

FREE STATE DEPARTMENT OF SOCIAL DEVELOPMENT



ANNUAL FINANCIAL STATEMENTS *For the year ended 31 March 2006*

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**REPORT OF THE ACCOUNTING OFFICER
for the year ended 31 March 2006**

Report by the Accounting Officer to the Executive Authority and Provincial Legislature of the Republic of South Africa.

1. General Review of the State of Affairs

1.1. Important Policy Decisions and Strategic Issues Facing the Department

The administration and disbursement of social assistance grants, will as reported in the previous financial year, be administered directly by the National Department through the South African Social Security Agency (SASSA). As was mentioned last year, the process of establishing the Social Security Agency has been finalized and the Department has handed over social security services to the Social Security Agency on 1 April 2006. Over the past year, great strides were made to ensure a seamless transition to the Agency, which include:

- The signing of a Memorandum of Understanding between the Department and the Agency in which both the Department and the Agency undertook joint responsibility for the provision of social security in the Free State.
- The development of a migration plan and the establishment of a project management team to assist with the roll-out of the Agency in the Free State.

In the interim, the Department will provide minimal administrative support services to the Agency in the Province, which will be regulated by a service level agreement.

The launch of the “New Service Delivery Model” is a defining process for the undertaking of service delivery. This new model will reflect a shift in approach from the so called “welfarist” approach to a social development perspective. This paradigm shift will be based on the notion that instead of helping the poor in the traditional way with handouts, it moves on to the development and empowerment of individuals, groups and communities, teaching them to be self reliant. The bulk of work of the Department has largely been on the front of the actualization of social assistance, through the administration of social grants, to those that are faced by the challenges of poverty, underdevelopment and marginalization as a result of poverty. The desired outcome of the service delivery model is the implementation of a comprehensive, efficient, effective and quality service delivery system, which will contribute to a self-reliant society as envisaged in the Free State Growth and Development Strategy.

1.2. Significant Events that have taken place during the year

During the past year, the number of beneficiaries for social grants has grown with 13% with the greatest increase in child support grants as a result of the age extension for all needy children below 14 years. The number of beneficiaries for the child support grant increased with 23% of which 64,135 children aged 11-13 years received this grant for the first time.

The “KE MOJA” campaign was launched in Thabo Mofutsanyana on 5 August 2005 through which the establishment of Local Drug Action Committees will be rolled out across the Province. Two schools per district have been jointly identified by the Departments of Social Development and Education for the roll-out.

A street children work-session was held in June 2005 where it was resolved that focus should be placed on the early identification of children at risk as well as the strategy to address the plight of these children.

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1.3. Comment on Major Projects Undertaken or Completed during the year

The Social Security Directorate continued with the implementation of a comprehensive business plan for the management of both temporary and permanent disability grants. In the current financial year, 10,531 expired temporary disability grants were lapsed resulting in a saving of R98 million.

10 Panel vans were purchased and converted into mobile service offices. These mobile offices are fully equipped with desktop computers, photocopy machines, biometric finger printing equipment etc. and will be used to improve access to social grants and other services, particularly in rural areas. As part of the integrated services delivery this Department is working closely with the Department of Home Affairs to increase access of our services.

The Department has finalized a business plan for a Management Information System (MIS), which will cost R19 million over a period of three years.

The Department has approached ABSA as the official government banking institute for an innovative way of building capacity with return of investment to both the Department and NGO's.

1.4 Physical Planning and Physical Security

The Department continued to improve conditions at pension pay points. Four such pay points in Thabo Mofutsanyana namely Bolata, Matsieng, Namahadi and Thaba-Bosiu were upgraded.

The Monument Secure Care Centre will be completed by 31 August 2006.

