

ANNUAL REPORT



Now known as:
Free State Gambling and Liquor Authority

FINANCIAL YEAR 2010 - 2011

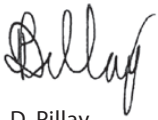
ANNUAL REPORT FOR THE FOLLOWING ENTITIES:

- Free State Gambling and Racing Board from 01 April 2010 to 10 June 2010
- Free State Liquor Authority from 01 April 2010 to 10 June 2010
- Free State Gambling and Liquor Authority from 11 June 2010 to 31 March 2011

HONORABLE M. DUKWANA

MEC for Economic Development, Tourism, and Environmental Affairs
Free State Province

For submission to the Responsible Member for the Department of Economic Development, Tourism and Environmental Affairs and in terms of Section 55 (1) of the Public Finance Management Act, 1999 (Act 1 of 1999) "PFMA" the Free State Gambling & Liquor Authority presents you with the attached report on its activities for the year 2010/2011 for your consideration and presentation to Parliament.



D. Pillay

Chairperson



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CHAPTER ONE



CHAPTER ONE

GENERAL INFORMATION

A. SUBMISSION OF THE ANNUAL REPORT TO THE EXECUTIVE AUTHORITY

For submission to the Responsible Member for the Department of Economic Development, Tourism and Environmental Affairs of Section 55(1) of the Public Finance Management Act, 1999 (Act 1 of 1999).

APPLICABLE ACTS AND OTHER INFORMATION

The Free State Gambling and Liquor Authority ("the Authority") is a statutory body established in terms of section 4 of the Free State Gambling And Liquor Act, 2010 (act 6 of 2010). Its primary objective is the control and regulation of gambling, racing and the liquor industry in the Free State Province.

MISSION STATEMENT:

To efficiently and effectively develop, transform and regulate the gambling industry to contribute towards accelerated shared economic and social growth in the Province.

VISION:

To be a leading, sustainable regulator of the gambling industry.

To achieve its mission, the Board has identified the following core values:

Accountability

Transparency

Honesty

Diligence

Reliability

Confidentiality

Professionalism

Fairness

STATEMENT BY THE CHAIRPERSON:

The term of office of the former Free State Gambling and Racing Board ended on 10 June 2010. Interim Board members were appointed on 23 June 2010 and their term of office ended on 22 August 2010. The mandate of the Interim Board was to oversee the merger between Free State Gambling and Racing Board and Free State Liquor Authority. On 23 August 2010, the new Board of Free State Gambling and Liquor Authority was appointed for a term of office of three years.

It is clear from the above that there will be challenges presented by the lack of continuity as a result of changes in the Board composition even though the changes were warranted. It is against this background that I would like to commend the existing Board for their sterling work done within their short period of appointment up to now. The number of liquor application licenses handled by the Board, and hence the reduction of the backlog in that regard bear testimony to that. I will also like to extend the hand of gratitude to our Deputy Chairperson of the Board for the role she played as Acting CEO during the period of transition while we engaged the process of finding an appropriately qualified CEO for the new Entity (Free State Gambling and Liquor Authority).

The new CEO, together with a number of key personnel of the Free State Gambling and Liquor Authority, was only appointed in the last quarter of the financial year under review. I am pleased to announce that significant milestones have been achieved by the administration, chief amongst which being the roll-out of Limited Payout Machines (LPM's).

The Board is dedicated to enhancing the contribution of the gambling sector towards shared social and economic growth in the Province ensuring that there is transformation of the industry

in terms of race, gender, youth, people with disabilities and proactive, relevant corporate social responsibility. We also accept our responsibility to regulate the distribution and consumption of liquor in the Province to among others, educate our communities against the social ills brought about by substance abuse and dependency, and maximum collection of revenues due to the government, a role that we will do diligently.

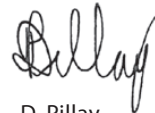
The Board remains cognizant of the need to balance the industry's growth against the potential negative impact associated with gambling and excessive consumption of alcohol and is committed to making responsible gambling together with responsible consumption of liquor an integral part of its business.

It is our duty as the Board to ensure that there are consultations with our stakeholders both in the gambling and liquor industries to ensure that we work toward a common purpose of eradicating poverty in the Free State through regulation of both these two industries, a role entrusted upon us by both the Act (Free State Gambling and Liquor Act, Act 6 of 2010), and our Principals, the leadership of the Free State Provincial government. In the same vein, we as the Board want to send a stern warning to those who trade illegally, in both Liquor and Gambling industries. We also want to warn those that have legal trading licenses but continue to trade outside the conditions of their licenses by saying to them; we will not hesitate to apply any lawful sanction against you to ensure compliance with all applicable legislation.

It will be improper for me not to acknowledge the immense support received by the Board and I from The MEC of The Department of

Economic Development, Tourism and Environmental Affairs Mr. M. Dukwana, and our Premier Mr. E.S. Magashule, without whose unwavering support, our job would have been much more difficult. I want to thank them both very much on behalf of the Board of Free State Gambling and Liquor Authority.

Lastly, it is imperative that I express my sincere gratitude towards my fellow Board Members, the Sub Committees of the Board, being, The Finance and IT Committee, The Audit Committee, Operations Committee and Corporate Services Committee, Management and staff for their hard work and dedication towards the achievement of the Board's mandate. We can indeed look back with pride at our achievements for the short period that we have been at the helm.



D. Pillay
Chairperson



B. STATEMENT OF RESPONSIBILITY

The members of the Board are responsible for monitoring the integrity and preparation of the financial statements and the related information included in the annual report.

INTERNAL AND ACCOUNTING CONTROLS

In order for the Board to discharge its responsibilities, Management has developed and maintains on an ongoing basis, a series of internal and accounting controls, which have been designed to provide reasonable assurance as to the integrity and reliability of the financial records of the Authority and to safeguard and maintain accountability of the Authority's assets.

Management and the Finance and Audit Committees of the Board regularly review the risk management policy and system of internal control and these are modified and improved as operating conditions change.

To this end, a comprehensive budgeting and reporting system has been developed which operates within strict deadlines and monitored by the Finance and Audit Committees of the Board.

The Board's internal audit function was outsourced to Ernst & Young, which conducted the internal audit in accordance with the standards, set by the institute of Internal Auditors and conveyed its findings to the Audit Committee and the Board. No significant areas of concern were revealed by the internal audits conducted during the reporting period.

ANNUAL FINANCIAL STATEMENTS

The annual financial statements are prepared in accordance with Statements of Generally Recognized Accounting Practice and the reporting requirements of the Public Finance Management Act, 1999 (Act No. 1 of 1999) ["PFMA"].

The annual financial statements are prepared in accordance with appropriate accounting policies detailed in the notes thereto and which are supported by reasonable and prudent judgments and estimates, and fairly present, in all material respects, the Authority's financial position and the results of its operational activities as at 31 March 2011.

The annual financial statements have been prepared on the going concern basis as the Board Members have every reason to believe that the Authority has adequate resources in place to continue operations for the year ahead.

The annual financial statements for the year ended 31 March 2011, were approved by the accounting authority in terms of section 51 (1) (f) of the PFMA and are signed on its behalf by:



D. Pillay
Chairperson



M. Gasela
Chief Executive Officer



CHAPTER TWO



CHAPTER TWO

REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the year ended 31 March 2011.

