



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

2014-15
PFMA



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

Our reputation promise/mission

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



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

General report on audit outcomes

FREE STATE PFMA 2014-15

The information and insights presented in this flagship publication are aimed at empowering oversight structures and executive leaders to focus on those issues that will result in reliable financial statements, credible reporting on service delivery and compliance with key legislation.

This publication also captures the commitments that leaders have made to improve audit outcomes.

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

Auditor-General

Kimi Makwetu
Auditor-General



HIGHLIGHTS



Six auditees achieved clean audit status
(Section 1)

Improvement in audit outcomes
(Section 1)



Slow progress towards improving the reliability
and usefulness of annual performance reports
(Section 3)



Supply chain management is improving, but
remains the largest contributor to irregular
expenditure of R1 569 million
(Section 2.2.2)

Improvement in the quality of financial
statements submitted for audit
(Section 2.1)



89% financially unqualified audit opinions,
but some qualifications were avoided by
correcting material misstatements identified
during the audit process
(Section 2.1.1)



Material non-compliance with legislation by
67% of auditees
(Section 2.2.1)



Reduction in irregular and fruitless and
wasteful expenditure while unauthorised
expenditure increased
(Section 2.2.2; 2.2.3 and 2.2.4)



Financial health of auditees is deteriorating
(Section 2.3)



Key controls improved and can be attributed to the increase in the assurance provided by leadership, senior management, internal audit and audit committees. Further improvement in audit outcomes is only possible through improved assurance by key role players
(Section 5.1 and 5.4)



Lack of progress in in information technology controls
(Section 5.2)

Auditees and key role players are slow to respond to recommendations at 67% of auditees
(Section 5.3.1)



Inadequate consequences for poor performance and transgressions at 44% of auditees
(Section 5.3.2)



Human resource management is improving but instability or vacancies in key positions a concern at 44% of auditees
(Section 4.1.1 and 5.3.3)

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FREE STATE CLEAN AUDITS 2014-15



DEPARTMENTS

Office of the Premier
Provincial Legislature
Provincial Treasury
Public Works
Sport, Arts, Culture and Recreation



PUBLIC ENTITY

Free State Fleet Management Trading Entity



FOREWORD

FOREWORD



Auditor-General

Kimi Makwetu
Auditor-General

It is with pleasure that I present to the Free State Legislature my 2014-15 general report on the audit outcomes of the provincial government for the financial year ended 31 March 2015.

Over the last few years, there was a slow but steady year-on-year improvement in audit outcomes. The slow progress was because of the lack of improvement in the key control environment. The provincial executive leadership previously committed to address the competency shortcomings; address poor performance and transgressions in supply chain management; finalise performance contracts for senior management; attract and retain officials with relevant skills and competencies; and meet with the AGSA on a quarterly basis to discuss the key control matrix. Most of these commitments are still in progress. However, the commitments to provide guidance on the utilisation of implementing agents and to assist the portfolio committees in fulfilling their oversight responsibilities have not yet been implemented. Although the commitments have not been implemented fully, the progress made contributed to improved audit outcomes in 2014-15, especially those relating to consequence management, attraction and retention of competent staff members and leadership who met with the AGSA regularly. An audit intervention forum chaired by the member of the executive council of Finance was also established during the year to discuss transversal audit matters, to intervene, where required, to facilitate conclusion of unresolved outstanding matters and to provide

the necessary political leadership during the audit process.

There was an improvement in the key control environment of auditees, which resulted in improved quality of financial statements, less material non-compliance findings as well as a decrease in the amount of irregular expenditure. The improved key controls can be attributed to the increase in the assurance provided by leadership, senior management, internal audit and audit committees.

The overall picture of audit outcomes in 2014-15 therefore shows an improvement, with six auditees (32%) attaining clean audit outcomes. Two departments improved to a clean audit opinion, while one department improved to an unqualified audit opinion with findings. The progress at these auditees was due to the leadership's commitment and dedication to address prior year audit findings. It is commendable to note that no audit opinions regressed in the current year.

Non-compliance with laws and regulations was evident at 67% of auditees. There was an improvement in the number of auditees with material supply chain management findings. Although irregular expenditure levels remain high, it decreased by 30% since the prior year, as most auditees were able to significantly reduce and limit the occurrence of irregular expenditure. However, of concern is that 99% of the irregular expenditure in the province was incurred by three

of the leading service delivery departments, namely the departments of Education, Health and Human Settlements. Adequate steps were not taken to implement consequences for poor performance and transgressions at these departments. The essence of the matters giving rise to irregular expenditure still requires the leadership to investigate further to ascertain the underlying causes for these transgressions so as to enable appropriate steps to be taken to prevent recurrence or hold accountable those that may be systematically circumventing controls. The financial statements of six auditees disclosed that they still had to review the procurement process undertaken to determine the possibility or full extent of their irregular expenditure, which could result in a significant increase in irregular expenditure in the coming year.

The province made slow progress in the area of reporting on predetermined objectives to ensure transparent reporting on the status of their service delivery objectives. Although 50% of auditees had no findings on performance information, the quality of submitted annual performance reports regressed as material adjustments had to be made to the annual performance reports of 25% of auditees to avoid findings. Furthermore, ineffective oversight on information technology systems and the controls thereto contributed to the lack of progress in the area of information technology.

The financial health of the province has deteriorated since the previous year as 10 auditees (56%) encountered serious concerns relating to financial sustainability. The 28% increase in unauthorised expenditure, mainly incurred by the Department of Education, puts further pressure on the severe cash flow constraints experienced by the province. If the current situation is not addressed, this will have a significant impact on service delivery in future. The provincial treasury intervened at the Departments of Health at the beginning of the financial year and at Education from 1 April 2015, in terms of section 36(3) of the PFMA, by taking over the accounting officer's financial administration responsibilities due to the poor state of financial health, which impacts negatively on service delivery.

Although the improvements in outcomes are noted, there are still some challenges that need to be addressed by the province to enable all the auditees to eventually achieve good outcomes. The challenge remains for the province to build a public service characterised by transparent financial and performance reporting. At the heart of improved audit outcomes is a leadership tone that must inform the seriousness and urgency with which appropriate action plans and initiatives are implemented and monitored. The first level of assurance should further improve by ensuring that the leadership responds to my messages and implements monthly key controls and action plans timeously. Where inadequate controls still existed, it was mainly due to slow response by management at 67% of auditees. The leadership should also attend to the lack of consequences for poor performance and transgressions as well as vacancies and instability in key positions and staff supporting them at 44% of the auditees. The premier re-committed to implement all of the commitments made in the prior year.

My staff and I remain committed to working with the provincial leadership to further improve governance and accountability, so as to build public confidence in the provincial government sector and in the province's ability to account for public resources in a transparent manner.

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

Auditor-General

Auditor-General

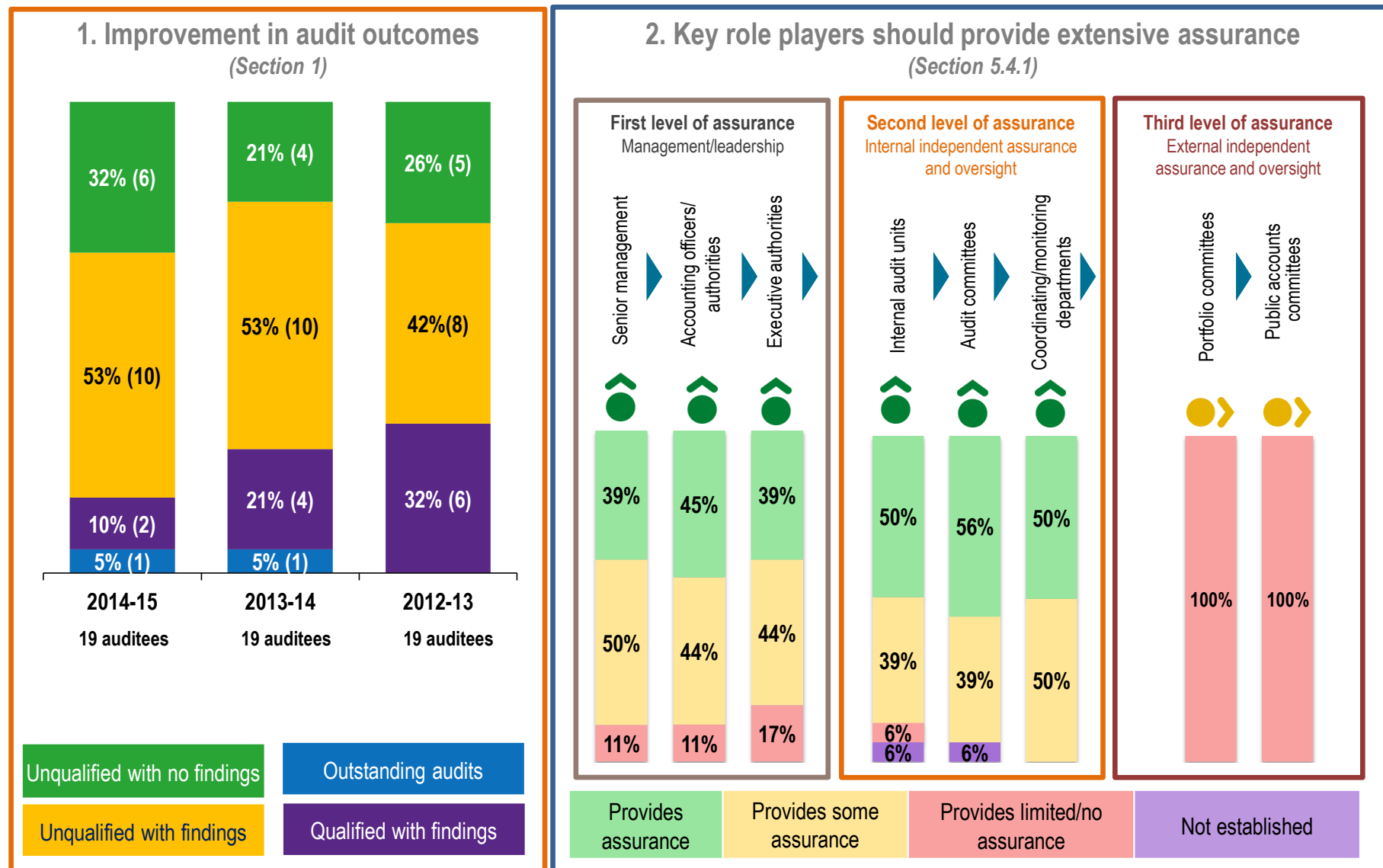
Pretoria

November 2015

OVERVIEW

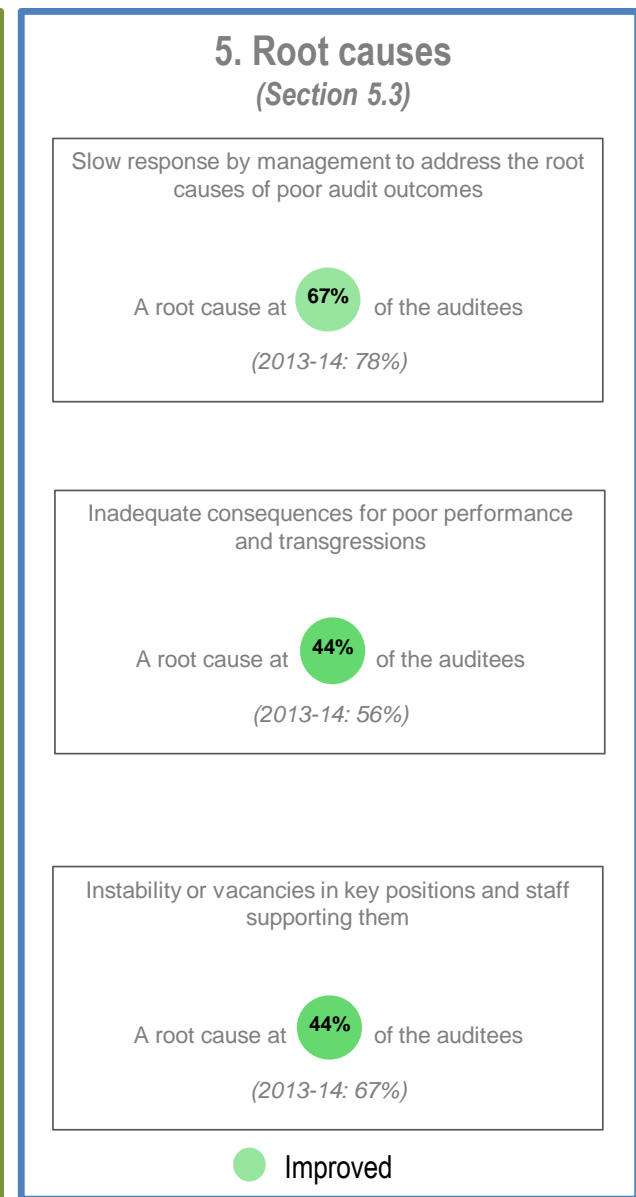
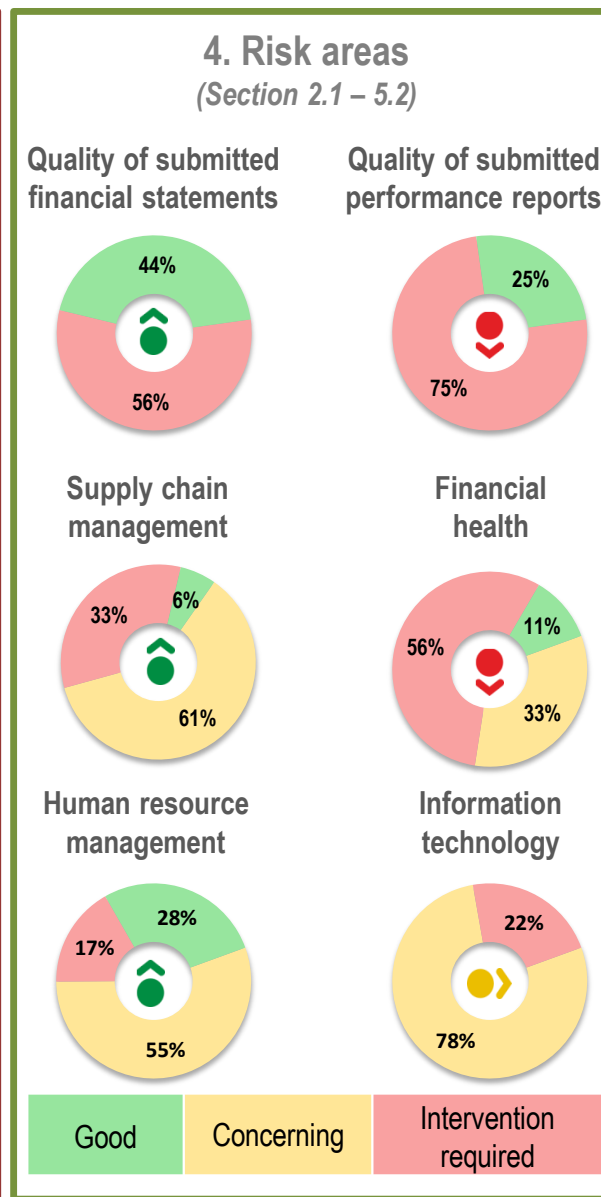
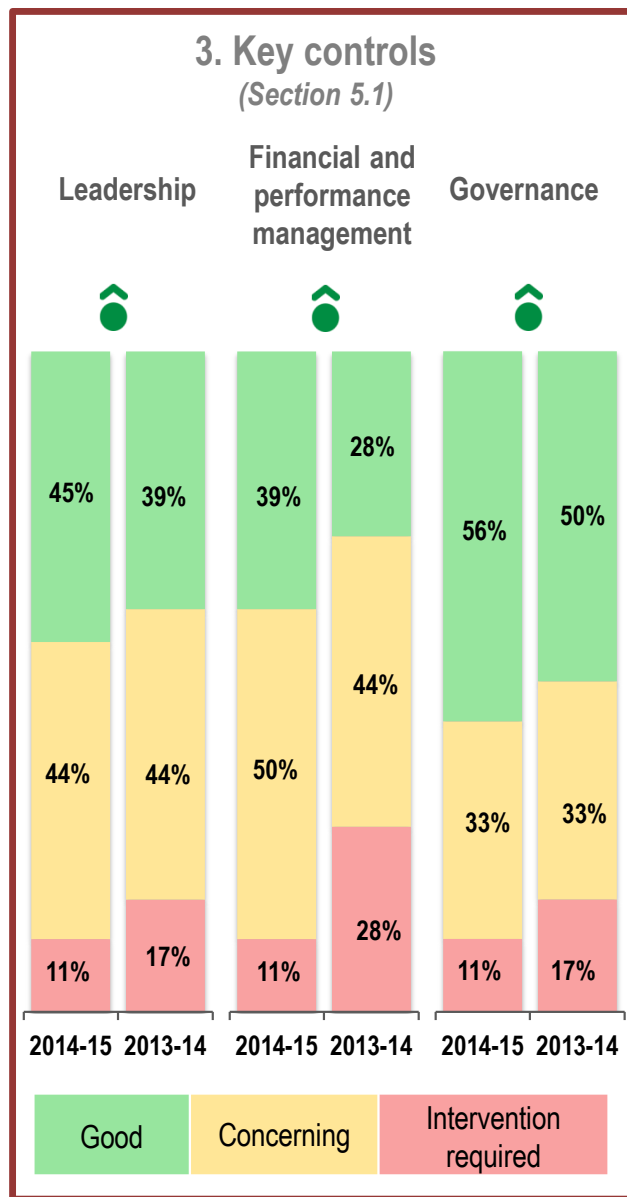
Summary of our message

Figure 1: Overview of the audit message



To improve the **audit outcomes**,

the **key role players** need to ...



... pay attention to the **key controls**,

the **risk areas**, and

the **root causes/ best practices**.

Our audit and reporting process

We audit every department, legislature (reported as a department) and eight of the public entities in the province, collectively called *auditees* in this report, so that we can report on **the quality of their financial statements** and **annual performance reports** and on **their compliance with key legislation**.

We also assess the root cause of any error or non-compliance, based on the internal control that had failed to prevent or detect it. We report in the following three types of reports:

- We report our findings, root causes and recommendations in **management reports** to the senior management and accounting officers or authorities of auditees, which are also shared with the MECs and audit committees.
- Our opinion on the financial statements, material findings on the annual performance report and compliance with key legislation as well as significant deficiencies in internal controls are included in an **audit report**, which is published with the auditee's annual report and dealt with by the public accounts committees (PACs) and portfolio committees as applicable.
- Annually we report on the audit outcomes of all auditees in a **provincial general report** (such as this one), in which we also analyse the root causes that need to be addressed to improve audit outcomes in the province. Before the general reports are published, we share the outcomes and root causes with the provincial leadership, the provincial legislature and key role players in national and provincial government.

Over the past few years, we have intensified our efforts to assist with improving the audit outcomes by identifying **the key controls** that should be in place at auditees, regularly assessing these and sharing the assessment with members of the executive, accounting officers and authorities, as well as audit committees.

We further identified the following **key risk areas** that need to be addressed to improve audit outcomes as well as financial and performance management, and we specifically audit these so that we can report on their status: ■ quality of submitted financial statements and performance reports ■ supply chain management (SCM) ■ financial health ■ information technology (IT) controls ■ human resource (HR) management (including the use of consultants).

During the audit process, we work closely with the accounting officer or authority, senior management, audit committee and internal audit unit, as they are **key role players** in providing assurance on the credibility of the auditee's financial statements and performance report as well as on their compliance with legislation.

We also continue to strengthen our relationships with the MECs, the premier and the provincial treasury, as we are convinced that their involvement and oversight should play – and will continue to play – a crucial role in the performance of auditees in the province. We share our messages on key controls, risk areas and

root causes with them, and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

Figure 1 gives an overview of our message on the 2014-15 audit outcomes, which is a continuation of what we had reported and recommended in our last report on the audit outcomes in the province. The figures show our opinion on auditees' financial statements and whether we had identified material audit findings on the quality of their annual performance report and compliance with key legislation.

The overall audit outcomes fall into the following categories:

1. Auditees that received a **financially unqualified opinion with no findings** were able to:
 - produce financial statements free from material misstatements (*material misstatements* means errors or omissions that are so significant that they affect the credibility and reliability of the financial statements)
 - measure and report on their performance against the predetermined objectives in their annual performance plan in a manner that is useful and reliable
 - comply with key legislation.

This audit outcome is also commonly referred to as a *clean audit*.

2. Auditees that received a **financially unqualified opinion with findings** were able to produce financial statements without material misstatements but struggled to:
 - align their performance reports to the predetermined objectives they committed to in their annual performance plans
 - set clear performance indicators and targets to measure their performance against their predetermined objectives
 - report reliably on whether they had achieved their performance targets
 - determine which key legislation they should comply with and implement the required policies, procedures and controls to ensure that they comply.
3. Auditees that received a **financially qualified opinion with findings** have the same challenges as those that were financially unqualified with findings but, in addition, they could not produce credible and reliable financial statements. There were material misstatements in their financial statements, which they could not correct before the financial statements were published.
4. The financial statements of auditees with an **adverse opinion with findings** included so many material misstatements that we disagreed with virtually all the amounts and disclosures in the financial statements.
5. Those auditees with a **disclaimed opinion with findings** could not provide us with evidence for most of the amounts and disclosures in the financial statements. We were unable to conclude or express an opinion on the credibility of their financial statements.

6. Auditees with adverse and disclaimed opinions are typically also:
- unable to provide sufficient supporting documentation for the achievements they report in their annual performance reports
 - not complying with key legislation.

Please note that when looking at the figures and the rest of the report, only a movement of more than 5% (in the number of auditees) is regarded as an improvement or a regression. Movement is depicted as follows:



The rest of the report summarises the audit outcomes, including our key recommendations for improvement and role players' impact and initiatives. The report also includes three annexures that detail the audit outcomes and findings per auditee, the status of the drivers of internal control at the auditees, and a five-year view of the audit outcomes. The glossary of terms included after the annexures defines the terminology used in our general reports.

Characteristics of each of the categories of audit outcomes

The table on the following pages summarises the characteristics of auditees that fall within the different categories of audit outcomes. We have included this summary to:

- assist the reader to understand the different audit outcomes
- highlight the good practices of auditees with clean audit opinions
- emphasise that auditees with an unqualified opinion with findings still have serious weaknesses that should be dealt with
- explain why auditees with qualified, adverse and disclaimed opinions are failing.

