.
 - § The departmental action plan was either inadequate or not properly implemented.
 - § The accounting officer did not assess, monitor and mitigate the potential for misstatement due to fraud in the department.
- Information and communication
 - § Financial information relating to the disclosure notes was not maintained on appropriate accounting systems or on a regular basis. The financial reporting systems used by government do not support accrual accounting and the department thus has to maintain these accounting records by alternative means. Most of the information supporting disclosure notes is therefore not system generated and is only prepared at year-end, which impacts on the reliability of the financial information.

Department of Social Development

Area of concern

Movable capital assets

Root causes of qualification

- Staff did not have a clear understanding of the accounting framework for assets.
- Insufficient control activities, monitoring and supervision
 - § The chief financial officer did not sufficiently monitor the recording and reconciliation of asset records.

Department of Sport, Arts and Culture

Area of concern

Movable capital assets

Root causes of qualification

- Insufficient control activities, monitoring and supervision
 - § The chief financial officer did not sufficiently monitor the recording and reconciliation of asset records.

Recommended remedial action

Overall, the following remedial action is recommended to address the root causes of qualifications:

- The executive leadership should stabilise the positions of accounting officer and chief financial officer in the province.
- It is imperative that the leadership of the province, including the executive, oversight committees, management and the provincial treasury, should collaborate to improve the financial management and accountability in these provincial departments and focus on the implementation of department-specific action plans. These action plans should include plans to fill vacancies and monitor non-compliance with laws and regulations.



- Accounting officers need to develop and implement strategies to retain trained financial staff and to address developmental needs of existing financial staff.
- The leadership of the departments and of the province should be assisted by internal audit and the audit committees to monitor the implementation of action plans and the maintenance of sound internal controls and financial management practices.

5.3 Provincial public entities

5.3.1 Balance sheet and income statement areas qualified: provincial public entities

As reported in paragraph 3.4 of this report, 100% of the provincial public entities that are reported on achieved financially unqualified audit opinions.

5.4 Provincial other entities

5.4.1 Balance sheet and income statement areas qualified: provincial other entities

As reported in paragraph 3.5 of this report, 100% of the provincial other entities that are reported on received financially unqualified audit opinions.

SECTION 6: WARNING SIGNALS REQUIRING ATTENTION

Emphasis of matters

Regularity audits emphasise matters that do not directly impact on the audit opinion, but are nevertheless important for the reader of financial statements to take note of. These matters are presented in this report, firstly, for the provincial legislature, secondly, for provincial departments and thirdly, for provincial entities under the following headings, where applicable:

- Financial sustainability
- Material losses/impairments
- Unauthorised expenditure
- Fruitless and wasteful expenditure
- Irregular expenditure
- Material underspending of budget

Other matters

Regularity audits further disclose other matters that do not directly impact on the audit opinion. These matters are presented in this report, firstly, for the provincial legislature and provincial departments, secondly, for provincial public entities and thirdly, for provincial other entities under the following headings, where applicable:

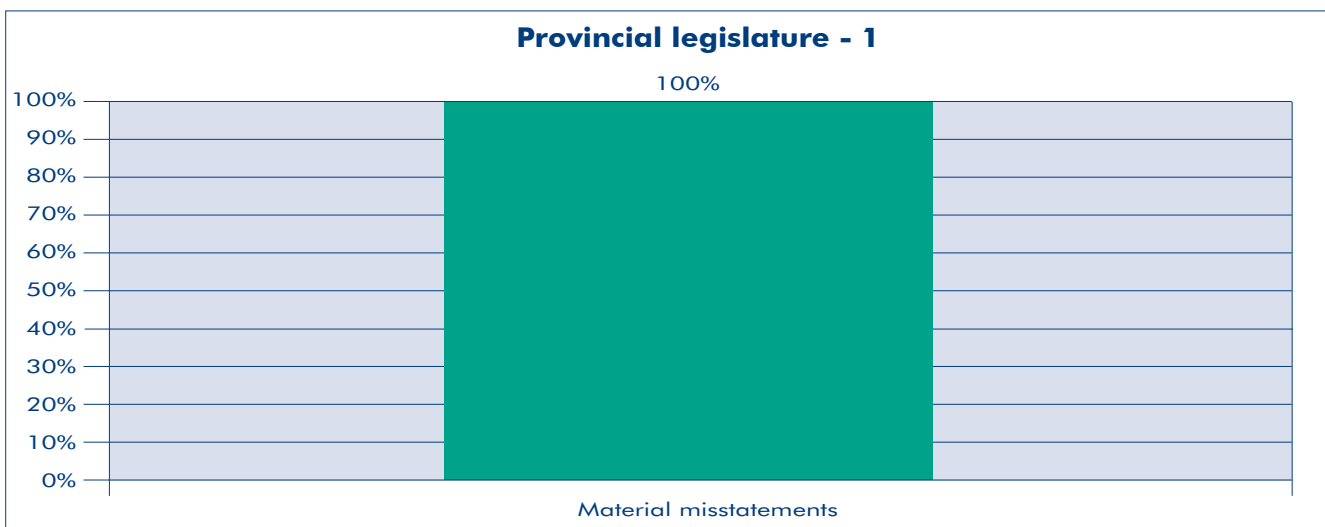
- Non-compliance with applicable legislation
- Misstatements in financial statements corrected as a result of the audit

6.1 Provincial legislature

6.1.1 Other matters: provincial legislature

The incidence of some of the other matters disclosed by regularity audits is depicted in figure 2(a) below. Where these and other matters were prevalent at the legislature, details of the matters are provided in the paragraphs that follow.

Figure 2(a): Incidence of other matters: provincial legislature



6.1.1.1 Misstatements in financial statements corrected as a result of the audit

Material corrections were required to be made to the financial statements submitted for audit purposes by the legislature. This was due to errors, omissions and inconsistencies that were identified by the auditors and that would have resulted in qualifications had the matters not been corrected. The errors, omissions and inconsistencies related to disclosure of lease commitments and accruals in the financial statements and could have been detected by the legislature had the internal controls pertaining to financial reporting processes been effective and the financial reporting activities and deliverables been supervised and reviewed diligently. The misstatement in the financial statements is further attributed to the lack of appropriate systems to identify, record and disclose transactions relevant to the disclosure notes in a format and time frame that supported reliable financial reporting and to the fact that management accounts and in-year financial statements were not prepared.

While the legislature faced a challenge in terms of the quality of the financial statements, the next few years will pose even greater challenges given the ongoing transition to accrual accounting. In order to eliminate the prevalence of material misstatements in financial statements that have to be corrected during the audit period, the legislature needs to:

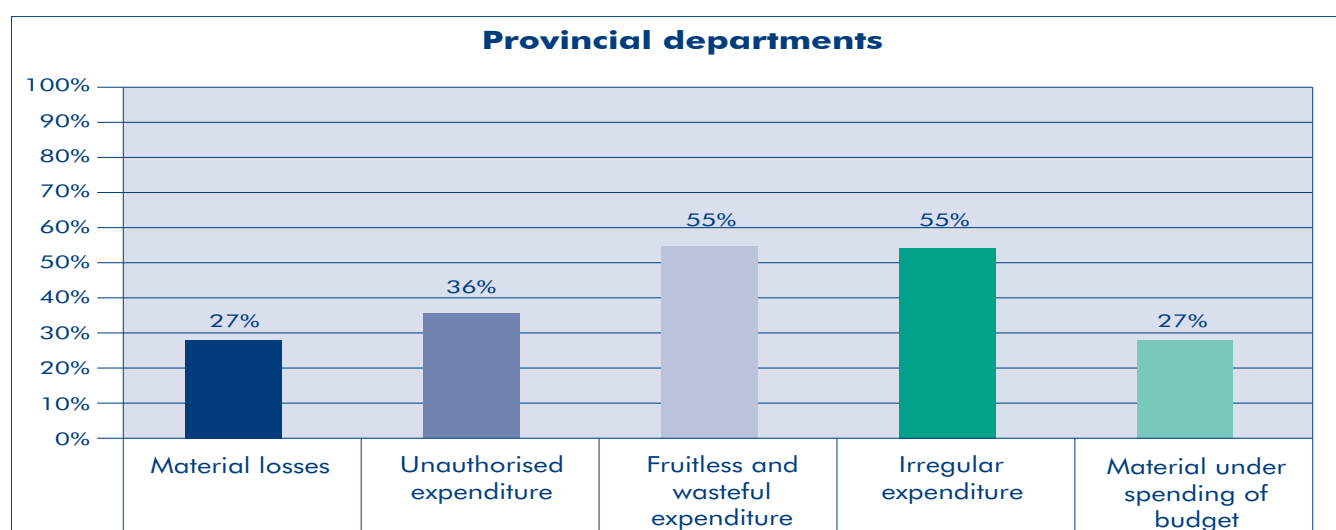
- re-emphasise the role of the chief financial officer in the preparation of regular management accounts, particularly relating to issues of disclosure associated with the ongoing transition to accrual accounting
- subject the financial statements to a quality review before they are submitted for auditing in order to resolve contentious accounting issues at the earliest opportunity, while internal audit and audit committees 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.

6.2 Provincial departments

6.2.1 Emphasis of matters: provincial departments

The incidence of some of the financial matters disclosed by regularity audits is depicted in figure 4(a) below. Details of these and other matters are provided in the paragraphs that follow.

Figure 3(a): Incidence of emphasis of matters: provincial departments



6.2.1.1 Financial sustainability

Concerns regarding financial sustainability were included in the other matters reported at two provincial departments, namely the Departments of Health and Public Works and Roads. The said departments were both qualified in the current and previous financial year.

Ninety-five per cent (2008: 80%) of the accruals for the Department of Health at year-end had been outstanding for longer than 30 days. Had the department been able to settle these accounts in accordance with the Treasury Regulations, this would have resulted in additional unauthorised expenditure of R272 373 000 (2008: R140 444 000). The significant increase in the accruals can be attributed to the cash flow constraints faced by the department as a result of the underfunding of the vote. These accruals will have a follow-on effect on the budget spending and consequently service delivery of the department in respect of the 2009-10 financial year.

Although the financial statements of the Department of Public Works and Roads reflect that the budget was materially underspent, it should be noted that the department faced significant cash flow constraints during the year under review. The cash flow constraints were mainly attributable to the funding of prior years' unauthorised expenditure approved without funding and the delay in receipt of claims from other departments in the Free State Provincial Government. It is evident from the reported performance information that this impacted negatively on service delivery in the department.

Furthermore, 42% of the accruals of the Department of Public Works and Roads at year-end had been outstanding for longer than 30 days. An evaluation of the cash flow position of the department confirmed that amounts payable exceeded amounts receivable by approximately R310 500 000 at year-end. The deficit constitutes 44% of the 2009-10 budget of the department, amounting to R709 076 000, from which it will be financed. It is anticipated that the department will continue to face significant challenges regarding service delivery in the coming financial year.

6.2.1.2 Material losses/impairments

Receivables for departmental revenue as disclosed in the financial statements of all provincial departments as at 31 March 2009 amounted to R235 130 000. In addition, although the Department of Community Safety and Transport originally disclosed receivables for vehicle licensing as per e-NaTIS totalling R103 579 000 at year-end, management of the department was unable to provide sufficient appropriate audit evidence to confirm that the receivable was fairly stated and subsequently removed the disclosure from the financial statements. The total estimated amount due to the Free State Provincial Government relating to departmental revenue thus amounted to R338 709 000. Material losses/impairments incurred by departments related to receivables for departmental revenue and the amounts are set out in the table below.



Table 4(a): Material losses/impairments: provincial departments

Department	Receivables for departmental revenue 2008-09	Material loss/impairment 2008-09	Percentage of receivable written off/impaired
Agriculture	R932 000	R0	0%
Community Safety and Transport	R103 579 000	R77 952 000	75%
Economic Development, Tourism and Environmental Affairs	R16 274 000	R0	0%
Free State Provincial Treasury	R33 980 000	R10 000	0%
Health	R165 343 000	R120 109 000	73%
Premier	R103 000	R0	0%
Public Works and Roads	R17 322 000	R0	0%
Sport, Arts and Culture	R1 176 000	R0	0%
Total	R338 709 000	R198 071 000	58%

At year-end an amount of R120 119 000 (51%) had been written off, which related mainly to receivables for private patient fees owed to the Department of Health. Although there were certain identified deficiencies regarding the administration of the private patient debts, the receivables were significantly impaired, primarily due to the inability of the larger population in the province that are reliant on government-funded health care to pay for the services rendered.

Furthermore, R77 952 000 (75%) of the debt relating to vehicle licensing had been outstanding for more than 12 months and the recoverability of these amounts was doubtful.

6.2.1.3 Unauthorised expenditure

Four provincial departments (36%), which received both qualified and unqualified audit opinions, incurred unauthorised expenditure during the year under review (2008: 50%). Total unauthorised expenditure incurred by departments in the Free State Province for the year ended 31 March 2009 amounted to R345 027 000 (2008: R269 061 000) and was disclosed in the financial statements in accordance with section 40(3)(b) of the PFMA. The departments and the amounts involved are set out in the table below.

Table 4(b): Unauthorised expenditure: provincial departments

Department	Accruals older than 30 days	Surplus voted funds	Additional unauthorised expenditure
Education	R127 283 000	R8 130 000	R119 153 000
Health	R273 373 000	R0	R273 373 000
Sport, Arts and Culture	R20 104 000	R4 944 000	R15 160 000
Total	R420 760 000	R13 074 000	R407 686 000



6.2.1.4 Fruitless and wasteful expenditure

Six provincial departments (55%), which received both qualified and unqualified audit opinions, incurred fruitless and wasteful expenditure during the year under review (2008: 42%). Total fruitless and wasteful expenditure incurred by departments in the Free State Province for the year ended 31 March 2009 amounted to R10 621 000 (2008: R11 107 000) and was disclosed in the financial statements in accordance with section 40(3)(b) of the PFMA. The departments and the amounts involved are set out in the table below.

Table 4(d): Fruitless and wasteful expenditure: provincial departments

Department	Fruitless and wasteful expenditure 2008-09	Fruitless and wasteful expenditure 2007-08
Agriculture	R388 000	R701 000
Economic Development, Tourism and Environmental Affairs	R1 214 000	R64 000
Education	R4 080 000	R0
Free State Provincial Treasury	R0	R1 000
Health	R525 000	R4 930 000
Public Works and Roads	R2 962 000	R5 411 000
Sport, Arts and Culture	R1 452 000	R0
Total	R10 621 000	R11 107 000

The said expenditure was made in vain and would have been avoided had reasonable care been exercised by the relevant department. It is evident that deficiencies exist in the design and application of control activities within these departments and that monitoring and supervision by the administrative leadership are not adequate.