1.5 Spending Trends

The total allocation for the 2005/6 year amounted to R4,387,154 million (2004/5 – R3,632,596 million) which is made up as follows:

	2005/6 R'000	2004/5 R'000
Baseline	314,410	3,307,492
Conditional Grants	4,034,082	315,177
Funds Rolled Over	38,662	9,927
Total Allocation	4,387,154	3,632,596
Less: Expenditure	(3,916,821)	(3,520,811)
Add: Unauthorized Expenditure	97,936	-
Less: Unauthorized Expenditure approved	(97,936)	-
Unspent Funds	470,333	111,785
% Unspent Funds	10.72%	3.08%

2. Services Rendered by the Department

2.1. List of Services Rendered

The following services were rendered by the Department (details on the programmes, objectives and activities are provided in the Service Delivery Report):

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- Home Community Based Care for people infected and affected by HIV and AIDS
- Provision of social grants to qualifying beneficiaries
- Provision of subsidies to NGO's, CBO's and FBO's for identified priorities
- Provision of welfare and related functions to communities, households and individuals
- Poverty alleviation and other social relief assistance to communities, households and individuals

2.2. Tariff Policy

The policy of the Department is not to levy fees for services rendered, due to the nature of departmental services that are directed towards social development.

2.3. Free Services

All services that the Department renders are free of charge.

2.4. Inventories

The Department does not carry inventory.

3. Capacity Constraints

The implementation of the service delivery model will provide a major challenge to the Department due to capacity constraints associated with lack of personnel as a result of the new departmental structure as envisaged.

4. Utilisation of Donor Funds

None.

5. Organisations to whom Transfer Payments have been made

Recipients of transfer payments are disclosed in the financial statements. Further to that a list of entities are provided in the Service Delivery Report.

Accountability measures regarding these payments include the following:

- Certificates in terms of section 38(j) of the Public Finance Management Act
- Evaluation of financial statements to be provided to the Department
- Inspections of institutions
- Special conditions to be adhered to where certificates cannot be provided

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6. Public Private Partnerships

A PPP contract came into effect during July 2004, whereby the service provider provides the Department with a client orientated Assistance Grants Payments System. Payment functions are performed by the service provide at pay points including payments of grants, provision of a helpdesk, enrolment of beneficiaries, provision of security and card administration.

The agreement is regulated in terms of a comprehensive service level agreement. The rights and obligations of both parties are specified in detail in the agreement.

The agreement terminates on 30 June 2007, but can be renewed for a further two periods of one year each, if necessary.

Payments to the service provider are based on the number of transactions performed only after the service has been rendered.

7. Corporate Governance Arrangements

7.1 Objectives of Public Sector Corporate Governance

The Department has to satisfy a complex range of political, economic and social objectives within different sets of constraints and influences. Corporate governance refers to processes by which the Department is directed, controlled and held to account. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in the Department.

The Department therefore focuses within its governance arrangements on performance and conformance. In terms of responsibility for performance the senior management is primarily responsible for strategy formulation, strategic analysis, developing strategies and internal policy making. In terms of responsibility for conformance the senior management ensures that the Department is proceeding, in accordance with the agreed strategic direction, to conforming to legislation and government policies and agreed outcomes.

Risk management underpins the Department's approach to achieving both performance and conformance objectives. The integrated risk management system manages the control environment that provides reasonable assurance that the Department will achieve its objectives with an acceptable degree of residual risk.

The following building blocks form the framework of the Department's governance structure:

- Legislative structures such as the PFMA
- Ethical structures, including the relevant code of conduct
- Internal accountability structures within the departmental structure
- External accountability structures such as the Provincial Public Accounts Committee
- Financial management structure and
- Human and infrastructure resource management structures

It should be noted that the term of appointment of the audit committee as part of the corporate governance structure, has expired and the Department is in the process of establishing a new committee as a matter of urgency.

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7.2 Risk Management, Internal Control and Fraud

As required by the PFMA every official in the Department is responsible for managing risk within his/her area of responsibility. All managers and service providers are expected to act in a professional manner and at the highest level of ethical business conduct. Members of both the bid and evaluation committees are expected to confirm in writing their non-interest and/or interest in matters before them.

The Department maintains financial and operational systems of internal control. These controls are designed to provide reasonable assurance that transactions are concluded in accordance with management's authority, that assets are adequately safeguarded from material loss, of unauthorized acquisition, use or disposal and that transactions are properly authorized and recorded.

A fraud prevention plan was established to limit the fraud risk exposure within the Department. The focus of the plan is on ethical conduct and prevention of fraud.