Table 1: Characteristics of auditees within the different categories of audit outcomes

Area	Best practices for clean audits (6)	Unqualified with findings (10)	Qualified with findings (2)	Disclaimed with findings (0)
<i>Financial statements</i>	<p>Produced financial statements free from material misstatements.</p>	<p>Two auditees (20%) submitted financial statements that did not contain any material misstatements.</p> <p>Eight auditees (80%) produced financial statements with material misstatements, but corrected these during the audit process.</p> <p>The most common areas in which auditees made corrections were:</p> <ul style="list-style-type: none"> • Contingent liabilities and commitments (eight auditees) • Expenditure (five auditees) • Property, infrastructure, plant and equipment (four auditees) • Receivables (four auditees) • Related parties (four auditees) 	<p>Both auditees produced financial statements with material misstatements, which they could not correct before the financial statements were published.</p> <p>The only areas in which they could not make corrections were:</p> <ul style="list-style-type: none"> • Property, infrastructure, plant and equipment (one auditee) • Payables and accruals (one auditee) • Irregular expenditure (one auditee). • Commitments (one auditee) • Employee benefits (one auditee) 	<p>Could not provide us with evidence for most of the amounts and disclosures in the financial statements. We were unable to conclude or express an opinion on the credibility of their financial statements.</p>

Area	Best practices for clean audits (6)	Unqualified with findings (10)	Qualified with findings (2)	Disclaimed with findings (0)
<i>Annual performance report</i>	<p>Measured and reported on their performance in the annual performance report against the predetermined objectives in their integrated development plan and/or service delivery and budget implementation plan, and in a manner that was useful and reliable.</p> <p>The Free State Fleet Management Trading Entity (17%) did not report on the performance information in their annual report as it was reported as part of the Department of Police, Roads and Transport's annual performance report.</p>	<p>The annual performance reports of six auditees (60%) were not useful and/or reliable.</p> <p>The Free State Tourism Authority (10%) had no findings, while two auditees: Cooperative Governance and Traditional Affairs and Free State Development corporation (20%) obtained good outcomes only because they corrected the misstatements identified during the audit.</p> <p>Central Medical Trading Account (10%) did not report on performance information as it was reported as part of the Department of Health's annual performance report.</p>	<p>The annual performance reports of two auditees – Department of Health and Human Settlements (100%) were not reliable.</p>	<p>Did not measure and report on their performance in the annual performance report against the predetermined objectives in their integrated development plan and/or service delivery and budget implementation plan, in a manner that was useful and reliable.</p>
<i>Compliance with key legislation</i>	<p>Complied with key legislation.</p>	<p>Ten auditees (100%) did not comply with key legislation.</p>	<p>Both auditees (100%) did not comply with key legislation.</p>	<p>Did not comply with key legislation.</p>

Area	Best practices for clean audits (6)	Unqualified with findings (10)	Qualified with findings (2)	Disclaimed with findings (0)
Key Controls	<p>The auditees had good controls or were working on the areas that needed further attention to ensure that their clean audit status was maintained. Their continued focus on these basic controls contributed to their success. Although not material, findings were raised in the management reports of some of these auditees, which management should attend to in order to avoid possible regression of audit outcomes in the future.</p> <ul style="list-style-type: none"> The leadership established a culture of ethical behaviour, commitment and good governance (100%). Good HR practices ensured that adequate and sufficiently skilled officials were in place and that their performance was managed (83%). Audit action plans were used to address internal control weaknesses (83%). Proper record keeping ensured that information was accessible and available to support financial and performance reporting (50%). Basic disciplines and controls were in place for daily and monthly processing and reconciling of transactions (100%). Mechanisms were in place to identify applicable legislation, changes and processes to ensure and monitor compliance with legislation (83%). 	<p>The auditees had good controls in some areas but should pay more attention to the basic controls, as the number of auditees with good controls in these areas was limited. This is also one of the reasons why many auditees are stagnating at an unqualified audit opinion with findings and are unable to improve to clean audit outcomes:</p> <ul style="list-style-type: none"> Effective leadership culture (50%) Effective audit action plans (20%) Proper record keeping (30%) Strong daily and monthly controls (20%) Review and monitor compliance (10%) <p>None of the auditees had good controls in the following areas:</p> <ul style="list-style-type: none"> Good HR controls Good ICT governance and controls 	<p>No auditees had good basic controls in any of the key control areas.</p> <p>The lack of adequate key controls prevents these auditees from improving their audit outcomes.</p> <p>The following areas should receive the most attention:</p> <ul style="list-style-type: none"> HR controls Effective audit action plans Good ICT governance and controls Strong daily and monthly controls Review and monitor compliance 	<p>The basic controls were in a poor state.</p>

Area	Best practices for clean audits (6)	Unqualified with findings (10)	Qualified with findings (2)	Disclaimed with findings (0)
Assurance providers	<p>Key role players worked together to provide assurance on the credibility of the financial statements and performance reports and to ensure compliance with key legislation.</p> <p>These auditees understood that assurance on the credibility of the information in the financial statements and performance reports came primarily from the actions of management / leadership and their governance partners – internal audit units and audit committees.</p> <p>Their political leadership provided a strong monitoring and oversight role and held the administration to account.</p> <p>The auditees where role players provided full assurance were:</p> <ul style="list-style-type: none"> • senior management (100%) • accounting officers / chief executive officers (CEOs) (100%) • executive authorities (83%) • internal audit units (100%) • audit committees (100%) 	<p>Only some of the role players at these auditees provided the required level of assurance.</p> <p>As a result, the financial statements and annual performance reports prepared, reviewed and signed off by the senior management and accounting officers or authorities of most of these auditees were materially misstated. The internal audit units and the audit committees did not add to the credibility of these reports, while monitoring and oversight by the political leadership did not have the desired impact.</p> <p>These role players also did not ensure or insist on strong controls to ensure compliance with key legislation and to prevent, or detect and correct, material misstatements.</p> <p>The auditees where role players provided full assurance were limited as depicted below:</p> <ul style="list-style-type: none"> • Senior management (10%) • Accounting officers / CEOs (20%) • Executive authorities (20%) • Internal audit units (30%) • Audit committees (40%) 	<p>None of the role players at these auditees provided the required assurance. The role players only provided some or limited/no assurance.</p>	<p>The contributions to assurance by the role players at these auditees were minimal.</p>

Area	Best practices for clean audits (6)	Unqualified with findings (10)	Qualified with findings (2)	Disclaimed with findings (0)
<i>Key officials</i>	<p>There were no vacancies in key positions (i.e. accounting officer, chief financial officer and head of the SCM unit). There was stability at the level of the accounting officer, CFO and head of the SCM unit – officials had been in these positions for four and a half years on average.</p>	<p>There were no vacancies in the accounting officer position but vacancies were identified in the following key positions:</p> <ul style="list-style-type: none"> • CFO – 10% • Head of the SCM unit – 50% <p>There was some stability, with key officials being in these positions just over three years on average.</p>	<p>There were no vacancies in key positions. There was, however, less stability, with key officials being in these positions for two and a half years on average.</p>	<p>The vacancies in key positions is the highest at these auditees</p>
<i>Use of DoRA grants</i>	<p>The departments used their conditional grants effectively:</p> <ul style="list-style-type: none"> • A total of 4% of these conditional grants had not been spent at year-end. • All the targets for the grants were achieved. 	<p>The departments in this category spent most of their grants, but had a lower achievement than auditees with clean audit opinions:</p> <ul style="list-style-type: none"> • A total of 5% of the grants were not spent at year-end. • Targets were not fully achieved for 38% of the conditional grants spent. • Two auditees (20%) did not spend the grants in accordance with the requirements of the grant framework. 	<p>The use of grants by departments was less effective in this category:</p> <ul style="list-style-type: none"> • A total of 1% of the grants was not spent. • Targets were not fully achieved for 70% of the conditional grants spent. • All of the auditees spent the grants in accordance with the requirements of the grant framework. 	<p>Departments in this category struggled the most to use their grants effectively</p>

Area	Best practices for clean audits (6)	Unqualified with findings (10)	Qualified with findings (2)	Disclaimed with findings (0)
Supply chain management and irregular expenditure	<p>The auditees had no material instances of non-compliance with SCM legislation. One auditee (17%) did not have any SCM findings, but five auditees (83%), although not material, still needed to improve in some of the SCM areas.</p> <p>Their irregular expenditure levels were low as a result of their good SCM practices. They incurred limited irregular expenditure, although they were responsible for 10% of the departmental budget.</p>	<p>In total, 40% of these auditees had material instances of non-compliance with SCM legislation. All ten auditees still needed to improve in some of the SCM areas.</p> <p>Their irregular expenditure levels were moderate as a result of their poor SCM practices in some of the areas. They incurred 16% of the total irregular expenditure, while being responsible for 57% of the departmental budget.</p> <p>At four auditees (40%), the accounting officer did not investigate the irregular expenditure of the previous year to determine if anyone was liable for the expenditure.</p>	<p>In total, 100% of these auditees had material instances of non-compliance with SCM legislation.</p> <p>Their irregular expenditure levels were high as a result of their poor SCM practices. They contributed the most to irregular expenditure at 84% of the total irregular expenditure, while being responsible for 33% of the departmental budget.</p> <p>The lack of investigations was more pronounced: At both auditees (100%), the accounting officer did not investigate the irregular expenditure of the previous year to determine if anyone was liable for the expenditure.</p>	<p>Limitations in performing the SCM audits are often experienced.</p> <p>Their irregular expenditure levels are high as a result of their poor SCM practices; and had it not been for the audit limitations, it could have been even higher. The accounting officers do not investigate the irregular expenditure of the previous year to determine if anyone was liable for the expenditure.</p>

Area	Best practices for clean audits (6)	Unqualified with findings (10)	Qualified with findings (2)	Disclaimed with findings (0)
Financial health and unauthorised expenditure	<p>Three auditees (50%) have material uncertainties relating to events and conditions that may cast significant doubt on the auditees' ability to meet their financial obligations as they fall due and the achievement of service delivery as outlined in their annual performance plan.</p> <p>Additional financial health indicators:</p> <ul style="list-style-type: none"> • Accrual-adjusted expenditure exceeded revenue (33%) • Debt collection period of more than 90 days (17%) • Capital budget was underspent by more than 10% (17%) • Year-end bank balance in overdraft (17%) • More than 10% of the debt was irrecoverable (17%) • More than 10% of next year's budget used for the current year's expenditure (17%) <p>The above is an indication of the extent of the financial situation in the province as auditees with clean audit outcomes also experience cash flow constraints.</p> <p>None of the auditees incurred unauthorised expenditure.</p>	<p>Six auditees (60%) have material uncertainties relating to events and conditions that may cast significant doubt on the auditees' ability to meet their financial obligations as they fall due and the achievement of service delivery as outlined in their annual performance plan.</p> <p>Additional unfavourable financial health indicators include:</p> <ul style="list-style-type: none"> • accrual-adjusted expenditure exceeded revenue (70%) • debt-collection period of more than 90 days (50%) • capital budget underspent by more than 10% (20%) • year-end bank balance in overdraft (30%) • more than 10% of debt irrecoverable (50%) • conditional grants underspent by more than 10% (30%) <p>One auditee incurred 98% of the unauthorised expenditure in the province.</p>	<p>One auditee (50%) has material uncertainties relating to events and conditions that may cast significant doubt on the auditee's ability to meet its financial obligations as they fall due and the achievement of service delivery as outlined in their annual performance plan.</p> <p>Additional unfavourable financial health indicators include:</p> <ul style="list-style-type: none"> • accrual-adjusted expenditure exceeded revenue (100%) • debt-collection period of more than 90 days (50%) • capital budget underspent by more than 10% (50%) • more than 10% of debt irrecoverable (50%) <p>One auditee incurred 2% of the unauthorised expenditure in the province.</p>	<p>Material uncertainties relating to events and conditions that may cast significant doubt on the auditees' ability to meet their financial obligations as they fall due and the achievement of service delivery as outlined in their annual performance plan.</p>

AUDIT OUTCOMES, ROOT CAUSES AND THE IMPACT OF KEY ROLE PLAYERS

1. Overall audit outcomes

Provincial government consists of 13 departments and eight public entities, including the Free State Housing Fund and the Nature Conservation Trust Fund, which are not included in this report as they are dormant. The Political Party Fund was also excluded from the analysis in this report, as they have not yet submitted annual financial statements for the 2014-15 and 2013-14 financial years.

The total budgeted expenditure of the province in 2014-15 was R28,546 billion. The following were the main areas of expenditure:

Departments

- Employee cost R17,359 billion
- Goods and services R5,253 billion
- Capital expenditure R2,037 billion
- Transfer payments R3,897 billion

Figure 1 (overview of the audit message) indicates that there has been an improvement in the overall audit outcomes as compared to the previous year. Table 2 analyses the movement in the audit outcomes of the different auditees since the previous year that had resulted in the net improvement in the audit outcomes of the province. Figure 2 shows a comparison of the budgeted expenditure administered by the auditees to their respective audit outcomes.


Three departments improved their audit outcomes. The Department of the Premier has regained its clean audit opinion from two years ago as they have addressed the findings on the completeness of their asset register relating to movable capital assets. The Department of Public Works and Infrastructure has managed to address their findings on the quality of their annual performance report as well as compliance with key legislation to improve to an unqualified opinion with no findings. The Department of Education has addressed the misallocations between the expenditure items in the financial statements that led to a qualification in the prior year.

Three of the four oversight departments, i.e. provincial treasury, the Free State Legislature and the Department of the Premier obtained clean audit opinions. The other governing department, Cooperative Governance and Traditional Affairs (CoGTA), which performs oversight over the affairs of local government (MFMA), was again not able to improve to a clean audit as it failed to address all findings on laws and regulations. It is evident from figure 1 and table 2 that the majority of auditees managed to obtain unqualified audit opinions with findings. Although this is the audit outcome where most auditees stagnated, there was a visible improvement in the key control environment, which resulted in improved quality of financial statements (section 2.1.1), fewer material non-compliance findings (section 2.2.1), as well as a decrease in the amount of irregular expenditure (section 2.2.2), and fruitless and wasteful expenditure (section 2.2.3). This is a result of the improvement in the assurance being provided by senior management and the

leadership, as well as by the internal audit unit and audit committees as detailed in section 5.4.1. The main reason for the improvement in key controls and the aforementioned sections was the timely response by management to address prior year findings; consequence management was implemented for poor performance and transgressions as well as an improvement in the stability and vacancies in key positions (section 5.3).

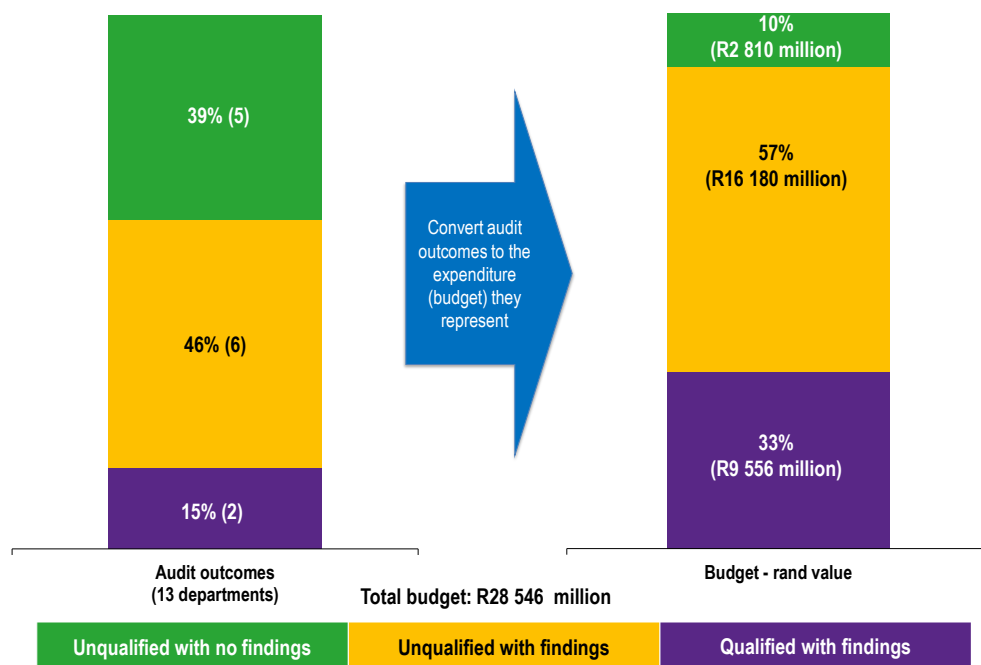
The sustainability of the improved audit outcomes remains a risk. It is therefore imperative for administrative leadership to be decisive in their decision-making and act in a timely manner to implement effective and sustainable internal controls and disciplines that support the preparation of reliable and credible financial and performance information, and prevent non-compliance with laws and regulations. This will support sustainable and further improvements in audit outcomes.

Table 2: Movement in audit outcomes

	3 Improved	15 Unchanged	1 Outstanding
Unqualified with no findings = 6	<ul style="list-style-type: none">Public Works and InfrastructurePremier	<ul style="list-style-type: none">Free State LegislatureProvincial TreasurySport, Arts, Culture and RecreationFleet Management	<ul style="list-style-type: none">Political Party Fund (2012-13)
Unqualified with findings = 10	<ul style="list-style-type: none">Education	<ul style="list-style-type: none">Agriculture and Rural DevelopmentCoGTAEconomic, Small Business Development, Tourism and Environmental AffairsPolice, Roads and TransportSocial DevelopmentCentral Medical Trading AccountFS Development CorporationGambling and Liquor AuthorityTourism Authority	
Qualified with findings = 2		<ul style="list-style-type: none">Human SettlementsHealth	

Colour of name indicates the audit opinion from which the auditee has moved.

Figure 2: Audit outcomes per budgeted expenditure (departments)



As depicted in figure 2, it is still of concern that the Departments of Health and Human Settlements obtained qualified audit opinions as they are responsible for 33% of the province's expenditure budget for which they could not report credible and reliable information in their annual financial statements and annual performance report. The main reason for the Department of Health not improving is a slow response by management, inadequate competencies in the financial and SCM units as well as a lack of consequences for poor performance and transgressions. The Department of Human Settlements was unable to improve their audit outcomes due to vacancies in the finance unit and slow response by management and leadership to address prior year findings.

It is imperative that these two auditees, as well as the other six departments who were unable to achieve clean audit opinions, should tighten their internal control environment so that they can ensure credible financial and performance reporting to achieve clean audit outcomes. It is worth emphasising that the achievement of clean audits and good governance by more departments will be of much greater benefit to the province and its citizens as the departments are responsible for a large portion of the province's budget and key service delivery.

Sections 2 and 3 analyse the quality of the financial statements and annual performance reports as well as compliance with key legislation that contributed to the overall audit outcomes.

2. Financial management

2.1 Annual financial statements

The purpose of the annual audit of the financial statements is to provide the users thereof with an opinion on whether the financial statements fairly present, in all material respects, the key financial information for the reporting period in accordance with the financial framework and applicable legislation. The audit provides the users with reasonable assurance on the degree to which the financial statements are reliable and credible, on the basis that the audit procedures performed did not identify any material errors or omissions in the financial statements. We use the term *material misstatement* to refer to such material errors or omissions.

Figure 3: Three-year trend – financial statements

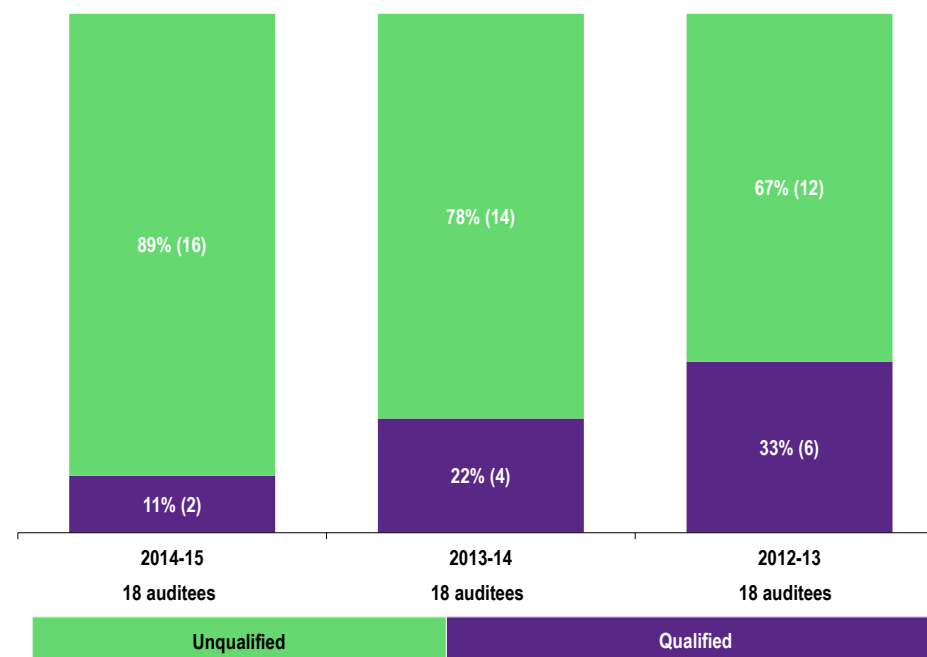
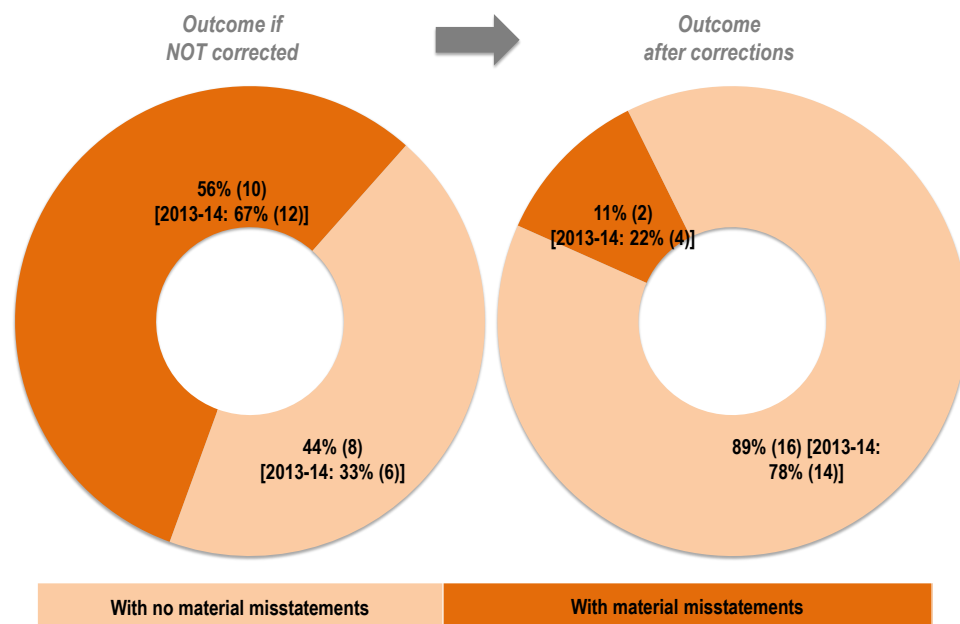


Figure 3 shows that there has been an improvement in the audit opinions on financial statements when compared to the previous year. This was due to a concerted effort by the management of the Departments of Education and the Premier to address their prior year qualifications. The Departments of Health and Human Settlements did not manage to address all their qualifications during the past three years as their basic daily and monthly controls are not yet all functioning effectively. All public entities maintained their unqualified audit opinions.

2.1.1 The quality of the financial statements submitted for auditing

Figure 4: Quality of financial statements submitted for auditing



While all auditees submitted their financial statements for auditing on time, figure 4 shows that only eight auditees (44%) submitted financial statements that did not contain material misstatements, six of which obtained clean audit opinions. Although they did not obtain clean audit opinions, the Departments of Agriculture and Rural Development together with Social Development also did not require material adjustments to their financial statements. Figure 4 also shows that another eight auditees received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. Therefore, only eight of the auditees would have received an unqualified audit opinion if we did not identify the misstatements and allowed them to make the corrections. The overall improvement in the quality of submitted financial statements is due to the improvements at the Departments of the Premier and Public Works and Infrastructure who submitted financial statements that did not contain material misstatements.

We report the poor quality of the financial statements we receive in the audit reports of auditees as a material compliance finding, as it also constitutes non-compliance with the PFMA. The finding is only reported if the financial statements we received for auditing included material misstatements that could have been prevented or detected if the auditee had an effective internal control system. We do not report a

finding if the misstatement resulted from an isolated incident or if it relates to the disclosure of unauthorised, irregular or fruitless and wasteful expenditure identified after the financial statements had been submitted.