Fruitless and wasteful expenditure amounting to R1 400 000 (2008: R1 096 000) was condoned during the year under review.

6.2.1.5 Irregular expenditure

All provincial departments, which received both qualified and financially unqualified audit opinions, incurred irregular expenditure during the year under review (2008: 75%). Total reported irregular expenditure incurred by departments in the Free State Province for the year ended 31 March 2009 amounted to R630 431 000 (2008: R207 428 000). This amount represents 4% of the total adjusted appropriation of R16 178 339 000 for the province for the 2008-09 financial year. Although the irregular expenditure identified by management and throughout the audits was disclosed in the financial statements in accordance with section 40(3)(b) of the PFMA, as reported in paragraph 5.2.2 of this report, five of the provincial departments were qualified regarding the completeness of the disclosed irregular expenditure owing to the lack of sufficient control measures to identify irregular expenditure.



The table below depicts the irregular expenditure incurred by all provincial departments, including those that were both qualified and unqualified:

Table 4(e): Irregular expenditure: provincial departments

Department	Irregular expenditure 2008-09	Irregular expenditure 2007-08
Financially unqualified (with other matters)		
Economic Development, Tourism and Environmental Affairs	R9 475 000	R8 788 000
Education	R138 797 000	R55 000
Free State Provincial Treasury	R301 000	R0
Premier	R887 000	R1 969 000
Social Development	R207 662 000	R49 385 000
Sport, Arts and Culture	R1 539 000	R22 892 000
Qualified		
Agriculture	R14 908 000	R3 895 000
Community Safety and Transport	R8 148 000	R0
Health	R157 082 000	R116 804 000
Local Government and Housing	R4 577 000	R2 174 000
Public Works and Roads	R87 055 000	R1 466 000
Total	R630 431 000	R207 428 000

Four of the 11 provincial departments accounted for 94% of the total reported irregular expenditure incurred in the 2008-09 financial year, namely the Departments of Education (22%), Health (25%), Public Works and Roads (14%) and Social Development (33%).

Four categories of irregular expenditure, as detailed in the table below, accounted for 96% of the reported irregular expenditure incurred by all provincial departments in the 2008-09 financial year.

Table 4(f): Categories of irregular expenditure: provincial departments

Reason for irregular expenditure	Irregular expenditure 2008-09	Percentage 2008-09
Non-compliance with supply chain management procedures	R266 593 000	42%
Overspending on compensation of employees	R121 681 000	19%
Non-compliance relating to transfer payments	R207 243 000	33%
Other non-compliance	R34 914 000	6%
Total	R630 431 000	100%



The level of non-compliance with the supply chain management prescripts and resultant irregular expenditure is indicative of potential fraud risks in the procurement processes of the affected departments.

The Department of Public Works and Roads acts as implementing agent with regard to infrastructure projects for the Free State Provincial Government. During the year under review, the department awarded certain tenders contrary to the prescripts of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA). The objective of the PPPFA and its regulations to empower historically disadvantaged individuals through preferential procurement may thus not have been achieved. This deviation in compliance resulted in the incurrance of irregular expenditure by the Department of Agriculture. Actions to address the non-compliance with the PPPFA must be prioritised, since such non-compliance will continue to result in irregular expenditure in several provincial departments in future.

Irregular expenditure amounting to R206 002 000 (2008: R12 064 000) was condoned during the year under review.

At a very high level, irregular expenditure can be attributed to deficiencies in all five components of an effective system of internal control. The deficiencies identified in each component of internal control are set out in paragraph 5.2.3 of this report.

The executive and administrative leadership of all departments should create a culture of compliance with all applicable laws and regulations to ensure that irregular expenditure is eliminated. The correct tone of leadership, including that displayed by the executive, oversight committees of the legislature and those charged with administration, together with the support of the audit committee and the internal audit units, is required to develop this culture.

6.2.1.6 Material underspending of the budget

As disclosed in the appropriation statements and notes thereto, the budgets of three provincial departments that were both qualified and unqualified, namely the Departments of Community Safety and Transport, Education and Public Works and Roads, were materially underspent for the 2008-09 financial year. The total underspending amounted to R343 368 889, which represents 2% of the total adjusted appropriation of R16 178 339 000 for the province for the 2008-09 financial year. The programmes that were underspent are reflected in the table below.

Table 4(g): Budget programmes underspent: provincial departments

Department	Programme underspent	Amount of underspending	Percentage of allocation for programme
Community Safety and Transport	Programme 5.2: Public Transport	R12 212 000	77%
Education	Programme 1: Administration	R72 613 566	15%
	Programme 2: Public Ordinary School Education (capital payments)	R11 189 000	54%



Department	Programme underspent	Amount of underspending	Percentage of allocation for programme
	Programme 3: Independent School Subsidies	R6 467 391	18%
	Programme 4: Public Special School Education	R4 501 196	2%
	Programme 5: Further Education and Training	R7 775 884	4%
	Programme 6: Adult Basic Education and Training	R5 483 517	6%
	Programme 7: Early Childhood Development	R9 109 805	13%
	Programme 8: Auxiliary and Associated Services	R18 821 988	11%
	Programme 8: Earmarked & Specific Funds	R84 360 542	17%
Public Works and Roads	Programme 2: Public Works	R48 482 000	9%
	Programme 3: Roads	R20 170 000	2%
Total		R301 186 889	

In accordance with an executive council resolution, programme 5: Public Transport and programme 6: Traffic Management were transferred to the Department of Community Safety and Transport from the Department of Public Works and Roads with effect from 1 October 2008. Management indicated that the timing of the transfer of functions delayed the implementation of most of the projects funded by the infrastructure grants and this caused an underspending of the department's overall budget. As a consequence, the department did not achieve its objectives with regard to the establishment of nodal integration along defined corridors and the establishment of infrastructure to support public transport.

The underspending in the Department of Education accounted for 73% of the total underspending in the province and was mainly attributable to measures implemented by the department to compensate for the overspending on compensation of employees under programme 2: Public Ordinary School Education. The underspending resulted in, inter alia, inadequate service delivery regarding learner transport and learner nutrition due to non-payment of suppliers.

The underspending in the Department of Public Works and Roads accounted for 23% of the total underspending in the province and was mainly due to underspending on the conditional grant for the

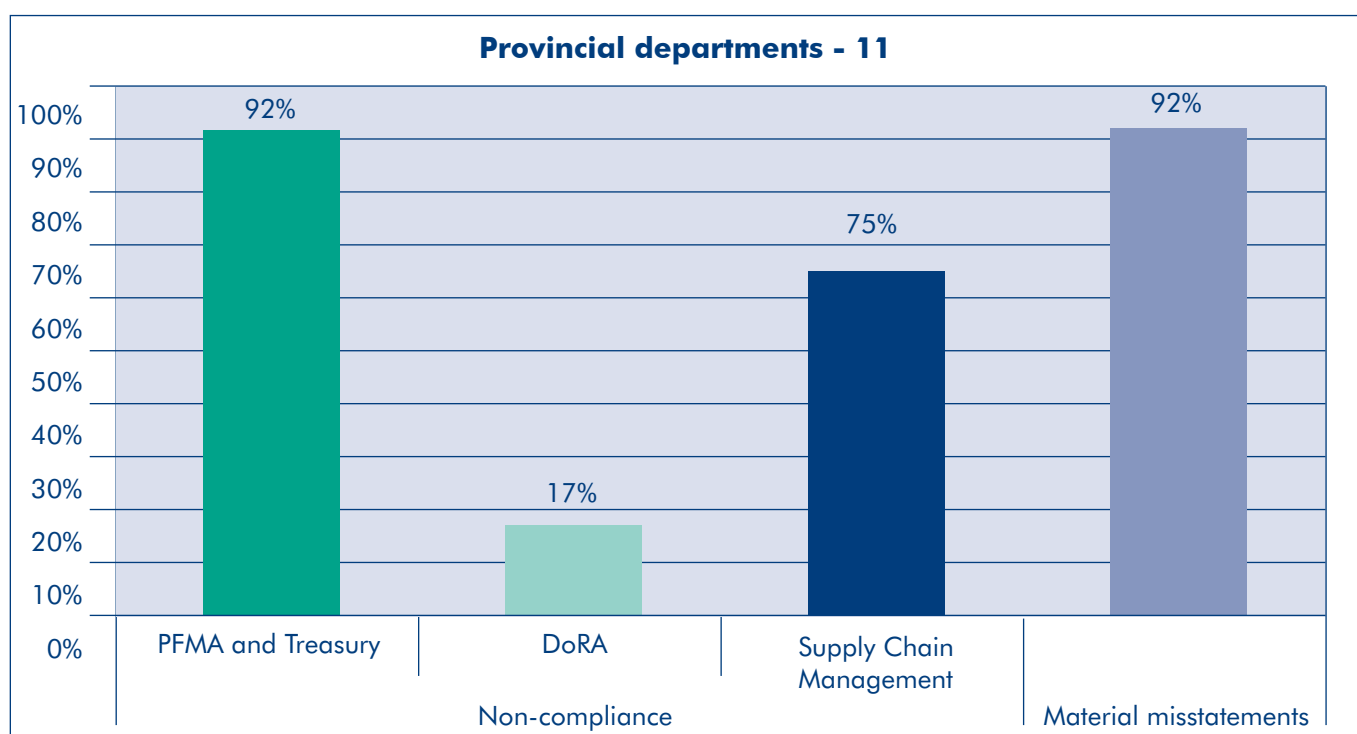
devolution of property rates and taxes and cash flow constraints. Consequently, the department did not achieve its service delivery targets in respect of programme 3: Roads.

Adequate monitoring and supervision by the administrative leadership, audit committees and oversight committees, as well as the application of sound budgeting principles are essential to avoid such material underspending and to ensure the achievement of service delivery objectives in the province.

6.2.2 Other matters: provincial departments

The incidence of some of the other matters disclosed by regularity audits is depicted in figure 3(b) below. Where these and other matters were prevalent in at least 50% of the departments, details of the matters are provided in the paragraphs that follow.

Figure 3(b): Incidence of other matters: provincial departments



6.2.2.1 Non-compliance with applicable legislation

All provincial departments reported material non-compliance with applicable legislation due to a lack of adequate supervision and monitoring. All departments were found not to have complied with certain provisions of the PFMA and Treasury Regulations, while nine departments (82%) did not comply with Supply Chain Management Regulations. The main areas of non-compliance with the PFMA related to section 38(1)(d) with regard to asset management and section 38(1)(f), read with Treasury Regulation 8.2.3, regarding the failure to settle all amounts due to creditors within 30 days from date of receipt of invoice. Departments also did not comply with section 38(1)(c)(ii) of the act, read with Treasury Regulation 9.1.1, regarding the prevention and detection of unauthorised, irregular and fruitless and wasteful expenditure. Two departments, namely the Departments of Health and Public Works and Roads, reported non-compliance with the Division of Revenue Act, 2008 (Act No. 2 of 2008). The non-compliance in this regard related mainly to conditional grant funding expended for purposes other than stipulated and/or



prior to approval of business cases and the lack of measurable outputs in business plans and/or the lack of reporting on measurable objectives in quarterly performance reports.

Identified root causes of the significant prevalence of non-compliance with laws and regulations included the following:

- Disregard of legislation by officials and insufficient supervision and monitoring by accounting officers, chief financial officers and senior managers
- Leadership and management not setting the tone at the top
- Inadequate support by the audit committee and internal audit to establish a strong control environment and ensure compliance

6.2.2.2 Misstatements in financial statements corrected as a result of the audit

Ten out of 11 departments (91%), which received both qualified and unqualified audit opinions, required material corrections to be made to the financial statements submitted for audit purposes, compared to five departments (42%) in 2007-08. This was due to errors, omissions and inconsistencies that were identified by the auditors and that would have resulted in qualifications had the matters not been corrected.

Approximately 38% of the material misstatements corrected related to the balance sheet and income statement, and 62% to the disclosure notes to the financial statements. The misstatements could have been detected by the departments had the internal controls pertaining to financial reporting processes been effective and the financial reporting activities and deliverables been supervised and reviewed diligently.

Deficiencies in the financial reporting processes which resulted in material corrections to the financial statements can primarily be attributed to the following:

- Attitude of management: financial statements were submitted on time, but without adequately verifying the integrity of financial information prior to submission, thus relying on the auditors to identify errors.
- Insufficient understanding of the prescribed accounting framework and lack of supervision and review regarding the preparation of the financial statements.
- Lack of appropriate systems to generate financial information relating to disclosure notes and the fact that such information was not produced on a regular basis throughout the financial year, but only at year-end.
- Management accounts and in-year financial statements were not compiled at regular intervals throughout the financial year.
- Internal audit units did not review financial statements and audit committees were either not appointed or did not consider the financial statements prior to submission.