AUDIT COMMITTEE MEMBERS AND ATTENDANCE

The Audit Committee is constituted in terms of the provisions of section 51(1)(a)(ii), read with section 77 of the Public Finance Management Act 1 of 1999 and Treasury Regulations 27 and operates within that framework. The Audit Committee consists of the members listed hereunder and comprises of three (3) independent members and two (2) non-executive Board members Ms C. Strickett & Mr T. Mokoena served on the previous Board, which term expired on the 10th of June 2010, and Ms. S. Monyaki and Mr. M. Molotsi, appointed on the 13th of October 2010, are serving on the Board.

For the year under review, two (2) meetings were held. (This was due to the merger and the expiration of the term of office of the Committee members.)

NAME OF MEMBER	TOTAL
Mr. S.A. Ngwenya (Chairperson) (Term expired 31 Dec. 2010)	1 out of 1
Ms. V.F. Ramela (Terms expired 30 June 2010)	1 out of 1
Mr. G.A. Ntsala (Resigned on 3 May 2010)	1 out of 1
Ms. C. Strickett (Term of Board expired 10 June 2010)	1 out of 1
Mr. T. Mokoena (Term of Board expired 10 June 2010)	0 out of 1
Mr. M. Molotsi (Nominated by Board on 13 October 2010)	1 out of 1
Ms. S. Monyaki (Nominated by Board on 13 October 2010)	1 out of 1
Mr. T.E. Ntsieng (Chairperson) – appointed 31 March 2011 and confirmed as Chairperson on 5 April 2011)	1
Mr. L.M. Mangquku (Appointed 1 March 2011)	1
Mr. E.K. Ndleve (Appointed 1 March 2011)	1

AUDIT COMMITTEE RESPONSIBILITY

The Audit Committee reports that it has complied with its responsibilities arising from section 51 (1) (a) (ii) of the Public Finance Management Act (Act 1 of 1999) and Treasury Regulation 27.1.10.

The Audit Committee also reports that it has adopted an Audit Committee Charter, has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein. From 1 April 2010 until 10 June 2010 the Audit Committee of the former Free State Gambling and Racing Board had an adopted Audit Committee Charter. From 11 June 2010 the Free State Gambling & Liquor Authority was still in the process of approving the Audit Committee Charter.

THE EFFECTIVENESS OF INTERNAL CONTROL

The Internal Audit function through its reports provided the Audit Committee and management with assurance that the internal controls are appropriate and effective. This has been achieved by means of the risk management process as well as the identification of corrective actions and suggested enhancements to controls and processes. From the various reports of the Internal Auditors, the Audit Report on the Annual Financial Statements, the matters of emphasis and management letter of the Auditor-General, it was noted that no significant or material non-compliance with prescribed policies and procedures have been reported. Accordingly, the Committee can report that the systems of internal control for the period under review have been effective and efficient.

EVALUATION OF FINANCIAL STATEMENTS

The Audit Committee has:

- Reviewed and discussed with the Auditor-General and the Accounting Authority the audited Annual Financial Statements to be included in the Annual Report;
- Reviewed the Auditor-General's management letter and management response;
- Reviewed changes in accounting policies and practices; and
- Reviewed significant adjustments resulting from the Audit.

The Audit Committee concurs with and accepts the Auditor-General's conclusions on the Annual Financial Statements and is of the opinion that the audited Annual Financial Statements be accepted and read together with the report of the Auditor-General.



Mr. E NTSIENG
CHAIRPERSON OF THE AUDIT COMMITTEE

Annual Report



CHAPTER THREE



CHAPTER THREE

A. REPORT BY ACCOUNTING AUTHORITY FOR THE YEAR ENDED 31 MARCH 2011

1. ADMINISTRATIVE INFORMATION

BOARD MEMBERS OF FORMER FREE STATE GAMBLING AND RACING BOARD *(Appointed on 16 September 2009. Term expired on 10 June 2010)*

Mr. J.M. Tladi (Chairperson)
Mr. D. Pillay (Deputy Chairperson)
Mr. L.L. Mule
Ms. C. Strickett
Mr. J.L. Hattingh
Adv. D.S. Ramorena
Ms. H.B. Mayeza
Ms. N.E. Mhlambe
Mr. T.J. Mokoena
Ms. M.J. Bokwa (Chief Executive Officer until 30 June 2010)

INTERIM BOARD MEMBERS *(Appointed on 23 June 2010. Term expired on 22 August 2010) (Mandate was to oversee the merger between Free State Gambling & Racing Board and Free State Liquor Authority)*

Mr. D. Pillay (Chairperson)
Mr. L. Mule (Deputy Chairperson)
Ms. H.B. Mayeza (Board member & Acting CEO)
Ms. N.E. Mhlambe
Mr. W.H. Boshoff
Mr. M. Molotsi

Ms. H.B. Mayeza (Acting CEO from 1 July 2010)

BOARD MEMBERS OF FREE STATE GAMBLING & LIQUOR AUTHORITY *(Appointed 23 August 2010 for 3 years.)*

Mr. D. Pillay (Chairperson)
Ms. H.B. Mayeza (Deputy Chairperson)
Mr. L. Mule
Ms. N.E. Mhlambe (Resigned as Board member in December 2010)
Mr. W.H. Boshoff
Mr. M. Molotsi
Rev. D. Lekota
Mr M.T. Netshivhodza
Ms. S. Monyaki
Mr. T. Mongake
Mr. T. Makweya

AUDIT COMMITTEE MEMBERS

Former Free State Gambling & Racing Board

Mr. S.A. Ngwenya (Chairperson) (Term expired 31 Dec. 2010)
 Ms. V.F. Ramela (Terms expired 30 June 2010)
 Mr. G.A. Ntsala (Resigned on 3 May 2010)
 Ms. C. Strickett (Term of Board expired 10 June 2010)
 Mr. T. Mokoena (Term of Board expired 10 June 2010)

Free State Gambling and Liquor Authority

Mr. T.E. Ntsieng (Chairperson) (Appointed 31 March 2011 and confirmed as Chairperson on 5 April 2011)
 Mr. M. Molotsi (Nominated by Board on 13 October 2010)
 Ms. S. Monyaki (Nominated by Board on 13 October 2010)
 Mr. L.M. Mangquku (Appointed 1 March 2011)
 Mr. E.K. Ndleve (Appointed 1 March 2011)

CHIEF EXECUTIVE OFFICERS

Ms. M.J Bokwa (CEO Free State Gambling and Racing Board from 1 April 2010 to 10 June 2010)
 Mr. B. Molotsi (CEO Free State Liquor Authority from 1 April 2010 to 10 June 2010)
 Ms. H.B. Mayeza (Acting CEO from 1 July 2010 until 31 December 2010)
 Ms. M.M. Gasela (CEO from 1 January 2011)

CHIEF FINANCIAL OFFICERS

Mr. M. M. Mofokeng (CFO Free State Gambling and Racing Board from 1 April to 10 June 2010)
 Mr. K Khotle (CFO Free State Liquor Authority from 1 April 2010 to 10 June 2010)
 Mr. K Khotle (Acting CFO Free State Gambling and Liquor Authority from 11 June 2010 to 31 January 2011)
 Mr. T.A Motloi (CFO Free State Gambling and Liquor Authority from 1 February 2011)

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WEBSITE

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PRIMARY BANKERS

Nedbank

SECONDARY BANKERS

First National Bank

BOARD MEETINGS

During the year ended 31 March 2011, the Board held thirty (30) meetings and the attendance was recorded as per the table below.