The internal audit section reports to the Audit Committee and the activities of these structures assist the accounting officer in managing inherent risks.

7.3 Code of Conduct

The accounting officer is the custodian of ethics and ensures that a positive and ethical work climate is maintained in accordance with the established code of conduct that was specifically designed for the Department with more closely defined guidelines than the code provided by the PSA.

The code of conduct is regularly communicated to all staff within the Department.

7.4 Human Resource Development and Employment Equity

The human resource strategy focuses on development initiatives that support equity targets. In practice this means that within the employment equity plan and the workplace skills plan conditions and opportunities are created for previously disadvantaged individuals to realize their full potential.

The Department is also in the process of implementing learnerships and internships within the Department for the development of scarce skills.

7.5 Environment, Health and Safety

The Department strives to conform to environmental, health and safety legislation in its operations.

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7.6 Social Responsibility

The Department demonstrates its commitment to social responsibility through the following activities additional to its mandate:

- Provision of bursaries to previously disadvantaged learners to provide them with the opportunity to access Higher Learning Institutions
- Supporting BEE in its supply chain management in accordance with specific targets.

7.7 HIV and AIDS

The Department has established a response plan to deal with the impact of the pandemic and its impact currently, and in the future regarding its employees, their families and the community the Department serves. The plan deals with the restriction of the spreading of HIV and AIDS as well as with the care for those infected.

8. Discontinued Activities

The administration and disbursement of social assistance grants will be administered directly by the National Department through the South African Social Security Agency (SASSA).

9. New / Proposed Activities

The following new activities are to be undertaken by the Department:

- The Monument Secure Care Centre will be providing services to youth in conflict with the law as no such facilities exists currently. This will significantly improve the conditions under which the youth in conflict with the law will have to be subjected to whilst awaiting trial. Similar centres are envisaged for Thabo Mofutsanyana and Lewjeweletswa.
- Restructuring of the Department so as to refocus and realign the functions of the department according to the new service delivery model.

10. Asset Management

A project was launched to capture and barcode all assets of the department in an electronic asset register. This project was completed at 31 March 2004. Subsequent to the project, an instruction was received from Treasury that LOGIS must and should be used as the only recognized platform for an asset register. As a result all asset additions subsequent to this date was captured on LOGIS and a reconciliation was performed between BAS and LOGIS as at 31 March 2006 to ensure that all assets was captured accurately and completely in the LOGIS asset register.

Due to the creation of SASSA on 1 April 2006, an exercise was undertaken during the 2005/6 financial year to ring fence all assets to be transferred to the Agency. This exercise was completed during the financial year and assets identified for ring fencing purposes will be removed from the asset register created during 2003/4. The department will create the necessary links between LOGIS and the electronic asset register during the 2006/7 financial year so as to ensure that the Department complies with Treasury instructions regarding asset management.

The platform created for assets enabled the Department to safeguard assets during the past financial year.

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11. Events After the Reporting Date

Litigation in terms of social security grants has come to the attention of the Department. The number of reported cases is 1,069 at this point in time, but the total liability in this regard cannot be determined pending the outcome of such court cases.

12. Performance Information

Processes for providing information on performance have been put in place including the following:

- Monthly financial reporting
- Quarterly performance reporting
- Performance, Development and Management System (PDMS) utilising a computerized Human Resource Performance tracking system.

13. PROPAC Resolutions

Resolution	Departmental Action
<u>Resolution 36/2004</u> Investigation into housing guarantees	Forty three (43) of the two hundred and twenty three (223) cases are still outstanding. The anticipated finalization date is 30 June 2006.
<u>Resolution 37/2004</u> Investigation into housing subsidies	Inspections will be conducted to verify whether employees who will receive subsidies are residing in their properties and that they are not renting them out to others. The anticipated finalization date is 30 June 2006.
<u>Resolution 20/2005</u> Forensic audit investigation into alleged irregularities	17 additional posts were advertised in order to improve capacity to monitor, train and support organizations funded by the Department. 12 posts have been filled already. The Department is in the process of appointing auditing firms due to the fact that a joint agreement between ABSA and the Department of Social Development is currently being entered into. Once finalized, this will minimize risks and ensure regular reporting on the use of public funds by funded organizations.