While the departments face a serious challenge in terms of the quality of financial statements, the next few years will pose even greater challenges given the ongoing transition to accrual accounting. In order to address the prevalence of material misstatements in financial statements that had 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 relating to issues of disclosure associated with the ongoing transition to accrual accounting
- subject the financial statements to a quality review before they are submitted for auditing in order to resolve contentious accounting issues at the earliest opportunity, while internal audit and audit committees play a crucial role in the review process of the financial statements



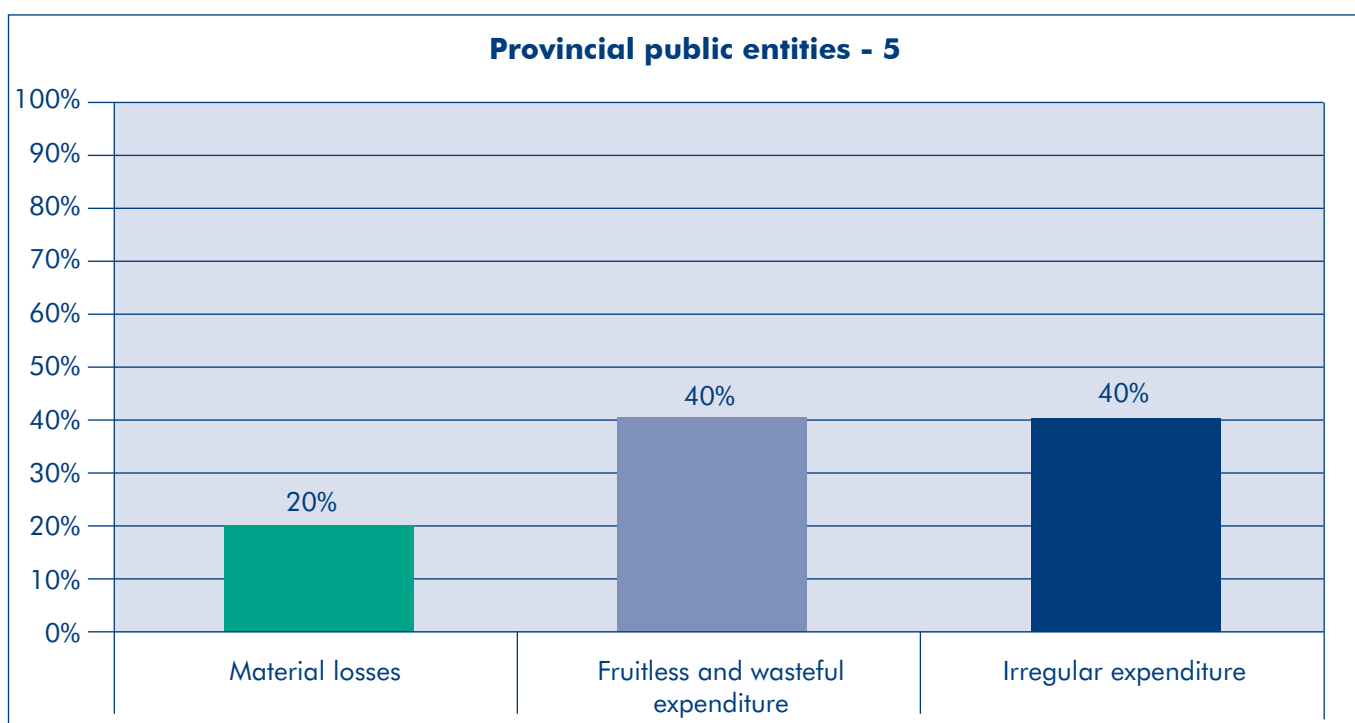
- work closely with the National Treasury and the provincial treasury to improve financial management and controls in order to produce quality financial statements that comply with the relevant standards.

6.3 Provincial public entities

6.3.1 Emphasis of matters: provincial public entities

The incidence of some of the financial matters disclosed by regularity audits is depicted in figure 4(a) below. Details of these and other matters are provided in the paragraphs that follow.

Figure 4(a): Incidence of emphasis of matters: provincial public entities



6.3.1.1 Financial sustainability

Concerns regarding the financial sustainability of public entities were reported at two public entities (40%), namely the Free State Gambling and Racing Board and the Free State Youth Commission, which were both financially unqualified.

The Free State Gambling and Racing Board is economically dependent on the Department of Economic Development, Tourism and Environmental Affairs for funding. Based on an assessment of the entity's current operating results and financial position, a risk exists that the entity may not be in a position to meet all its obligations in the normal course of business in the foreseeable future. Furthermore, litigation was filed against the Free State Gambling and Racing Board relating to the awarding of route operator licences. Since this litigation had not been finalised at the reporting date and the ultimate outcome of the matter could not be determined at year-end, no provision for any liability that might result was made in the financial statements.



The Free State Youth Commission Act was repealed on 29 July 2009 and the entity will be merged with the National Youth Development Agency which has been established in terms of the National Youth Development Agency Act, 2008 (Act No. 54 of 2008). The commission terminated an agreement with the external service provider to create and facilitate a training programme in the Free State for youth development. A significant uncertainty exists as to whether litigation will be instituted against the Free State Youth Commission as a result. The contract value amounted to R37 000 000.

6.3.1.2 Material losses/impairments

As indicated in the table below, receivables as disclosed in the financial statements of three public entities as at 31 March 2009 amounted to R1 398 550. At year-end, an amount of R816 403 (59%) had been provided for potentially irrecoverable debts.

Table 4(h): Material losses/impairments: provincial public entities

Public entity	Receivables 2008-09	Material loss/impairment 2008-09	Percentage of receivables written off/impaired
Free State Gambling and Racing Board	R259 000	R170 000	66%
Free State Tourism Authority	R330 000	R131 000	40%
Phakisa Major Sport Events and Development Corporation	R809 550	R515 403	64%
Total	R1 398 550	R816 403	59%

6.3.1.3 Fruitless and wasteful expenditure incurred

Three public entities (60%), all of which registered financially unqualified audit opinions, incurred fruitless and wasteful expenditure during the year under review (2008: 60%). Total fruitless and wasteful expenditure incurred by public entities in the Free State Province for the year ended 31 March 2009 amounted to R57 613 (2008: R147 724) and was disclosed in the financial statements in accordance with section 55(2)(b) of the PFMA. The public entities and the amounts involved are set out in the table below.

Table 4(i): Fruitless and wasteful expenditure: provincial public entities

Public entity	Fruitless and wasteful expenditure 2008-09	Fruitless and wasteful expenditure 2007-08
Free State Tourism Authority	R26 000	R103 000
Free State Youth Commission	R31 385	R31 026
Phakisa Major Sport Events and Development Corporation	R228	R13 698
Total	R57 613	R147 724

The said expenditure was incurred in vain and would have been avoided had reasonable care been exercised by the relevant public entity. Penalties and interest accounted for R56 385 (98%) of the fruitless and wasteful expenditure incurred. No fruitless and wasteful expenditure was condoned during either the current or the previous financial year. It is evident that deficiencies existed in the design and application of control activities within these public entities and that monitoring and supervision by the administrative leadership were not adequate.

6.3.1.4 Irregular expenditure

Two public entities (40%), which received unqualified audit opinions, incurred irregular expenditure during the year under review (2008: 20%). Total reported irregular expenditure by public entities in the Free State Province for the year ended 31 March 2009 amounted to R8 580 877 (2008: R522 357). The irregular expenditure was disclosed in the financial statements in accordance with section 55(2)(b) of the PFMA. The table below depicts the irregular expenditure incurred by public entities.

Table 4(j): Irregular expenditure: provincial public entities

Public entity	Irregular expenditure 2008-09	Irregular expenditure 2007-08
Free State Youth Commission	R303 570	R522 357
Phakisa Major Sport Events and Development Corporation	R8 277 307	R0
Total	R8 580 877	R522 357

Two categories of irregular expenditure, as detailed in the table below, accounted for 99% of the reported irregular expenditure incurred by all public entities in the 2008-09 financial year.

Table 4(k): Categories of irregular expenditure: provincial public entities

Reason for irregular expenditure	Irregular expenditure 2008-09	Percentage 2008-09
Expenditure not approved by properly delegated official	R8 155 085	95%
Non-compliance with supply chain management procedures	R122 222	4%
Finance leases	R303 570	1%
Total	R8 580 877	100%

None of the irregular expenditure incurred in 2008-09 has been condoned yet.

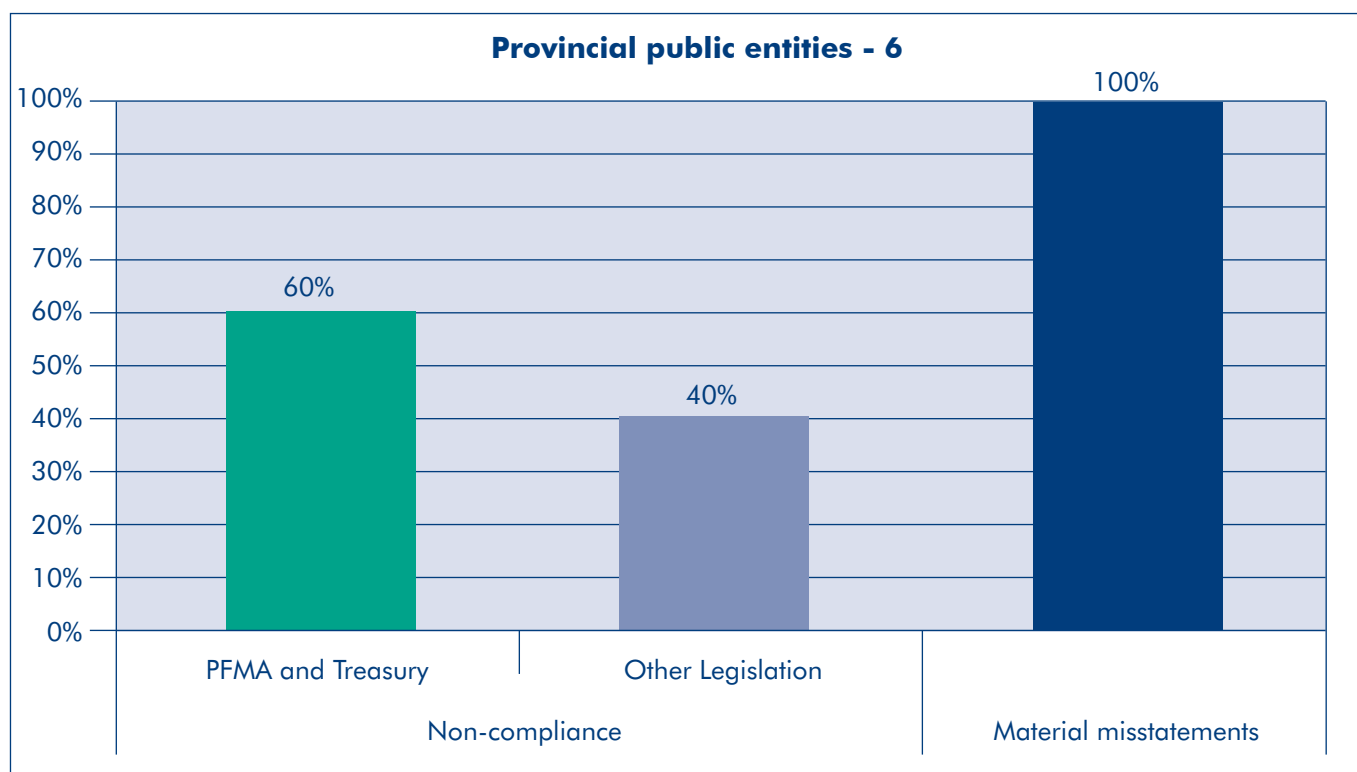
The executive leadership, accounting authorities and administrative leadership of all public entities should create a culture of compliance with all applicable laws and regulations to ensure that irregular expenditure is eliminated. The correct tone of leadership, including that displayed by the executive, oversight committees of the legislature, accounting authorities and those charged with administration, together with the support of the audit committee and the internal audit units, is required to develop this culture.



6.3.2 Other matters: provincial public entities

The incidence of some of the other (non-financial) matters disclosed by regularity audits is depicted in figure 4(b) below. Where these and other matters were prevalent in at least 50% of the public entities reported on, details of the matters are provided in the paragraphs that follow.

Figure 4(b): Incidence of other matters: provincial public entities



6.3.2.1 Non-compliance with applicable legislation

There has been no improvement regarding compliance with laws and regulations not affecting the financial statements, with all five public entities being reported on having findings of material non-compliance with applicable legislation in both the current and previous financial years. The non-compliance is mainly attributed to a lack of adequate supervision and monitoring. The most significant portion (four provincial public entities or 80%) related to non-compliance with the PFMA and Treasury Regulations. Two public entities, namely the Free State Gambling and Racing Board and Phakisa Major Sport Events and Development Corporation, did not comply with prescripts of enabling legislation. The non-compliance with the Free State Gambling and Racing Board Act, 1996 (Act No. 6 of 1996) and the Phakisa Act, 1997 (Act No. 4 of 1997) pertained to the composition of the board and the tenure of board members.

6.3.2.2 Misstatements in financial statements corrected as a result of the audit

All the public entities being reported on had to make material corrections to the financial statements submitted for audit purposes, compared to four public entities (80%) in 2007-08. This was due to errors, omissions and inconsistencies that were identified by the auditors and that would have resulted in qualified audit opinions had the matters not been corrected, and despite the fact that four of the public entities

engaged the services of consultants in the preparation of their financial statements. The errors, omissions and inconsistencies could have been detected by the entities had the internal controls pertaining to financial reporting processes been effective and the financial reporting activities and deliverables been supervised and reviewed diligently.

The fact that approximately 52% of the material misstatements corrected related to the balance sheet and income statement, and 48% to the disclosure notes to the financial statements, is indicative of the increasingly complex accounting environment in which public entities operate, which necessitates 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 prescribed accounting framework.

In order to sustain the positive audit outcomes achieved by the provincial public entities included in this report, and given the degree to which the public entities utilised consultants in the preparation of financial statements in 2008-09, it is imperative that chief financial officers prepare in-year financial statements and management accounts on a monthly basis to ensure that risks related to financial reporting are identified at the earliest opportunity and are appropriately managed on an ongoing basis. Such management accounts should be properly considered and interrogated by the accounting officers, internal audit, audit committees and accounting authorities of the entities on a monthly basis to identify any necessary remedial action. The accounting authorities need to prioritise the stabilisation of administrative leadership in these entities and accounting officers need to develop and implement strategies to retain trained financial staff and address developmental needs of existing financial staff.

Deficiencies in the financial reporting processes which resulted in material corrections to the financial statements can primarily be attributed to the following:

- Attitude of management: financial statements were submitted on time, but without adequately verifying the integrity of financial information prior to submission, thus relying on the auditors to identify errors. Insufficient understanding or misinterpretation of the prescribed accounting framework and lack of supervision and review regarding the preparation of the financial statements.
- Management accounts and in-year financial statements were not compiled on a monthly basis.
- Internal audit units did not review financial statements and audit committees were either not appointed or did not consider the financial statements prior to submission.