FORMER FREE STATE GAMBLING & RACING BOARD

BOARD MEMBERS	TOTAL
Mr. J.M. Tladi (Chairperson)	1 out of 1
Mr. D. Pillay (Deputy Chairperson)	1 out of 1
Mr. L.L. Mule	1 out of 1
Ms. C. Strickett	1 out of 1
Mr. J.L. Hattingh	1 out of 1
Adv. D.S. Ramorena	1 out of 1
Ms. H.B. Mayeza	0 out of 1
Ms. N.E. Mhlambe	1 out of 1
Mr. T.J. Mokoena	0 out of 1

INTERIM BOARD MEMBERS

BOARD MEMBERS	TOTAL
Mr. D. Pillay (Chairperson)	5 out of 5
Mr. L. Mule (Deputy Chairperson)	5 out of 5
Ms. H.B. Mayeza (Board member & Acting CEO)	5 out of 5
Ms. N.E. Mhlambe	4 out of 5
Mr. W.H. Boshoff	5 out of 5
Mr. M. Molotsi	5 out of 5

BOARD MEMBERS OF FREE STATE GAMBLING & LIQUOR AUTHORITY

BOARD MEMBERS	TOTAL
Mr. D. Pillay (Chairperson)	21 out of 24
Ms. H.B. Mayeza (Deputy Chairperson)	20 out of 24
Mr. L. Mule	22 out of 24
Ms. N.E. Mhlambe (Resigned as Board member in December 2010)	9 out of 14
Mr. W.H. Boshoff	18 out of 24
Mr. M. Molotsi	24 out of 24
Rev. D. Lekota	24 out of 24
Mr. M.T. Netshivhodza	19 out of 24
Ms. S. Monyaki	20 out of 24
Mr. T. Mongake	23 out of 24
Mr. T. Makweya	4 out of 24

OPERATIONS COMMITTEE MEETINGS

For Board appointed 23 August 2010:

BOARD MEMBERS	TOTAL
Ms. H.B. Mayeza (Chairperson)	3 out of 4
Mr. W.H. Boshoff	3 out of 4
Rev. D. Lekota	4 out of 4
Mr. T. Mongake	4 out of 4

FINANCE AND IT COMMITTEE MEETINGS

For Board appointed 16 September 2009 – 10 June 2010:

BOARD MEMBERS	TOTAL
C. Strickett (Chairperson)	1 out of 1
J.L. Hattingh	1 out of 1
T.J. Mokoena	0 out of 1

For Board appointed 23 August 2010:

BOARD MEMBERS	TOTAL
Ms. S. Monyaki (Chairperson)	2 out of 4
Mr. L. Mule	3 out of 4
Mr. M. Molotsi	4 out of 4

CORPORATE SERVICES COMMITTEE MEETINGS

For Board appointed 16 September 2009 – 10 June 2010:

BOARD MEMBERS	TOTAL
D. Ramorena (Chairperson)	1 out of 1
L. Mule	1 out of 1
T.J. Mokoena	0 out of 1

For Board appointed 23 August 2010:

BOARD MEMBERS	TOTAL
Mr. T. Mongake (Chairperson)	6 out of 6
Mr. M.T. Netshivhodza	5 out of 6
Mr. L. Mule	6 out of 6

CORPORATE SERVICES COMMITTEE MEETINGS

For Board appointed 16 September 2009 – 10 June 2010:

BOARD MEMBERS	TOTAL
D. Ramorena (Chairperson)	1 out of 1
L. Mule	1 out of 1
T.J. Mokoena	0 out of 1

For Board appointed 23 August 2010:

BOARD MEMBERS	TOTAL
Mr. T. Mongake (Chairperson)	6 out of 6
Mr. M.T. Netshivodza	5 out of 6
Mr. L. Mule	6 out of 6

AUDIT COMMITTEE MEETINGS

For Board appointed 16 September 2009 – 10 June 2010 and External Audit Committee members appointed 2007 - 2010:

NAME OF MEMBER	TOTAL
Mr. S.A. Ngwenya (Term expired 31 Dec. 2010)	1 out of 1
Ms. V.F. Ramela (Terms expired 30 June 2010)	1 out of 1
Mr. G.A. Ntsala (Resigned on 3 May 2010)	1 out of 1
Ms. C. Strickett (Term of Board expired 10 June 2010)	1 out of 1
Mr. T. Mokoena (Term of Board expired 10 June 2010)	0 out of 1

For Board appointed 23 August 2010 and External Audit Committee members appointed 2011 - 2014:

NAME OF MEMBER	TOTAL
Mr. T.E. Ntsieng (Chairperson) (appointed 31 March 2011 and confirmed as Chairperson on 5 April 2011)	1 out of 1
Mr. M. Molotsi (Nominated by Board on 13 October 2010)	1 out of 1
Ms. S. Monyaki (Nominated by Board on 13 October 2010)	1 out of 1
Mr. L.M. Mangquku (Appointed 1 March 2011)	1 out of 1
Mr. E.K. Ndleve (Appointed 1 March 2011)	1 out of 1

BOARD MEMBER EMOLUMENTS:

Details regarding Board member emoluments are reflected in the Annual Financial Statements.

2. GENERAL REVIEW OF STATE OF AFFAIRS

INTRODUCTION

The Board is committed towards accomplishing its mission, i.e. to efficiently and effectively develop, transform and regulate the gambling industry to contribute towards accelerated shared economic and social growth in the Province. The Board therefore made all efforts to ensure that it executes its mandate within the parameters of the Act, the applicable Regulations, Rules and other related legislative instruments.

What follows under is a synopsis of the Board's highlights and performance during the year under review.

PERFORMANCE HIGHLIGHTS

The main aim of this report is reporting on the Board's performance against set objectives and also highlighting challenges that the Board faced during the period under review.

CASINO OPERATORS

There are four operating casinos in the Province, namely:

- Windmill Casino and Entertainment Centre in Bloemfontein
- Naledi Sun Hotel and Casino in Thaba Nchu
- Goldfields Casino and Entertainment Centre in Welkom
- Frontier Inn and Casino in Bethlehem

ZONE 4: VAAL RIVER CASINO LICENSE APPLICATION

The Board has resolved that despite the pending zoning application by the Vaal River Casino, the Public participation hearings will be heard afresh.

EXTENSION OF THE NALEDI SUN CASINO LICENSE

As reported in the Annual Report of the previous year, the Board awarded SISA the rights to operate the Naledi Sun Hotel and Casino for additional two and a half ("2 1/2") year period. This period commenced on the 1st of August 2009, and the agreement with SISA provides for an option to extend for a similar period should the Board not issue the vacant license in the intervening period. The position is still as it was then.