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<p><u>Resolution 67/2005</u> Grants paid to officials at Provincial Departments</p>	<p>All officials concerned have been informed and thus the investigation by the Special Investigation Unit of SAPS will now commence. Recovery will commence as soon as confirmation is received from the Special Investigation Unit of SAPS that amounts were in fact paid unlawfully.</p>
<p><u>Resolution 85/2005</u> Capacity Building</p>	<p>The Department will provide the qualifications of the Accounting Officer after his/her appointment.</p>
<p><u>Resolution 88/2005</u> Safeguarding of government assets</p>	<p>The Department is in the process of formulating a policy in this regard.</p>

14. Approval

The Annual Financial Statements set out on pages 117 to 163 have been approved by the Accounting Officer.



Mr. W. Ntshona
Acting Accounting Officer
31 May 2006

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**REPORT OF THE AUDITOR-GENERAL
for the year ended 31 March 2006**



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

**REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE PROVINCIAL
LEGISLATURE ON THE FINANCIAL STATEMENTS OF
THE DEPARTMENT OF SOCIAL DEVELOPMENT – VOTE 7
FOR THE YEAR ENDED 31 MARCH 2006**

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 117 to 163 for the year ended 31 March 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). The fixed assets opening balances have not been audited because of the timing of guidance from National Treasury to the departments relating to the treatment, valuation and disclosure of fixed assets. These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing, read with *General Notice 544 of 2006*, issued in *Government Gazette* no. 28723 of 10 April 2006, and *General Notice 808 of 2006*, issued in *Government Gazette* no. 28954 of 23 June 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The department's policy is to prepare financial statements on the modified cash basis of accounting determined by the National Treasury, as described in accounting policy 1.1 to the financial statements.

4. AUDIT OPINION

In my opinion the financial statements fairly present, in all material respects, the financial position of the Department of Social Development at 31 March 2006 and the results of its operations and cash flows for the year then ended, in accordance with prescribed accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

5. EMPHASIS OF MATTER

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

5.1 Non-compliance with laws and regulations

5.1.1 Social assistance grants

Owing to numerous discrepancies identified during the audit, the conditions for the application and approval of social grants as set out in Government Notice No. R.418, dated 31 March 1998, and the Social Assistance Act, 1992 (Act No. 59 of 1992) were not complied with in all instances. The following are examples:

- (i) In 15 cases, no proof could be obtained from the relevant personal files of steps that were taken by the department to ensure that receivers of social assistance met all the requirements of the Social Assistance Act, 1992.
- (ii) In 40 instances, grants were made to beneficiaries who did not receive the grant through a biometric identification cash contractor (ALLPAY) and who did not complete the required life certificate.
- (iii) In nine cases, the applicants did not supply their spouse's identity document.
- (iv) In seven cases, foster child grants were paid without proof of regular school attendance.
- (v) In six instances, no review of the foster child's family circumstances by a social worker and the court could be found on file.
- (vi) Two persons were identified who received the child support for the same child.
- (vii) No declaration by applicant as to whether or not they are maintained in one of the institutions run by the state could be found on three beneficiaries' files.

5.1.2 Transfer payments – Non-profit organisations

Regarding transfer payments to non-profit organisations, our audit revealed various discrepancies. The following are examples:

- (i) In 14 instances no proof could be obtained that non-profit organisations had submitted financial statements to the department.
- (ii) Contrary to the service agreement, an invoice for R1 544 997 was not paid within seven days from the date the account was rendered to the Department.

- (iii) Contrary to the terms of the policy on financial awards to non-profit organisations in the social development sector:
 - one service provider did not submit progress reports in accordance with the conditions of the memorandum of agreement;
 - expenditure incurred could not be verified for correctness because the amount on the authorised payment instruction differs from the actual payments.
- (iv) Payments are not stamped or uniquely marked as paid in accordance with general accepted accounting practices.

5.1.3 Irregular expenditure

Contrary to section 38(1)(g) and section 40(4)(b) of the PFMA, and paragraph 9.1.2 of the Treasury Regulations, no evidence could be found that the accounting officer had adhered to the reporting requirements of the provincial Treasury regarding irregular expenses of R180 000 disclosed in the annual financial statements.