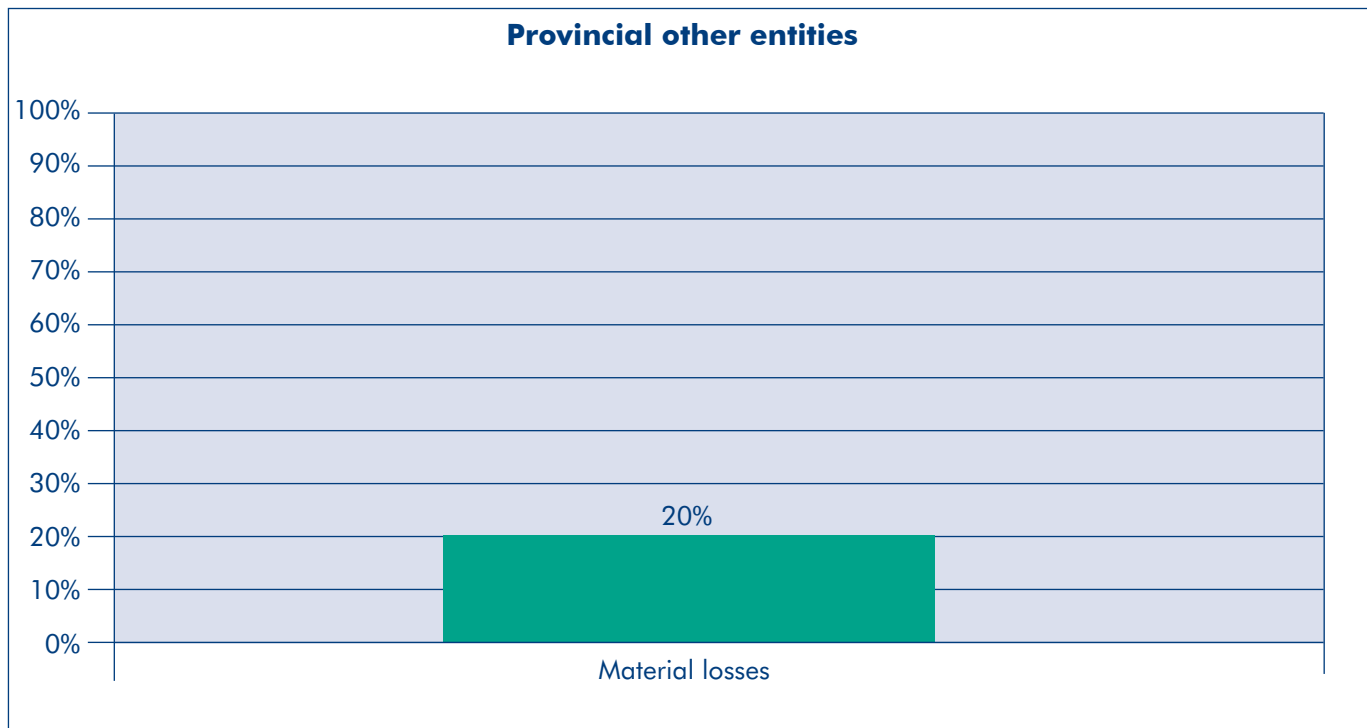
6.4 Provincial other entities

6.4.1 Emphasis of matters: provincial other entities

The incidence of some of the financial matters disclosed by regularity audits is depicted in figure 5(a) below. Details of these and other matters are provided in the paragraphs that follow.



Figure 5(a): Incidence of emphasis of matters: provincial other entities



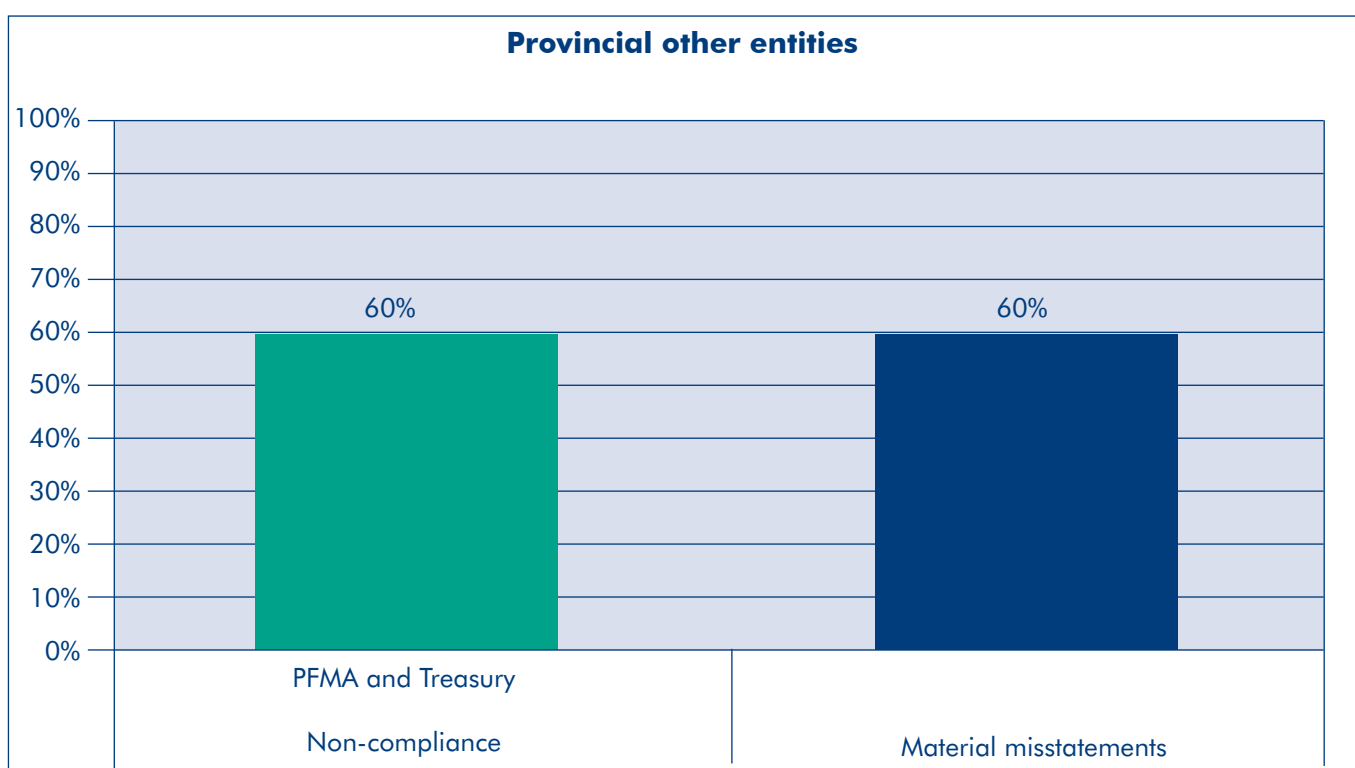
6.4.1.1 Material losses/impairments

The financial statements of the Free State Fleet Management Trading Entity reflected property, plant and equipment totalling R243 137 000 and receivables totalling R80 008 000 as at 31 March 2009. At year-end the trading entity reflected an impairment loss of R23 963 000 related to the vehicle fleet and trade receivables of R8 947 000 were impaired and fully provided for.

6.4.2 Other matters: provincial other entities

The incidence of some of the other matters disclosed by regularity audits is depicted in figure 5(b) below. Where these and other matters were prevalent in at least 50% of the other entities reported on, details of the matters are provided in the paragraphs that follow.

Figure 5(b): Incidence of other matters: provincial other entities



6.4.2.1 Non-compliance with applicable legislation

Material non-compliance with applicable legislation not affecting the financial statements was reported for three provincial other entities (60%), namely the Central Medical Trading Account, Free State Housing Fund and Small Holdings Trust Fund and related mainly to non-compliance with the prescripts of the PFMA and Treasury Regulations. The non-compliance is mainly attributed to a lack of adequate supervision and monitoring.

6.4.2.2 Misstatements in financial statements corrected as a result of the audit

Three provincial other entities (30%), namely the Central Medical Trading Account, Free State Housing Fund and Free State Liquor Authority, had to make material corrections to the financial statements submitted for audit purposes. This was due to errors, omissions and inconsistencies that were identified by the auditors and that would have resulted in qualified audit opinions had the matters not been corrected. The errors, omissions and inconsistencies could have been detected by the entities had the internal controls pertaining to financial reporting processes been effective and the financial reporting activities and deliverables been supervised and reviewed diligently.

The fact that approximately 55% of the material misstatements corrected related to the balance sheet and income statement, and 45% to the disclosure notes to the financial statements, is indicative of the increasingly complex accounting environment in which entities operate, which necessitates chief financial officers to work more closely with the provincial treasury in order to produce quality financial statements that comply with the prescribed accounting framework.

In order to sustain the positive audit outcomes achieved by the provincial other entities included in this report, it is imperative that chief financial officers prepare in-year financial statements and management



accounts on a monthly basis to ensure that risks related to financial reporting are identified at the earliest opportunity and are appropriately managed on an ongoing basis. Such management accounts should be properly considered and interrogated by the accounting officers, internal audit, audit committees and accounting authorities of the entities on a monthly basis to identify any necessary remedial action. Furthermore, strategies should be developed and implemented to retain skilled financial staff and address developmental needs of existing financial staff.

Deficiencies in the financial reporting processes which resulted in material corrections to the financial statements can primarily be attributed to the following:

- Attitude of management: financial statements were submitted on time without adequately verifying the integrity of financial information prior to submission, thus relying on the auditors to identify errors.
- Insufficient understanding or misinterpretation of the prescribed accounting framework and lack of supervision and review regarding the preparation of the financial statements.
- Management accounts and in-year financial statements were not compiled on a monthly basis.
- Internal audit units did not review financial statements and audit committees were either not appointed or did not consider the financial statements prior to submission.

SECTION 7: RESULTS OF AUDITS OF INFORMATION SYSTEMS

7.1 Information systems

Information systems have become an integral part of organisations. Information systems enable organisations to perform financial management processes, automate business processes, improve efficiencies and deliver services. Information systems are therefore regarded as a strategic asset in the achievement of the organisation's goals and objectives.

7.2 Information system controls

Information system controls are a part of the internal control environment. Weak information system controls may contribute to financial management weaknesses, inaccurate accounting and performance information, poor performance of the entity, fruitless and wasteful expenditure, and non-compliance with laws and regulations. Without effective information system controls, other internal controls may also be rendered ineffective by override, circumvention or modification.

7.3 Information system audits

The objective of information system audits is to evaluate the effectiveness of the information system controls of an organisation. During the year under review, the following types of information system audits were performed throughout the province:

- IT general controls reviews
- User account management reviews

IT general controls

IT general controls are those controls relating to the information technology infrastructure and are embedded in information system management processes. In the year under review, an IT general control review was performed at one public entity. Audit findings related to the following focus areas were identified:

- IT governance
- Business continuity
- Change control
- Physical and environmental controls

User account management

User account management is the systematic process of managing the access of users to the network, systems and applications, and includes the establishment, review, disabling and removal of user accounts. During the year under review, user account management reviews were performed at the provincial legislature, 11 provincial departments and three entities, including the Free State Development Corporation. Significant findings were identified at all provincial departments as well as the provincial legislature. The following table indicates the common key findings identified at the provincial departments, provincial legislature and entities audited:



Table 5: Significant findings from user account management reviews

Significant findings	Number of audited entities	Percentage of audited entities with finding
Lack of user account management procedures	15	80%
Incomplete user account management procedures	15	20%
Access request forms not completed or inconsistently completed	15	73%
Users' access not periodically reviewed to ensure that such access remained commensurate with their job responsibilities	15	73%
Activities of system administrators/controllers were not reviewed by an independent person	15	87%
Inactive or unused user IDs were not timeously removed from the system or deactivated	15	80%
Password reset forms not completed/not consistently completed	15	53%

SECTION 8: SIGNIFICANT FINDINGS FROM AUDITS OF HUMAN RESOURCE MANAGEMENT AND COMPENSATION OF EMPLOYEES

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

The Free State Legislature was not included in the audit of human resource management and compensation of employees since the legislature is not subject to the provisions of the said laws and regulations. Consequently, only the results of 11 provincial departments have been included in the analysis of the findings that follows. Significant findings relating to compliance with prescripts that support effective human resource management were identified at all 11 provincial departments.

In addition to the findings from the audit, we also analysed the statistics and information published in the draft annual reports of the departments as required in terms of chapter 1, part III, J3 of the PSR. Draft annual reports were used to compile this information as the final annual reports were not yet available at the time of preparing this report.

The findings are presented under the following headings:

- 8.1 Human resource planning and work organisation
- 8.2 Management of vacancies
- 8.3 Appointment processes
- 8.4 Prolonged acting by officials in higher posts
- 8.5 Use of consultants
- 8.6 Suspensions
- 8.7 Leave administration
- 8.8 Budgetary control
- 8.9 Management of overtime
- 8.10 Payroll certification
- 8.11 Service terminations
- 8.12 Monitoring of sick leave
- 8.13 Overall conclusion

8.1 Human resource planning and work organisation

Human resource (HR) planning is required by the PSR, chapter 1, part III, D1 to ensure that a department obtains the quantity and quality of staff required to meet its strategic objectives. It is of concern that the following six provincial departments (55%) did not have an HR plan in place that had been approved by their MEC:

- Agriculture
- Economic Development, Tourism and Environmental Affairs
- Health
- Premier
- Social Development
- Sport, Arts and Culture



PSR, chapter 1, part III, B2 requires departments to determine an organisational structure based on the strategic plan of the department, but for the following three departments (27%) an approved structure was not in place:

- Community Safety and Transport
- Economic Development, Tourism and Environmental Affairs
- Health

Job descriptions that indicate the objectives and inherent requirements of the job should be established in accordance with PSR, chapter 1, part III, I1. At the following three departments (27%) such job descriptions were not in place for all the posts or groups of posts:

- Education
- Health
- Premier

8.2 Management of vacancies

Based on the draft annual reports, the average vacancy for all provincial departments was 28% at year-end, the lowest rate being at the Department of Community Safety and Transport at 0% and the highest at the Departments of Economic Development, Tourism and Environmental Affairs, and Local Government and Housing at 48%. Twenty-eight per cent of the positions for senior managers and highly skilled staff in the province were vacant.

In general, the vacancy rates improved from the previous year with deteriorations being noted at the following three departments (27%):

- Economic Development, Tourism and Environmental Affairs
- Education
- Sport, Arts and Culture

8.3 Appointment processes

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

A directive was issued by the MPSA with effect from 1 January 2008 that determined a process whereby criminal and financial/asset records should be checked and citizenship, financial status, qualifications and previous employment should be verified for all new appointments.

It is of concern that this process was not effectively implemented at the following four departments (36%):

- Economic Development, Tourism and Environmental Affairs
- Education
- Free State Provincial Treasury
- Public Works and Roads

Although required by PSR, chapter 1, part VII, B1(a), the following two departments (18%) did not ensure that upon appointment each employee was provided with a written contract of employment which included the terms and conditions of his/her service:



- Health
- Premier

8.4 Prolonged acting by officials in higher posts

Departments have the option to temporarily direct an employee to act in a higher vacant position for which the employee is then paid an acting allowance. PSR, chapter 1, part VII, B5.4, however, restricts the acting period to 12 months to ensure that permanent appointment of a suitably qualified and experienced person is not delayed.