HORSERACING AND BETTING PERFORMANCE

We finalized our regulatory audit on the licensed totalisator, Phumelela. This was a joint operation with the other seven Provincial Gambling Boards in which the licensee operates as well as the National Gambling Board. Two Provincial Gambling Boards did not take part in the joint audit. The final audit report was sent to the Provincial Gambling Boards by the National Gambling Board. The report will also be sent by the National Gambling Board to Phumelela to provide management comments. The next joint audit will be communicated to the Provincial Gambling Boards on 1 July 2011.

BOOKMAKER REGULATORY AUDITS

The regulatory audit on the three licensed bookmakers in the Province was conducted. The Entity is currently in the planning stage for the audits to be conducted for the period 1 January 2011 to 31 March 2011. This will also include the auditing of the following three bookmakers; Keith Ho, Errol Thomas and I Kriel; who commenced operations in December 2010.

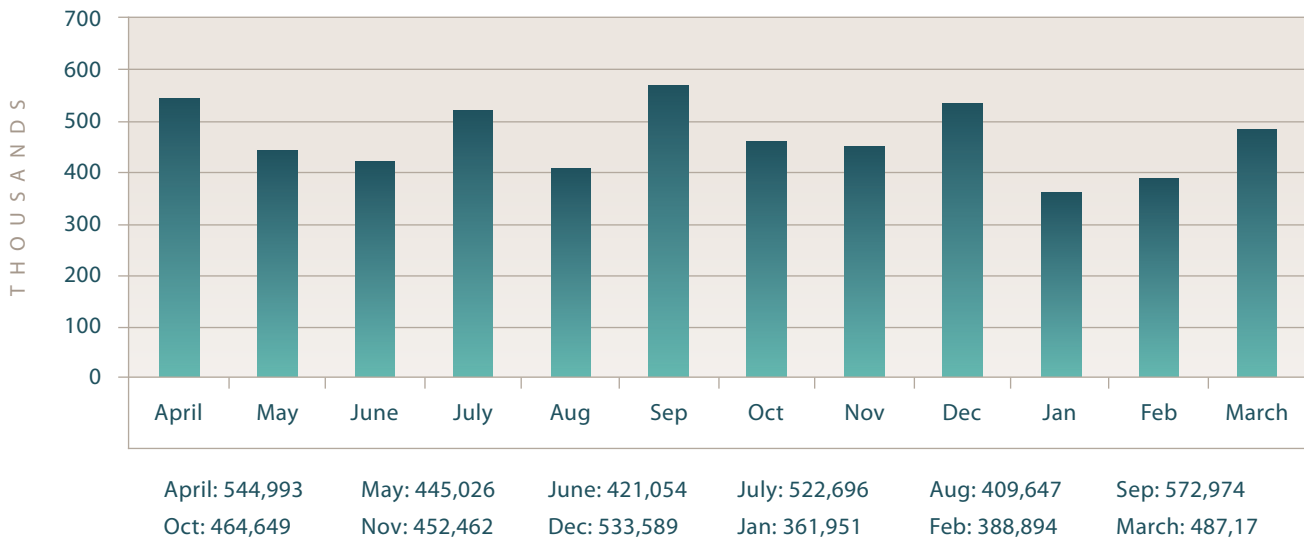
The Authority collected R 5,370,000 (R 5,677,000: 2010) from horse racing levies during the year under review. This constitutes a decrease 5.4% from previous financial year.

The four casinos mentioned earlier generated levies of R 26,039,000 (R 24,231,000: 2010) during the year under review. This constitutes an increase of 7.5% from previous financial year.

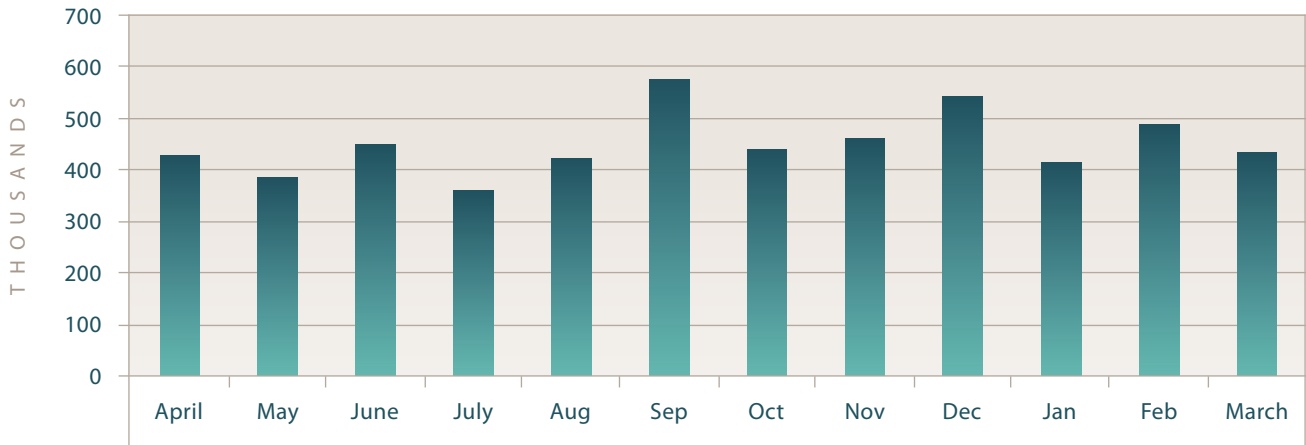
The Authority audited 100% (March 2010, 100%) of all gambling related revenue due to the Province to ensure completeness, correctness and timeous payments. In addition, regular compliance audits were conducted on all licensees to ensure compliance to gambling legislation and license conditions.

The following is a graphic representation of levies collected during the period 2009/2010 and 2010/2011 on a comparative basis:

Horseracing Levies 2009 - 2010

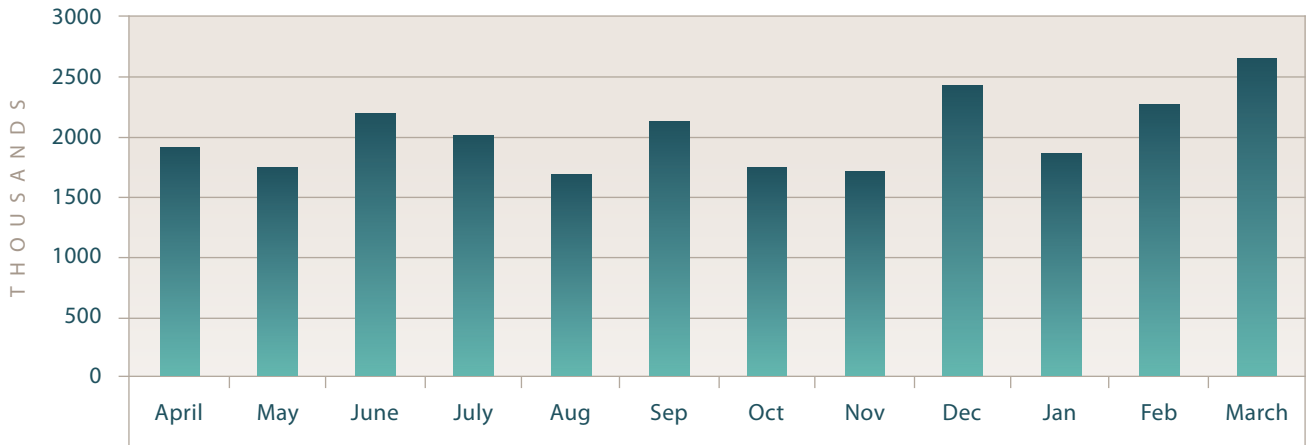


Horseracing Levies 2010 - 2011



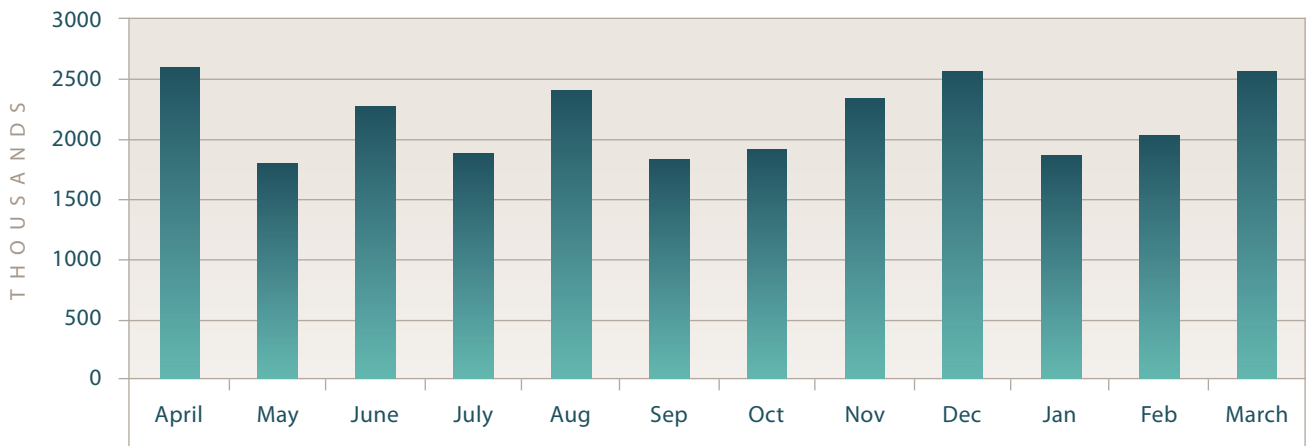
April: 426,665 May: 381,118 June: 445,863 July: 357,905 Aug: 420,323 Sep: 574,856
 Oct: 439,566 Nov: 457,446 Dec: 540,742 Jan: 410,543 Feb: 484,325 March: 430,664

Casino Levies 2009 - 2010



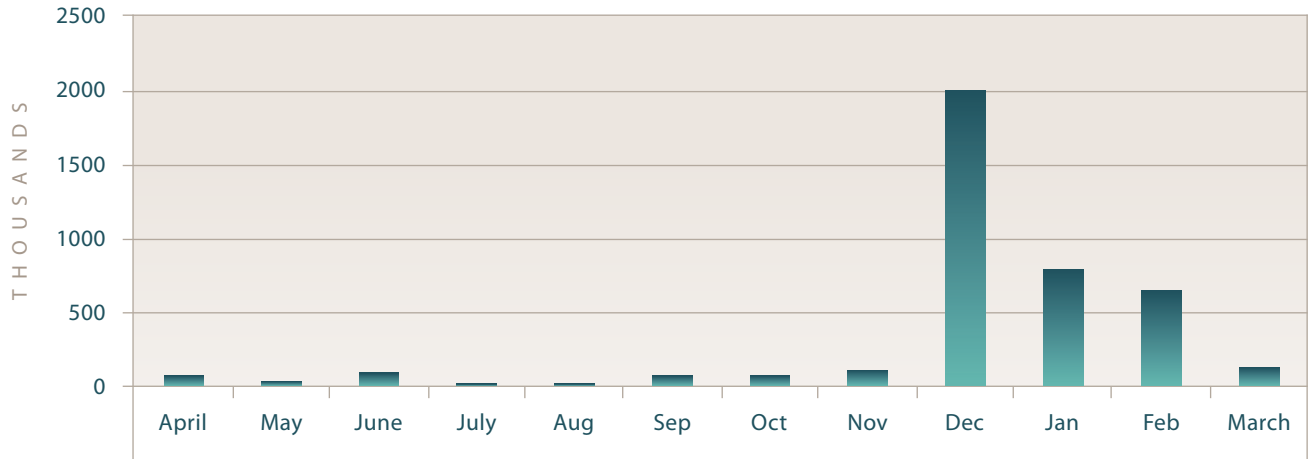
April: 1911,115 May: 1757,624 June: 2187,713 July: 2011,809 Aug: 1688,354 Sep: 2134,189
 Oct: 1757,453 Nov: 1717,455 Dec: 2429,406 Jan: 1865,375 Feb: 2281,93 March: 2653,402

Casino Levies 2010 - 2011



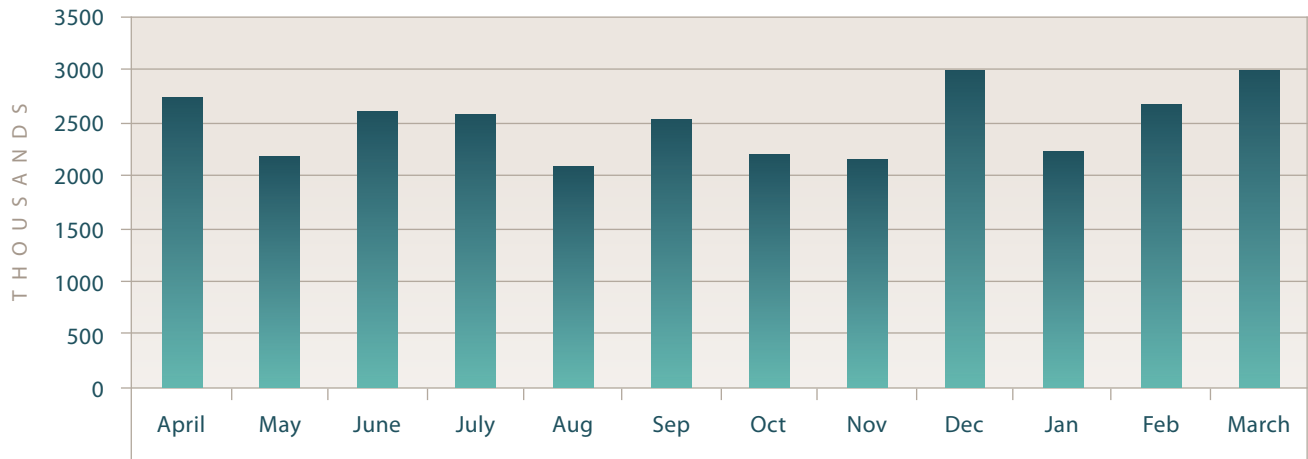
April: 2588,571 May: 1798,836 June: 2273,716 July: 1881,843 Aug: 2399,92 Sep: 1822,426
 Oct: 1907,103 Nov: 2344,566 Dec: 2558,408 Jan: 1861,953 Feb: 2034,821 March: 2568,231

Liquor revenue 2010 - 2011



April: 84,288 May: 44,592 June: 98,331 July: 29,047 Aug: 28,867 Sep: 76,652
 Oct: 70,337 Nov: 111,791 Dec: 2011,327 Jan: 802,036 Feb: 639,807 March: 135,547

Consolidated Revenue 2009 - 2010



April: 2750,123 May: 2202,65 June: 2608,767 July: 2580,231 Aug: 2098,001 Sep: 2550,123
 Oct: 2222,102 Nov: 2169,917 Dec: 3001,123 Jan: 2227,326 Feb: 2670,824 March: 3011,231

AFFAIRS OF THE FORMER LIQUOR BOARD

With the merging of the former Free State Liquor Board and the Free State Gambling and Racing Board into the new Entity, Free State Gambling and Liquor Authority, came a lot of new challenges and opportunities for the new Entity. Chief among the highlights in this regard was the way the Board dealt with the backlog of liquor license applications. There were lots of liquor license applications lodged in previous years which were not attended to. These resulted in serious litigations against the Authority.