5.1.4 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure of R26 000 is disclosed in note 10 to the financial statements but no proof could be obtained that the incident was reported to the provincial Treasury as required by section 40(4)(b) of the PFMA and Treasury Regulation 9.1.2.

5.1.5 Cash management policy: Policies and procedures relating to sound cash management, as required by Treasury Regulation 15.10.1.2, could not be submitted.

5.1.6 Awarding of contracts: Contrary to section (10)(4) of part 2 of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000), five instances were found where tenders were not awarded to the bidder who achieved the highest number of points, resulting in additional costs of R145 126 for the department. Sufficient approval/authorisation documents regarding the awarding of the tender could not be obtained.

5.1.7 Debtors

- (a) Contrary to the requirements of Treasury Regulation 11.2.1, debtors were not raised timely in six instances amounting to R82 528.
- (b) Contrary to the requirements of Treasury Regulations 11.5.1, in 10 instances interest was not charged on debt of actively employed officials and ex-employees immediately after the debt was incurred.

5.1.8 Suspense accounts: Contrary to Treasury Regulation 17.1, a balance of R861 195 in the accounts payable suspense account was not cleared at year-end.

5.1.9 Personnel

(a) **Overtime:** The audit revealed that -

- Overtime to an amount of R124 430 was paid to 26 employees without the written authorisation of the executing authority, as required by chapter 1 Part V.D.2(c) of the Public Service Regulations, 2001.
- Overtime worked by three employees exceeded the daily and weekly limitations as prescribed by chapter 2, paragraph 10(1)(b)(i-ii) of the Basic Conditions of Employment Act, 1997.

(b) **Resettlement costs:** Contrary to paragraph 8(f) of the resettlement policy, it was found that R7 130 was paid to a hotel for expenses not provided for in the policy.

(c) **Advances:** A register to control advances for subsistence and transport could not be submitted as required by paragraph 5.1.1 of the subsistence and travel policy.

(d) **Payroll reports:** With reference to paragraph 5.2.4 (d) of the previous report and contrary to Treasury Regulations 8.3.4 and 8.3.5, payroll reports were not always:

- signed by the employees and the person in charge of the pay point as proof of certification;
- returned to the payroll controller at head office within ten days.

(e) Documentation in terms of part VII.G.2.2 of the Public Service Regulations, 2001, regarding termination of services of five officials was not available on the personnel files.

(f) Contrary to chapter 1, part VII.B.1(g) of the Public Service Regulations, 2001, written contracts between the department and the employees could not be provided in 13 instances.

(g) Contrary to Treasury Regulation 4.2.1, the Auditor-General was not advised of the criminal charges laid against an official on 11 January 2006.

(h) Contrary to Treasury Regulation 4.3.3, the department did not distribute a report of disciplinary hearings to the provincial Treasury, National Treasury or the Auditor-General.

5.1.10 Housing allowances

Contrary to par. 2.6.2 of part 2 of *Determination of housing* as included in the Housing Allowance Scheme Policy, several weaknesses regarding applications by employees were identified;

- Title deeds to the property could not be submitted;

- Tax invoices from the financial institution indicating the name of the bond holder, property particulars and registration details were not available;
- The date, designation, name and the signature of the official authorising the application were not indicated on the application form;
- According to Persal, a housing allowance of R1 200 was incorrectly paid to an employee;
- Application forms for various employees were not appropriately approved.

5.1.11 Revenue

Our audit revealed that:

- Contrary to Treasury Regulation 15.5.1, 19 receipts amounting to R131 778 were not banked timeously;
- Contrary to section 40(4)(a) of the PFMA, the department could not submit the required return for anticipated revenue and expenditure.

5.1.12 Internal audit

With reference to the following discrepancies revealed during the audit, internal audit did not fully comply with their functions as required by Treasury Regulation 3.2:

- The scope of the final audit reports submitted in respect of social security and supply chain management only covered the previous financial year;
- Internal audit reports of all projects were not submitted in terms of the internal audit plan;
- The three quarterly reports to the audit committee were not signed.
- The internal audit assessment of the operational procedures and monitoring mechanism relating to all transfers received and made by the department, was not available.