Prolonged acting periods can be an indication of ineffective processes to appoint or recruit suitable permanent staff. Instances were found at the following four departments (36%) where employees received acting allowances for more than 12 months:

- Community Safety and Transport
- Education
- Public Works and Roads
- Sport, Arts and Culture

8.5 Use of consultants

Consultants can be engaged if the necessary skills and/or resources to perform a specific project are not available and the department cannot be reasonably expected either to train or to recruit people in the time available. Based on the draft annual reports, consultants were employed at 34% of the departments. The total number of consultants appointed using appropriated funds was nine, at a total contract value of R31 763 084.

Departments should assess whether the appointment of consultants is the most economical means of addressing departmental needs, also taking into account the need for continuity and sustainability of the function the consultant is engaged to perform. If the function is provided for on the establishment of the department, consultants should not be used; neither as a result of a lack of productivity or capacity of existing staff, nor as a result of ineffective processes to appoint or recruit suitable permanent staff.

The use of consultants by government departments was identified as a transversal performance audit area for the 2009-10 financial year.

8.6 Suspensions

Based on the draft annual reports, 21 employees had been suspended across six departments. The average number of days on suspension was 107, with all the employees being suspended for more than 30 days. The total cost of the suspensions was estimated to be R2 465 429.

Departments should ensure that disciplinary processes are concluded timeously, as prolonged suspension periods impact on service delivery and have cost implications.

8.7 Leave administration

Annual leave

PSR, chapter 1, part V, F(b) requires heads of departments to record all leave taken by an employee



accurately and in full. The following seven departments (64%) did not consistently comply with this regulation, resulting in the employees' leave credits being overstated:

- Education
- Free State Provincial Treasury
- Health
- Local Government and Housing
- Premier
- Social Development
- Sport, Arts and Culture

The risk of such overstatement is that employees might be granted leave or receive leave payouts to which they are not entitled. According to the draft annual reports of the departments, leave payouts were made to the amount of R26 326 755 during the year under review.

Capped leave

In July 2000 leave entitlement was changed from calendar days to working days. Employees retained the leave credits accrued prior to July 2000, provided the credits were audited by the department. This audit resulted in negative capped leave balances for a number of employees, as more leave had been taken than the employee was entitled to. In terms of the DPSA determination on leave, the leave should then have been deducted from the subsequent leave cycle. After a period of up to eight years the following four departments (36%) had not yet done so for all employees:

- Local Government and Housing
- Premier
- Social Development
- Sport, Arts and Culture

Family responsibility leave

Employees are granted family responsibility leave of up to five days in an annual leave cycle, unless special circumstances warrant further leave at the discretion of the head of the department. Instances of more than five days' family responsibility leave being granted without the necessary approval were found at the Department of Education.

Leave payouts

Leave is paid out to employees in special circumstances and at termination of their service. The calculation is done manually based on the formulas determined by the DPSA. At the following five departments (45%) instances were found where the calculations were incorrect:

- Economic Development, Tourism and Environmental Affairs
- Local Government and Housing
- Premier
- Social Development
- Sport, Arts and Culture

8.8 Budgetary control

Treasury Regulation 8.3.2 requires that all costs related to compensation of employees, including promotions and salary increases, should be met within the budgetary allocation of the institution. Any additional budget must be approved by the relevant treasury.

The following two departments (18%) overspent on their compensation budgets by the amounts indicated:

- Education – R335 695 000
- Health – R79 986 000

The overspending on the compensation budgets for the said departments is mainly attributable to the implementation of the Occupational Specific Dispensation (OSD) for nurses and educators, which was not adequately funded by national government. A further contributing factor at the Department of Education was the difference in improvement in conditions of service for employees between the budgeted 5% and the actual increase of 10,5%.

8.9 Management of overtime

PSR, chapter 1, part V, D2 determines the circumstances under which employees may be compensated for overtime worked.

Overtime policy

The Department of Agriculture did not have a written policy on overtime.

Authorisation of overtime

At the Department of Social Development, written authorisation was not consistently provided in advance for the overtime worked.

Limit on overtime

At the following three departments (27%) the monthly compensation for overtime was not limited to less than 30% of the employee's monthly salary and no exceptional circumstances existed:

- Agriculture
- Education
- Health

Overtime payments

At the following three departments (27%) instances were found where overtime payments were calculated incorrectly:

- Agriculture
- Education
- Public Works and Roads



8.10 Payroll certification

The certification of the payroll on a monthly basis is required by Treasury Regulations 8.3.4 and 8.3.5 as a control measure to ensure that there are no ghost employees on the payroll of the department, that employees are entitled to the payment and that the employees are allocated to the correct pay point. Instances were found at the departments listed in the table below that indicated that the prescribed control was not fully implemented.

Table 6(a): Deficiencies in payroll certification controls: provincial departments

Name of department	Monthly payroll reports not certified	Certified payrolls not returned to finance department within 10 days	Completeness of certified payroll reports not checked	Corrective action not taken timeously where discrepancies were noted	Employees did not have valid identity numbers
Community Safety and Transport	X	X	X	X	
Education	X				X
Free State Provincial Treasury					X
Health					X
Local Government and Housing		X	X		
Premier	X	X	X	X	
Sport, Arts and Culture	X				
Percentage of departments	36%	27%	27%	18%	27%

8.11 Service terminations

Employees whose services were terminated were not timeously removed from the payroll at the following three departments (27%), resulting in overpayments:

- Economic Development, Tourism and Environmental Affairs
- Community Safety and Transport
- Sport, Arts and Culture

Furthermore, at the following four departments (36%) overpayments were not always correctly calculated and/or recovered, or reclassified as debt by year-end:

- Economic Development, Tourism and Environmental Affairs
- Community Safety and Transport
- Social Development
- Sport, Arts and Culture



The reason for the findings was generally that the service termination processes and controls were either not implemented or are not operating effectively.

8.12 Monitoring of sick leave

Management has the responsibility to monitor that employees are granted and utilise sick leave in accordance with the prescripts of PSR, chapter 1, part III, J3, V, F(c), the directive regarding the management of the intermittent use of normal sick leave: introduction of the eight-week rule issued by the MPSA with effect from 1 April 2005, and the determination on leave of absence in the public sector.

Instances were found at the departments listed in the table below that indicated that the prescribed monitoring controls were not fully implemented.

Table 6(b): Deficiencies in the monitoring of sick leave: provincial departments

Name of department	Medical certificates not submitted for absence of three or more consecutive days	Non-compliance with eight-week rule issued by MPSA with effect from 1 April 2005	Sick leave not monitored to ensure that sick leave was not abused
Community Safety and Transport	X	X	X
Education			X
Free State Provincial Treasury	X	X	X
Health		X	
Social Development	X	X	
Percentage of departments	27%	36%	27%

In accordance with the eight-week rule issued by the MPSA with effect from 1 April 2005, if an employee who was absent from work on more than two occasions during an eight-week period did not submit a medical certificate for the third period of sick leave, then any subsequent absence and/or their sick leave should be captured as normal or unpaid leave.

8.13 Overall conclusion

Generally, the deficiencies noted can be attributed to the lack of ongoing monitoring and supervision and the fact that internal control deficiencies are not identified and communicated in a timely manner to allow for appropriate corrective action to be taken.

It is evident from the significant findings identified regarding compliance with laws and regulations relevant to human resource management and compensation of employees that management of the said departments have not taken sufficient and appropriate actions to address internal control deficiencies which were previously reported by the AGSA and that actions to remedy the deficiencies will have to be prioritised.



SECTION 9: AUDIT OF PERFORMANCE INFORMATION

This section of the report provides details of the results of the AGSA's audits of performance information at the provincial legislature, provincial departments, public and other entities under the following headings:

- 9.1 The AGSA's statutory responsibilities relating to the audit of performance information
- 9.2 Key findings arising from the audit of performance information of the provincial legislature, provincial departments and entities
- 9.3 Internal control deficiencies that require attention to ensure compliance with legislative requirements and/or criteria for published performance information
- 9.4 Interactions with entities during the past 12 months regarding the audit of performance information and actions in place to gear up for the expression of an opinion in this regard
- 9.5 Overall conclusion

9.1 The AGSA's statutory responsibilities relating to the audit of performance information

In terms of section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and based on the results of a readiness assessment of audited entities during November 2008, the Auditor-General decided to provide reasonable assurance in the form of an audit conclusion on the reporting of performance against predetermined objectives at the following categories of audited entities:

- National and provincial departments, constitutional institutions and trading entities
- National and provincial public entities
- Metropolitan municipal councils and the related municipal entities

For the above-mentioned categories of audited entities, a separate audit conclusion will be included in the audit reports with effect from the 2010-11 financial year. Audit conclusions in this regard will be reached as part of the financial auditing process in terms of the International Standards on Assurance Engagements (ISAE) 3000: Assurance engagements other than audits or reviews of historical financial information.

This approach will also be followed for the 2009-10 audit cycles, with only one exception. While all audit work will focus on the expression of an opinion on the performance information of national and provincial departments, their public entities and metropolitan councils and their entities, these opinions will not yet be elevated to the level of the individual audit reports. Instead, a reflection on the entities' performance information, should an opinion have been expressed, will be contained in the management report. An opinion will thus be prepared but not expressed publicly beyond being annexed to the management report as part of the readiness strategy.

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

The AGSA recognises the following as sources of criteria against which the subject matter will be evaluated as a basis for the audit conclusions:

- All relevant laws and regulations
- Framework for the managing of programme performance information, issued by the National Treasury



- Relevant frameworks, circulars and guidance issued by the National Treasury and the Presidency regarding the planning, management, monitoring and reporting of performance information

In terms of section 13 of the PAA the Auditor-General has adopted a phasing-in approach to adherence to sections 20 and 28 of the PAA, until such time as the environment reflects a state of readiness to provide reasonable assurance in the form of an audit opinion or conclusion, at municipalities and municipal entities other than those listed above.

The phasing-in approach to the auditing of performance information for the municipalities and municipal entities other than those listed above will constitute a review of the policies, systems, processes and procedures for the managing of and reporting on performance against predetermined objectives.

9.2 Key findings arising from the 2008-09 audit of performance information of the provincial legislature, provincial departments and entities

The results of the audit of performance information were analysed for 19 (68%) of the 28 entities that comprise the Free State Provincial Government. No significant findings were reported for the Free State Legislature and two provincial departments (18%), namely the Free State Provincial Treasury and the Department of Local Government and Housing. The results of all provincial public entities, with the exclusion of the Free State Development Corporation, were analysed, while eight of the 10 provincial other entities did not report on their performance and no significant findings were noted for the Free State Fleet Management Trading Entity.

The incidence of key findings resulting from the audit of performance information is presented in the table below. Findings from the audit of performance information were classified according to the following broad areas examined:

- **Compliance with regulatory requirements** – the scope of audit work and audit findings related to compliance with the PFMA and Treasury Regulations pertaining to the planning, management, monitoring, review and reporting of performance information.
- **Usefulness of reported information** – audit work focused on the consistency, relevance and measurability of planned and reported performance information.
- **Reliability of reported performance information** – audit work focused on whether the reported performance information could be traced back to the source data or documentation and whether the reported information is accurate and complete in relation to the source data, evidence or documentation.



Table 7: Key findings arising from the audit of performance information

No.	Significant findings	Percentage of entities with findings				
		Provincial departments	Provincial public entities	Provincial other entities	Provincial legislature	Total
1	Non-compliance with regulatory requirements	55%	100%	50%	0%	63%
2	Usefulness of reported performance information	45%	40%	0%	0%	37%
3	Reported performance information not reliable	73%	0%	0%	0%	42%
4	Performance information was not received in time for audit purposes	0%	20%	0%	0%	5

9.3 Internal control deficiencies that require attention to ensure compliance with legislative requirements and/or criteria for published performance information

Generally, deficiencies in the reporting of performance information can be attributed to the following:

Non-compliance with regulatory requirements (77% of departments and 100% of public entities)

- Inadequate management processes
- Non-compliance with internal policies and procedures
- Deficiencies in key controls, e.g. no or inadequate quarterly reporting, no review by internal audit of performance management processes or no roles and responsibilities allocated for performance management

Usefulness of reported performance information (45% of departments and 40% of public entities)

- Changes in reported performance information not disclosed
- Reasons for variances in planned and actual performance not included in annual reports
- Inadequate presentation of reported performance information
- Quality of performance indicators/targets inadequate

Reported performance information not reliable (73% of departments)

Lack of effective, efficient and transparent systems and internal controls over performance information reporting.



9.4 Interactions with entities during the past 12 months regarding the audit of performance information and actions in place to gear up for the expression of an opinion in this regard

The importance of and principles relating to the audit of performance information were discussed and explained to management of the provincial legislature, provincial departments and entities at the various steering committee meetings, as well as during interactions with the executive leadership in the province. The legislature, provincial departments and entities are currently preparing for the expression of an opinion on performance information by implementing actions to address findings from the audit of performance information and increased monitoring of the systems generating performance information.

The review of internal controls regarding the processes and systems generating performance information has been identified as a focus area for internal audit and the audit committees and the Free State Provincial Treasury is focusing efforts on capacity building in this regard.

9.5 Overall conclusion

The leadership of the province should implement processes to ensure greater credibility of performance information, as it reflects the service delivery achievements of the provincial government. Furthermore, it is imperative that actions to strengthen internal controls regarding performance information be prioritised.

The reporting of credible and accurate performance information should become a focus area of the political and administrative leadership of the province. The following urgent actions should be undertaken:

- Capacity building, including the training of relevant officials
- Integration of performance information into the operations of the departments, legislature and public entities, including the development and implementation of appropriate information systems
- Regular reporting and monitoring of performance information by the accounting officers, audit committees supported by internal audit, legislator committees and the executive
- Continued interaction between the AGSA, National Treasury and all departments and entities should be a focus area in order to adequately address the shortcomings in preparation for a future opinion on performance information. Internal audit should focus on the requirements related to performance information and provide the necessary assurance to the departments and entities.



SECTION 10: CONSOLIDATED FINANCIAL STATEMENTS

In terms of section 19 of the PFMA, the provincial treasury is required to prepare consolidated financial statements in accordance with generally recognised accounting practice for each financial year in respect of the provincial legislature, departments, public entities and other entities. The Auditor-General issues separate audit reports for consolidated departments and the legislature and for entities. Agreed-upon procedures are performed on the provincial consolidated financial statements. The status of the agreed-upon procedures engagement for the consolidated financial statements as at 31 July 2009 is reflected in table 8(a) below.