To resolve these, the Board took a resolution that in its sittings it will consider applications in terms of their lodgment time, so all applications lodged in the previous years were given attention inclusive of all those which faced possible litigation. In the period under review, The Board sat and considered 327 applications.

STATISTICAL INFORMATION

	NUMBER OF EMPLOYEES	NUMBER OF SLOT MACHINE	NUMBER OF TABLES
Goldfields Casino	Casino Employees 208: (March 2011) Casino Employees 224: (March 2010) Concessionaires: 153	250: (March 2011) 250: (March 2010)	9: (March 2011) 9: (March 2010)
Naledi Sun	Casino Employees 75: (March 2011) Casino Employees 76: (March 2010) Concessionaires: 28	150: (March 2011) 150: (March 2010)	0
Windmill Casino	Casino Employees 216: (March 2011) Casino Employees 214: (March 2010) Concessionaires: 309	343: (March 2011) 350: (March 2010)	18: (March 2011) 18: (March 2010)
Frontier Inn Casino	Casino Employees 122: (March 2011) Casino Employees 123: (March 2010) Concessionaires: 51	130: (March 2011) 130: (March 2010)	11: (March 2011) 11: (March 2010)
Betting & Horseracing	Bookmakers: 65		

ROLL OUT OF LIMITED GAMBLING MACHINES

As reported during the previous year's annual report, the Board awarded two Route Operator Licenses on the 7th of May 2008. The unsuccessful applicant, Vukani FS (Pty) Ltd, however filed an application for the review of the decision by the Board with the High Court together with an urgent application for an interdict to prevent the Board and the two successful applicants from continuing with any further steps in the roll-out of the LPM's. The litigation was attended to with the intermediation of the State Attorney in accordance with section 78 of the Act. After consultation with Senior Counsel, the Board was advised not to oppose the application but to abide by the decision of the Court. The review application was heard by the High Court on the 8th of February 2010 and judgment was delivered on the 18th of March 2010. The High Court declared the licenses issued to both Interplay Free State (Pty) Ltd and Thuo Gaming FS (Pty) Ltd invalid and therefore null and void, and ordered the Board to issue a Route Operator License to Vukani FS.

COMBATING OF ILLEGAL GAMBLING

The Board, with the continued assistance of the South African Police Service, the Directorate of Public Prosecutions, other related government departments like Health and Social Development and communities, strengthened its fight against illegal gambling in the province.

During the year under review: Sixteen (16) illegal machines have been confiscated, the Board conducted thirteen (13) raids in the Province in Selosesha, Clocolan, Henneman, Sasolburg and Koffiefontein in the period under review. The nine cases were concluded with convictions, with the three of Henneman and four of Koffiefontein still pending.

LEGISLATION

REVIEW AND AMENDMENT OF LEGISLATION:

The Free State Gambling and Liquor Authority Act (Act 6 of 2010), was assented to by the Premier on 8th of June 2010 and came into operation by the 11th of June 2010. Amendment to Liquor regulation came into effect on the 14th of December 2010. Subsequent to the reporting date, an amendment to the Free State Gambling and Liquor Authority Act came into effect (Act 3 of 2011).

REVIEW OF LICENSE CONDITIONS

Approved license conditions are currently with the MEC for DETEA in accordance with legislative requirements.

LITIGATION FOR AND AGAINST THE BOARD:

1. PROCEEDINGS AGAINST FORMER CEO

Mr C.J. Moeko, a former CEO of the FSGRB, instituted proceedings against the MEC of the DETEA in the Labour Court, to contest his dismissal. The MEC is the 1st Respondent in this matter; and the Board has been quoted as a respondent to the extent that it might have an interest in this matter. The applicant, Mr Moeko, was supposed to have filed his Heads of Argument by January 2010. According to Ms Maranyane, the State Attorney handling the matter, this has not been done and the matter remains pending.

2. CECIL NURSE V FREE STATE GAMBLING AND LIQUOR AUTHORITY

During the 2009/2010 financial year, the Board purchased office furniture through a BBBEE company called Zion Consulting ("Zion"). After receipt of the furniture and payment to Zion, it became apparent that Zion has in turn purchased the furniture from Cecil Nurse Office Furniture ("Cecil Nurse") and that it did not pay Cecil Nurse for such furniture. After unsuccessful attempts by the latter to recover their loss from Zion, they commenced with action against the Board, as the party being in possession of the furniture. The Board was advised by the State Attorney that its only remedy is to pay Cecil Nurse and to then institute action against Zion to recover its losses. This position was confirmed by the State Law Advisors in a legal opinion to the Provincial Treasury on the matter. The Board subsequently paid Cecil Nurse the outstanding amount, but instructions were given to the State Attorney to institute action against Zion to recover the Board's losses. The State Attorney was instructed to pursue civil action against Mr. Saliwe of Zion Consulting for the recovery of the Board's damages and, in addition, to assist the Board in instituting criminal charges against Mr. Saliwe for defrauding the Board. The matter was delayed as Mr. Saliwe could not be located, and a tracing agent had to be appointed by the State Attorney to find Mr. Saliwe. Further feedback on the matter is at present awaited from the State Attorney.

3. VUKANI GAMING V FSGRB AND OTHERS: REVIEW APPLICATION IN LPM LICENSING PROCESS

In its judgment in the review application delivered on 18 March 2010, the Free State High Court declared the licenses issued to both Interplay Gaming FS and Thuo Gaming FS invalid and null and void, and ordered the Board to issue a Route Operator License to Vukani FS.

An urgent application was lodged by Vukani FS against the Authority on the 18th of October 2010, for an order directing the Authority to invite applications for limited gambling machine site licenses by publishing an invitation in the next Provincial Gazette and two newspapers circulating in the Province.

The Board opposed the application. After hearing the application, the Court rejected the Authority's arguments in opposition of the application and found in favour of Vukani. Application for leave to appeal was lodged. Subsequent to the reporting period the matter was settled and the settlement made an order of court.