The most common area that auditees corrected to achieve unqualified audit opinions was contingent liabilities and commitments, which was found at all eight auditees. This resulted from inadequate controls being implemented over manual systems throughout the year, as the financial systems do not adequately support these disclosure notes. Five auditees had to make material adjustments to expenditure due to incorrect classifications as a result of an overriding of controls, as well as inadequate reviews during the processing of transactions. The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

2.1.2 Financial statement areas qualified

The published financial statements of the Departments of Health and Human Settlements included the following material misstatements:

Health

- The department did not maintain a complete asset register, resulting in a repeat finding on movable tangible capital assets.
- Irregular expenditure disclosed was not complete, as the department did not have adequate processes in place to identify and record all instances of irregular expenditure. Management also failed to investigate the full extent of irregular expenditure identified by the auditors in prior years.
- Employee benefits accrued as a result of grade progressions that have not been disclosed in the financial statements.

The department was unable to address the above qualification areas due to a slow response by management to implement their audit action plans adequately, inadequate competencies in the financial and SCM units and a lack of consequences for poor performance and transgressions.

Human Settlements

- The department did not consistently maintain accurate and complete records of the contractual information for the current and prior year to enable credible reporting on commitments.
- Adequate systems were not in place to maintain records of accounts payable and accruals, resulting in a repeat finding in this area.

The department was unable to address the above qualification areas mainly due to vacancies in the finance unit and a slow response by management and leadership to address prior year findings.

2.1.3 Recommendations

Auditees that received qualified opinions and those that submitted financial statements of a poor quality for audit purposes should strengthen their processes and controls to create and sustain a control environment that supports reliable reporting. These auditees should implement at least the following key controls and best practices that are in place at auditees that received financially unqualified opinions:

- The accounting officer/authority and the management team are committed throughout the year to implement the recommendations made by the auditors in the previous year.
- The implementation of an effective performance management system, which addresses poor performance and ensures that consequence management is implemented.
- Auditees should implement daily and monthly processing and reconciling controls in the areas where material misstatements were identified in the financial statements submitted. The implementation of good management practices should ensure that the correct procedures are followed and accurate information is captured.
- The information for the disclosure notes to the financial statements should not only be prepared when compiling the year-end financial statements, but should also be recorded on a regular basis and reviewed monthly.
- Management should prioritise the filling of vacancies in positions, supporting them with adequately skilled people.

Auditees should ensure that adequate and immediate action is taken to address the root causes of material misstatements.

2.2 Compliance with key legislation

We annually audit and report on compliance with key legislation applicable to financial matters, financial management and other related matters.

We focused on the following areas in our compliance audits: ■ material misstatements in the submitted annual financial statements ■ asset and liability management ■ audit committee ■ budget management ■ expenditure management ■ unauthorised, irregular as well as fruitless and wasteful expenditure ■ consequence management ■ internal audit unit ■ revenue management ■ strategic planning and performance management ■ annual financial statements and annual report ■ transfer of funds and conditional grants ■ procurement and contract management (in other words, SCM) ■ HR management and compensation.

In the audit report, we reported findings from the audits that we consider material to be brought to the attention of oversight bodies and the public.

2.2.1 Status of, and findings on, compliance with key legislation

Figure 5: Three-year trend – compliance with key legislation

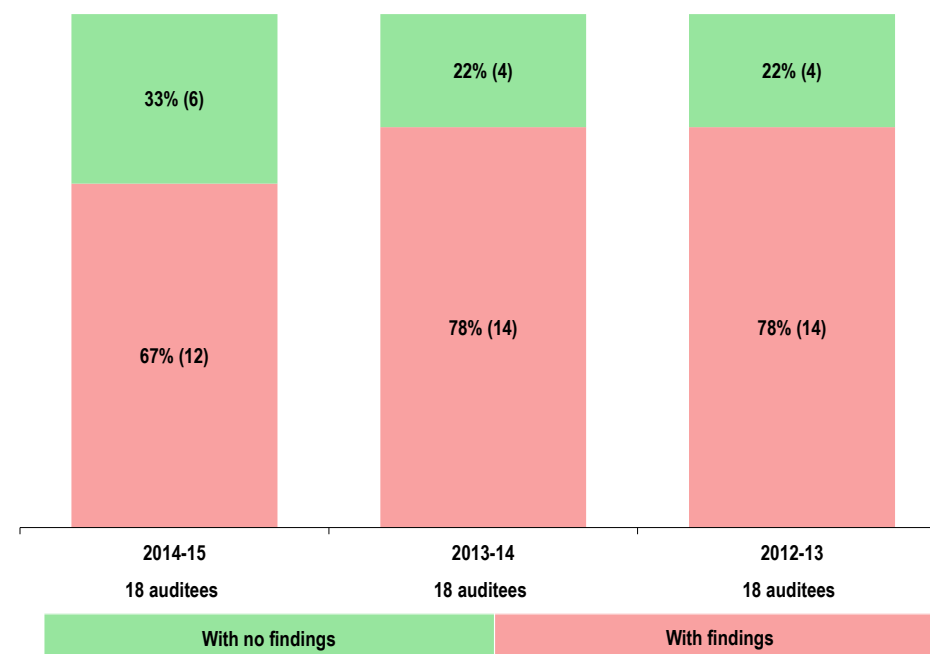
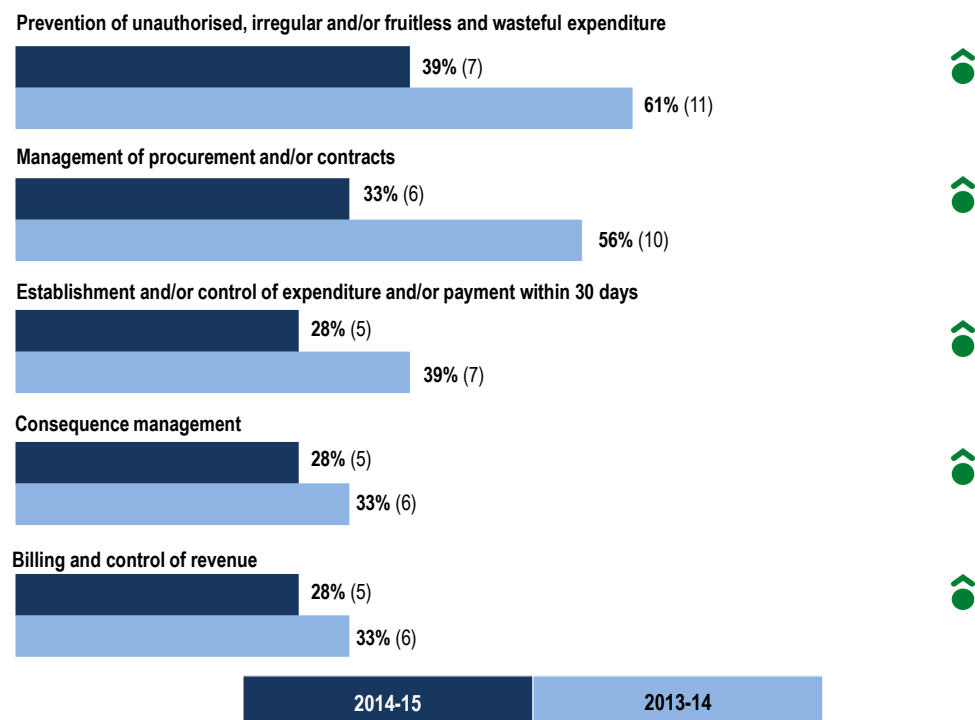


Figure 5 shows that there has been an increase in the number of auditees with no material findings on their compliance with key legislation when compared to the previous year. The improvement was due to the Departments of the Premier and Public Works and Infrastructure addressed their findings from the prior year as a result of consequence management for poor performance and transgressions by the leadership and management.

Figure 6: Most common areas of non-compliance with key legislation



- Unauthorised, irregular as well as fruitless and wasteful expenditure was not prevented or adequately dealt with, as discussed in sections 2.2.2, 2.2.3 and 2.2.4.
- Auditees did not comply with SCM legislation, as detailed in section 2.2.2.
- Payments to creditors were not made within 30 days from receipt of an invoice due to financial pressures experienced by the auditees, as further detailed in section 2.3.1.
- Effective and appropriate steps were not taken to collect all money due.

Sections 2.2.2 to 2.2.4 that follow, provide more information on SCM and unauthorised, irregular as well as fruitless and wasteful expenditure, followed by recommendations and best practices in section 2.5.

2.2.2 Weaknesses in supply chain management as a driver of irregular expenditure

Supply chain management

As part of our audits of SCM, we tested 309 contracts (with an approximate value of R3,6 billion) and 814 quotations (with an approximate value of R89,5 million), also referred to as *awards* in this report.

We tested whether the prescribed procurement processes had been followed, which would have ensured that all suppliers were given equal opportunity to compete and that some suppliers were not favoured above others. We also focused on contract management, as shortcomings in this area can result in delays, wastage as well as fruitless and wasteful expenditure, which in turn have a direct impact on service delivery.

We further assessed instances where employees and their close family members had a financial interest in suppliers of the auditee. Legislation does not prohibit awards to suppliers in which employees or their close family members have an interest, but requires the employees and prospective suppliers to declare the interest in order for the safeguards to be put in place to prevent improper influence and unfair procurement process.

We reported all the findings from the audit to management in a management report, while we reported the material compliance findings in the audit report.

Figure 6 shows the compliance areas with the most material findings and the progress made by auditees in addressing these findings. Overall, there has been an improvement in all areas of non-compliance. Some of the compliance findings had actual or potential financial loss implications estimated at 75% of the 12 auditees with findings. We would like to highlight that non-compliance in the areas of unauthorised irregular and fruitless expenditure, contract management, as well as the billing and control over revenue could lead to or contribute to potential financial loss.

Although the Departments of Agriculture and Rural Development and Police, Roads and Transport were unable to address all non-compliance findings, there was a significant improvement in the number of non-compliance findings since the prior year.

However, a high level of non-compliance with legislation was still evident at the Departments of Education, Health and Human Settlements. This was due to a slow response from management to monitor compliance throughout the year and to enforce proper governance and accountability practices. Two entities, Free State Tourism Authority and Gambling and Liquor Authority, also incurred high levels of non-compliance, mainly due to a lack of capacity at these entities. The most common findings across these compliance areas were the following:

Figure 7: Status of supply chain management

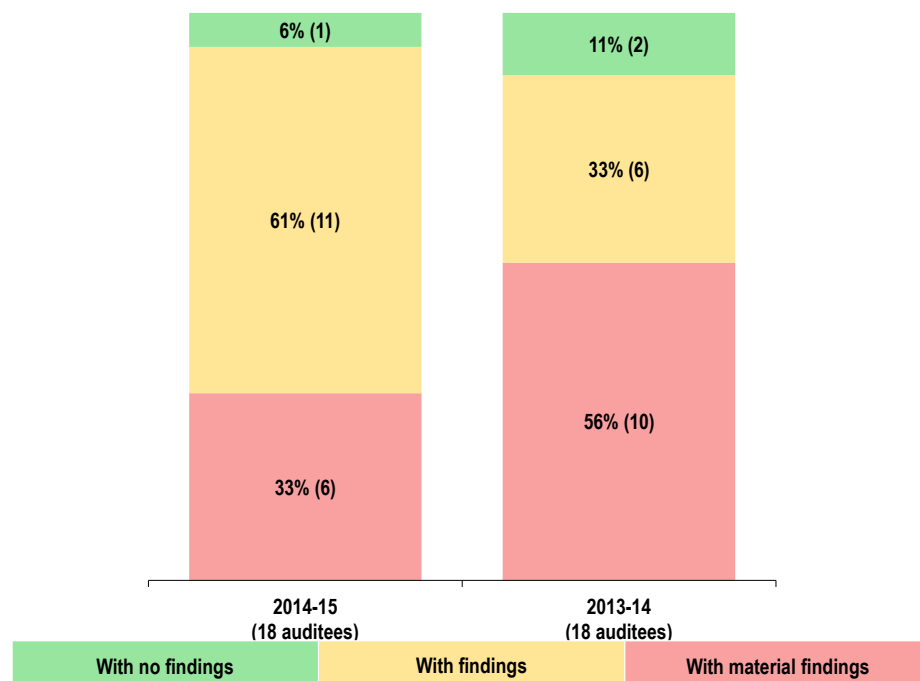


Figure 7 shows the number of auditees that had audit findings on SCM and those where we reported material compliance findings in the audit report in the current and previous year. It is clear that there has been a significant improvement in this area when compared to the previous year as a result of consequence management for poor performance and transgressions by the leadership and management. This improvement is also evident in the decrease in irregular expenditure incurred by R660 million (30%).

The following four auditees have managed to address material SCM findings from the prior year: Agriculture and Rural Development, Economic, Small Business Development, Tourism and Environmental Affairs, Public Works and Infrastructure, Free State Development Corporation. The Fleet Management Trading Entity again had no findings on SCM, while the Central Medical Trading Account regressed from the prior year to have findings on SCM, although not material.

Figure 8: Findings on supply chain management

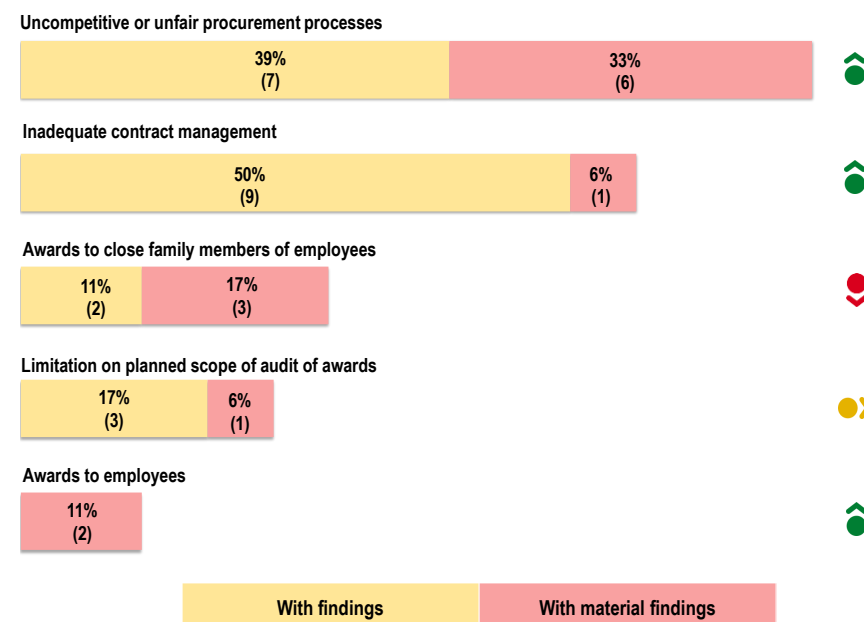


Figure 8 indicates the extent of findings in the areas we report on and the movement since the previous year. The following were the most common findings:

- This year, we again experienced limitations in auditing SCM. We could not audit awards with a value of R74 million at four auditees (2013-14: R6,3 million at three auditees), as they could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation. The main contributors (99%) were the Departments of Health and Human Settlements as well as the Free State Tourism Authority. We could also not perform any alternative audit procedures to obtain assurance that the expenditure incurred in this regard was not irregular. The main reason for the limitations was inadequate controls regarding record keeping. These awards require further investigation due to a high risk of fraud relating to these awards.
- There were 31 instances of awards to suppliers in which employees of the auditees had a financial interest with an overall value of R2,9 million. In six (19%) of these instances, the supplier did not declare the interest or submitted an interest declaration, while the employee did not declare the interest in 23 (74%) of the cases. The persons involved included a member of the accounting authority, as well as other employees not employed at senior management level.
- There were 117 instances of awards to suppliers in which close family members of employees of the auditees had an interest with an overall value of R48 million. In 84 (72%) of these instances, the supplier did not declare the interest

or submit an interest declaration, while the employee did not declare the interest in 89 (76%) of the cases. The persons involved included a member of the executive council, an accounting officer and other employees not employed at senior management level.

- The most common findings on uncompetitive and unfair procurement processes were the following:
 - Three written quotations were not invited and the deviation was not approved or was not reasonable/justified (39% of auditees).
 - Preference point system was not applied (28% of auditees).
 - Suppliers did not submit declarations of interest (28% of auditees).
- The most common finding on contract management were the following:
 - No or inadequate contract performance measures and monitoring (33% of auditees)
 - Contracts were amended or extended without approval by a delegated official (17% of auditees)

Although the status of SCM improved in the province, auditees should ensure that consequence management is implemented for poor performance and transgressions and to ensure that adequate action plans are in place to address the areas where they still have findings and to further prevent irregular expenditure which is monitored on a continuous basis.

Irregular expenditure

Irregular expenditure is expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money had been wasted or that fraud had been committed, as we have not performed specific procedures to ascertain that. Our findings are an indicator that legislation is not being adhered to, including legislation aimed at ensuring that procurement processes are competitive and fair. These findings are also an indicator of a significant breakdown in controls at some auditees.

The PFMA requires accounting officers to take all reasonable steps to prevent irregular expenditure. Auditees should have processes in place to detect non-compliance with legislation, resulting in irregular expenditure and, if incurred, must disclose the amounts in the financial statements. Irregular expenditure must be reported when it is identified – even if such expenditure was from a previous financial year.

The essence of the matters giving rise to irregular expenditure still requires leadership to investigate further to ascertain the underlying causes for these transgressions so as to enable appropriate steps to be taken to prevent recurrence or hold accountable those that may be systematically circumventing controls.

Figure 9: Trend in irregular expenditure

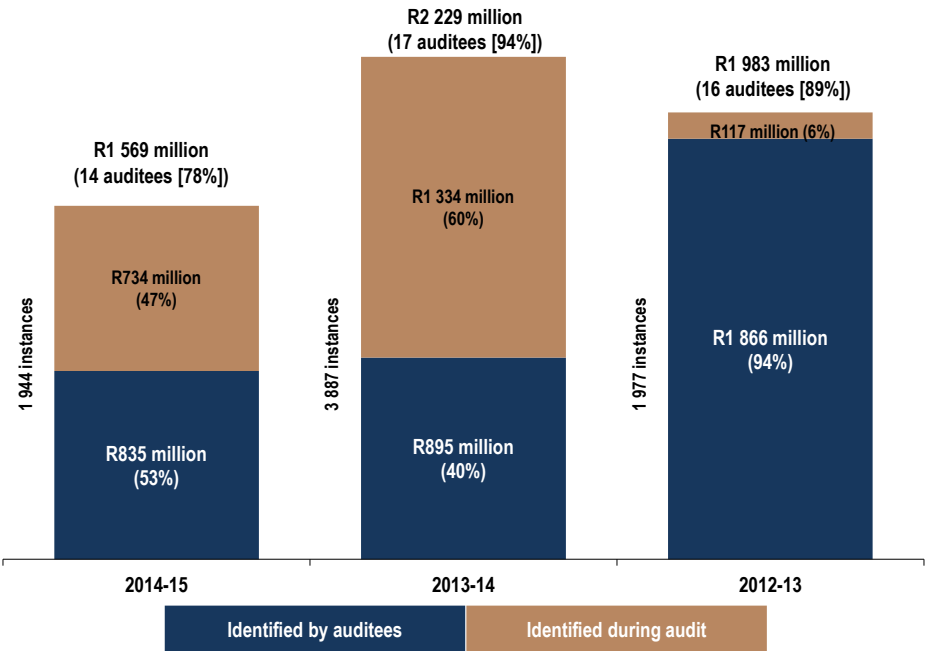


Figure 9 shows that irregular expenditure has decreased by R660 million (30%) to R1 569 million, which is the lowest level in three years. It should also be noted that the number of instances of irregular expenditure has decreased by 50% from 3 887 to 1 944. It is commendable that four departments incurred no irregular expenditure in 2014-15, namely the Departments of Agriculture and Rural Development, Premier, Free State Legislature and Social Development.

Figure 9 also shows that auditees identified 53% of the irregular expenditure incurred in the province while a significant amount was still identified during the audit process. This is an indication that adequate processes are not in place to firstly prevent and then detect irregular expenditure.

It is further acknowledged that 11 auditees were able to significantly reduce and limit their irregular expenditure, thereby contributing to the decrease in irregular expenditure since the prior year. This reduction in irregular expenditure can be attributed to the efforts made by the provincial treasury where they provided training on irregular expenditure. The provincial treasury also held knowledge-sharing sessions regarding supply chain management practices and, where practical, examples were shared and they also placed a bigger focus on irregular expenditure during their key control assessments. Issues were then shared with the heads of departments at their forum for further discussion.

The Departments of Human Settlements incurred irregular expenditure of R982 million (63%), Health R329 million (21%) and Education R238 million (15%). In total, these three departments incurred R1 549 million (99%) of the total irregular

expenditure in the province. This is of concern as these three leading service delivery departments received 73% of the budget allocation in the province.

Of the R1 569 million irregular expenditure incurred, R1 259 million (80%) was the result of acts of non-compliance in 2014-15; the remaining R310 million was expenditure resulting from transgressions relating to previous years. Included in the amount of irregular expenditure of R310 million identified in the current year relating to the prior year is R308 million incurred at the Department of Health. This irregular expenditure was disclosed after the department revisited prior years' procurement to identify all instances of irregular expenditure. Where instances had not been investigated and disclosed, it contributed to Health's qualification on irregular expenditure.

Most of the irregular expenditure of R1 569 million (93%) was as a result of non-compliance with SCM legislation. The following were the main areas of non-compliance, with an indication of the estimated value of the expenditure, as disclosed by the auditees in their financial statements:

- Procurement without a competitive bidding or quotation process – R1 265 million (87%).
- Non-compliance with procurement process requirements – R187 million (13%).

Of the remaining R117 million (7%), R95 million relates to international bursaries paid without signed agreements between the province and the students.

The Department of Health received a qualification on irregular expenditure as they had not identified and disclosed all instances of irregular expenditure for the current and prior years. Therefore, irregular expenditure disclosed in figure 9 would have increased had they disclosed all these instances.

In addition, the financial statements of the following auditees disclosed that they still had to review the procurement process undertaken to determine the possibility or full extent of their irregular expenditure: Agriculture and Rural Development, Education, Economic, Small Business Development, Tourism and Environmental Affairs, Provincial Treasury, Sport, Arts, Culture and Recreation and Gambling and Liquor Authority. This could result in a significant increase in irregular expenditure in the coming year.

The PFMA provides steps that accounting officers should take to investigate irregular expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven. The investigation should also confirm whether fraud had been committed or whether money had been wasted through goods and services that were not received or that were not procured at the best price. Irregular expenditure incurred remains on the auditee's financial statements until it is recovered if liability is proven, written off as not recoverable, or condoned by a relevant authority (mostly the National Treasury).

At 31 March 2015, the auditees' financial statements showed that the closing balance of irregular expenditure in the province that required action to be taken was R5 418 million.

Our audits also identified that at six auditees (35%), the accounting officer or oversight body did not investigate the irregular expenditure of the previous year to determine if any person was liable for the expenditure. Consequently, auditees did not determine whether the irregularities constituted fraud or whether any money had been wasted.

We did not perform any investigations into the irregular expenditure, as that is the role of the accounting officer and oversight body. Through our normal audits we determined that goods and services were received for R1 449 million (99,8%) of the SCM-related irregular expenditure despite the normal processes governing procurement not having been followed. However, we cannot confirm that these goods and services had been procured at the best price and that value was received for the money spent.

One of the main reasons for the significant irregular expenditure incurred by the Departments of Education, Health and Human Settlements is that credible procurement plans have not been developed, which then filtered through to project plans. As a result, adequate procurement processes were not followed. Intervention, including consequence management and the urgent addressing of SCM deficiencies, is required at these departments.

Implementing agents

There is an increasing trend where auditees employ the strategy of delegating its functions to another entity and appoint them as implementing agents. Fair, equitable and transparent procurement processes are not always followed to appoint these implementing agents. Furthermore, once payments are made, no further monitoring is done by auditees to ensure that fair, equitable and transparent procurement processes are followed by the implementing agents to ensure that the best price is paid when they spend money on behalf of the auditee.