Table 8(a): Status of audit of consolidated financial statements as at 31 July 2009

Region	2008-09		Revenue fund financial statements published 2008-09	2007-08		2006-07		2005-06	
	Consolidated financial statements received	Audit report issued		Consolidated financial statements received	Audit report issued	Consolidated financial statements received	Audit report issued	Consolidated financial statements received	Audit report issued
Free State	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes

The annual financial statements of the Provincial Revenue Fund and consolidated annual financial statements of the Free State Province were received on 31 August 2009. The audit of the Provincial Revenue Fund and the agreed-upon procedures for the consolidation has been completed. The audit report on the Provincial Revenue Fund was issued on 14 October 2009 and the report on factual findings on the consolidated financial statements was issued on 20 October 2009.

An annual report was compiled and tabled for the 2007-08 consolidated financial information, but not for the Provincial Revenue Fund. Table 8(b) below reflects the key figures contained in the consolidated financial information for the provincial legislature and 11 departments for 2007-08. The revenue fund received a financially unqualified (with other matters) opinion.

Table 8(b): Key figures contained in the consolidated financial information for the provincial legislature and 11 departments

Key figures	Amount (R) 2007-08	Amount (R) 2006-07
Total revenue	R14 245 869	R12 270 136
Total expenditure	R13 681 007	R12 338 907
Surplus / (deficit)	R564 862	(R68 771)
Total assets	R956 087	R1 081 279
Total liabilities	R928 604	R1 038 274
Net assets	R27 483	R43 005
Unauthorised expenditure	R835 985	R956 578
Cash and cash equivalents / (net overdraft)	R6 397	R1 713



SECTION 11: STATUS OF TABLING OF ANNUAL REPORTS

In accordance with section 65(1)(a) of the PFMA, the executive authority responsible for a department or public entity must table in the provincial legislature the annual report and financial statements as well as the audit report on those statements, within one month of receipt of the audit report. All the entities reported on tabled their annual reports for the year ended 31 March 2009 within the legislated time frames.

Table 9: Status of tabling of 2008-09 annual reports by executive authorities

No.	Name of entity	Tabled (Y/N)	Date tabled in house	Reason for annual report not tabled
1	Agriculture	Y	28 August 2009	
2	Community Safety and Transport	Y	28 August 2009	
3	Economic Development, Tourism and Environmental Affairs	Y	28 August 2009	
4	Education	Y	28 August 2009	
5	Free State Legislature	Y	28 August 2009	
6	Free State Provincial Treasury	Y	28 August 2009	
7	Health	Y	28 August 2009	
8	Local Government and Housing	Y	28 August 2009	
9	Premier	Y	28 August 2009	
10	Public Works and Roads	Y	28 August 2009	
11	Social Development	Y	28 August 2009	
12	Sport, Arts and Culture	Y	28 August 2009	
13	Free State Gambling and Racing Board	Y	28 August 2009	
14	Free State Investment Promotion Agency	Y	28 August 2009	
15	Free State Tourism Authority	Y	28 August 2009	
16	Free State Youth Commission	Y	28 August 2009	
17	Phakisa Major Sport Events and Development Corporation	Y	28 August 2009	



No.	Name of entity	Tabled (Y/N)	Date tabled in house	Reason for annual report not tabled
18	Central Medical Trading Account	Y	28 August 2009	
19	Free State Housing Fund	Y	28 August 2009	
20	Free State Liquor Authority	Y	28 August 2009	
21	Free State Fleet Management Trading Entity	Y	28 August 2009	
22	James Robertson Bursary Fund	Y	28 August 2009	
23	Nature Conservation Trust Fund	Y	28 August 2009	
24	Private Patients Fund Trust	Y	28 August 2009	
25	Recreation Fund Trust	Y	28 August 2009	
26	Small Holdings Trust Fund	Y	28 August 2009	
27	Thomas Robertson Bursary Fund	Y	28 August 2009	

As at 13 November 2009, the Free State Development Corporation had still not tabled their annual report in the legislature.

SECTION 12: STATUS REPORT ON PERFORMANCE AUDITS, INVESTIGATIONS AND SPECIAL AUDITS

Presented in this section of the report are the results of performance audits, investigations and special audits conducted by the AGSA.

12.1 Performance audits

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 the performance of the audited entity in relation to achievement of the policy objectives, operational goals and other intended effects.

The actual or expected dates of tabling of performance audit reports are provided in the table below.

Table 10(a): Performance audits conducted and actual or expected dates of tabling of reports

No.	Name of entity	Report description	Actual or expected date of tabling
1	Education	Investment in infrastructure	November 2009
2	Health	Investment in infrastructure	November 2009
3	Local Government and Housing	Allocation of housing subsidies to municipal employees and the administration of low-cost housing projects by departments	July 2008
4	Transversal	Entities that are connected with government employees and doing business with departments	June 2009

12.2 Investigations conducted

“Investigation” as contemplated in section 5(1)(d) of the PAA is defined as an independent and objective process where procedures are performed in accordance with guidelines issued by the AGSA 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 sections 4(1) and 4(3) of the PAA. An investigation may be performed where the AGSA:

- 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).

The table below lists the expected dates of tabling of investigation reports for investigations that commenced from April 2008 onwards.

Table 10(b): Investigations conducted and expected dates of tabling of reports

No.	Name of entity	Report description	Expected date of tabling
1	Public Works and Roads	Investigation into alleged irregularities in respect of the procurement system	November 2009
2	Free State Development Corporation	Investigation into alleged irregularities in respect of the procurement system	May 2010

12.3 Special audits conducted

The table below lists the expected dates of tabling of special audit reports relating to departments and entities in the province that commenced from April 2008 onwards.

Table 10(c): Special audits conducted and expected dates of tabling of reports

No.	Name of entity	Report description	Expected date of tabling
1	Premier	Agreed-upon procedures in respect of the financial position and expenditure of certain projects of the Official Development Assistance Programme of the Flanders International Cooperation Agency	November 2009

ANNEXURES TO THE GENERAL REPORT

The following annexures provide further details on matters contained in the provincial general report:

Annexure 1: 2008-09 audit outcomes

1a Listing of entities' audit qualifications

1b Listing of entities with emphasis of matters and other matters

Annexure 2: Listing of entities that registered improved or deteriorated audit outcomes

Annexure 3: 3.1 Audit outcomes of provincial departments and the provincial legislature for the past five years

3.2 Audit outcomes of public and other entities for the past four years

Annexure 4: Listing of "special purpose entities", linked to auditees, not consolidated and/or not audited by the AGSA

Annexure 5: Summaries of audit reports:

5.1 Provincial legislature

5.2 Provincial departments

5.3 Provincial public entities

5.4 Provincial other entities



ANNEXURE 1a: Listing of entities' audit opinions and qualification findings

No.	Classification	Department / Institution / Entity	Audit opinion: 2008-07	Audit opinion: 2007-08	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payable and borrowings	Provisions, contingents liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses / impairments	Unauthorized expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Other general issues
1	PD	Agriculture	Qualified	Qualified																
2	POE	Central Medical Trading Account	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
3	PD	Community Safety and Transport	Qualified	Financially unqualified (with other matters)																
4	PD	Economic Development, Tourism and Environmental Affairs	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
5	PD	Education	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
6	PPE	Free State Development Corporation	Audit outstanding	Disclaimer																
7	POE	Free State Fleet Management Trading Entity	Financially unqualified (with no other matters)	Financially unqualified (with other matters)																
8	PPE	Free State Gambling and Racing Board	Financially unqualified (with other matters)	Qualified																
9	POE	Free State Housing Fund	Financially unqualified (with other matters)	Qualified																
10	PPE	Free State Investment Promotion Agency	Financially unqualified (with other matters)	No comparative																
11	PL	Free State Legislature	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
12	POE	Free State Liquor Authority	Financially unqualified (with other matters)	No comparative																



ANNEXURE 1a: Listing of entities' audit opinions and qualification findings (continued)																					
No.	Classification	Department / Institution / Entity	Audit opinion: 2008-07	Audit opinion: 2007-08	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payable and borrowings	Provisions, contingents liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses / impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Other general issues	
11	PL	Free State Legislature	Financially unqualified (with other matters)	Financially unqualified (with other matters)																	
12	POE	Free State Liquor Authority	Financially unqualified (with other matters)	No comparative																	
13	PD	Free State Provincial Treasury	Financially unqualified (with other matters)	Qualified																	
14	PPE	Free State Tourism Authority	Financially unqualified (with other matters)	Financially unqualified (with other matters)																	
15	PPE	Free State Youth Commission	Financially unqualified (with other matters)	Qualified																	
16	PD	Health	Qualified	Qualified																	
17	POE	James Robertson Bursary Fund	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)																	
18	PD	Local Government and Housing	Qualified	Financially unqualified (with other matters)																	
19	POE	Nature Conservation Trust Fund	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)																	
20	PPE	Phakisa Major Sport Events and Development Corporation	Financially unqualified (with other matters)	Qualified																	
21	PD	Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)																	



ANNEXURE 1a: Listing of entities' audit opinions and qualification findings (continued)

No.	Classification	Department / Institution / Entity	Audit opinion: 2008-07	Audit opinion: 2007-08	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payable and borrowings	Provisions, contingents liabilities and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Material losses / impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Other general issues
21	PD	Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
22	POE	Private Patients Fund Trust	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)																
23	PD	Public Works and Roads	Qualified	Qualified																
24	POE	Recreation Fund Trust	Financially unqualified (with no other matters)	Qualified																
25	POE	Small Holdings Trust Fund	Financially unqualified (with other matters)	Financially unqualified (with other matters)																
26	PD	Social Development	Qualified	Qualified																
27	PD	Sport, Arts and Culture	Qualified	Financially unqualified (with other matters)																
28	POE	Thomas Robertson Bursary Fund	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)																



ANNEXURE 1b: Listing of entities with other matters														
No.	Classification	Department / Entity	Audit opinion: 2008-09	Financial sustainability	Material losses / impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Material underspending of the budget	PFMA / Treasury	DORA	Supply chain management	Other enabling legislation	Material misstatements corrected
1	PD	Agriculture	Qualified											
2	POE	Central Medical Trading Account	Financially unqualified (with other matters)											
3	PD	Community Safety and Transport	Qualified											
4	PD	Economic Development, Tourism and Environmental Affairs	Financially unqualified (with other matters)											
5	PD	Education	Financially unqualified (with other matters)											
6	PPE	Free State Development Corporation	Audit outstanding											
7	POE	Free State Fleet Management Trading Entity	Financially unqualified (with no other matters)											
8	PPE	Free State Gambling and Racing Board	Financially unqualified (with other matters)											
9	POE	Free State Housing Fund	Financially unqualified (with other matters)											
10	PPE	Free State Investment Promotion Agency	Financially unqualified (with other matters)											
11	PL	Free State Legislature	Financially unqualified (with other matters)											



ANNEXURE 1b: Listing of entities with other matters (continued)														
No.	Classification	Department / Entity	Audit opinion: 2008-09	Financial sustainability	Material losses / impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Material underspending of the budget	PFMA / Treasury	DORA	Supply chain management	Other enabling legislation	Material misstatements corrected
12	POE	Free State Liquor Authority	Financially unqualified (with other matters)											
13	PD	Free State Provincial Treasury	Financially unqualified (with other matters)											
14	PPE	Free State Tourism Authority	Financially unqualified (with other matters)											
15	PPE	Free State Youth Commission	Financially unqualified (with other matters)											
16	PD	Health	Qualified											
17	POE	James Robertson Bursary Fund	Financially unqualified (with no other matters)											
18	PD	Local Government and Housing	Qualified											
19	POE	Nature Conservation Trust Fund	Financially unqualified (with no other matters)											
20	PPE	Phakisa Major Sport Events and Development Corporation	Financially unqualified (with other matters)											
21	PD	Premier	Financially unqualified (with other matters)											
22	POE	Private Patients Fund Trust	Financially unqualified (with no other matters)											
23	PD	Public Works and Roads	Qualified											
24	POE	Recreation Fund Trust	Financially unqualified (with no other matters)											



ANNEXURE 1b: Listing of entities with other matters (continued)														
No.	Classification	Department / Entity	Audit opinion: 2008-09	Financial sustainability	Material losses / impairments	Unauthorised expenditure	Fruitless and wasteful expenditure	Irregular expenditure	Material underspending of the budget	PFMA / Treasury	DORA	Supply chain management	Other enabling legislation	Material misstatements corrected
25	POE	Small Holdings Trust Fund	Financially unqualified (with other matters)											
26	PD	Social Development	Qualified											
27	PD	Sport, Arts and Culture	Qualified											
28	POE	Thomas Robertson Bursary Fund	Financially unqualified (with no other matters)											



ANNEXURE 2: Listing of entities that registered improved or deteriorated audit outcomes

Entities registering improved audit outcomes

No.	Name of entity	Audit opinion: 2008-09	Audit opinion: 2007-08
1	Free State Provincial Treasury	Financially unqualified (with other matters)	Qualified
2	Free State Gambling and Racing Board	Financially unqualified (with other matters)	Qualified
3	Free State Youth Commission	Financially unqualified (with other matters)	Qualified
4	Phakisa Major Sport Events and Development Corporation	Financially unqualified (with other matters)	Qualified
5	Free State Housing Fund	Financially unqualified (with other matters)	Qualified
6	Free State Fleet Management Trading Entity	Financially unqualified (with no other matters)	Financially unqualified (with other matters)
7	Recreation Fund Trust	Financially unqualified (with no other matters)	Qualified

Entities registering deteriorated audit outcomes

No.	Name of entity	Audit opinion: 2008-09	Audit opinion: 2007-08
1	Community Safety and Transport	Qualified	Financially unqualified (with other matters)
2	Local Government and Housing	Qualified	Financially unqualified (with other matters)
3	Sport, Arts and Culture	Qualified	Financially unqualified (with other matters)

ANNEXURE 3.1: Audit outcomes of provincial departments and the provincial legislature for the past five years

Name of entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Audit opinion: 2005-06	Audit opinion: 2004-05
Free State Legislature	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
Agriculture	Qualified	Qualified	Qualified	Disclaimer	Financially unqualified (with other matters)
Community Safety and Transport	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
Economic Development, Tourism and Environmental Affairs	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified
Education	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified	Qualified	Qualified
Free State Provincial Treasury	Financially unqualified (with other matters)	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Health	Qualified	Qualified	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Local Government and Housing	Qualified	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Premier	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Public Works and Roads	Qualified	Qualified	Qualified	Qualified	Qualified



ANNEXURE 3.1: Audit outcomes of provincial departments and the provincial legislature for the past five years (continued)

Name of entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Audit opinion: 2005-06	Audit opinion: 2004-05
Social Development	Qualified	Qualified	Qualified	Financially unqualified (with other matters)	Qualified
Sport, Arts and Culture	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)



ANNEXURE 3.2: Audit outcomes of public and other entities for the past four years

Name of entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Audit opinion: 2005-06
Free State Development Corporation	Audit outstanding ¹	Disclaimer	Qualified	Qualified
Free State Gambling and Racing Board	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Free State Investment Promotion Agency	Financially unqualified (with other matters)	No comparative	No comparative	No comparative
Free State Tourism Authority	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Disclaimer	No comparative
Free State Youth Commission	Financially unqualified (with other matters)	Qualified	Qualified	Financially unqualified (with other matters)
Phakisa Major Sport Events and Development Corporation	Financially unqualified (with other matters)	Qualified	Financially unqualified (with other matters)	Qualified
Central Medical Trading Entity	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
Free State Housing Fund	Financially unqualified (with other matters)	Qualified	Qualified	Qualified
Free State Liquor Authority	Financially unqualified (with other matters)	No comparative	No comparative	No comparative
Free State Fleet Management Trading Entity	Financially unqualified (with no other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Qualified
James Robertson Bursary Fund	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	No comparative	No comparative
Nature Conservation Fund	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)

¹ The audit report of the Free State Development Corporation was issued on 10 September 2009. The entity received an adverse audit opinion for the year ended March 2009.