5.1.13 Remuneration of audit committee members

The remuneration of members of the audit committee was not disclosed in the notes to the annual financial statements as required by Treasury Regulation 20.2.4.

5.2 Financial management

Management policies and procedures relating to internal controls were not adequately followed and the internal control framework for the performance of

independent checks and reconciliations was not adequately adhered to. This resulted in the following:

5.2.1 Assets: Our audit revealed the following discrepancies with regard to the recording, safekeeping and stocktaking of assets of R62 017 795 on hand at year-end:

- Assets were not uniquely numbered to determine the existence thereof;
- A reconciliation between BAS and Logis revealed that assets to the value of R23 026 634 were not recorded in the Logis fixed asset register;
- Disposal of assets was not recorded in Logis, resulting in disposals not included in the asset balance as at 31 March 2006;
- Departmental stocktake of assets was conducted from inventory lists and not the asset register.

5.2.2 Intergovernmental receivables and payables

From a sample for interdepartmental receivables and payables disclosed in annexures 6 and 7 to the financial statements, various differences were found by means of external confirmations, resulting in over- and understatement of receivables and payables. The correctness of balances disclosed for interdepartmental receivables and payables in annexures 6 and 7 could therefore not be confirmed.

5.2.3 Performance information

- (a) Owing to various deficiencies regarding the accuracy, completeness and validity of the performance information as disclosed in the annual report, it could not be confirmed that the department had indeed reported its performance against predetermined objectives.
- (b) Despite an agreement that the performance information would be submitted by 15 June 2006 for audit purposes, the information was only received on 28 June 2006.

5.2.4 Propac resolutions

The implementation of Propac resolutions 76/2004 and 87/2005 was evaluated and it was found that the department did not in all instances meet the requirements relating to the implementation of policies for the safeguarding of accounting records and providing overseas assistance respectively.

5.2.5 Supporting documentation

Supporting documents for transactions totalling R3 449 440 relating to commitment, journals, arrear salary payments, performance bonuses, signed contracts and accruals could not be submitted.

5.2.6 Damaged vehicles transferred to the Government Garage

On 2 August 2005, 15 severely damaged vehicles held at the Tshireletsong Place of Safety and registered in the name of the department were transferred to the Government Garage. Receipt for the vehicles was signed on 3 August 2005. Our audit revealed that:

- (a) The transfer of 15 severely damaged vehicles to the Government Garage for disposal was not recorded in Logis or disclosed in annexure 4 of the financial statements. This resulted in the value of assets being overstated by R318 000.
- (b) The damage to these vehicles was not reported and registered as losses.
- (c) Responsibility for the losses was not determined and no losses have as yet been recovered.

5.2.7 Debtors

- (a) Proof that debtors older than one year were referred to the State Attorney or that other steps were taken to recover these debtors amounting to R4 861 708 could not be submitted.
- (b) **Accruals not raised:** The following payments processed after year-end relate to expenditure that accrued and remained unpaid prior to year-end. It was found that these payments were not included in the list of accruals. As a result, accruals were understated by an amount of R210 540.

5.2.8 Computer environment

Inadequate management procedures/policies resulted in the following deficiencies found in the IT environment:

- A formal IT Strategy of Master Systems Plan was not in place.
- Weaknesses in the logical security of the network environment were found which increased the risk of unauthorised access and data security.

5.2.9 Housing loan guarantees

- (a) In 30 cases amounting to R756 297, no statements of account from the bondholder (financial institution) were submitted annually by officials receiving the housing allowances, as required by Human Resource Circular No. 9 of 2005.
- (b) Due to inadequate management control measures over housing loan guarantees, housing guarantees were not cancelled, housing guarantees were duplicated, cancelled guarantees were not recorded and insufficient supporting documentation existed.

Similar matters were also reported in paragraph 5.3.2 of the previous audit report and Propac Resolutions No.18/2004 and 36/2004 were also not adhered to.

5.2.10 Persal reconciliation

Inadequate management control measures resulted in the reconciliation between Persal and BAS data revealing an unexplained difference of R265 251 at year-end.