The financial statements of the following auditees disclosed that they still had to review the procurement processes to appoint implementing agents and whether fair and transparent procurement processes were followed by the implementing agents:

- Agriculture and Rural Development
- Education
- Economic, Small Business Development, Tourism and Environmental Affairs
- Sport, Arts, Culture and Recreation

In the case of the Department of Agriculture and Rural Development, the National Treasury is also performing a review on the procurement processes relating to the Vrede Dairy project. Of note is that the project management of the Vrede Dairy was transferred to the Free State Development Corporation during the year.

The use of implementing agents is especially of concern in view of the poor financial health of the province since the best prices are not always paid for goods and services. In addition, management fees have to be paid, although 61% of the provincial budget has already been spent on employee cost while it is expected that government employees should perform the duties delegated to implementing

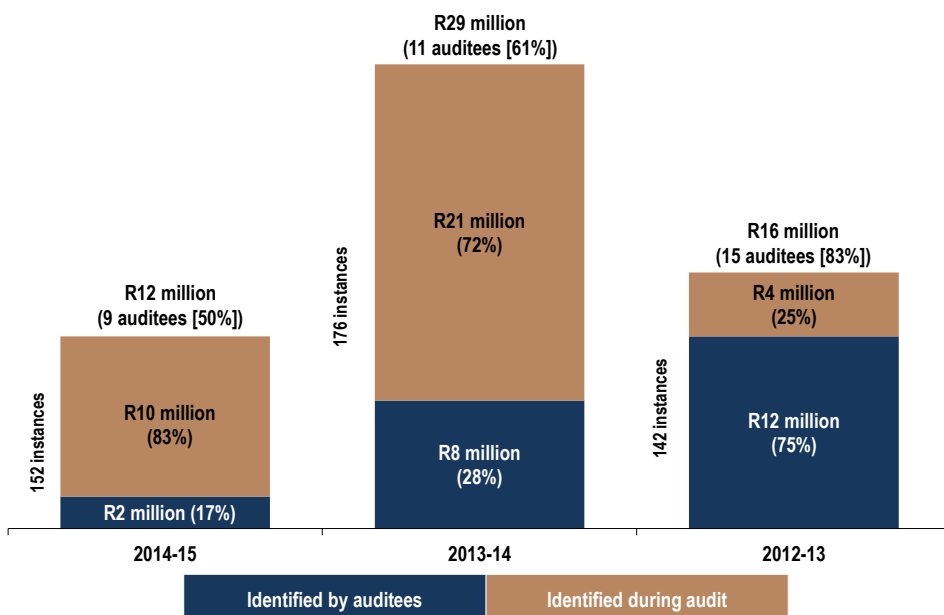
agents. A commitment made by the executive leadership in the prior year to provide guidance to departments on the utilisation of implementing agents and forcing implementing agencies to follow government procurement processes were not implemented. The leadership should give serious attention to this matter in 2015-16.

2.2.3 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and that would have been avoided had reasonable care been taken.

The PFMA requires accounting officers to take all reasonable steps to prevent fruitless and wasteful expenditure. The auditee should have processes to detect fruitless and wasteful expenditure and, if incurred, must disclose the amounts in the financial statements. Fruitless and wasteful expenditure must be reported when it is identified – even if the expenditure was from a previous financial year.

Figure 10: Trend in fruitless and wasteful expenditure



There has been a 59% decrease in fruitless and wasteful expenditure since the prior year as indicated in figure 10. The main contributor of fruitless and wasteful expenditure was the Department of Health with R8 million (67%).

The nature of the fruitless and wasteful expenditure incurred was the following:

- Interest and penalties (R3 million)
- Litigation and claims (R5 million)
- Other expenditure made in vain (R4 million)

The PFMA provides steps that accounting officers should take to investigate the fruitless and wasteful expenditure to determine whether any officials are liable for the expenditure, and to recover the money if liability is proven.

Our audits also identified that at two auditees (18%), the accounting officer or oversight body did not investigate the fruitless and wasteful expenditure of the previous year to determine if any person was liable for the expenditure.

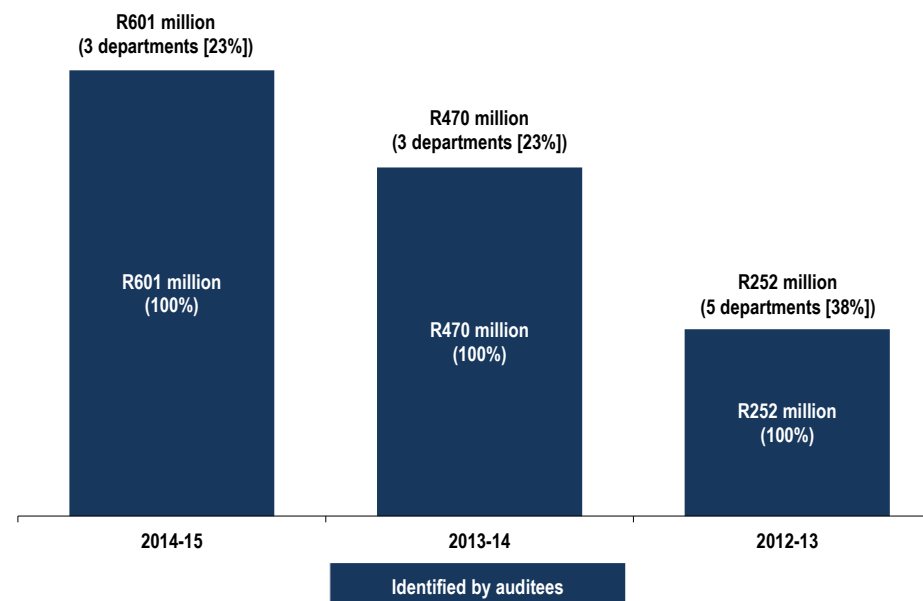
2.2.4 Unauthorised expenditure

Unauthorised expenditure is expenditure that was not spent in accordance with the approved budget.

The PFMA requires accounting officers to take all reasonable steps to prevent unauthorised expenditure. The auditee should have processes in place to identify any unauthorised expenditure incurred and must disclose these amounts in the financial statements.

The PFMA also includes the steps that accounting officers and oversight bodies should take to investigate unauthorised expenditure to determine whether any officials are liable for the expenditure, and to recover the money if liability is proven. In terms of the PFMA, unauthorised expenditure is only applicable to departments and not to public entities, therefore the analysis in figure 11 below is based on 13 departments.

Figure 11: Trend in unauthorised expenditure



Unauthorised expenditure of R601 million incurred in 2014-15 was due to an overspending of the budget. There was a significant year-on-year upward trend in

unauthorised expenditure, which increased by 28% since the prior year as indicated in figure 11.

The Department of Education was responsible for 98% (2013-14 91%) of the unauthorised expenditure incurred in the province. This was mainly as a result of under-budgeting for employee cost, as well as a lack of daily and monthly disciplines to monitor the spending against the budget. The significant unauthorised expenditure incurred by this important service delivery department puts further pressure on the severe cash flow constraints experienced by the province.

Although the Department of Health incurred unauthorised expenditure, it is worth noting that the department improved their budgetary controls, resulting in a significant decrease in unauthorised expenditure from R136 million in 2012-13 to R11 million in 2014-15.

Unauthorised expenditure would have been higher had accruals older than 30 days of R1,1 billion been settled before year-end, as detailed in section 2.3. It is of concern that management detects unauthorised expenditure, but does not prevent it.

Daily and monthly disciplines and checks need to be implemented and monitored to ensure that effective cash flow and budget management are implemented to prevent unauthorised expenditure. Accounting officers and CFOs should ensure that quality budgets are prepared that are aligned to the organisations' strategic objectives and effectively monitored on a monthly basis.

2.3 Financial health

Our audits included a high-level analysis of auditees' financial indicators to provide management with an overview of selected aspects of their current financial management and to enable timely corrective action where the auditees' operations and service delivery may be at risk.

We also performed procedures to assess whether there were any events or conditions that might cast significant doubt on a public entity's ability to continue as a going concern.

Figure 12: Status of financial health

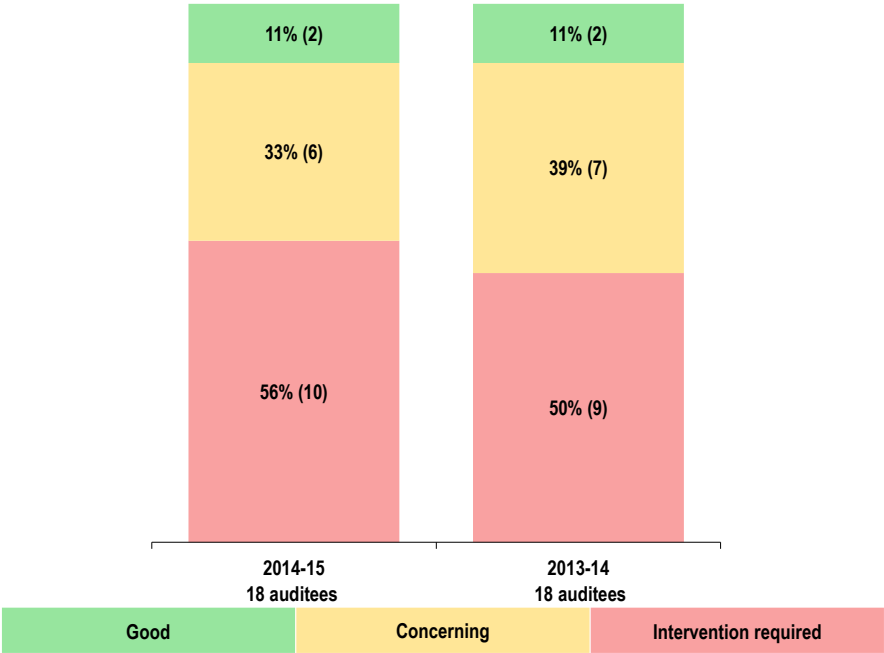
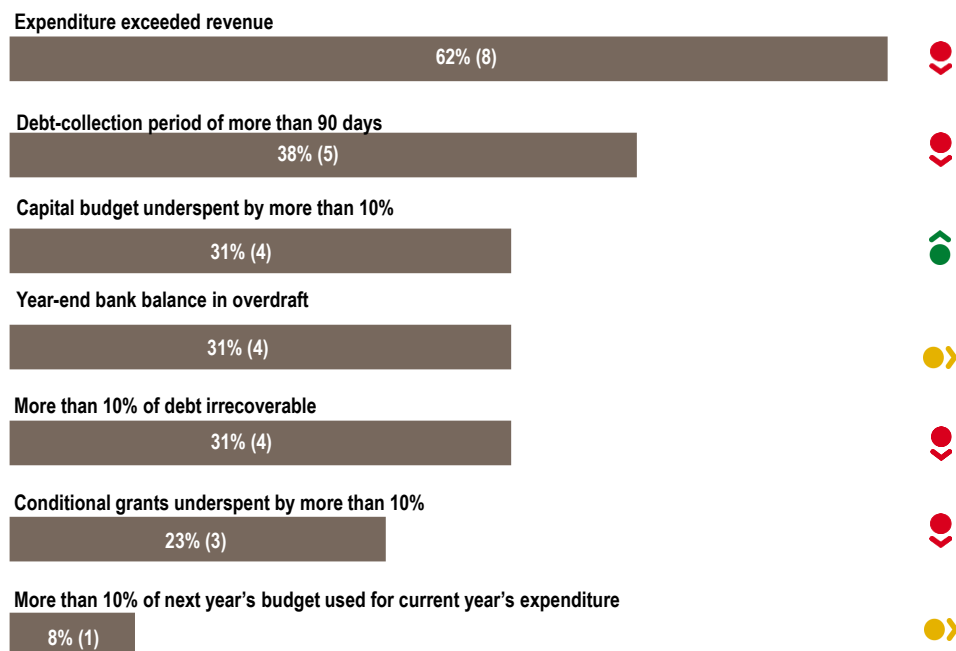


Figure 12 indicates the number of auditees that had more than two of the financial risk indicators (shown as 'concerning') and auditees with material going concern or financial sustainability uncertainties (shown as 'intervention required'). There has been an increase in the number of auditees that required intervention when compared to the previous year due to the Department of the Premier having material financial sustainability concerns due to significant outstanding accruals and funds to be surrendered.

Financial sustainability concerns were again identified at the Departments of Agriculture and Rural Development, Education, Health, Police, Roads and Transport, Public Works and Infrastructure, Social Development and Sport, Arts, Culture and Recreation.

A going concern risk was again identified at the Central Medical Trading Account and Free State Tourism Authority due to material uncertainties relating to events or conditions, which may cast significant doubt on their ability to meet their financial obligations as they fall due and to achieve service delivery objectives.

Figure 13: Areas of financial health concerns – departments



2.3.1 Financial health risks at departments

Departments prepare their financial statements on the modified cash basis of accounting. This means that the expenditure disclosed in the financial statements is only what was paid during the year and does not include accruals (the liabilities for unpaid expenses) at year-end. As part of the financial health analyses, we reconstructed the financial statements to determine whether these departments would still have had surpluses for the year had these expenses been included in their financial statements. We also assessed the impact of the unpaid expenses at year-end on the following year's budget. The financial sustainability of departments is an area of grave concern due to, inter alia, the following:

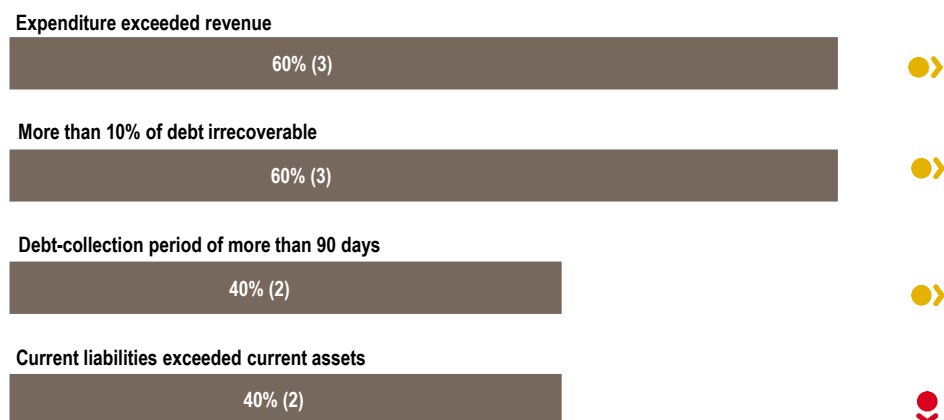
- There has been an increase of 167% in the number of departments that have an accrual-adjusted deficit for the current year. Total accruals at 31 March 2015 are R1,9 billion.
- Total accruals older than 30 days have increased by R135 million (14%) from R976 million in the prior year to R1,1 billion. This negative trend indicates that more departments' expenditure exceeds their revenue.
- The total bank overdraft at four departments totalled R848 million. The Department of Education is responsible for R826 million (97%) of this amount. The remaining nine departments have a total cash balance of R87 million. This results in a net bank overdraft for the province of R761 million.
- At 31 March 2015, funds to be surrendered to the revenue fund were R307 million.
- Taking into account the overdraft, funds to be surrendered and long-outstanding accruals, the province requires R1,6 billion to clear the backlog.

Based on the *Medium-term expenditure framework* (MTEF) the total budget for the province increases by only 3% from R28,6 billion in 2014-15 to R29,3 billion in 2015-16 and then by only 4% to R30,6 billion in the 2016-17 financial year.

With inflation at an average of approximately 5% at 31 March 2015, it will be increasingly difficult to improve the financial position of the province since expenses are increasing more rapidly than income. Therefore, adequate budget management and efficient utilisation of available funds are of the utmost importance.

The financial situation at the Department of Education is of serious concern. The department has outstanding accruals of R270 million, as well as a bank overdraft of R826 million at 31 March 2015. Furthermore, commitments approved by the department increased by 215% from R786 million in the prior year to R2,474 billion in 2014-15. This means that the actions of Education are impacting negatively on the whole province as they are committing themselves to funds that are not available, despite the backlog in paying creditors. The unauthorised expenditure of R589 million incurred by the department is putting even more pressure on the severe cash flow constraints experienced by the province. Although the provincial treasury intervened from 1 April 2015 by taking over the financial administration of Education, serious intervention is required at this department.

Figure 14: Areas of financial health concerns – public entities



Figures 13 and 14 show the number of auditees with financial health risk indicators and the movement since the previous year. These indicators are discussed in more detail below.

The financial situation at the Department of Health is hampered by significant legal claims against the departments, as well as a significant backlog in payment of employee benefits relating to grade progressions to employees.

As reported in the general report for the 2013-14 MFMA cycle, local government finds itself in a net current liability position of R2,4 billion (2012-13: R2,3 billion). Further financial pressure will be placed on the provincial budget as assistance may be sought by municipalities to alleviate their financial distress. A contributing factor is that approximately R148 million (2013-14: R102 million) is owed by the Department of Public Works and Infrastructure to municipalities for services rendered on provincial government buildings.

2.3.2 Underspending by departments of capital budgets

The Departments of CoGTA (30%), Economic, Small Business Development, Tourism and Environmental Affairs (26%), provincial treasury (20%) and Human Settlements (18%) underspent their capital budgets by more than 10%. This is an improvement from the prior year where seven departments had underspent their capital budgets by more than 10%.

It is encouraging that departments primarily responsible for significant service delivery such as Police, Roads and Transport, Health and Education were among those in the prior year who had underspent on their capital budgets by more than 10%, but were able to spend most of their capital budget this year.

Capital budgets are linked directly to service delivery and, therefore, where capital budgets are significantly underspent, the implication is that service delivery objectives might not be achieved.

2.3.3 Debt management

Overall, there has been a regression in departmental debt management due to long-outstanding debtors at the Department of Education. The following departments have not collected amounts owed to them within 90 days:

- Agriculture and Rural Development
- Economic, Small Business Development, Tourism and Environmental Affairs
- Education
- Health
- Police, Roads and Transport

These departments, except for Education, have provided for more than 10% of its debts as irrecoverable in the financial statements. The Department of Education did not deem it necessary to provide for their debt as irrecoverable, as they are confident of recovering all debt due to the department.

2.3.4 Financial health risks at public entities

There has been an overall stagnation in the financial health of public entities. The Central Medical Trading Account and Free State Tourism Authority had repeat material findings on financial sustainability. The Central Medical Trading Account, Free State Development Corporation and Free State Tourism Authority traded at a deficit for the year. The liquidity of the Free State Development Corporation as well as Free State Tourism Authority deteriorated as both of these entities realised a net current liability position at year-end.

2.4 Management of grants

2.4.1 Grants provided to provinces

Government's vision and priorities are articulated in the MTSF, which focuses on placing the economy on a qualitatively different path that ensures more rapid, sustainable growth; higher investments; increased employment and reduced inequality.

In support of these goals, grants are provided to the province to reduce the concentration of people in urban areas (*comprehensive agricultural support programme grant* and *human settlements development grant*) and diversify the economy (*technical secondary schools recapitalisation grant*), while ensuring that adequate infrastructure (*education infrastructure grant*, *provincial roads maintenance grant* and *health facility revitalisation grant*) and skills (*national tertiary services grant*, *public transport operations grant*, *comprehensive HIV and Aids grant*, *expanded public works programme integrated grant for provinces* and *social sector expanded public works programme incentive grant for provinces*) are in place.

These grants are conditional and may only be used for their stipulated purposes.

2.4.2 Findings on the use of conditional grants by departments

Grants represent a major portion of the funding allocated to departments within the province in pursuit of the goals of the MTSF, as listed above.

As indicated in figure 15, grants totalling R6,6 billion were allocated to the province, with the majority of the provincial grants being allocated to the following departments:

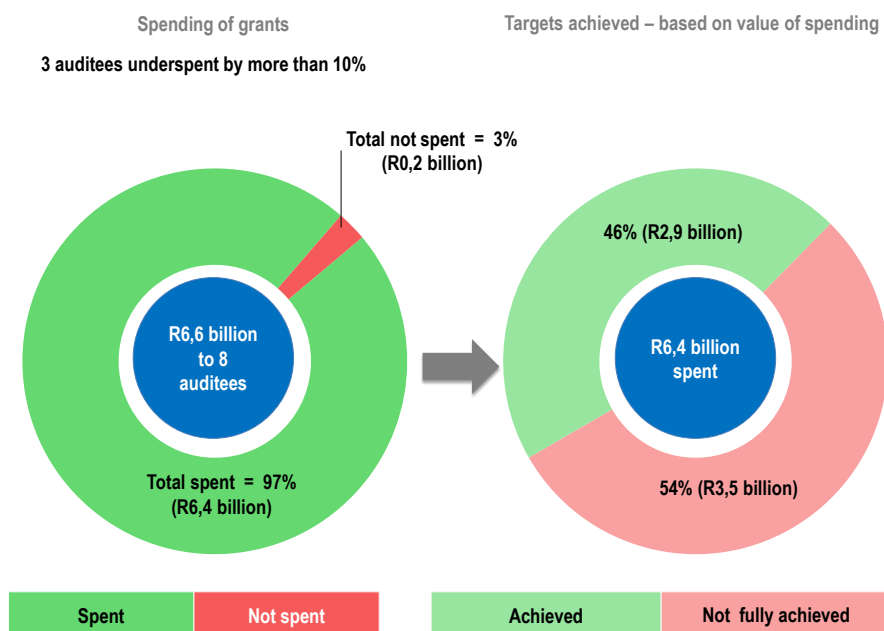
- Education: R1,2 billion
- Health: R2,5 billion
- Human Settlements: R1,1 billion

- Police, Roads and Transport: R1,5 billion

We identified the following findings at the departments that received grant allocations:

- The desired impact of the project/programme on which the grant was utilised was not achieved at the Departments of Education, Human Settlements and Public Works and Infrastructure.
- Planned targets (key milestones) for selected key projects were not achieved at the Departments of Health and Education.
- The Departments of Agriculture and Rural Development and Education did not use the conditional grants for its intended purposes, in accordance with the applicable grant framework. In the case of Education, the financial constraints resulted in conditional grants amounting to R131 million not being spent, as funds were used to facilitate other operational costs. Capital projects also take a very long time to complete. This is a matter of concern, as government may not be able to roll over the unspent funds in future due to a struggling economy.

Figure 15: Spending of total conditional grants and achievement of set targets



Conditional grants paid to the Departments of Education, Health and Human Settlements make up 71% of the conditional grants paid in the province. Intervention is required to ensure that these conditional grants are spent for their intended purpose and that their targets are achieved so that service delivery can be improved.

2.5 Recommendations

Auditees that had findings on compliance with key legislation and SCM and those that incurred unauthorised, irregular as well as fruitless and wasteful expenditure should strengthen their processes and controls to create and sustain a control environment that supports compliance as this puts further pressure on the financial health of auditees at provincial level. These auditees should implement at least the following key controls and best practices that are in place at the auditees which consistently comply with key legislation:

- All contracts should be revised to determine whether value for money is received.
- Contracts should be monitored rigorously and penalty clauses for non-performance in terms of the agreement used where necessary.
- Steps should be implemented to ensure that all new contracts are to the benefit of the province. Management should also consider all contracts that were found to be irregular to determine whether these contracts can be cancelled and new procurement processes followed.
- Daily and monthly controls around the prevention and detection of unauthorised, irregular, and fruitless and wasteful expenditure should be implemented to ensure that breaches of legislative prescripts are identified and appropriate actions taken to correct them. This includes developing and implementing appropriate policies and procedures (including checklists), clearly defining roles and responsibilities for reporting on compliance, regularly reconciling reported compliance to supporting documentation and regularly reporting on compliance to the leadership and the audit committee.
- The irregular expenditure balance of R5 418 million must be investigated by the accounting officers or authorities and actions prescribed by the PFMA to be implemented. Progress reports relating to these investigations should be submitted to the relevant MEC, portfolio committee and the Provincial Public Accounts Committee (PROPAC). The MEC must perform executive oversight and the PROPAC to fulfil its legislative oversight on the progress reports received.
- The province should investigate the value of using implementing agents against ensuring that government employees perform their duties for which they are being paid to prevent the payment of unnecessary management fees. Where implementing agents are used, they should follow the procurement processes of government to ensure fair, equitable and transparent procurement of goods and services.
- Rigorous cash flow mechanisms should be implemented to ensure that critical projects and services are prioritised. Spending on items that do not relate to critical services and programmes should cease immediately, e.g. budgeting for critical goods and services instead of expenditure that is not related to the core mandate of departments.