RESPONSIBLE GAMBLING

The Free State Gambling and Liquor authority in partnership with the National Responsible Gambling Program (NRGP), the Free State Department of Health, Department of Justice and our licensees continue to fight the scourge of compulsive gambling and irresponsible liquor consumption. Through concerted efforts the entity achieved the following:

1. Approved exclusions (134)
2. Facilitated upliftments and (16) received treatment and counseling free of charge for compulsive and addictive gambling.
3. Conducted three Roadshows in Bethlehem, Bloemfontein and Thaba Nchu.
4. Participated in two radio slots with Kopsie FM and Motheo FM creating awareness around compulsive and addictive gambling as well as available remedial interventions for punters as well as affected parties i.e. economically dependent individuals.
5. Screened all advertisements to ensure compliance with the Free State Gambling and Liquor Act 2010, Act 6 of 2010, Sections 90 as well as the National Gambling Act 2004, Act 7 of 2004, Section 15.

BLACK ECONOMIC EMPOWERMENT ("BEE")

The Board remains committed to the expansion of Black participation in the gambling industry. This objective is addressed extensively in the conditions of license of all the casino licensees in the Province. As such, these licensees are bound by their license conditions to allocate work to SMME and BEE groups that will equal to a minimum of 30% of all monies spent as development costs and 30% of all monies spent annually as operational expenditure; to maintain a minimum of 30% shareholding by BEE Groups in the Casino establishment; and to ensure that each concessionaire shall have a minimum of 30% shareholding by BEE partners.

A full Audit for the period under review was conducted to check the casino's compliance with the BEE requirements in terms of their license conditions and it was found that the casinos do not comply.

With regards to LMP Operators, the Board in its Request for Proposals required that at least 70% of the financial interest in the licensee shall be held by BEE persons or shareholders.

The Operations Committee of the Board continues to meet on a quarterly basis and monitors the ongoing fulfillment by license holders with their bid commitments in respect of BEE.

The Board is participating in the coordinated efforts by the various provincial gambling Boards and the National Gambling Board to ensure that, as far as possible, uniform standards in relation to empowerment deliverables within the gambling sector are developed and upheld.

To this effect, and in support of a National Policy Council resolution on the matter, all licensees of the Board are required to comply with the standards as set by the Board aimed at the advancement of Broad Based Black Economic Empowerment ("BBBEE"). In recognition of the seven (7) elements of the generic scorecard, i.e. Ownership, Management, Employment Equity, Skills Development, Preferential Procurement, Enterprise Development and Socio Economic Development, the Board requires from its licensees to:

- (1) Have a BEE Status of at least at level 4 in terms of the BBBEE codes on or before 31 December 2010;
- (2) Progress to at least level 3 on or before 31 December 2012; and
- (3) Be at least at level 2 on or before 31 December 2015.

3. SERVICES RENDERED BY THE BOARD AS A PUBLIC ENTITY

The Board is charged with receiving and investigating applications for licenses pertaining to the various sectors of the gambling and betting industries in the Province, together with the liquor applications and exercising regulatory authority over the conduct of gambling, betting and liquor operations by all entities and persons licensed by it. As such, the Board renders services to the Province, the gambling industry, the liquor industry and the public, by ensuring –

- Through probity investigations, that only appropriate persons, who meet the applicable criteria, are licensed to participate in the industry;
- Through ongoing oversight over the licensed industry, that licensed operations take place in accordance with the prescribed requirements and procedures and operate fairly towards the public;
- Through the imposition of license conditions, that license holders comply with the undertakings made in their bids or other requirements stipulated by the Board and conduct their activities in a socially responsible manner;
- Through ongoing research, that the legal framework within which the Board operates keeps pace with developments on technological and other levels;
- Through enforcement of the law, that illegal gambling and liquor activities are detected and prosecuted;
- Through consistent and thorough regulation, that the industry functions in a stable and credible environment;
- Through regular and detailed compliance audits, that any instances of non-compliance by license holders are detected and appropriately addressed, and
- Through regular and comprehensive financial audits, that tax due to the provincial fiscus are accurately calculated and timeously paid.

PERFORMANCE REPORT

PROGRAMME 1: ADMINISTRATION

SUB-PROGRAMME 1: Office of the CEO

STRATEGIC OBJECTIVE	PERFORMANCE INDICATOR	BASELINE	2010 - 2010				REASONS FOR VARIANCE	EVIDENCE
			ANNUAL TARGET	QUARTERLY TARGET	ACTUAL PERFORMANCE	VARIANCE		
Effective and efficient resource management to deliver on the mandate of the entity.	Strategic Plan submitted to DETEA and Treasury.	A Copy of Strategic plan to be submitted.	2 Drafts and 1 final copy to be submitted.	1 Final copy to be submitted.	1 Copy submitted.	N/A	N/A	Evidence available.
	Number of signed performance agreements for all staff within 15 days of the financial year.	Performance agreements with all employees to be entered into.	1 Performance agreement for each employee.	N/A	N/A	N/A	Performance agreements will be signed in the new financial year.	
	Number of reports on quarterly performance assessment and compliance with the performance management policy.	Number of quarterly reports submitted to DETEA and Treasury.	4 Quarterly reports.	1 Quarterly report.	4 Quarterly reports.	N/A	N/A	Available.

PROGRAMME 1: ADMINISTRATION

SUB-PROGRAMME 2: Human Resource and Administration

STRATEGIC OBJECTIVE	PERFORMANCE INDICATOR	BASELINE	2010 - 2010				REASONS FOR VARIANCE	EVIDENCE
			ANNUAL TARGET	QUARTERLY TARGET	ACTUAL PERFORMANCE	VARIANCE		
Ensure effective and efficient resource management.	Development of HR Policies.	Adoption of all HR Policies by the Board.	HR Policies developed and implemented.	All HR Policies to be reviewed.	HR Policies reviewed.	N/A	N/A	Evidence available.
	Development of HR Strategy and Plan.	Adoption of HR Strategy and Plan by the Board.	HR Strategy and plan.	Submission to the Board.	Submitted to the Board.	N/A	N/A	Evidence available.
	Performance management system.	Development and adoption of Performance Management system by the Entity.	Performance management system developed.	Performance appraisals conducted.	Not conducted.	System still to be developed.	System still to be developed as Entity is new and most personnel are new as well	
	Compliance with Labour Relations Act and related legislations and HR Policy.	Number of Labour Relations matters completed	Compliance with Labour Relations Act at all times.	100% Compliance to Labour Relations Act.	2 matters at the CCMA settled	None	N/A	

PROGRAMME 1: ADMINISTRATION

SUB-PROGRAMME 3: Legal Services and Secretariat

STRATEGIC OBJECTIVE	PERFORMANCE INDICATOR	BASELINE	2010 - 2010			REASONS FOR VARIANCE	EVIDENCE		
			ANNUAL TARGET	QUARTERLY TARGET	ACTUAL PERFORMANCE			VARIANCE	
Efficient governance and administration.	Board Charter, Minutes, Reports.	Approval and adoption of the Board Charter.	Development and implementation and review the Board Charter.	Board Charter drafted, presented and approved by the Board.	Board Charter drafted, presented and approved by the Board.	None	N/A	Available	
	Accurate record keeping of all Board proceedings.	Minutes that reflect correct Board decisions and resolutions.	Annual report and accurate record of all Board minutes.	Minutes as per Board meeting schedule.	Minutes as per Board meeting schedule.	None	N/A	Available	
	Legal Opinions and advice to the Board on time and sound.	Number of requests from the Board.	As per Board instruction and requirements.	As per Board instruction and requirements.	As per Board instruction and requirements.	As per Board instruction and requirements.	None	N/A	Available
	Amendments to the Act, Rules and Regulations.	Needs of stakeholders for amendments.	As per requests and approved amendments.	As per requests and approved amendments.	As per requests and approved amendments.	As per requests and approved amendments.	None	N/A	Available
	Provision of legal support and secretarial services	Review of all Management contracts and provision of secretarial services to the Board.	Number of contracts in existence and Board meetings.	Update register of all vetted contracts and service level agreements.	Register of all vetted contracts and service level agreements updated.	Register of all vetted contracts and service level agreements updated.	None	N/A	Available