ANNEXURE 3.2: Audit outcomes of public and other entities for the past four years (continued)

Name of entity	Audit opinion: 2008-09	Audit opinion: 2007-08	Audit opinion: 2006-07	Audit opinion: 2005-06
Private Patients Fund Trust	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	Qualified	Financially unqualified (with no other matters)
Recreation Fund Trust	Financially unqualified (with no other matters)	Qualified	Financially unqualified (with other matters)	Financially unqualified (with no other matters)
Small Holdings Trust Fund	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)	Financially unqualified (with other matters)
Thomas Robertson Bursary Fund	Financially unqualified (with no other matters)	Financially unqualified (with no other matters)	None	None

ANNEXURE 4: Listing of “special purpose entities”, linked to auditees, not consolidated and/or not audited by the AGSA

The following “special purpose entities” came to my attention during the course of previous audits and the regularity audits for the 2008-09 financial year

No.	Department / Entity	Name of entity	Entity type	Nature of business	Name of auditor
1	Free State Legislature	Free State Political Party Fund	Fund	Funding political parties that participate in the Free State Provincial Legislature	Auditor-General of South Africa
2	Free State Development Corporation	Canton Trading 123 (Pty) Ltd t/a Jomago Health	Subsidiary	Export of medical supplies	Gobodo
3	Free State Development Corporation	Classic Number Trading 45 (Pty) Ltd	Subsidiary	Manufacturing of shoes and soles of shoes	Enslins - Harrismith
4	Free State Development Corporation	Confram Harrismith Properties (Pty) Ltd	Subsidiary	Letting of fixed property	Procewaterhouse Coopers
5	Free State Development Corporation	Copper Moon Trading 429 (Pty) Ltd	Subsidiary	Chicken take away. No longer trading	Claasens and Grobbelar Inc.
6	Free State Development Corporation	Cross Point Trading 23 (Pty) Ltd	Subsidiary	Manufacture overlay car carpets	Marais Crowther
7	Free State Development Corporation	Golden Pond Trading 663 (Pty) Ltd	Subsidiary	Import and export	Claasens and Grobbelar Inc.
8	Free State Development Corporation	Highland Furniture Factory (Pty) Ltd	Subsidiary	Manufacture of furniture	Enslins - Harrismith
9	Free State Development Corporation	Inner Auto Spares (Pty) Ltd	Subsidiary	Spares	No auditors appointed yet
10	Free State Development Corporation	Orofino Africa Jewellery Manufacturers (Pty) Ltd	Subsidiary	Jewellery manufacturers	Pricewaterhouse Coopes
11	Free State Development Corporation	Phiritona Plastics (Pty) Ltd	Subsidiary	Manufacturing of PVC pipes	NALANA Incorporated
12	Free State Development Corporation	Rumar Manufacturing (Pty) Ltd	Subsidiary	Manufacturing of trucks	Claasens and Grobbelar Inc.
13	Free State Development Corporation	Satinsky 167 (Pty) Ltd	Subsidiary	Manufacturing and selling of springs and suspensions	NALANA Incorporated
14	Free State Development Corporation	Scopefull 21 (Pty) Ltd	Subsidiary	Bus service. Public transportation	Enslins - Bethlehem
15	Free State Development Corporation	Synthpro Holdings (Pty) Ltd	Subsidiary	Manufacture of garage doors and caskets. No longer trading	Lessing and Prinsloo
16	Free State Development Corporation	Twin Cities Trading 129 (Pty) Ltd	Subsidiary	Tyres, exhaust fitment centre. Retail of motor spares	FAL Financial Services
17	Free State Development Corporation	Welkom Diamond Cutting Works (Pty) Ltd	Subsidiary	Jewellery manufacturers. Diamond polishing	LA Gambale Inc - Welkom
18	Phakisa Major Sport Events and Development Corporation	National Association for Stock Car Auto Racing (Pty) Ltd	Subsidiary	Stock car auto racing	Russel Bedford Southern Africa Inc.



ANNEXURE 5: SUMMARIES OF AUDIT REPORTS

5.1 SUMMARY OF AUDIT REPORT OF PROVINCIAL LEGISLATURE

5.1.1 FREE STATE LEGISLATURE

Financially unqualified (with other matters)

Other matters

Key governance responsibilities

- The audit committee did not substantially fulfil its responsibilities for the year.
- The Free State Legislature 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.
- The prior year's external audit recommendations had not been substantially implemented.

5.2 SUMMARIES OF AUDIT REPORTS OF PROVINCIAL DEPARTMENTS

5.2.1 AGRICULTURE

Qualified

Compensation of employees

Compensation of employees for the year under review was overstated and staff debtors were understated by approximately R2 009 951 due to the incorrect calculation of overtime and overpayment of acting allowances.

Movable tangible and intangible assets

I was unable to obtain sufficient appropriate audit evidence regarding the completeness, existence and valuation of movable tangible and intangible capital assets totalling R51 464 000.

Irregular expenditure

I could not be provided with sufficient, appropriate audit evidence that management had properly identified and recorded all irregular expenditure transactions during the year under review.

Emphasis of matters

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure of R388 000 was incurred during the year.



Restatement of corresponding figures

The corresponding figures for commitments, accruals and irregular expenditure had to be restated.

Other matters

Non-compliance with applicable legislation

- Invoices amounting to R5 193 282 were not paid within the prescribed time frame as prescribed by Treasury Regulation 8.2.3.
- The accounting officer did not report fruitless and wasteful expenditure to the Treasury as required by section 38(1)(h) of the PFMA.

Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- Key officials were not available throughout the audit process.
- The internal audit function did not substantially fulfil its responsibilities for the year.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- There were significant deficiencies in the design and implementation of internal controls in respect of compliance with applicable laws and regulations.
- A risk assessment was not conducted on a regular basis and a risk management strategy, which included a fraud prevention plan, was not documented and used.
- The information systems were not appropriate to facilitate the preparation of a performance report and ensure that it was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

5.2.2 COMMUNITY SAFETY AND TRANSPORT

Qualified

Movable tangible capital assets

- Movable tangible assets could not be physically verified due to lack of asset identification marks.
- Physical assets identified at the department and regional offices could not be related to the asset records for both movable major and minor assets due to inadequate details in the asset register.

Receivables for departmental revenue

- Receivables for departmental revenue with regard to tax revenue, administration fees and fines and penalties were not disclosed in the notes to the financial statements.
- A significant number of vehicle registration files to support financial statement disclosure for tax revenue and administration fees could not be submitted.
- Confirmation from the relevant national department regarding the amount recoverable in respect of fines and penalties for tax revenue and administration fees was not obtained.



Provisions

The department did not disclose the potential irrecoverable debt with regard to vehicle licences in the financial statements.

Departmental revenue

Manual receipts issued with regard to departmental revenue of R3 294 709 could not be traced to the accounting records of the department.

Irregular expenditure

I could not be provided with sufficient, appropriate audit evidence that management had properly identified and recorded all irregular expenditure transactions during the year under review.

Emphasis of matters

Material underspending of the budget

The department materially underspent the budget in respect of programme 5.2: Public Transport – Infrastructure to the amount of R12 212 000. Consequently, the department did not achieve its objectives.

Restatement of corresponding figures

The corresponding figures for 31 March 2008 were restated as a result of the transfer of functions to the department from the Department of Public Works and Roads.

Other matters

Non-compliance with applicable legislation

Payments due to creditors amounting to R3 382 273 were not settled within 30 days from date of receipt of invoice, as required by Treasury Regulation 8.2.3.

Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays or the availability of requested information.
- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- Key officials were not available throughout the audit process.
- 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 and did not substantially fulfil its responsibilities for the year
- The department 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 and did not substantially fulfil its responsibilities for the year.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.

- A risk assessment was not conducted on a regular basis and a risk management strategy, which included a fraud prevention plan, was not documented and used.
- The prior year's external audit recommendations had not been substantially implemented.
- The information systems were not appropriate to facilitate the preparation of a performance report and ensure that it was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

5.2.3 ECONOMIC DEVELOPMENT, TOURISM AND ENVIRONMENTAL AFFAIRS

Financially unqualified (with other matters)

Emphasis of matters

Unauthorised expenditure

Unauthorised expenditure to the amount of R10 401 000 was incurred during the financial year, as the Environmental Affairs programme's budget was exceeded.

Irregular expenditure

Irregular expenditure to the amount of R9 475 474 was incurred during the financial year.

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure to the amount of R1 213 607 was incurred during the financial year, as due care had not been taken with payments of salaries and allowances and payments for goods and services.

Other matters

Non-compliance with applicable legislation

For payments amounting to R8 737 831 it could not be confirmed whether the accounts had been settled within 30 days of the date of the receipt, as required by Treasury Regulation 8.2.3.

Key governance responsibilities

- 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.

5.2.4 EDUCATION

Financially unqualified (with other matters)

Emphasis of matters



Basis of accounting and amendments to the applicable basis of accounting

The National Treasury approved a deviation from the basis of accounting applicable to the department on 29 May 2009, which granted the department exemption from reporting on major and minor assets in the financial statements. This exemption was also granted in the prior financial year.

Unauthorised and irregular expenditure

- Unauthorised expenditure amounting to R214 039 000 was incurred during the financial year as a result of the overspending of various main divisions within the department's vote.
- Irregular expenditure amounting to R138 797 000 was incurred as a result of the overspending of the budget for compensation of employees and non-compliance with the supply chain management processes.

Material underspending of the budget

The department materially underspent on the budget on all programmes except the current payments in programme 2, to the total amount of R220 324 000.

Other matters

Non-compliance with applicable legislation

- Payments amounting to R7 410 129 were not made within 30 days from the date of receipt of the invoices, in contradiction of section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3.
- The accounting officer did not submit a report containing the prescribed particulars regarding the utilisation of material savings within seven days, in certain instances, to the responsible Member of the Executive Council and to the provincial treasury as required by section 43(3) of the PFMA.
- The accounting officer did not take effective and appropriate steps to timeously collect money due to the department and did not always refer long-overdue debts to the State Attorney as required by section 38(1)(c)(i) of the PFMA and Treasury Regulation 11.2.1.
- The audit committee charter did not include all audit committee operating requirements as stated in Treasury Regulation 3.1.

Key governance responsibilities

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- The internal audit function did not substantially fulfil its responsibilities for the year.
- There were significant deficiencies in the design and implementation of internal control in respect of financial and risk management.
- There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- The information systems were not appropriate to facilitate the preparation of the financial statements.
- The prior year's external audit recommendations had not been substantially implemented.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

5.2.5 FREE STATE PROVINCIAL TREASURY

Financially unqualified (with other matters)

Other matters

Key governance responsibilities

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- The internal audit function did not substantially fulfil its responsibilities for the year.
- A risk assessment was not conducted on a regular basis and a risk management strategy, which included a fraud prevention plan, was not documented and used.

5.2.6 HEALTH

Qualified

Capital assets

- Documentation could not be provided to support the valuation of movable tangible capital assets to the value of R34 257 414 (2008: 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 R27 068 431 (2008: R1 248 000) existed that could not be adequately explained.
- 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 R25 481 182 (2008: R15 735 656) could not be physically verified.
- The department had, contrary to the applicable accounting framework, still valued a significant number of minor assets at either R0 or minor assets purchased after 1 April 2002 at R1.
- A reliable audit trail could not be provided in respect of work-in-progress to the value of R227 519 000 added back to immovable capital assets. Consequently, I could not obtain reasonable assurance regarding the existence and valuation of and the department's rights to the disclosed immovable assets of R34 052 000.

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 R165 343 000 (2008: R120 396 000), as the department did not obtain or retain adequate documentation to support patients' income which is utilised to classify patients in terms of the Uniform Patient Fee Structure. As a result it was not possible to verify whether patients had been correctly classified and, consequently, whether medical services had been levied at the correct and approved rates.

Commitments

- Commitments were understated by R134 395 638 due to the omission of commitments for capital expenditure approved and contracted before the financial year-end.



- Commitments for current expenditure were overstated by an amount of R36 799 677 due to the erroneous inclusion in commitments of balances that related to cancelled contracts as well as duplications of certain commitments between the manual calculations per the departmental bid register and the commitments recorded on its procurement system (Logis).
- I identified differences of R44 727 348 between the contract values utilised in the calculation of commitments for capital expenditure and approved contract values that led to my not being able to perform all the procedures that I deemed necessary to confirm the existence and valuation of commitments for capital expenditure to the value of R70 385 523.
- Management was unable to provide me with sufficient appropriate audit evidence to support commitments for current expenditure to the value of R10 906 695.
- Management restated the opening balance of commitments by an amount of R277 829 000, but was unable to provide a detailed audit trail for the restatement.