- All role players and governance structures should ensure that SCM malpractices are eliminated by monitoring compliance with SCM prescripts and ensuring that severe consequences are enforced where breaches are identified. Special attention should be placed on consequence management for transgressions at the Departments of Education, Health and Human Settlements.
- The accounting officers, MECs and oversight committees should monitor the spending patterns relating to priority expenditure and capital expenditure, in particular, to ensure that underspending as a result of not wanting to transgress the SCM requirements is effectively addressed.

Keeping up to date with amendments to legislation, as well as regular monitoring of compliance, is an important step in ensuring that non-compliance with legislation is avoided. Good internal controls surrounding compliance will also enable the auditee to avoid compliance findings and improve cash flow management. Without proper controls, an auditee may address a specific issue in a particular year, but the absent control will often result in the finding recurring in a future year.

In conclusion, it is recommended that urgent attention be given to ensure that responsible staff members are properly trained on supply chain management legislation and that they are held accountable for any transgressions identified. Performance and consequence management must be enforced to ensure that officials are held accountable for public funds entrusted to them.

3. Annual performance reports

Auditees are required to measure their actual service delivery against the performance indicators and targets set for each of their predetermined performance objectives and to report on this in their annual performance reports. Figures 16 and 17 do not include the Central Medical Trading Account and Fleet Management Trading Entity separately as their performance was reported on as part of the Departments of Health and Police, Roads and Transport, respectively.

The National Development Plan (NDP) envisages that by 2030 South Africa will be a state that is capable of playing a developmental and transformative role. In broad terms, such a state intervenes to support and guide development in such a way that benefits accrue across society, with particular emphasis on the poor. The government has set its priorities and action for the next five years through its MTSF. For the government to achieve those priorities, all spheres of government need to properly plan the implementation of, and accurately report on, achievements on a yearly basis. Furthermore, it is very important that all involved in planning, monitoring and evaluation are trained on the requirements of the framework to keep government honest about the progress made.

We audit selected material programmes of departments and objectives of public entities to determine whether the information in the annual performance reports is useful and reliable for oversight bodies, the public and other users of the reports to assess the performance of the auditee. The programmes and objectives we select

are those that are important for the delivery by the auditee on its mandate. In the audit report, we reported findings from the audits that were material enough to be brought to the attention of these users.

We audited the **usefulness of the reported performance information** by determining whether it was presented in the annual report in the prescribed manner, and whether it was consistent with the auditees’ planned objectives as defined in their strategic plans and annual performance plans. We also assessed whether the performance indicators and targets set to measure the achievement of the objectives were well defined, verifiable, specific, time bound, measurable and relevant.

We audited the **reliability of the reported information** by determining whether it could be traced back to the source data or documentation, and whether it was accurate, complete and valid.

Figure 16: Three-year trend – annual performance reports

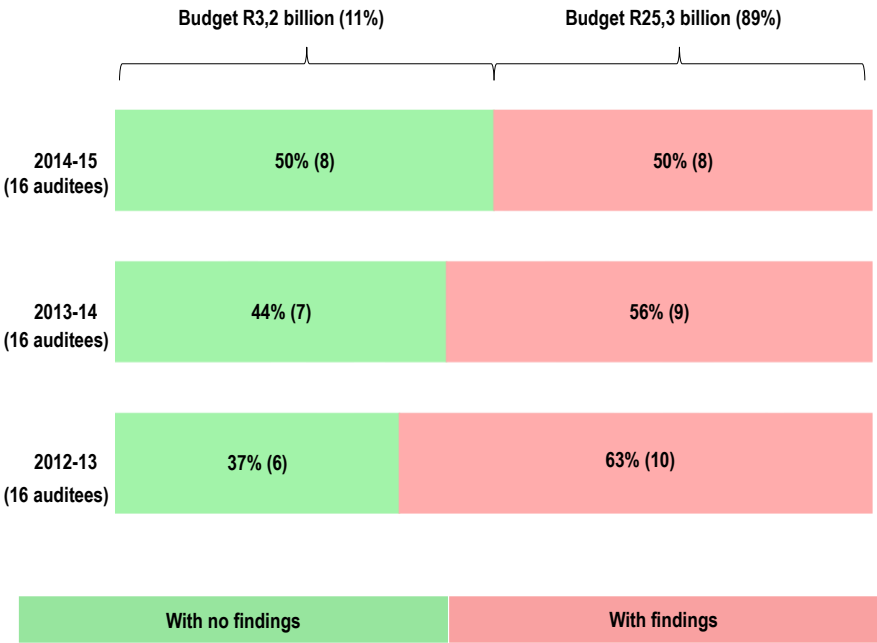


Figure 16 shows that there has been a slight increase in the number of auditees with no material findings on the quality of their annual performance reports when compared to the previous year. The following auditees have addressed their findings on performance information from the prior year:

- CoGTA (Usefulness and reliability)
- Public Works and Infrastructure (Usefulness)
- Free State Tourism Authority (Reliability)

The following auditees have regressed in the current year:

- Police, Roads and Transport (Usefulness)
- Economic ,Small Business Development, Tourism and Environmental Affairs (Usefulness)

We are concerned that departments and entities to which 89% of the expenditure budget of the province is allocated could not report on performance information that is useful and reliable regarding the services that were planned for the year.

3.1 The quality of the annual performance reports submitted for auditing

While all auditees submitted their annual performance reports for auditing on time, figure 17 shows that only four auditees (25%) submitted annual performance reports that did not contain material misstatements. These auditees were Free State Legislature, provincial treasury, Public Works and Infrastructure and Free State Tourism Authority. This is a regression in the quality of the submitted annual performance reports compared to five auditees which had no material misstatements in the prior year.

Figure 17: Quality of submitted annual performance reports

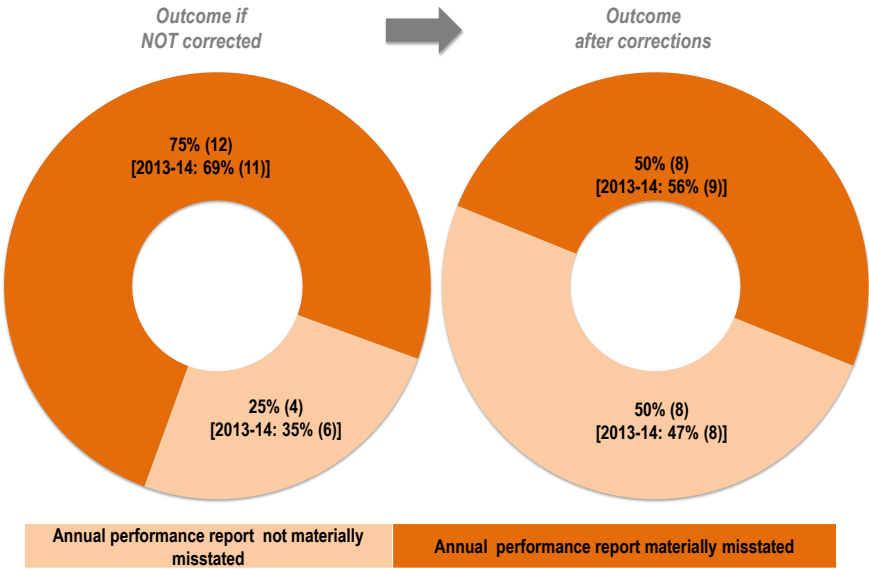


Figure 17 shows that four auditees (25%) avoided material findings on their annual performance reports by correcting material adjustments identified during the audit. The auditees were CoGTA, Premier, Sport, Arts, Culture and Recreation and Free

State Development Corporation. The remaining eight auditees were unable to address the material findings on their annual performance reports as they also had findings on the usefulness of performance information or sufficient appropriate audit evidence could not be provided for some of the selected indicators. This indicates that the processes and controls implemented to ensure useful and reliable performance information that agrees with supporting documentation are not monitored and applied consistently.

3.2 Findings on the usefulness and reliability of annual performance reports

Some main programmes or objectives are material in relation to the auditees' budget and mandate. We reported material findings on the usefulness and reliability of the following programmes and objectives selected for auditing:

Table 3: Auditees with findings on the usefulness and reliability of their annual performance reports

Auditee	Programme / Objective	Not useful	Not reliable
Agriculture and Rural Development	Programme 3: Farmer support and development	x	
Economic, Small Business Development, Tourism and Environmental Affairs	Programme 3: Economic development	x	
Education	Programme 2: Public ordinary schools		x
	Programme 7: Early childhood development		x
	Programme 8: Infrastructure development		x
	Programme 9: Auxiliary and associated services		x
Health	Programme 2: District health services		x

Auditee	Programme / Objective	Not useful	Not reliable
Human Settlements	Programme 2: Housing needs, research and planning		x
	Programme 3: Housing development		x
Police, Roads and Transport	Fleet Management Trading Entity	x	
Social Development	Programme 2: Social welfare		x
Free State Gambling and Liquor Authority	Programme 1: Administration	x	x
	Programme 4: Technical Services	x	x

The most common findings on the usefulness of information were the following:

- Indicators/measures not well defined.
- Reported performance information not consistent with planned objectives, indicators/measures and targets. Performance targets not measurable.

The most common findings on the reliability of information were the following:

- Reported performance information not accurate
- Reported performance information not complete
- Reported performance information not valid

The prevalence of annual performance reports containing information that is not useful or reliable is a sign of weakness in the auditees' ability to adequately plan, manage and report on their performance. Accounting officers and chief financial officers should ensure that quality budgets are prepared that are aligned to the organisations' strategic objectives and monitored effectively on a monthly basis. Furthermore, adequate steps should be implemented to avoid unfunded mandates that were not properly planned and budgeted for. If the above is addressed, it will improve the transparency and accountability of provincial government. This will ensure that performance reporting becomes more aligned to the departments' strategic goals and mandate.

The main area of concern relating to reliability of reported performance information exists where departments are reliant on information that is prepared at district offices. This results from inadequate systems to collate all information, as well as the lack of trained staff at district level to collect and review performance

information. These shortcomings impact negatively on the consolidation of performance information at the department's head office.

3.3 Findings on compliance with key legislation on strategic planning and performance management

The PFMA prescribes the manner in which strategic planning and performance management should be performed. We reported material non-compliance with this legislation in the audit reports of auditees. The most common findings were the following:

- An effective, efficient and transparent system of internal control regarding performance management was not maintained at four auditees (25%).

3.4 Recommendations

Auditees that had material findings and those that submitted annual performance reports of a poor quality for auditing should strengthen their processes and controls to create and sustain a control environment that supports useful and reliable reporting on performance. These auditees should implement at least the following key controls and best practices that are in place at Free State Legislature, provincial treasury, Public Works and Infrastructure and Free State Tourism Authority, which reported on their performance in a useful and reliable manner:

- Committed and dedicated leadership and staff. It is further important that all involved in planning, monitoring and evaluation be trained on the requirements of the MTSF.
- Officials responsible for the day-to-day performance information processes should be involved in the planning process where indicators and their technical descriptions are formulated. This assisted the Department of Public Works and Infrastructure to ensure that the definitions of the technical indicators which were incomplete in the past, were complete now. Consequently, the performance of the department as outlined in the annual performance plan was measurable.
- Internal audit should review the performance information quarterly so that any discrepancies can be identified and corrected timeously.
- Proper monitoring and reporting of performance throughout the year will equip oversight bodies to measure actual service delivery against predetermined objectives and to recommend corrective action where needed.
- Effective oversight over district offices should be exercised. There should be a consistent format for collection of performance information from district offices.

The information received by head office should be reviewed against supporting information on a monthly basis.

- Annual and cyclical targets should be monitored throughout the year and reported on, not only at year-end or in the relevant cycle.
- The supporting documentation should be filed monthly per indicator, which enables more accurate reporting. This could be improved to include a control sheet for each month per indicator so that the performance of each month can be evaluated against the previous months to ensure early identification of errors relating to completeness and accuracy of information.
- Recommendations made in the management report should be implemented in the following year.

4. Resource management

4.1 Human resource management

HR management is effective if adequate and sufficiently skilled staff members are in place and if their performance and productivity are properly managed.

Our audits included an assessment of HR management that focused on the following areas: ■ HR planning and organisation ■ management of vacancies ■ appointment processes ■ performance management ■ acting positions ■ management of leave, overtime and suspensions.

Our audits further looked at the management of vacancies and stability in key positions, competencies of key officials as well as performance management and consequences for transgressions, as these matters have a direct impact on the quality of auditees' financial and performance reports and on their compliance with key legislation.

Based on the results of these audits, we assessed the status of HR management controls as follows:

Figure 18: Status of human resource management

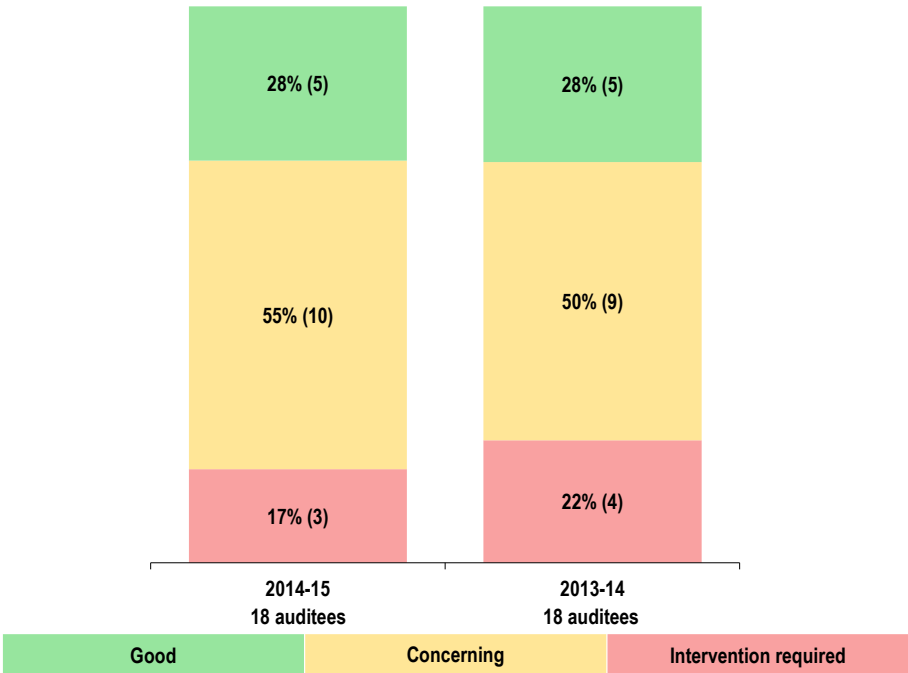


Figure 18 shows that there has been a slight improvement in the status of HR management when compared to number of auditees requiring intervention in the previous year. It is worth noting that 61% of the Free State budgeted expenditure in 2014-15 was for employee costs. Although human resource management still requires attention at the majority of auditees, some efforts have been made to address human resource related issues. This resulted in an improvement in the root cause of audit findings, namely instability and vacancies in key positions and consequence management as detailed below.

4.1.1 Management of vacancies and staff in acting positions

Figure 19: Vacancies in key positions

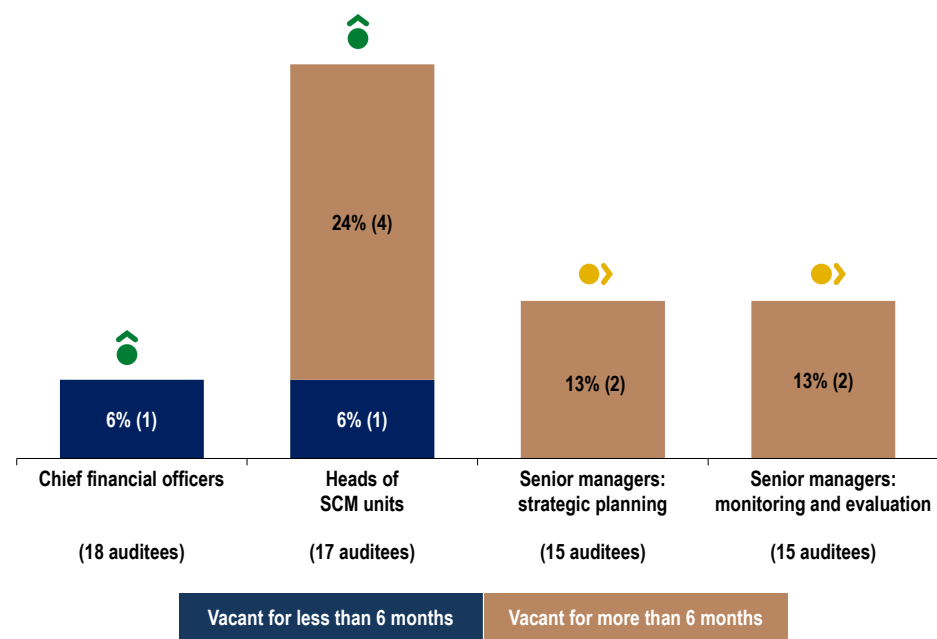


Figure 20: Stability in key positions (average number of months in position)

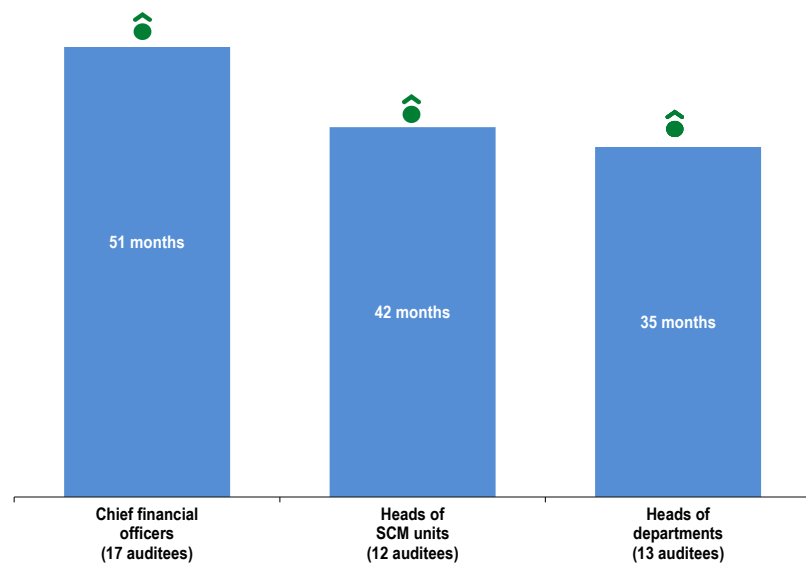


Figure 19 shows the number of auditees where the positions of the chief financial officer and heads of the SCM, strategic planning as well as monitoring and evaluation units were vacant at year-end. The figure also indicates the period for which these positions had been vacant. At year-end, there were no vacancies in the position of accounting officer (head of department or chief executive officer). Figure 20 above shows an improvement in the average number of months key officials had been in their positions. Stability in these key positions contributed to the improved audit outcomes.

Although there were no significant vacancies and instability in the positions of accounting officer, chief financial officer, and strategic planning or monitoring and evaluation, the vacancies and instability in the positions supporting these individuals are of concern. This was identified as one of the main root causes of audit findings at 44% of auditees, as further detailed in section 5.3, which resulted in material misstatements in the financial statements, non-compliance with legislation and findings relating to the reporting of predetermined objectives.

As indicated in figure 19, it is of concern that the position of head of supply chain management was vacant at five (30%) auditees, namely the Departments of CoGTA, Education and Social Development, as well as the Gambling and Liquor Authority and Free State Tourism Authority. It should be noted that Education incurred R238 million (15%) of the irregular expenditure in the province.

The most common findings on the management of vacancies and acting positions were:

- Senior management positions were vacant for more than 12 months at eight auditees (44%).
- Senior management positions were not advertised within six months at eight auditees (44%).
- Critical positions in financial reporting were vacant for more than 12 months at eight auditees (44%).
- Overall vacancy rate increased from previous year at five auditees (28%).

4.1.2 Performance management

In order to improve the performance and productivity of staff, the leadership should set the correct tone by implementing sound performance management processes, evaluating and monitoring performance, and consistently demonstrating that poor performance result in consequences.

At five (28%) of the auditees, senior managers did not have performance contracts or the contracts were signed too late in the year, namely Premier, Education, Health, Central Medical Trading Account and the Free State Development Corporation.

4.1.3 Consequences for transgressions

A lack of consequences was identified as a root cause of audit findings at eight (44%) auditees as detailed in section 5.3.2. The leadership did not always hold staff accountable for poor performance and transgressions and this creates the perception that these results will be tolerated and are acceptable. The effect of a lack of consequences for poor performance and transgressions is evident at the Departments of Education, Health and Human Settlements who were responsible for 99% of the irregular expenditure in the province. The stagnation of auditees at an unqualified opinion with findings is also an indication of a lack of consequence management due to repeat findings on performance information and compliance with legislation. Where there was consequence management for poor performance and transgressions, the Departments of the Premier and Public Works and Infrastructure were able to improve to clean audit outcomes.

4.1.4 Other common human resource findings

Proper verification processes for new appointments, which did not always take place at five auditees (28%), was the other most common human resource finding.

4.2 Effective use of consultants by departments

Our audit included an assessment of the work performed by consultants at provincial departments. Although we acknowledge the need to appoint consultants to assist the public service, this must be needs driven, with an emphasis on value for money, proper planning and monitoring, and the transfer of skills. Consultants are utilised by the province despite spending 61% of the budget on employee-related costs.

Provincial departments spent an estimated R389,2 million on consultancy services in 2014-15 to supplement their human resources. Consultancy services can be intellectual or advisory in nature. The amount was spent on the following areas:

- Financial reporting R19,2 million (2013-14: R20,6 million)
- IT-related services R2,4 million (2013-14: R3,7 million)

A total of R367,6 million (2013-14: R373,1 million) was spent on other consultants, which mainly include specialist services, consulting firms, engineering firms and outsourced services at the Departments of Human Settlements, Police, Roads and Transport and Sport, Arts, Culture and Recreation. Consultants were appointed at five departments to assist with financial reporting. Material misstatements were identified in the consultants' area of work at two auditees due to auditee ineffectiveness and poor project management. These auditees were CoGTA and Police, Roads and Transport. The most common reasons why departments appointed consultants were a shortage of skills and vacancies.

Our audits included an assessment of the management of consultants at 11 of the departments. The most common findings were the following:

- Employees to be trained were not identified/available to attend the training programme at the Departments of CoGTA, Health and Economic, Small Business Development, Tourism and Environmental Affairs. Therefore, no transfer of skills occurred at these departments.
- The requirements/objectives/key details for the transfer of skills were not included in the terms of reference at the Departments of Agriculture and Rural Development and Provincial Treasury.

4.3 Recommendations

Where consultants were appointed as a result of non-performance by officials, those officials must be held accountable and the necessary consequence management implemented. For consultants to be effective it is crucial that they are appointed with a specific mandate and at the opportune time to support the accounting officers in taking accountability for the improvement of audit outcomes.

Administrative leadership should aim to derive as much value as possible from the use of consultants, without detracting from their primary responsibilities. This value should translate into enhanced internal processes, strengthening of existing skills and transferring of skills from the consultants. Established terms of reference that cater for more specific, risk-based services and regular monitoring should also assist in adding value and, ultimately, in improved service delivery.

The province should investigate the value of implementing agents and ensure that government employees perform their duties they are being paid for. This will prevent the payment of unnecessary management fees.