5.3 Financial statements

5.3.1 Accruals: Payments made in the incorrect financial period

An invoice received by the department before year-end was paid after year-end but was not recorded/accrued during the year under review. As a result, transfer payments and accruals have thus been understated by an amount of R1 878 209.

5.3.2 Commitments

Orders payable by the department in the next financial year were cancelled for payment. These amounts were included in the current year as commitments, resulting in an overstatement of R832 257.

5.4 Internal control

5.4.1 Payments for goods and services

Inadequate management control measures resulted in supporting documents to payment advices of R134 374 777 not being stamped "paid" to prevent duplicate payments.

5.4.2 Grants paid to officials at provincial departments

Various instances were identified of people receiving grants while they were in the employment of the Free State Government. This matter was also reported on in paragraph 5.1.1 on page 141 of the previous audit report and Propac resolution no. 67/2005.

5.4.3 Bursaries

Managerial control measures were still not in place to ensure control over bursaries granted. This matter was also reported in paragraph 5.3.6(i) on page 144 of the previous report.

5.4.4 Operating leases: Office equipment

The following are examples of inadequate control measures with regard to operating lease payments:

(a) Social assistance

Our audit revealed the following discrepancies:

- The completeness / accuracy of payments made in respect of a lease contract entered into with a finance company for the rental of 16 digital copiers could not be confirmed.
- Duplicate payments of R63 158 occurred in two instances.
- No rentals processed in respect of operating leases of R208 233.
- Five payments amounting to R32 720 were incorrectly processed.

(b) Social development

All rental payments in respect of a contract entered into with a company for the rental of photo copy machines were inappropriately classified as stationery and printing expenses. In addition, only 11 payments were processed during the 2005/06 financial year.

5.5 Value for money audits

Inadequate management procedures resulted in the following deficiencies which were identified:

5.5.1 Foreign aid assistance - Flemish government

According to an executive council memorandum signed by the MEC of the Department of Social Development on 6 December 2004, the Free State domestic violence project was transferred from the Department of Public Safety, Security and Liaison to the Department of Social Development. The funds were deposited in the paymaster general account of the department on 8 February 2006. These funds were not utilised as at 31 March 2006 and the total amount of R4 395 362 was surrendered to the Provincial Revenue Fund.

5.5.2 Human resources

Inadequate and insufficient management control measures were implemented to ensure that the human resource plan of the department complied with the policy requirements of the Public Service Regulations to facilitate the management of human resources in the department.

5.5.3 Infrastructure grants

Insufficient management control measures were in place to ensure that the planning and design of infrastructure development complied with policy requirements.

5.5.4 Capital projects

Capital projects are administered and managed by the Department of Public Works, Roads and Transport on behalf of the Department of Social Development, which is liable for the expenditure. The following insufficient control measures were identified:

- (a) A policy framework to provide management control measures to administer, manage and control infrastructure development budgeted by the Department of Social Development could not be obtained.

- (b) A signed and agreed-upon service level agreement between the two departments concerned could not be submitted.
- (c) Particulars of the involvement of the Department of Social Development in the tender process and the allocation of tenders could not be determined.
- (d) Control measures implemented by the Department of Social Development to monitor and control infrastructure development within time frames and budget objectives are not in place.

5.5.5 Infrastructure grants: Sederhof building, Bethlehem

Based on a needs analysis, the department identified a need to accommodate officials at the regional office in Bethlehem in one building to ensure more effective service delivery. A suitable building was identified and an amount of R6 454 185 was spent from the infrastructure grant to acquire and renovate the Sederhof building. When renovations were almost completed, the building was handed over to the South African Police Services. The department did not receive value for money and the objectives of the conditional grant were not achieved.

5.5.6 Conditional grants

Only 25,3 per cent of the conditional grants received for an integrated social development services grant, as included in annexure 1A of the financial statements, were spent. This constitutes an underspending of 74,7 per cent, which implies that the objectives of the grants were not achieved.

6. APPRECIATION

The assistance rendered by the staff of the Department of Social Development during the audit is sincerely appreciated.


B J K van Niekerk
for Auditor-General

Bloemfontein

31 July 2006



AUDITOR - GENERAL