Irregular expenditure

I could not be provided with sufficient, appropriate audit evidence that management had properly identified and recorded all irregular expenditure transactions during the year under review.

Finance lease expenditure

Contrary to the accounting framework the department accounted for finance lease payments to the value of R20 820 929 as current expenditure, goods and services instead of capital expenditure.

Emphasis of matters

Financial sustainability

Of the department's outstanding accruals as at the financial year-end, R272 373 000 (2008: R140 444 000) had been outstanding for longer than 30 days in contradiction to the prescripts of Treasury Regulation 8.2.3. Had the department been able to pay these suppliers within the prescribed time frame, this would have resulted in additional unauthorised expenditure of the same value. The accruals of the department increased significantly in the year under review due to the cash flow constraints faced by the department as a result of the underfunding of the vote.

Other matters

Non-compliance with applicable legislation

No interest was levied on outstanding patient fees as prescribed by Treasury Regulation 11.5.1.

Key governance responsibilities

Significant difficulties were experienced during the audit to obtain information on communicated deadlines.

- The financial statements submitted for auditing had to be significantly adjusted as a result of the audit.
- 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 prior year's external audit recommendations had not been substantially implemented.

5.2.7 LOCAL GOVERNMENT AND HOUSING

Qualified

Movable tangible capital assets

- I was unable to obtain sufficient appropriate audit evidence to conclude on the existence of major movable tangible capital assets amounting to R4 146 532 and minor movable tangible assets of R1 782 686.
- The valuation of certain assets listed at R1 could also not be confirmed, as cost or fair value valuations were not readily available.

Irregular expenditure

I could not be provided with sufficient, appropriate audit evidence that management had properly identified and recorded all irregular expenditure transactions during the year under review.

Other matters

Non-compliance with applicable legislation

Payments to suppliers were not always made within 30 days as prescribed by Treasury Regulation 8.2.3.

Key governance responsibilities

- Information requested from the department was not always readily available.
- The annual report was not submitted prior to the tabling of the auditor's report.
- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- 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 had not been substantially implemented.

5.2.8 DEPARTMENT OF THE PREMIER

Financially unqualified (with other matters)

Emphasis of matters

Irregular expenditure

Irregular expenditure to the amount of R887 000 was incurred during the year under review.



Other matters

Key governance deficiencies

The internal audit function did not substantially fulfil its responsibilities for the year.

5.2.9 PUBLIC WORKS AND ROADS

Qualified

Immovable tangible capital assets

- The fair values amounting to R25 164 889 480 could not be recalculated due to inadequate information in the fixed asset register.
- Additions to non-residential buildings amounting to R282 975 000 could not be confirmed, as management did not obtain certificates of completion for improvements capitalised.
- Assets transferred and removed from the fixed asset register amounting to R2 217 957 000 were still registered in the name of the department.
- The fixed asset register was not updated with additions in respect of quarries and secondary roads amounting to R280 000 and R4 450 581 645, respectively.

Movable tangible capital assets

Movable tangible capital assets amounting to R28 479 000 could not be traced to the fixed asset register.

Irregular expenditure

I could not be provided with sufficient, appropriate audit evidence that management had properly identified and recorded all irregular expenditure transactions during the year under review.

Receivables

Claims recoverable from provincial departments were understated by R16 305 000.

Receivables for departmental revenue

Lease agreements between the department as landlord and tenants occupying state property could either not be provided or had expired and not been renewed to confirm the existence, completeness and valuation of receivables amounting to R17 322 000.

Lease commitments

Signed lease agreements with landlords could not be obtained to confirm lease commitments amounting to R98 306 000.

Emphasis of matters

Basis of accounting

The National Treasury approved a deviation from the basis of accounting applicable to departments on 31



March 2009, which granted the department exemption from recognition of immovable assets at cost as at 1 April 2008.

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure to the amount of R2 962 000 was incurred during the year under review.

Material underspending of the budget and financial sustainability

- The department materially underspent the budget by a total of R72 351 000 in respect of conditional grant allocation for the devolution of property rates and programme 3 (roads).
- An evaluation of the cash flow position of the department confirmed that amounts payable exceeded amounts receivable by R310 500 000 at the year-end. This deficit constitutes 44% of the 2009-10 budget from which it will be financed.

Restatement of corresponding figures

Corresponding figures were restated to reflect transfer of programmes 4 and 5 to the Department of Public Safety, Security and Liaison.

Other matters

Non-compliance with applicable legislation

- Creditors amounting to R42 392 413 were not settled within 30 days as prescribed by Treasury Regulation 8.2.3.
- Bidders for procurement contracts were rejected based on deviation of the bid price from a predetermined estimate in contravention of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000).

5.2.10 SOCIAL DEVELOPMENT

Qualified

Tangible capital assets

The completeness of the department's tangible capital assets could not be confirmed, as well as the valuation of assets of R26 903 281 and the existence of assets of R7 462 000.

Emphasis of matters

Irregular expenditure

Irregular expenditure to the amount of R207 243 000 (2008: R49 300 000) was incurred, as the department made transfer payments in contravention of the requirements of Treasury Regulation 8.4.



Other matters

Non-compliance with applicable legislation

Contrary to Treasury Regulation 21.4.1, proof could not be obtained that the department submitted to the provincial treasury a certificate from both the Public Protector and the Auditor-General, relating to a donor who wished to remain anonymous.

Key governance responsibilities

- The audit committee did not operate in accordance with approved, written terms of reference and 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 had been not been substantially implemented.

5.2.11 SPORT, ARTS AND CULTURE

Qualified

Movable tangible capital assets

I was unable to confirm the completeness of assets as disclosed. The department itself identified assets amounting to R3 million of which the locations could not be established.

Emphasis of matters

Accruals

Accruals amounting to R19,9 million exceeded the payment terms of 30 days as set out in Treasury Regulation 8.2.3. This amount also exceeded the voted funds to be surrendered for the year. Should the department have paid the amounts due as required, an amount of R18 million would have been incurred as unauthorised expenditure.

Other matters

Non-compliance with applicable legislation

Evidence that a complete verification of assets was carried out by the department could not be submitted.

Key governance deficiencies

- 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.
- An updated risk assessment was not performed.
- The prior year's external audit recommendations had been not been substantially implemented.



5.3 SUMMARIES OF AUDIT REPORTS OF PROVINCIAL PUBLIC ENTITIES

5.3.1 FREE STATE GAMBLING AND RACING BOARD

Financially unqualified (with other matters)

Emphasis of matters

Significant uncertainty regarding pending litigation

Litigation was filed against the Free State Gambling and Racing Board relating to the awarding of route operator licences. Since this litigation was not finalised at the reporting date and the ultimate outcome of the matter could not be determined, no provision for any liability that might result had been made in the financial statements.

Restatement of corresponding figures

Corresponding figures for 31 March 2008 were restated as a result of errors identified during the audit, a change in accounting policy for property, plant and equipment, and the classification of asset classes and the liability for performance bonuses.

Other matters

Non-compliance with applicable legislation

The composition of the board appointed by the responsible Member of the Executive Council resulted in a contravention of section 4 of the Free State Gambling and Racing Act, 1996 (Act No. 6 of 1996).

Key governance responsibilities

- Significant difficulties were experienced during the audit concerning delays and the availability of requested information.
- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- Key officials were not available throughout the audit process.
- The public entity did not have an internal audit function in operation throughout the financial year.
- The internal audit function did not substantially fulfil its responsibilities for the year.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.



5.3.2 FREE STATE INVESTMENT PROMOTION AGENCY

Financially unqualified (with other matters)

Other matters

Non-compliance with applicable legislation

- Evidence could not be obtained that the entity conducted a risk assessment as required by Treasury Regulation 27.2.1.
- The accounting authority did not develop a materiality and significance framework for the financial year ended 31 March 2009, as required by Treasury Regulation 28.3.1.

Key governance responsibilities

- 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.

5.3.3 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

Fruitless and wasteful expenditure amounting to R25 617 was incurred, as penalties and interest were paid as a result of non-compliance with tax legislation.

Other matters

Key governance responsibilities

- The financial statements submitted for auditing were subjected to material corrections resulting from the audit.
- The accounting authority did not approve the risk assessment; consequently the internal audit plan was not approved by the audit committee.
- Internal audit did not substantially fulfil its responsibility for the year.
- The entity did not maintain effective, efficient and transparent system and internal controls regarding performance information.

Investigations

A forensic investigation was conducted by an independent firm at the request of the Premier of the Free State. This report had still not been submitted to the Free State Tourism Authority at the reporting date.



5.3.4 FREE STATE YOUTH COMMISSION

Financially unqualified (with other matters)

Emphasis of matters

Repeal of enabling legislation

The Free State Youth Commission Act was repealed on 29 July 2009 and the Free State Youth Commission will be merged with the National Youth Development Agency.

Significant uncertainty

- The commission defaulted on a payment of R286 208 as it believed that the new supplier of photocopier machines would cover the debt. The ultimate outcome of the matter could not be determined at the reporting date, and no provision for any liability that might result was made in the financial statements.
- The commission terminated an agreement with the external service provider to create and facilitate a training programme in the Free State for youth development. As a result, litigation might arise, the amount and timing of which were uncertain at the reporting date. The agreed amount according to the contract was R37 000 000.

Unauthorised, irregular and fruitless and wasteful expenditure

- Fruitless and wasteful expenditure totalling R31 385 was incurred, as penalties and interest were paid to the South African Revenue Service due to late payment of salary-related deductions and interest paid due to late payments to suppliers.
- Irregular expenditure amounting to R303 570 was incurred, as finance leases were entered into without proper procurement procedures being followed and without expenditure being properly authorised.

Other matters

Non-compliance with applicable legislation

- No proof could be obtained that disciplinary steps were taken as a result of fruitless and wasteful expenditure as required by section 51(1)(e)(iii) of the PFMA.
- Payments amounting to R1 201 254 were not made within 30 days of the date of receipt of the invoice as prescribed by Treasury Regulation 8.2.3.

Key governance responsibilities

- 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.
- Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
- 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 substantially fulfil its responsibilities for the year.



- Powers and duties had not been assigned as set out in section 56 of the PFMA.
- The information systems were not appropriate to facilitate the preparation of a performance report that was accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.

5.3.5 PHAKISA MAJOR SPORT EVENTS AND DEVELOPMENT CORPORATION

Financially unqualified (with other matters)

Other matters

Non-compliance with applicable legislation

- Current board members were appointed for a period of three years and not 18 months as prescribed by Phakisa Act, 1997 (Act No. 4 of 1997)
- Invoices were not settled within 30 days as required by Treasury Regulation 8.2.3.

Key governance responsibilities

- Phakisa did not have their own audit committee and internal audit function, but made use of the audit committee and internal audit section of the Department of Sport, Arts and Culture. No service level agreement had, however, been entered into and no new internal audits relating to internal controls, fraud prevention, financial reporting or performance information were performed during the financial year.
- Audit communications had not been responded to timeously, resulting in unnecessary delays in the audit process.
- Financial statements submitted for auditing required material amendments in order to avoid a qualified audit opinion.
- Key officials were not available throughout the audit process.
- Risk assessments did not include an updated fraud prevention plan.
- Powers and duties had not been assigned as set out in section 56 of the PFMA.
- A performance report was not submitted timeously for audit purposes. Information systems and control processes and procedures were not adequate to facilitate the preparation of a performance report that was accurate and complete.
- Ongoing monitoring and supervision were not undertaken to enable an assessment of the effectiveness of internal control over performance and financial reporting.

5.4 SUMMARIES OF AUDIT REPORTS FOR PROVINCIAL OTHER ENTITIES

5.4.1 CENTRAL MEDICAL TRADING ACCOUNT

Financially unqualified (with other matters)

Emphasis of matters

Restatement of corresponding figures

Corresponding figures for 31 March 2008 were restated as a result of a reclassification of liabilities to retained earnings.



Other matters

Non-compliance with applicable legislation

Payments amounting to R6 994 565 were not made within 30 days of the date of receipt of the invoice as prescribed by Treasury Regulation 8.2.3

Key governance responsibilities

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- The trading entity did not have an audit committee in operation throughout the financial year.
- 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 information systems were not appropriate to facilitate the preparation of a performance report that is accurate and complete.
- Adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information.
- A strategic plan was not prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery against its mandate, predetermined objectives, outputs, indicators and targets.

5.4.2 FREE STATE HOUSING FUND

Financially unqualified (with other matters)

Other matters

Key governance responsibilities

- The financial statements submitted for auditing were subject to material amendments resulting from the audit.
- 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 substantially fulfil its responsibilities for the year.

5.4.3 FREE STATE LIQUOR AUTHORITY

Financially unqualified (with other matters)

Key governance responsibilities

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



Overall reflections on the governance framework based on other key governance requirements

- The Free State Liquor Authority is an unlisted public entity which was established in terms of the Free State Liquor Act, 2007 (Act No. 3 of 2007). It is important to note that only section 47 of the PFMA is applicable to entities that meet the definition of a public entity contained in the PFMA, but that have not been listed as such in either schedule 2 or 3 of the PFMA. The entity complied with the requirements of section 47 of the act.
- As the entity only commenced operations during the year under review, many of the internal control mechanisms and key governance structures had not been established or implemented yet.

5.4.4 FREE STATE FLEET MANAGEMENT TRADING ENTITY

Financially unqualified (with no other matters)

Emphasis of matters

Restatement of corresponding figures

- Corresponding figures for 31 March 2008 were restated as a result of errors identified during the audit.
- It was not practicable to determine the period-specific effects of an error in the corresponding figures where management erroneously calculated the revaluation of the road building equipment on the fleet as a whole instead of on individual assets. The estimated misstatement for the year ended 31 March 2009 amounts to R189 000 and was deemed to be immaterial by management.

5.4.5 JAMES ROBERTSON BURSARY FUND

Financially unqualified (with no other matters)

5.4.6 NATURE CONSERVATION TRUST FUND

Financially unqualified (with no other matters)

5.4.7 PRIVATE PATIENT FUND TRUST

Financially unqualified (with no other matters)

5.4.8 RECREATION FUND TRUST

Financially unqualified (with no other matters)

5.4.9 SMALL HOLDINGS TRUST FUND

Financially unqualified (with other matters)

Other matters

Key governance responsibilities

- 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 substantially fulfil its responsibilities for the year.

5.4.10 THOMAS ROBERTSON BURSARY FUND

Financially unqualified (with no other matters)

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