Focus should be placed on vacancies of heads of SCM units to ensure they are filled with competent staff to prevent SCM malpractice.

5. Governance and controls

5.1 Status of internal control

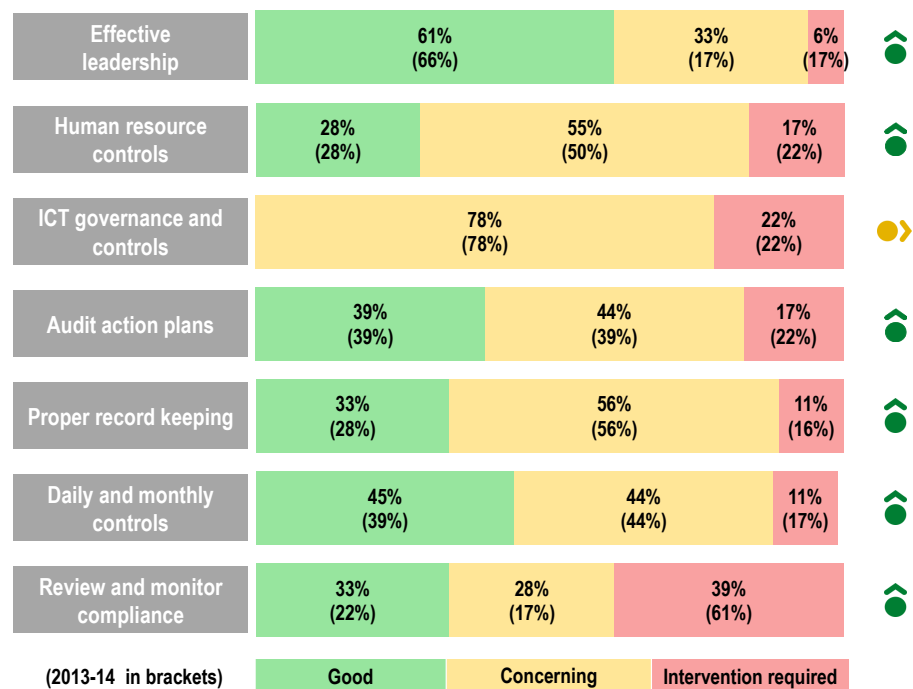
As part of our audits, we assessed auditees' internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with key legislation.

Figure 1.3 shows the status of the different areas of internal control and the overall movement since the previous year. There has been an overall improvement in internal controls relating to leadership, financial and performance management and governance.

In sections 2.1 (financial statements), 2.2 (compliance with legislation) and 3 (annual performance reports) we commented broadly on those key controls that should receive attention to improve poor audit outcomes or sustain good audit outcomes.

Figure 21 shows the status of the controls requiring the most attention.

Figure 21: Key controls requiring the most attention



The overall improvement in audit outcomes is aligned to the improvement in key controls. This is as a result of the progress made on the commitments from the provincial executive leadership to address the competency shortcomings; address poor performance and transgressions in supply chain management; finalise performance contracts for senior management; attract and retain officials with relevant skills and competencies and to meet with the AGSA on a quarterly basis to discuss the key control matrix. However, as evident in figure 1.3 and figure 21, the ultimate goal of having good internal controls has not been achieved. Management is urged to keep focusing on improving key controls to ensure sustainable and further improved audit outcomes in future.

Good basic daily and monthly key controls are still not in place at all auditees, resulting in material misstatements in the financial statements, findings on performance information and non-compliance with legislation.

Key controls relating to the review and monitoring of compliance require the most attention. Intervention is required at the departments of Economic, Small Business

Development, Tourism and Environmental Affairs, Education, Health, Human Settlements, Central Medical Trading Account, Free State Tourism Authority and Gambling and Liquor Authority. This includes the three major contributors responsible for 99% of the irregular expenditure incurred as reported in section 2.2.2. Leadership should set the tone by ensuring that compliance with legislation is embedded in the entity's values and set a zero tolerance for irregular expenditure. Members of the executive council and heads of departments should lead, not only by their words, but more importantly by their example.

Audit action plans should not be a long list of responses to each and every audit finding reported to management. Action plans should be restricted to the real root causes of the problem. By implication, auditees should aim for one-page documents, stating clearly who is held responsible for which sections of the action plan, and should also have predetermined follow-up dates for when responsible persons will report on their progress and be held accountable for it. Some auditees have very good action plans in place, but simply do not regularly monitor the implementation thereof or hold people accountable for not doing their part. Accountability and consequence management are key to successful implementation of action plans.

Sections 4.1 and 5.2 provide further information on the status of HR controls as well as information technology governance and controls. As root causes have a significant impact on the effectiveness of internal control, section 5.3 describes the most common root causes that should be addressed.

For internal controls to be effective, the impact of this must be sustained by ensuring that these good practices are embraced and replicated across all departments and entities. This will enable other auditees to join the ranks of those who have mastered these key internal control disciplines, thereby achieving improved audit outcomes. A sustainable control environment is one that is supported by daily, weekly and monthly disciplines such as preparing reconciliations, proper record keeping and review of financial and performance information.

There is a link between the results of the audit outcomes and the key controls implemented and overseen by the assurance providers. The status of key controls is supposed to be a predictor of the audit outcomes. It is therefore important that the quarterly key control process is given sufficient attention, as this will identify areas that may negatively impact the audit outcomes early during the year. The implementation of action plans to address key controls that require attention and the regular/frequent monitoring thereof will assist in improving the control environment and audit outcomes.

Although quarterly reporting took place, this did not always include all areas of the financial statements and the necessary supporting schedules. As highlighted in the previous year these reports were often prepared to ensure compliance with deadlines and not always reviewed by senior officials. The senior management and accounting officers/authorities of the auditees and those that perform an oversight or governance function, which include leadership/MEC should work collectively towards improving the key controls to ensure that the audit outcomes do not

regress. The accounting officers/authorities must intervene decisively and timely to ensure financial competencies and disciplines are applied to prepare accurate financial and performance reports.

5.2 Status of information technology

Information technology (IT) controls ensure the confidentiality, integrity and availability of state information, enables service delivery and promotes national security. It is thus essential for good IT governance, effective IT management and a secure IT infrastructure to be in place. IT service continuity controls that do not operate effectively could negatively impact audit outcomes as financial systems forms the basis for financial reporting. Where security management and user access management controls are not operating effectively, the financial systems could be susceptible to fraud.

Effective **IT governance** underpins the overall well-being of an organisation’s IT function and ensures that the organisation’s IT control environment functions well and enables service delivery.

5.2.1 Overview of the status of information technology focus areas

Our audit included an assessment of the IT controls in the areas of IT governance, security management, user access management and IT service continuity. Figure 22 shows that there has been a stagnation in the number of auditees that had audit findings on IT controls since the previous year. This was as a result of management not prioritising the design and implementation of IT governance, security, user access and IT service continuity controls to address previously raised findings.

An analysis of the audit outcomes indicated that the majority of provincial departments were experiencing challenges with the implementation of the requirements of the Corporate Governance of Information and Communication Technology Policy Framework (CGICTPF) due to insufficient funding to acquire the correct software to enhance security controls. However, there were instances where controls were lacking due to inadequate management involvement in the design and implementation of internal controls, which could be attributed to inadequate oversight by those charged with governance and a lack of consequences for not resolving audit findings.

Figure 22: Status of information technology

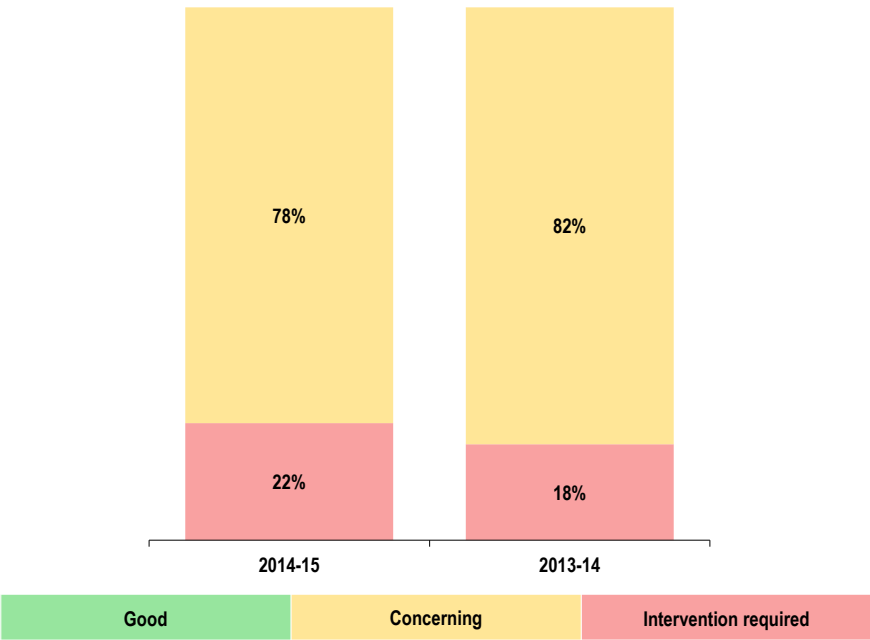


Figure 23: Status on the information technology focus areas

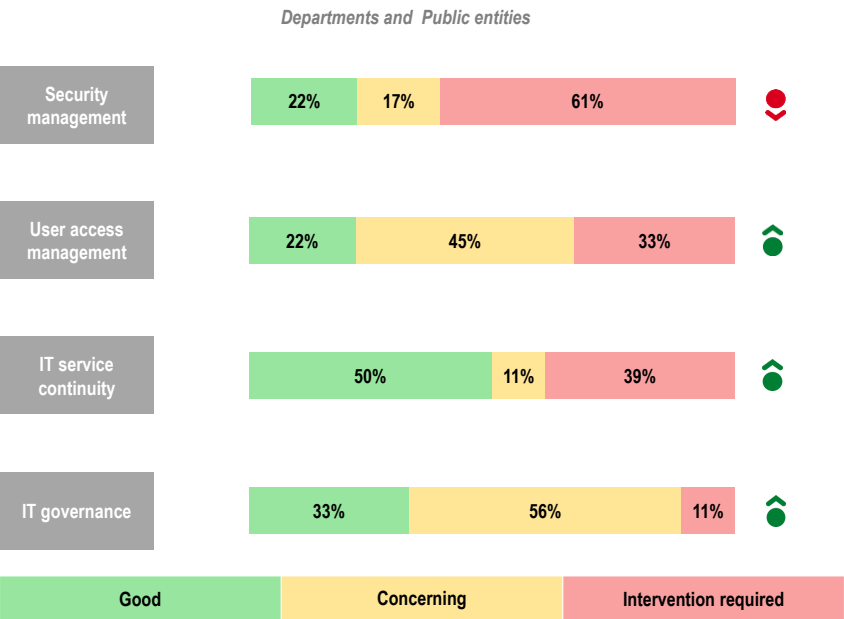


Figure 23 above indicates the progress made in addressing areas of concern since the previous year and outlines the status of the controls in the areas we audited. It indicates whether the IT controls are good, concerning, or require intervention for departments and public entities. Overall, the above figure indicates that the majority of departments and entities are still struggling with the design and implementation of security management, user access management, IT service continuity and IT governance controls. As depicted, there was an improvement on user access management, IT service continuity and IT governance controls from 2013-14 to 2014-15, owing to the implementation of our recommendations that have been instituted at some auditees. However, security management regressed.

The Department of Agriculture and Rural Development, Free State Development Corporation, Free State Legislature and Provincial Treasury implemented adequate user access management controls for 2014-15.

Free State Fleet Management Trading Entity, Free State Development Corporation, Provincial Treasury, Police, Roads and Transport, Public Works and Infrastructure, Sport, Arts, Culture and Recreation, Free State Tourism Authority, Economic Small Business Development, Tourism and Environmental Affairs and Gambling and Liquor Authority implemented adequate IT service continuity controls for 2014-15.

Premier, provincial treasury, Sport, Arts, Culture and Recreation, Economic Small Business Development, Tourism and Environmental Affairs, Central Medical Trading Account as well as the Gambling and Liquor Authority implemented adequate IT governance controls for 2014-15.

Premier, Free State Legislature, Police, Roads and Transport and Sport, Arts, Culture and Recreation implemented adequate security management controls for 2014-15.

The most common findings were the following:

- IT security policies were not designed and implemented and some of the departments had not delegated information security officer responsibilities to an official. IT and information security matters may therefore not be adequately managed, which could lead to security breaches and financial information being compromised.
- At some of the entities, user access management controls were not designed and implemented. Some of the departments did not perform reviews of system administrators' activities and the appropriateness of users' access rights. This could lead to security breaches and financial information being compromised due to unauthorised users exploiting the security weaknesses.
- IT service continuity controls, such as business continuity plans (BCPs) and disaster recovery plans (DRPs) were not always adequately designed and implemented, which resulted in the lack of testing of DRPs. This could provide challenges in the entities' ability to recover information speedily in the event of a disaster.
- The majority of the entities had not developed an IT governance framework and not all departments had implemented the prescripts of the CGICTPF. ICT risks

may not be managed appropriately and ICT resources may not be optimally utilised to support business objectives.

Evaluation of experience and skills

Figure 24 indicates that the experience and skills of the majority of chief information officers (CIOs)/ IT managers in the province are good. CIOs/IT managers have been appointed at 17 of the auditees audited in the province. No CIO/IT manager position was available at the Free State Fleet Management Trading Entity as their IT was governed by the Department of Police, Roads and Transport.

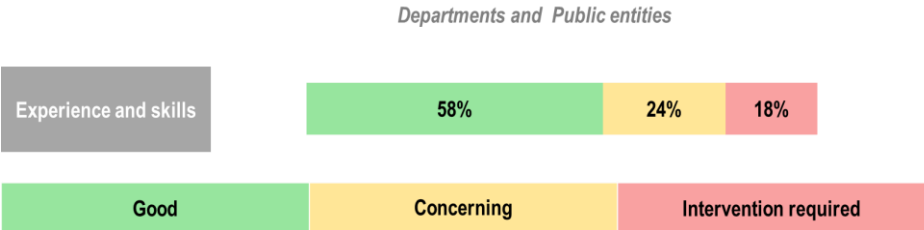
At 58% per cent of departments and entities, the CIOs/IT managers had worked in their capacities for more than six years and their IT qualifications ranged from a national diploma to Bachelor of Technology. The experience and skills of these CIOs/IT managers have been assessed as good.

At 24% of the auditees, the CIOs/IT managers either had the required qualifications with five years or less experience or did not have the required qualifications but however had experience of more than 16 years.

At 18% of the departments and entities, the CIOs/IT managers had academic qualifications that were irrelevant to information technology. Their experience as CIOs/IT managers ranged from one year to 10 years.

The majority of CIOs/IT managers in the province are appropriately qualified to design and implement IT processes and procedures and should utilise their skill to improve the outcome of IT audit findings in the province. However, the majority of departments and entities are still struggling with the design and implementation of security, user access management and IT governance controls. This is as a result of management not prioritising the design and implementation of IT controls as there was a lack of consequences for poor performance. The heads of departments (HODs) should establish key performance indicators for the IT department and the responsible staff to monitor their performance and ensuring poor performance is addressed.

Figure 24: Provincial status of experience and skills



Evaluation of tenders at the province

The provincial treasury awarded a bid for an estimated R171 million for the development and implementation of an integrated information, governance and process management system (supplier database management system). The procurement processes followed is still being reviewed.

The Department of Sport, Arts, Culture and Recreation was investigating the possibility to award a contract of an estimated R20 million for the provision of Radio Frequency Identification (RFID) Tags for library books over a two-year period. At the time of the audit, the tender process was still in progress. The procurement processes followed will be evaluated once completed to ensure compliance with procurement processes.

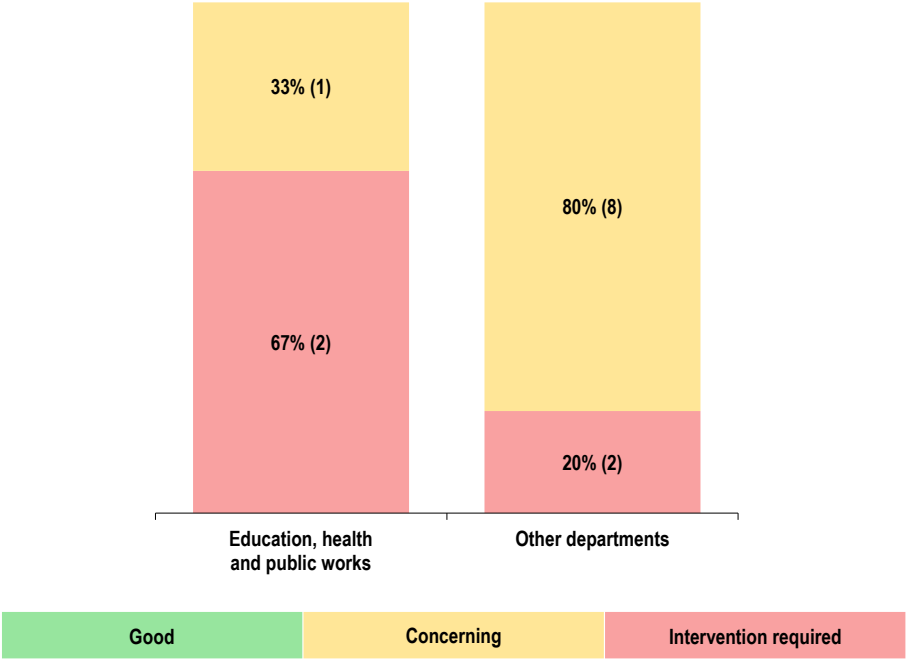
Status of controls at the Departments of Education, Health and Public Works and Infrastructure vs that of other departments

Figure 25 indicates the status of the controls in the areas we audited at the departments of Education, Health and Public Works and Infrastructure vs that of other departments. It shows the number of auditees where the IT controls are good, concerning or requires intervention.

There was an improvement in the design of controls at the Department of Public Works and Infrastructure in that some of the policies which were not designed in the previous year were found to be designed and approved in the current year. However, challenges remained with controls that were not implemented.

There was no noticeable improvement in the design of controls at the Departments of Health and Education, although both auditees had suitably qualified CIOs/IT managers. The majority of the reported findings were similar to those reported in the previous year, keeping them both at an intervention required level. The HoDs at the Departments of Health and Education should establish key performance indicators for the IT departments and CIOs/IT managers to monitor their performance and ensuring poor performance is addressed. The design and implementation of controls at the other departments remained stagnant during the current year, with 20% still experiencing challenges with design and 80% experiencing implementation challenges.

Figure 25: Status of information technology – Education, Health and Public Works and Infrastructure vs other departments



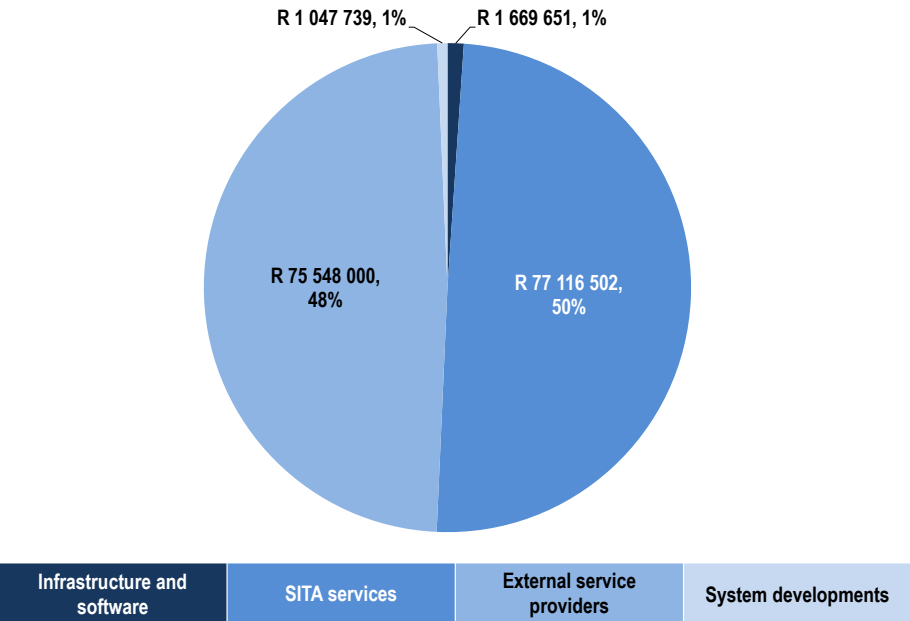
Expenses related to information technology at the provincial departments

Figure 26 provides a breakdown of approximate IT-related expenditure in terms of infrastructure and software, SITA services, external service providers and project developments, which were incurred by 11 departments during the current year.

The majority of departments are utilising transversal systems, which are hosted by the State Information Technology Agency (SITA). Therefore 50% of the province’s IT budget spend was on SITA and only 1% was on system development, as only a few departments have non-transversal systems. A further 48% of the province’s IT budget was spent on external service providers for provision of IT-related support services. However, some of the services rendered by the service providers were not monitored by a number of departments to ensure that services paid for were received. Only 1% of the province’s IT budget spend was on infrastructure and software.

Overall, the province spent 98% of its IT budget on SITA and external service providers. However, this did not improve the status of IT controls in the province as the departments still experienced challenges with the design and implementation of IT controls.

Figure 26: Expenses related to information technology at provincial departments



Most common root causes and the actions taken to address them

- Allocation of insufficient budget to IT and not considering IT as a priority in executing the mandates of the department contributed to audit findings.
- Not enough attention was paid in the development and implementation of the control documents, which resulted in repeat findings on design.
- Policies were developed without a proper assessment of risks they intended to mitigate. Instead, the attention was more on avoiding the audit finding by limiting the development of the control documents to the recommendations of the auditors.
- Formalising IT internal controls is not a priority at small entities. Having a small IT environment with a few users is perceived as some form of control, which will make it easier to identify any breach of control.

The following actions have been taken to address the root causes:

- The majority of the departments were in the process of implementing the requirements of the IT governance framework. The framework will be

implemented in a phased approach over three years and should be completely implemented by the end of the 2015-16 financial year.

- The departments were also consulting each other and sharing knowledge concerning the implementation of the requirements of the IT governance framework.
- The Department of Public Works and Infrastructure was tasked with the development of a provincial disaster recovery site that will be utilised by all departments.

5.2.2 Recommendations

The following actions should be taken to address the findings and root causes:

- The business risks for all the departments and the entities are almost the same. To save cost and time a task team formed of representatives from all the departments and entities should be established to do a proper risk assessment and develop IT controls to mitigate the risks. The outcome of the risk assessment and the IT controls could then be tweaked to suit the environments across departments and entities.
- A control, which is commonly not implemented, is monitoring. This often results from the limitations in the IT systems, which are not designed to produce detailed reports to facilitate monitoring of activities done. Audit areas affected by this are user accounts management and IT security
- The departments and/or entities should establish a dashboard to report on the effectiveness of IT controls.
- The heads of departments and chief executive officers should establish key performance indicators for the IT department and the responsible staff to monitor the performance of the IT department.
- The departments and/or entities should monitor service providers on a regular basis to ensure that the agreed levels of service are consistently maintained.
- Auditees should focus on consistently improving their relationships with SITA by involving them in the planning stage of the procurement process to ensure service received from service providers are improved and add value.
- IT representatives from departments should continue to attend and form part of the Provincial GITO Council to share knowledge and should involve the provincial entities.
- The internal audit forum should continue to identify the nature and root causes of IT findings, advise management on how to address previously raised findings and follow up on corrective measures taken. Therefore, the internal audit units should ensure that IT findings are included in their audit plans.
- Internal audit units and audit committees should play a more effective role in tracking the progress made in implementing management commitments in

respect of previously raised IT audit findings. They should also extend their scope where IT audits are not yet being performed.

