



MEDIA RELEASE: Free State

23 July 2012

FREE STATE'S HIGH NUMBER OF DISCLAIMERS A WORRY

Apart from one dormant entity in the Free State, no municipality or entity received a clean audit in the 2010-11 financial year, revealed the Auditor-General of South Africa (AGSA).

However, the 23% of municipalities and entities who received unqualified audit opinions are closer to clean audits. Included in the unqualified opinions are all the district municipalities, the Nketoana Local Municipality and some public entities.

The results show that more than 75% of the Free State's municipalities and entities received either qualified, disclaimed or adverse audit opinions or did not submit financial statements on time during the 2010-11 financial year. The high-capacity municipalities (namely Moqhaka, Metsimaholo, Matjhabeng and Maluti-A-Phofung) sitting at disclaimers of opinion for a number of years.

"The current audit opinions do not bode well for the drive towards clean administration," said Auditor-General (AG) Terence Nombembe, adding that: "The lack of progress is due to the lack of basic accounting disciplines and a failure to retain supporting documentation."

This situation is underpinned by the poor status of internal controls that require urgent attention, as only 10% of the auditees have implemented adequate controls, 41% are in the process of implementing controls while the internal controls of 45% need urgent intervention. The areas that need robust controls include supply chain management, reporting on predetermined objectives, the management of human resources, information technology controls and the quality of financial statements submitted for auditing.

Although there are still challenges regarding officials in key positions who lack the required competencies at 88% of the auditees, the province made a concerted effort to appoint qualified chief financial officers (CFOs) at the majority of the municipalities.

"Although these CFOs have the correct competencies, they have not implemented the correct accounting disciplines to bring about better audit outcomes," said Nombembe. The lack of ownership at 80% of the municipalities combined with the lack of implementing

consequences for poor performance, also at 80% of the municipalities, further worsened the situation in the Free State.

The effort by the standing committee on public accounts could be enhanced by the speedy implementation and training of municipal public accounts committees as well as improved coordinated oversight by the public accounts and portfolio committees responsible for local government in the province.

Strengthening the coordination between the provincial department of cooperative governance and traditional affairs and the provincial treasury could also assist the municipalities.

The AGSA's quarterly municipal "door-to-door" visits are continuing, with a view to monitoring and evaluating the status of improvements and the sustainability of the key internal controls and leadership tone that would be a catalyst for the realisation of clean administration in municipalities in the province.

"These insights will continue to be shared with the provincial executive and oversight leadership quarterly, to create a platform for forward momentum towards clean audits while also working closely with internal audit units and audit committees," concluded Nombembe.

Ends

- **MEDIA NOTE:** The *General report on local government audit outcomes of the Free State* is available on www.agsa.co.za.
- **ABOUT THE AGSA:** The Auditor-General of South Africa (AGSA) is the country's supreme audit institution. It is the only institution that, by law, has to audit and report on how government is spending taxpayers' money. This has been the focus of the AGSA since its inception in 1911 – the organisation celebrated its 100-year public sector auditing legacy last year (2011).

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HIGHLIGHTS: *See the following sections in the Free State's 2010-11 general report or on the AGSA website*

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Leadership commitments: Page 71

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Five-point plan: Annexure 13