IT controls and governance remains essential to ensure the confidentiality, integrity and availability of state information. This enables service delivery and promotes national security. It is thus essential that good IT governance, a secure IT infrastructure must be in place and continuously updated and monitored to ensure that IT remains relevant to business.

It is important that adherence to IT governance processes and accountability thereof is continuously monitored.

5.3 Summary of root causes

Our audits included an assessment of the root causes of audit findings, based on identifying the internal controls that had failed to prevent or detect the error or non-compliance. These root causes were confirmed with management and shared in the management report with the accounting officer and the executive authority.

As reported in section 1 on the overall audit outcomes, many auditees produced financial statements and annual performance reports of a poor quality and did not comply with key legislation. The information that follows summarises the three most common root causes of poor audit outcomes and inadequate controls, and provides recommendations to address the root causes as shown in figure 1.5.

5.3.1 Slow response by management to address the root causes of poor audit outcomes

The slow response by management is the main root cause identified as a challenge for the second consecutive year. However, there has been an improvement from 14 auditees (78%) in the prior year to 12 auditees (67%) in the current year. The two auditees that improved, namely the Departments of the Premier and Public Works and Infrastructure, took our recommendations seriously and the leadership was committed to address prior year findings.

The slow response by management is reflected in the poor quality of the financial statements (figure 4) and performance information (figure 17) submitted for audit purposes, as well as the levels of non-compliance (figure 5) that have been reported. There is still an over-reliance on the audit process to identify misstatements that need to be corrected to ensure an unqualified audit opinion.

The effectiveness of accounting officers/authorities and senior management, as the first level of assurance provider is critical, as they are the custodians of embedding and sustaining a strong control environment.

Although the political and administrative leadership is taking our messages to address the root causes of audit outcomes seriously, the impact thereof did not reflect entirely on the overall audit outcomes in the current year, as many auditees

were again unable to achieve clean audit outcomes. We continued to share our messages in the current year with the political and administrative leadership, which focused on basic internal controls. Commitments made by the provincial leadership in the previous year to improve audit outcomes were monitored and followed up continuously. However, there was a slower than expected response by the administrative leadership and senior management to honour and implement some of these commitments. The main reason for this was that the leadership focused on one area, for example, financial misstatements and then placed no focus on other areas such as predetermined objectives and non-compliance with SCM prescripts.

It is of the utmost importance that leadership of the two departments (Health and Human Settlements) that received qualified audit opinions, as well as the Department of Education where significant non-compliance with legislation was identified, should make every effort to address our findings.

The speed and effectiveness with which the leadership addresses the root causes, as unpacked in this section and if they adopt these best practices, will impact on how quickly the province will be able to achieve its objective of 100% clean audit outcomes.

To address this root cause, the following best practises should be implemented:

- The executive authority and accounting officers/authorities should continue to set the tone in creating a control environment that is conducive to accountability, ethical business practices and good governance. This will encourage the timely implementation of action plans with clear guidance on delivery periods and responsible persons to address internal control deficiencies and the previous year's audit findings.
- Ensure that adequate actions plans are implemented and monitored throughout the year. The action plan should address the root causes and management needs to ensure that they address the root causes in all three areas, being financial, predetermined objectives and compliance with laws and regulations. This action plan should also include the commitments made by the provincial executive leadership.
- The administrative leadership should ensure that regular internal controls, such as daily, weekly, monthly and quarterly reporting and reviews by senior management and internal audit units, are functioning effectively in areas of financial management, compliance and performance reporting. After implementation, the key controls should be monitored regularly and staff should be held accountable for not doing their part. Accountability and consequence management are key to successful implementation of key controls.
- Senior management should review and provide transparent reporting on non-compliance and actions taken by the accounting officer/authority on a regular basis. Instances of non-compliance must be investigated thoroughly and addressed with a focus on reducing the time delay in finalising these processes.
- The oversight bodies, together with the political leadership in the province, should hold management accountable for their slow response. This will set the tone from the top and ensure that discipline is instilled in the auditees.

- Management should prioritise the filling of vacancies in positions supporting them with adequately skilled people at the auditees where it is still a concern.

5.3.2 Inadequate consequences for poor performance and transgressions

There has been an improvement from 10 auditees (56%) in the prior year to eight auditees (44%) in the current year. This improvement is due to the improvement in the levels of assurance provided (figure 1.2) as well as key controls (figure 1.3). The effect of a lack of consequences for poor performance and transgressions is evident at the Departments of Education, Health and Human settlements that are responsible for 99% of the irregular expenditure in the province. Where there was consequence management for poor performance and transgressions, the Departments of the Premier and Public Works and Infrastructure were able to improve to clean audit outcomes.

It should also be noted that a lack of consequences was a root cause for poor audit outcomes at four auditees which also did not have signed performance agreements for senior managers, namely the Departments of Education and Health, as well as the Central Medical Trading Account and Free State Development Corporation.

To address this root cause management should do the following:

- Establish effective performance management systems. This will ensure that staff are held accountable and will remove the perception that inappropriate behaviour, such as an unwillingness to comply with laws and regulations and incurring irregular expenditure, is acceptable.
- Performance agreements should be implemented at all levels and these should be linked to the auditees’ strategic goals so that all employees work towards a common goal and improve service delivery.
- Once effective performance agreements are in place, performance reviews should take place regularly so that employees are aware of their level of performance and correction action can be taken, where necessary.

5.3.3 Instability or vacancies in key positions and staff supporting them

There has been an improvement in instability and vacancies in key positions and staff supporting them from 12 auditees (67%) in the prior year to eight auditees (44%) in the current year. However, the poor financial health of the province limited the progress made in addressing this root cause as a moratorium was placed on the filling of vacancies. Instability and vacancies reduce leadership’s effectiveness to create a good and sustainable control environment. Policies and procedures, action plans and review and monitoring controls cannot be implemented and performed

effectively without skilled and adequate resources. The management of vacancies is discussed in detail in section 4.1.1.

The following actions should be taken to address the root cause:

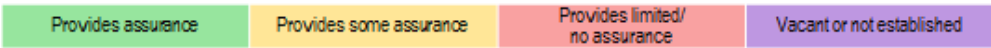
- The executive leadership should prioritise the filling of vacancies in key positions and staff supporting them with people who have the necessary qualifications, experience and competency levels to fulfil their responsibilities and exercise their powers effectively.
- The executive leadership should ensure continued stability in key positions.

5.4 Initiatives and impact of key role players

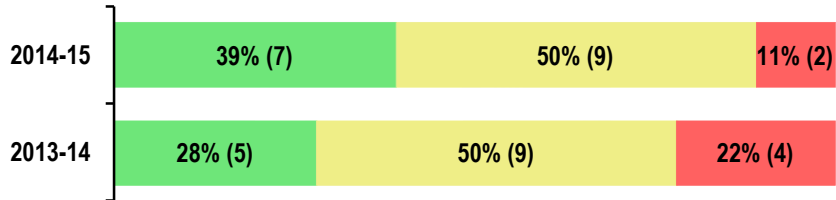
5.4.1 Assurances provided by key role players

The management and leadership of the auditee and those that perform an oversight or governance function should work towards improving the key controls, addressing the root causes and ensuring that there is an improvement in the key risk areas, thereby providing assurance on the quality of the financial statements and performance reports as well as ensuring compliance with legislation.

Based on our assessment as shown in figure 1.2, all role players are not yet providing the necessary assurance. Below is an overview of the assurance provided by each of the assurance providers. The colours in this section have the following meanings:



Senior management



Senior management, which includes the CFO, chief information officer, performance manager and head of the SCM unit, provides assurance by implementing basic financial and performance controls.

There has been an improvement in the first level of assurance. The premier implemented consequence management and removed all staff in the assets section after receiving a qualification in the prior financial year and reverted back to its unqualified with no finding opinion. Senior management at the departments of Police, Roads and Transport as well as Public Works and Infrastructure took active steps to ensure that prior year audit findings are resolved, contributing to improved

assurance levels. Senior management at the Provincial Treasury, the Department of Sport, Arts, Culture and Recreation, the Free State Free State Legislature and Fleet Management Trading Entity once again provided adequate assurance for credible decision-making. However, senior management at the Department of Social Development did not address prior year findings on predetermined objectives and non-governmental organisations and, consequently, regressed in the level of assurance they provide.

Senior management of the Departments of Education and Health provided limited assurance. The main reason for this was that staff were not held accountable for poor performance and transgressions.

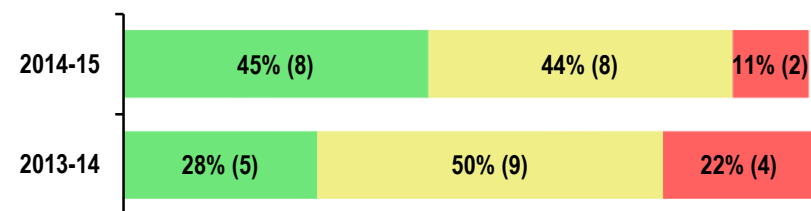
Assurance provided by senior management shows a slow year-on-year improvement; therefore, it is imperative that improvements be prioritised. Senior management should take full ownership and monitor key controls to address deficiencies, especially in the regular preparation of credible financial and performance information, and implement appropriate controls to ensure effective review and monitoring of compliance with legislation to ensure that they provide the required level of assurance for credible decision-making. Accounting officers and MECs rely on senior management, which includes the chief financial officer, chief information officer, performance manager and head of the supply chain management unit to implement basic financial and performance management controls (proper record keeping, controls over processing and reconciling of transactions, regular and accurate reporting, review and monitoring of compliance with legislation and designing and implementing IT system controls).

The slow improvement of these internal controls, as reported in section 5.1 supports the need for improvement in the first level of assurance.

The human resource challenges outlined in section 4.1 should be addressed to strengthen the assurance provided by senior management. Vacancies need to be filled in staff supporting key officials and consequence management should be implemented.

Senior management must, as the first line of defence in the combined assurance model, institutionalise a sound and strong base of internal controls and financial management discipline that will support the effectiveness of other assurance providers and limit the risk of a reversal of these positive outcomes. The province needs to continue to build a public service characterised by transparent financial and performance reporting. Accounting officers, supported by senior management and other oversight structures should play a prominent role in this regard.

Accounting officer or accounting authority



Accounting officers and authorities are responsible for auditees' internal controls, including leadership, planning, risk management as well as oversight and monitoring. While accounting officers and authorities depend on senior management for designing and implementing the required financial and performance management controls, they should create an environment that helps to improve such controls.

There was an improvement in the assurance provided by the accounting officers of the Departments of Police, Roads and Transport, Premier; and Public Works and Infrastructure as these accounting officers were committed to their oversight and monitoring role.

The accounting officers of the provincial treasury, Sport, Arts, Culture and Recreation, the Free State Legislature and Fleet Management Trading Entity as well as the accounting authority of the Free State Development Corporation again provided assurance. Good practices by these auditees include consequence management, involvement in financial and non-financial activities of the department/entity and involvement during the audit process.

A slow response to the root causes and recommendations made by the AGSA, resulted in the accounting officers of the Departments of CoGTA and Education providing limited assurance. The accounting officer of the Department of Education was also not actively involved in the audit process.

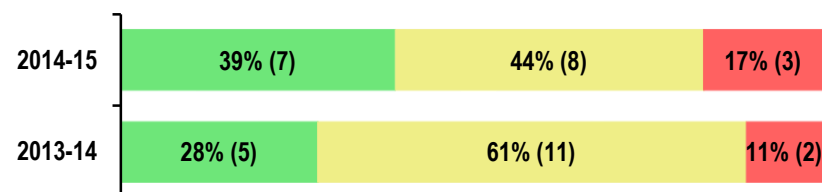
The slow response by the administrative leadership at some auditees has been identified as a contributing factor for the current audit outcomes. As we have shared in the previous year, accounting officers and authorities, with the support of senior management, should continue to support the improvements in the control environment through enhanced leadership and oversight responsibility. These matters are critical to sustainable practices that translate into improved audit outcomes.

Accounting officers and authorities, with the support of senior management, should continue to support the improvements in the control environment in the following way:

- Provide effective and ethical leadership, and oversee financial and performance reporting and compliance with legislation.
- Implement effective HR management to ensure that adequate and sufficiently skilled staff are employed and retained.

- Set the correct tone to improve the performance and productivity of staff by implementing sound performance management processes, evaluating and monitoring performance, and imposing proper consequences for poor performance.
- Establish policies and procedures to enable sustainable internal control practices, and monitor the implementation of action plans to address internal control deficiencies.
- Implement and monitor an IT governance framework that supports and enables the achievement of objectives, delivers value and improves performance.
- Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
- Ensure that an adequately resourced and functioning internal audit unit is in place and that internal audit reports are responded to.
- Support the audit committee and ensure that its reports are responded to.

Member of executive council



MECs have specific monitoring and oversight responsibilities at both departments and public entities in terms of the PFMA and the Public Service Act. They therefore need to ensure that strategies and budgets are aligned to mandates and that objectives are achieved. MECs can bring about improvements in the audit outcomes of their auditees by being actively involved in key governance matters and by managing the performance of accounting officers and authorities.

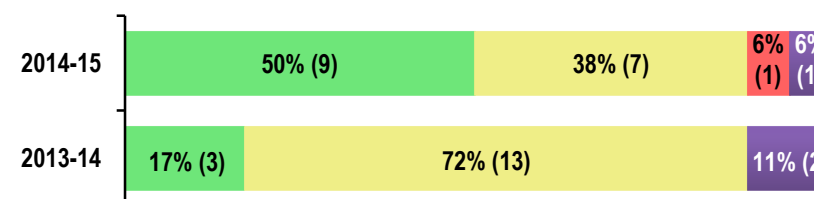
MECs of Agriculture and Rural Development, Police, Roads and Transport, Premier and Public Works and Infrastructure improved in their level of assurance as they set the tone at the top, committed to implement AGSA recommendations and availed themselves for interactions with the AGSA. MECs and the Speaker again provided assurance at the Free State Legislature, provincial treasury and the Fleet Management Trading Entity.

Limited assurance was provided by the MECs responsible for the Departments of CoGTA, Human Settlements and Education, which can be attributed to difficulty in securing meetings with the AGSA and a lack of prioritising AGSA recommendations by the executive authority.

Going forward, the executive authority should continue to implement the following to ensure sustainable improvement in the drive towards credible and accurate information:

- Request frequent detailed reports on key issues, progress with action plans and commitments, challenges and emerging risks affecting the department/entity.
- Commit to improvements based on the root causes of unsatisfactory audit outcomes.
- Provide strategic direction to the department and any public entities within their portfolio.
- Manage the performance of the accounting officers and authorities.
- Set a proactive leadership tone that instils a culture of accountability and good governance.

Internal audit unit



Internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation.

Free State Tourism Authority still did not have an internal audit unit in place for 2014-15 owing to financial constraints. Free State Gambling and Liquor Authority established an internal audit function during 2014-15. The internal audit unit performed their functions adequately, but management did not consistently implement the recommendations made by internal audit resulting in an evaluation of some assurance.

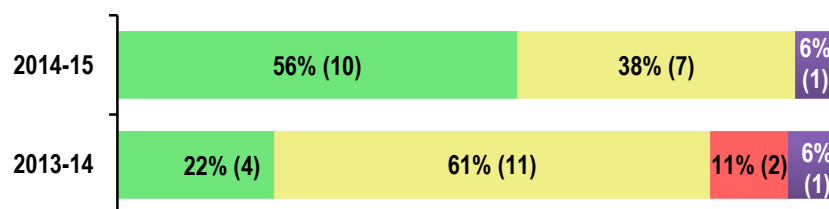
There has been an overall improvement in the assurance provided by internal audit. Improvements were made at the Departments of Agriculture and Rural Development; Premier; Police, Roads and Transport; Public Works and Infrastructure, Sport, Arts, Culture and Recreation as well as at the Free State Development Corporation, as a result of compliance with their annual audit plans resulting in them providing assurance. The Free State Legislature, Provincial Treasury and Fleet Management Trading Entity again provided assurance. The Central Medical Trading Account shared an internal audit unit with the Department of Health. This unit prioritised the department during the 2014-15 financial year and as a result did not perform adequate work at the entity, resulting in no assurance being provided at the entity.

The increased level of assurance can be attributed directly to leadership addressing findings and implementing recommendations made by these units.

The Departments of CoGTA, Education, Health, Human Settlements, Social Development, Sport, Arts, Culture and Recreation are stagnating at providing some assurance and improvement is hampered by the high vacancy rates of their internal audit units and not implementing all internal audit recommendations. Leadership needs to address this in order to improve the assurance levels provided by these units.

Internal audit units should now focus their efforts on improving the systems to enhance the credibility of information through implementing the necessary controls, reviewing compliance with legislation and predetermined objectives.

Audit committee



An audit committee is an independent body that advises the accounting officer or authority and senior management on matters such as internal controls, risk management, performance management as well as the evaluation of, and compliance with, legislation. The committee is required to provide assurance to the accounting officer or authority on the adequacy, reliability and accuracy of financial reporting and information.

For audit committees to provide the required level of assurance as second-level assurance providers, they depend heavily on the reliability of the assurance provided by senior management and internal audit units. The lower the assurance level provided by these two role players, the more difficult it is for audit committees to assess the control environment of the auditee accurately, including being assured that significant risks are being reduced.

Audit committees were in place at all auditees, except the Free State Tourism Authority for both years.

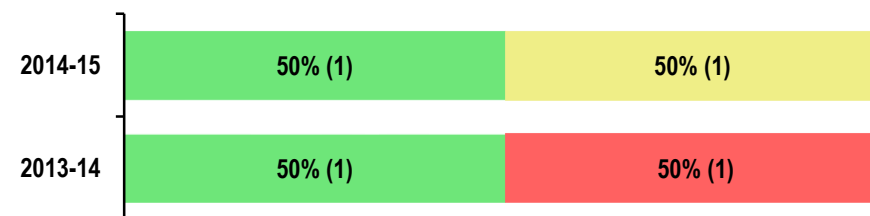
There has been an overall improvement and audit committees of Agriculture and Rural Development; CoGTA; Police, Roads and Transport; Premier; Public Works and Infrastructure and the Free State Development Corporation improved to provide assurance. The audit committees of the Free State Legislature, Provincial Treasury, Sport, Arts, Culture and Recreation and Fleet Management Trading Entity again provided assurance. Good practices include effective oversight functions, monitoring of the internal audit action plan, and interaction with the accounting officers, accounting authorities and the AGSA.

Further improvements in assurance levels are possible and audit committees should continue to:

- Invite the AGSA to present quarterly dashboard reports in order to influence corrective actions at auditees and to identify risks.
- Review internal audit reports and monitor progress.
- Assess the effectiveness of the internal audit units.
- Engage with the accounting officers and authorities regularly to keep abreast of key changes that required attention.
- Review the financial statements and performance report.

A strong audit committee can provide the momentum for moving forward by pulling the other role players together in a united effort. As an independent adviser and specialist in the control environment, the committee is in a position not only to evaluate the credibility of information, but also to robustly report to the executive on who is delivering and who is not. This can provide the executive with assurance and empower them to enforce focused accountability. The success of this depends on the degree to which the members of the executive council interact with and support the audit committee.

Provincial treasury and premier's office



The mandate of the provincial treasury relates to financial governance and accounting services and forms a core part of advancing the developmental and transformational mandate of government. Their functions include the following:

- Sustainable resource management provides professional advice for and support to provincial economic analysis, fiscal policy, and the management of the annual budget and the implementation of provincial budgets.
- Asset and liability management promotes effective management of provincial assets and liabilities, manages and maintains transversal systems and ensures effective and efficient implementation of compensation management in the province.
- Financial governance promotes accountability through substantive reflection of financial activities of the province as well as compliance with finance norms and standards.

Financial governance

With regard to financial governance, the department promotes accountability through substantive reflection of financial activities of the province as well as compliance with finance norms and standards by:

- Promoting sound accounting practices and reporting.
- Promoting sound risk management and internal audit practices.

In fulfilling their mandate, they are required to put appropriate processes and measures in place to enable the execution of their powers/functions. The provincial treasury has consistently provided assurance over a number of years. Their main driving forces are the correct tone from the executive authority, effective leadership and committed and dedicated staff.

In order to sustain the assurance level, Provincial Treasury must ensure that there is consequence management, stability in key positions and continuous appointment of competent staff. The MEC for Finance has a hands-on approach and has always been readily available to discuss concerns that were revealed during the audit process. An audit intervention forum, chaired by the MEC of Finance, was also established to discuss transversal audit matters and to intervene where required to facilitate conclusion of unresolved outstanding matters as well as providing the necessary political leadership. The MEC facilitates and avails own staff to assist departments to clear concerns and address technical difficulties and has therefore been assessed as providing assurance.

The provincial treasury also intervened at the Departments of Health at the beginning of the financial year and at Education from 1 April 2015, in terms of section 36(3) of the PFMA, by taking over the accounting officer's financial administration responsibilities due to the poor state of financial health, which impacts on service delivery.

During the sector audit, it was clear that the provincial treasury implemented the relevant monitoring and support initiatives as planned for the year under review as envisaged per the MTSF, relating to the following sub-outcomes:

- Members of society have sustainable and reliable access to basic services.
- Intergovernmental and democratic governance arrangements for a functional system of cooperative governance and participatory democracy strengthened.
- Sound financial and administrative management.

Premier

The Department of the Premier has a constitutional mandate to implement and administer provincial and national legislation as well as to coordinate functions of the provincial government.

The premier has tasked the MEC: Finance with monitoring the financial administration of departments and municipalities. The Rules and Orders of the Free State Legislature requires the premier to provide a report on the action taken by the executive authority in response to resolutions of the Free State Legislature affecting

the executive authority within 30 days of communication thereof, where after the resolutions are made available to departments for implementation. However, there was a delay in submission of the resolutions by the legislature to the Department of the Premier, resulting in resolutions not having an impact during the current year.

In the prior year, the provincial executive leadership committed to address competencies by means of:

- a self-assessment per department
- attending to non-compliance with SCM
- providing guidance on the utilisation of implementing agents
- addressing poor performance
- finalising performance contracts for senior management
- attracting and retaining officials with relevant skills and competencies
- assisting the portfolio committees in fulfilling their oversight responsibilities
- meeting with the AGSA on a quarterly basis to discuss the key control matrix

Most of the commitments are still in progress, with the exception of commitments related to providing guidance on the utilisation of implementing agents and to assist the portfolio committees in fulfilling their oversight responsibilities, which was delayed. The premier re-committed to further implement all of these commitments during the audit report hand-over function and further requested all MECs to focus more on entities and the smaller departments as there is no reason for them not to improve to unqualified opinions with no findings.

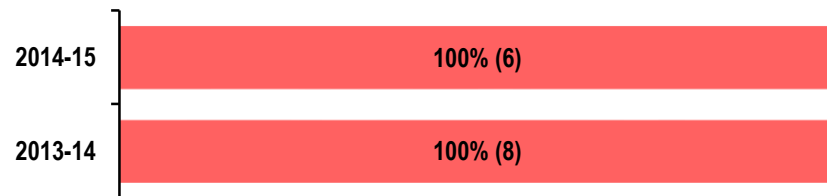
From the sector audit it was clear that premier implemented the relevant monitoring and support initiatives as planned for the year under review as envisaged per the MTSF, relating to the following sub-outcomes:

- Members of society have sustainable and reliable access to basic services.
- Intergovernmental and democratic governance arrangements for a functional system of cooperative governance and participatory democracy strengthened.
- Sound financial and administrative management.
- Monitoring and support provided to departments relating to human resources.

Findings from the sector report relate to performance agreements not being signed by all accounting officers.

The premier remains committed in his oversight role in provincial and local government. However, the Department of the Premier should enhance its monitoring and support responsibilities to ensure that the desired impact is achieved as envisaged in the MTSF.

Portfolio committees and public accounts committees



The processes and enforcement of accountability for the actions, performance, financial management and compliance with legislation of all involved in government serve as a cornerstone of democratic governance in South Africa. One of the most important oversight functions of the Free State Legislature is to consider auditees' annual reports as well as in-year monitoring reports. This function is carried out by the public accounts committee. After the 2014 national elections, portfolio committees were restructured, resulting in the number of portfolio committees decreasing.

For the portfolio committees and the public accounts committee to perform their oversight function, assurance is needed that the information in the annual report and in-year reports is credible. Effective oversight by these committees is therefore dependent on senior management and accounting officers.

There has once again been a lack of adequate engagement between the AGSA and portfolio committees on audit information relating to non-financial matters. Of concern is that the AGSA was not consistently invited to quarterly meetings of the portfolio committees and meetings were arranged, postponed and rescheduled on short notice. When the AGSA was attending, we were normally only attending in an observing capacity. Portfolio committees therefore did not have information available to perform effective oversight or to make any commitments to us.

In order to enhance accountability regarding the use of public funds it is necessary for portfolio committees to engage with us and to perform robust oversight, take resolutions and track these for implementation.

Some portfolio committee chairs were members of the public accounts committee. This placed them in a position to obtain a greater understanding of the audit outcomes and responses from the departments within their portfolio. We have had good interactions with the public accounts committee and we continue to play a vital role in the committee's hearings. However, there is a delay in the distribution of resolutions passed by the committee to the departments, and the implementation of corrective actions starts late, which impacts on the assurance being provided by the public accounts committee limiting their oversight responsibility.

The committee have been assessed as providing limited assurance owing to the lack of interaction with the portfolio committees and the late distribution of public accounts committee resolutions. The issuing of their resolutions needs to be resolved as this has remained a concern for a number of years, which negatively impacts on the assurance provided.

Legislature

The Financial Management of Parliament and Legislatures Act (FMPPLA) is effective from 1 April 2015 and introduces a number of key requirements applicable to legislatures. These include:

- implementation of the Standards of Generally Recognised Accounting Practice (GRAP) as an accounting framework
- changes to the preparation and submission of annual performance reports and annual budgets
- changes in other legislated requirements, especially to align or develop regulations, policies and procedures to comply with supply chain management and other related matters in terms of the act.

We did not assess the legislature as an assurance provider. However, we did a high-level assessment to determine the readiness of the Free State Legislature, which covered the following aspects:

- Financial reporting framework
- Reporting on predetermined objectives
- Other compliance matters relating to the FMPPLA

Based on our assessment, the following requires attention:

- Financial reporting framework – In progress
- Reporting on predetermined objectives – Achieved
- Other compliance matters – In progress

The following are the associated risks:

- A formal GRAP implementation plan has not been finalised.
- A formal gap analysis to identify the actions required to move from a cash basis of accounting to accrual accounting has not been finalised.
- A formal risk assessment of what can go wrong and the mitigating factors for the risks has not been done.
- Details of the legislature's donor funded projects, including performance measures and indicators for assessing legislature's performance in achieving the purposes of the projects are not available.

Recommendations to address the risks

- A formal GRAP implementation plan should be compiled and progress should be monitored by management and internal audit.
- Officials responsible for compiling the financial statements should attend technical courses on GRAP.

- Interim financial statements should be compiled and evaluated by the treasury to ensure GRAP compliance.
- Compliance checklists to ensure all requirements as per the FMPPLA and complied with, especially SCM-related matters.

5.4.2 Initiatives and commitments of key role players

We shared our key message on the actions needed to improve audit outcomes with accounting officers and authorities, MECs, the premier and the legislature through our reports and interactions with them.

We have had meetings with most of the MECs and the premier during 2014-15. The MEC for CoGTA and Human Settlements was not available to meet with us. During our interactions with the MECs, we discuss the status of key controls, drive commitments to improve audit outcomes and share identified risks. The interactions improve the understanding of the audit outcomes and messages and address the progress of interventions to ensure a positive impact on the audit outcomes.

From our interactions, it is evident that the leadership received our engagements well and that the impact thereof is increasing year on year. The impact of interactions with the MECs resulted in the following:

- Three (17%) auditees improved their audit outcomes, i.e. the Departments of the Premier, Public Works and Infrastructure to unqualified with no findings and Education to unqualified with findings.
- Four (22%) auditees sustained their outcome of unqualified with no findings, i.e. the Department of Sport, Arts, Culture and Recreation, Provincial Treasury, the Free State Legislature and Fleet Management Trading Entity.

As indicated above, in the prior year, the provincial executive leadership committed to addressing competencies by means of a self-assessment per department; attending to non-compliance with SCM; providing guidance on the utilisation of implementing agents; addressing poor performance; finalising performance contracts for senior management; attracting and retaining officials with relevant skills and competencies; assisting the portfolio committees in fulfilling their oversight responsibilities and meeting with the AGSA on a quarterly basis to discuss the key

control matrix. Throughout the year, we monitor the commitments and initiatives of members of the executive, the premier and the public account committees to implement initiatives that can improve audit outcomes. Most of the commitments are still in progress, with the exception of commitments related to providing guidance on the utilisation of implementing agents and to assist the portfolio committees in fulfilling their oversight responsibilities which was delayed. Although the commitments were not fully implemented, the progress made contributed to the improved audit outcomes, especially regarding consequence management, attraction and retention of competent staff and committed leadership who met with the AGSA regularly. The premier re-committed to implement all these commitments further. The full implementation of all commitments should contribute to further improvements in audit outcomes.

6. Conclusion

The government's ability to achieve its desired outcomes as set out in its medium- and long-term strategies depends on regular and credible feedback from each department and public entity. This feedback usually comes in the form of the annual performance report, which measures government's success in implementing planned objectives, and the financial statements, which measure the effective utilisation of allocated funds. It is important that the requirements of legislation governing these institutions as approved by Parliament and the provincial legislature are observed during these processes, which makes it critical for these reports to be reliable to improve transparency and allow effective oversight at these institutions.

We maintain that for the provincial government to improve the reliability of reports and transparency, administrative and political leaders need to respond to our messages and implement our recommendations. We further believe that should the administrative and political leadership begin to implement the recommendations of the different assurance providers, it would lead to improved outcomes.

NOTES

ANNEXURES

Annexure 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance and specific focus areas

No	Auditee	2014-15 audit outcomes			2013-14 audit outcomes			Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance												Findings on specific risk areas				Unauthorised, irregular as well as fruitless and wasteful expenditure												
		Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Quality of submitted performance reports	Supply chain management	Financial Health	Human resource management	Information Technology	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R	
Departments																																													
1	Agriculture and Rural Development		R	R		R	R										R	A				A			A					A	A		R	R	A	A		R	R	M			0.00	0.00	0.00
2	Cooperative Governance and Traditional Affairs		A	R		R	R										A	A			R	R		R			R							R	A		R	R	F			0.00	180	0.08	
3	Premier - FS			A			N	A													A			A										A		N	R	M			0.00	0.00	0.01		
4	Economic Development, Tourism and Environmental Affairs		N	R			R										N				R	A		R			A	A	A	R	R	N		A	A		N	R	F			0.00	0.43	0.00	
5	Education		R	R		R	R						A				R				R	R			N	A	R	R			A		R	R				R	R	M			589.40	237.70	0.38
6	Free State Legislature					A	A																															R					0.00	0.00	0.00
7	Health		R	R		R	R	R	A	N				R			R				R	R		R	R	A	R	R			R	R		R	R		R	R	M			11.20	328.80	8.00	
8	Human Settlements		R	R		R	R		A	R		R					R				R	R	A	R	A	A	R	R			A	N	R	R	R	A		R	R	F			0.00	982.20	0.19
9	Police, Roads and Transport		N	R			R										N				R	A					A	A	A			A			A		N	R	M			0.02	3.10	1.10	
10	Free State Provincial Treasury																																				A	R				0.00	0.14	0.00	
11	Public Works		A	A		R	R										A				A	A								A	A		A			A	R	M			0.00	0.60	0.01		
12	Social Development		R	R		R	R										R																R		N		R	R	M			0.00	0.00	0.00	
13	Sport, Arts, Culture and Recreation																																				N	R	M			0.00	0.09	0.00	
Public entities																																													
14	Central Medical Trading Account			R			R														R						R				R						N	M				0.00	0.31	0.00	
15	Free State Development Corporation			R			R														R	R											A		A		R	R	F			0.00	3.40	0.00	
16	Free State Fleet Management Trading Entity																																					F				0.00	0.09	0.00	
17	Free State Political Party Fund																																												
18	Free State Tourism Authority		A	R		R	R										A				R	R					R	R	R	N			R			A	R	M			0.00	8.60	0.06		
19	Free State Gambling and Liquor Authority		R	R		R	R										R	R			R	R	N	A		A		N	A	A	N	A		R			R	R	F			0.00	180	180	
	Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Not reported (NR)	Financial health findings	Material unfavourable indicators	Unfavourable indicators	No unfavourable indicators	Legend (Expenditure)	Improved	Regressed																									

Annexure 2: Auditees' five-year audit opinions

No	Auditee			Audit opinions				
				2014-15	2013-14	2012-13	2011-12	2010-11
Departments								
1	Agriculture and Rural Development							
2	Cooperative Governance and Traditional Affairs							
3	Premier - FS							
4	Economic Development, Tourism and Environmental Affairs							
5	Education							
6	Free State Legislature							
7	Health							
8	Human Settlements							
9	Police, Roads and Transport							
10	Free State Provincial Treasury							
11	Public Works							
12	Social Development							
13	Sport, Arts, Culture and Recreation							
Public entities								
14	Central Medical Trading Account							
15	Free State Development Corporation							
16	Free State Fleet Management Trading Entity							
17	Free State Political Party Fund							
18	Free State Tourism Authority							
19	Free State Gambling and Liquor Authority							
Legend (Audit opinions)		Unqualified w ith no findings	Unqualified w ith findings	Qualified w ith findings	Adverse w ith findings	Disclaimer w ith findings	Audit not finalised at legislated date	

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GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

Glossary of key terminology used in this report

Adverse audit opinion (on financial statements)

The financial statements contain material misstatements (see 'misstatement') that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.

Asset (in financial statements)

Any item belonging to the auditee, including property, infrastructure, equipment, cash, and debt due to the auditee.

Assurance & assurance provider

As used in this report, assurance is a positive declaration that is intended to give confidence in the credibility of financial and performance reports tabled by auditees and in the extent to which auditees have adhered to legislation to which they are subject.

Through the audit report issued to auditees, we provide assurance on the credibility of auditees' financial and performance information as well as auditees' compliance with key legislation.

There are role players ('assurance providers') in national and provincial government, other than external auditors, that are also required to contribute to assurance and confidence by ensuring that adequate internal controls are implemented to achieve auditees' financial, service delivery and compliance objectives. Such assurance providers include senior auditee officials (heads of departments, accounting officers, and chief executive officers), various committees (risk management and audit committees), and internal audit units.

Other role players further include national and provincial oversight structures and coordinating or monitoring departments, as discussed in this report.

Backups

In information technology, a backup, or the process of backing up, refers to the copying and archiving of computer data so it may be used to restore the original after a data loss event. The verb form is to back up in two words, whereas the noun is a backup. The primary purpose of a backup is to recover data after its loss, be it by data deletion or corruption.

Business continuity plan (BCP)

A business continuity plan is a plan to continue operations if a place of business is affected by different levels of disaster, which can be localised short-term disasters, to days-long building-wide problems, to a permanent loss of a building. Such a plan typically explains how the business would recover its operations or move operations to another location after damage by events like natural disasters, theft or flooding. For example, if a fire destroys an office building or data centre, the people and business or data centre operations would relocate to a recovery site.

Capital budget

The estimated amount planned to be spent by auditees on capital items in a particular financial period; for example, fixed assets such as property, infrastructure and equipment with long-expected lives and that are required to provide services, produce income or support operations.

Cash flow (in financial statements)

The flow of money from operations: incoming funds are revenue (cash inflow) and outgoing funds are expenses (cash outflow).

Clean audit

The financial statements receive a financially unqualified audit opinion and there are no material findings on the quality of the annual performance report or non-compliance with key legislation.

<i>Commitments from role players</i>	Initiatives and courses of action communicated to us by role players in national and provincial government aimed at improving the audit outcomes.
<i>Conditional grants</i>	Money transferred from national government to auditees, subject to certain services being delivered or on compliance with specified requirements.
<i>Configuration</i>	The complete technical description required to build, test, accept, install, operate, maintain and support a system.
<i>Contingent liability</i>	A potential liability, the amount of which will depend on the outcome of a future event.
<i>Creditors</i>	Persons, companies or organisations that auditees owe money to for goods and services procured from them.
<i>Current assets</i> (in financial statements)	These assets are made up of cash and other assets, such as inventory or debt for credit extended, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, plant and equipment as well as long-term investments.
<i>Data integrity</i>	Data integrity refers to the overall completeness, accuracy and consistency of data. This can be indicated by the absence of alteration between two instances or between two updates of a data record, meaning data is intact and unchanged.
<i>Disaster recovery plan (DRP)</i>	A disaster recovery plan is a documented process or set of procedures to recover and protect a business IT infrastructure in the event of a disaster. Usually documented in written form, the plan specifies the procedures that an organisation is to follow in the event of a disaster. It is a comprehensive statement of consistent actions to be taken before, during and after a disaster. The disaster could be natural, environmental or man-made. Man-made disasters could be intentional (e.g. the act of an attacker) or unintentional (i.e. accidental, such as the wall of a man-made dam breaking).
<i>Disclaimed audit opinion</i> (on financial statements)	The auditee provided insufficient evidence in the form of documentation on which we could base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.
<i>Financial and performance management</i> (as one of the drivers of internal control)	<p>The performance of tasks relating to internal control and monitoring by management and other employees to achieve the financial management, reporting and service delivery objectives of the auditee.</p> <p>These controls include the basic daily and monthly controls for the processing and reconciliation of transactions, the preparation of regular and credible financial and performance reports, and the review and monitoring of compliance with legislation.</p>

Financially unqualified audit opinion

(on financial statements)

The financial statements contain no material misstatements (see 'material misstatement'). Unless we express a clean audit opinion, findings have been raised on either the annual performance report or non-compliance with legislation, or both these aspects.

Firewall

A security system used to prevent unauthorised access between networks (both internal /internal and internal/external). A firewall will allow only approved traffic in and/or out by filtering packets based on source/destination. The firewall inspects the identification information associated with all communication attempts and compares it to a rule set consistent with the organisation's security policy. Its decision to accept or deny the communication is then recorded in an electronic log.

Fruitless and wasteful expenditure

Expenditure that was made in vain and could have been avoided had reasonable care been taken. This includes penalties and interest on late payments to creditors or statutory obligations as well as payments made for services not utilised or goods not received.

Going concern

The presumption that an auditee will continue to operate in the foreseeable future, and will not go out of business and liquidate its assets. For the going concern presumption to be reasonable, the auditee must have the capacity and prospect to raise enough financial resources to stay operational.

Governance (as one of the drivers of internal control)

The governance structures (audit committees) and processes (internal audit and risk management) of an auditee.

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Human resource management

The management of an auditee's employees, or human resources, which involves adequate and sufficiently skilled people as well as the adequate management of the performance of staff and their productivity.

Information technology (IT)

The computer systems used for capturing and reporting financial and non-financial transactions.

IT controls

Computer-related controls ensure the confidentiality, integrity and availability of state information, enable service delivery and promote national security.

IT governance

The leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its strategies and objectives.

IT infrastructure

The hardware, software, computer-related communications, documentation and skills that are required to support the provision of IT services, together with the environmental infrastructure on which it is built.

IT security management

The controls preventing unauthorised access to auditee networks, operating systems and application systems that generate financial information.

IT service continuity

The processes managing the availability of hardware, system software, application software and data to enable auditees to recover or re-establish information system services in the event of a disaster.

IT user access management

The procedures through which auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the information systems.

Internal control / key controls

The process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with key legislation.

It consists of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information.

Irregular expenditure

Expenditure incurred without complying with applicable legislation.

Key drivers of internal control

The three components of internal control that should be addressed to improve audit outcomes, namely leadership, financial and performance management, and governance. (These three components are also defined individually in this glossary.)

Leadership (as one of the drivers of internal control)

The administrative leaders of an auditee, such as heads of departments, chief executive officers and senior management.

It can also refer to the political leadership or the leadership in the province, such as the premier.

Liability

Short-term and long-term debt owed by the auditee.

Material finding (from the audit)

An audit finding on the quality of the annual performance report or non-compliance with legislation that is significant enough in terms of its amount, its nature, or both its amount and its nature, to be reported in the audit report.

Material misstatement

(in the financial statements or annual performance report)

An error or omission that is significant enough to influence the opinions or decisions of users of the reported information. Materiality is considered in terms of either its rand value or the nature and cause of the misstatement, or both these aspects.

Misstatement

(in the financial statements or annual performance report)

Incorrect or omitted information in the financial statements or annual performance report.

Net deficit (incurred by auditee)

The amount by which an auditee's spending exceeds its income during a period or financial year.

Operational budget / operating budget

A short-term budget, usually prepared annually, based on estimates of income and expenses associated with the auditee's operations, such as service delivery costs, administration and salaries.

Oversight structures & coordinating and monitoring departments

National and provincial role players (1) that are directly involved with the management of the auditee (management/leadership assurance) – in other words, the first line of defence; (2) that perform an oversight or governance function, either as an internal governance function or an external monitoring function (internal independent assurance and oversight); and (3) that give an objective assessment of the auditee's reporting (external independent assurance and oversight).

Password

In access control, confidential authentication information, usually composed of a string of characters, may be used to control access to physical areas and to data. Passwords have to comply with certain complexity rules to ensure that they are not easy to guess.

Patch management

A piece of programming code that is added to an existing program to repair a deficiency in the functionality of the existing routine or program. It is generally provided in response to an unforeseen need or set of circumstances. Patching is also a common means of adding a new feature or function to a program until the next major version of the software is released.

Platform

A platform consists of an operating system, the computer system's coordinating program, which in turn is built on the instruction set for a processor or microprocessor, and the hardware that performs logical operations and manages data movement in the computer.

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Property, infrastructure and equipment (in financial statements)

Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.

Qualified audit opinion (on financial statements)

The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.

Receivables / debtors (in financial statements)

Money owed to the auditee by companies, organisations or persons who have procured goods or services from the auditee.

Reconciliation (of accounting records)

The process of matching one set of data to another; for example, the bank statement to the cheque register, or the accounts payable journal to the general ledger.

Root causes (of audit outcomes being poor or not improving)

The underlying causes or drivers of audit findings; in other words, why the problem occurred. Addressing the root cause helps ensure that the actions address the real issue, thus preventing or reducing the incidents of recurrence, rather than simply providing a one-time or short-term solution.

Supply chain management

Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.

Vulnerability

In information security, a weakness or flaw (in location, physical layout, organisation, management, procedures, personnel, hardware or software) that may be exploited by an attacker to cause an adverse impact.

Acronyms and abbreviations

AGSA	<i>Auditor-General of South Africa (the institution)</i>
Aids	<i>acquired immunodeficiency syndrome</i>
APP	<i>annual performance plan</i>
APR	<i>annual performance report</i>
ART	<i>anti-retroviral treatment</i>
ARV	<i>anti-retroviral</i>
ASIDI	<i>accelerated school infrastructure delivery initiative</i>
BAS	<i>basic accounting system</i>
BCP	<i>business continuity plan</i>
BI	<i>business intelligence</i>
bn (after an amount)	<i>billion (rand)</i>
BRRR	<i>budgetary review and recommendations report</i>
CAPS	<i>curriculum assessment policy statement</i>
CEO	<i>chief executive officer</i>
CFO	<i>chief financial officer</i>
CGICTPF	<i>Corporate governance of information and communication technology policy framework</i>
CIDB	<i>Construction Industry Development Board</i>
CIO	<i>chief information officer</i>
CIP	<i>continuous improvement plan</i>
COGHSTA	<i>Department of Cooperative Governance, Human Settlements and Traditional Affairs</i>
CoGTA	<i>Department of Cooperative Governance and Traditional Affairs</i>
CRL rights	<i>Commission for the Promotion and Protection of Cultural, Religious and Linguistic Communities</i>
CWP	<i>community work programme</i>
DBE	<i>National Department of Basic Education</i>
DHET	<i>Department of Higher Education and Training</i>
DoRA	<i>Division of Revenue Act</i>
DPSA	<i>Department of Public Service and Administration</i>
DRP	<i>disaster recovery plan</i>
EC	<i>Eastern Cape</i>
EIG	<i>education infrastructure grant</i>
EIS	<i>education information system</i>
EPWP	<i>expanded public works programme</i>
FMPPI	<i>Framework for managing programme performance information</i>

FMPPLA	<i>Financial Management of Parliament and Legislatures Act</i>
FS	<i>Free State</i>
GP	<i>Gauteng</i>
GIS	<i>geographical information system</i>
GRAP	<i>generally recognised accounting practice</i>
HEDCOM	<i>Heads of Education Committee</i>
HIV	<i>human immunodeficiency virus</i>
HoD	<i>head of department</i>
HR	<i>human resources</i>
HSDG	<i>human settlement development grant</i>
ICT	<i>information and communication technology</i>
IFMS	<i>integrated financial management system</i>
IRS	<i>integrated reporting system</i>
IT	<i>information technology</i>
K (after an amount)	<i>thousand (rand)</i>
KZN	<i>KwaZulu-Natal</i>
LOGIS	<i>logistical information system</i>
LP	<i>Limpopo</i>
LTS	<i>learner transport scheme</i>
LTSM	<i>learner teacher support material</i>
LURTIS	<i>learner unit record information and tracking system</i>
m (after an amount)	<i>million (rand)</i>
MDB	<i>Municipal Demarcation Board</i>
MEC	<i>member of the executive council of a province</i>
MIG	<i>municipal infrastructure grant</i>
MIS	<i>management information system</i>
MP	<i>Mpumalanga</i>
MTSF	<i>Medium term strategic framework 2014-2019</i>
NAT	<i>national</i>
NC	<i>Northern Cape</i>
NDP	<i>National development plan 2030</i>
NEMA	<i>National Environmental Management Act, 1998 (Act No. 107 of 1998)</i>
NEMWA	<i>National Environmental Management Waste Act, Act No. 59 of 2008</i>
NHI	<i>national health insurance</i>
NHIS	<i>national health information system</i>

NW	<i>North West</i>
NSDA	<i>negotiated service delivery agreement</i>
NSDS III	<i>National skills development strategy III</i>
NSNP	<i>national school nutrition programme</i>
NSF	<i>National Skills Fund</i>
PED	<i>provincial education department</i>
Persal	<i>personnel and salary system</i>
PFMA	<i>Public Finance Management Act, 1999 (Act No. 1 of 1999)</i>
PMTE	<i>Property Management Trading Entity</i>
PPPFA	<i>Preferential Procurement Policy Framework Act</i>
PRC	<i>Presidential Review Committee on state-owned entities</i>
SALGA	<i>South African Local Government Association</i>
SAP	<i>systems, applications and products system</i>
SASA	<i>The South African Schools (Act 84 of 1996)</i>
SA-SAMS	<i>South African schools administration and management system</i>
SCM	<i>supply chain management</i>
SCoPA	<i>Standing Committee on Public Accounts</i>
SETA	<i>sector education training authority</i>
SITA	<i>State Information Technology Agency</i>
SLAs	<i>service level agreements</i>
SSP	<i>sector skills plan</i>
TVET	<i>technical, vocational, education and training</i>
UAMP	<i>user assessment management plan</i>
USDG	<i>urban settlements development grant</i>
WC	<i>Western Cape</i>

NOTES



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Hay bales in Clarens - Free State