PROGRAMME 1: ADMINISTRATION

SUB-PROGRAMME 4: Communication

STRATEGIC OBJECTIVE	PERFORMANCE INDICATOR	BASELINE	2010 - 2010				REASONS FOR VARIANCE	EVIDENCE
			ANNUAL TARGET	QUARTERLY TARGET	ACTUAL PERFORMANCE	VARIANCE		
Promote a culture of responsible gambling and alcohol use.	Awareness created to the Communities about the dangers of compulsive gambling and alcohol abuse.	Number of awareness campaigns.	4 Campaigns per annum.	4 Awareness campaigns.	4 Awareness campaigns.	N/A	N/A	Evidence available.

PROGRAMME 1: ADMINISTRATION

SUB-PROGRAMME 5: Internal Auditing

STRATEGIC OBJECTIVE	PERFORMANCE INDICATOR	BASELINE	2010 - 2010				REASONS FOR VARIANCE	EVIDENCE
			ANNUAL TARGET	QUARTERLY TARGET	ACTUAL PERFORMANCE	VARIANCE		
Effective and efficient resource management	Process and performance audits.	Number of audits conducted.	10 Audits	3 Audit cycles	10 Audit cycles	None	N/A	Evidence available.
	Audit monitoring and evaluation.	Number of audits conducted.	10 Audits	3 Audits	10 Audits	None	N/A	Evidence available.

PROGRAMME 2: STRATEGIC FINANCIAL MANAGEMENT

STRATEGIC OBJECTIVE	PERFORMANCE INDICATOR	BASELINE	2010 - 2010				REASONS FOR VARIANCE	EVIDENCE
			ANNUAL TARGET	QUARTERLY TARGET	ACTUAL PERFORMANCE	VARIANCE		
To ensure effective and efficient resource management	Submission of approved budget to the DETEA.	Submission to DETEA.	Approved budget submitted to DETEA in Jan 2011.	Approved budget submitted to DETEA in Jan 2011.	Not achieved	100%	The Authority's budget for the 2011/12 financial year is currently in a deficit. As a result the Authority is not in a position to finalize the budget as that would be non-compliance to the PFMA. The Authority is busy with a process to request to additional funding from FS Treasury.	N/A
	Unqualified audit report and all queries addressed	Auditor General's report.	Ensure that all audit queries have been addressed 100%	Unqualified audit report and all major queries addressed	Unqualified audit report achieved and all major queries addressed.	N/A	N/A	Pending
	To allocate and control all financial resources effectively and efficiently.	Balance in the budget grant against expenditure.	No overspending or under spending (100% of the budget to be spent)	No overspending or under spending (25% of the budget to be spent)	There was an under spending of approximately R5.3m	Approximately R5.3m	IT infrastructure budgeted for	

PROGRAMME 2: STRATEGIC FINANCIAL MANAGEMENT (cont.)

STRATEGIC OBJECTIVE	PERFORMANCE INDICATOR	BASELINE	2010 - 2010				REASONS FOR VARIANCE	EVIDENCE
			ANNUAL TARGET	QUARTERLY TARGET	ACTUAL PERFORMANCE	VARIANCE		
To ensure effective and efficient resource management	To monitor and report on the financial performance of the organization.	Annual financial statements.	Annual financial statements compiled and submitted within the guidelines of PFMA.	N/A	N/A	N/A	N/A	Achieved in the second quarter.
	Timeous submission of reports as required by the PFMA, Management and Treasury prescripts.	PFMA directives.	All reports submitted by due date as per directives.	All report submitted by due date.	Monthly certificate of compliance to the financial management KPI's for the financial year 2010/ 2011 submitted by the 10th of each month. Monthly financial reports for the financial year were submitted on the 15th of every month. No Financial misconduct occurred for the 2010/11.	None	N/A	Available

PROGRAMME 2: STRATEGIC FINANCIAL MANAGEMENT (cont.)

STRATEGIC OBJECTIVE	PERFORMANCE INDICATOR	BASELINE	2010 - 2010				REASONS FOR VARIANCE	EVIDENCE
			ANNUAL TARGET	QUARTERLY TARGET	ACTUAL PERFORMANCE	VARIANCE		
To ensure effective and efficient resource management					Monthly Certificate of compliance to the fixed assets KPI's for 2010/11 were submitted by the 7th of each month.			
	Efficient revenue collection and transfer to provincial government	Bank deposits.	Transfer revenue collected submitted to provincial department on or before the 15th of every month.	Transfer revenue collected to provincial department on or before the 15th of every month.	All revenue received on behalf of the Department was paid over to the Department on time.	N/A	Available	
	Annual review of the financial and Administration policies.	Review of all Financial Policies.	100% compliance with the Financial and Administration policy.	Reviewed Financial and Administration policy.	The financial and administration policy was reviewed and submitted to the Board for approval during March 2011.	N/A	Available	

PROGRAMME 2: STRATEGIC FINANCIAL MANAGEMENT (cont.)

STRATEGIC OBJECTIVE	PERFORMANCE INDICATOR	BASELINE	2010 - 2010				REASONS FOR VARIANCE	EVIDENCE
			ANNUAL TARGET	QUARTERLY TARGET	ACTUAL PERFORMANCE	VARIANCE		
To ensure effective and efficient resource management	To ensure that assets are managed and disposed effectively	Asset register.	Bi-annual asset verification and report on the updated asset register.	Verification of Assets for the 2nd bi-annual assets.	Physical asset verification were performed for the 2010/11 financial year.	None	N/A	Available
	All creditors payments made within 30 days.	Creditors analysis report.	All creditors paid within 30 days of invoice unless there is a dispute.	All creditors paid within 30 days of invoice unless there is a dispute.	All creditors were paid within the prescribed 30 days except where there were there where disputes.	None	N/A	Available
	Implementation of Fraud Prevention Strategy	Combating fraud in the Entity.	100% of reported fraud and corruption investigated and reported on within a month.	100% of reported fraud and corruption investigated and reported on within a month.	100% of reported fraud and corruption investigated and reported on within a month.	None	N/A	Available
	Percentage of debt recovered.	Debtors reconciliation reports.	80% of debt outstanding for the year recovered.	80% of debt outstanding for more than 30 days.	All debts receivable from Licensees by the 31st of March 2011 had been received, i.e. there were no outstanding debtors at year end. However debts receivable from staff and other debtors are insignificant.	None	N/A	Available

PROGRAMME 3: COMPLIANCE AND REGULATORY AUDIT

STRATEGIC OBJECTIVE	PERFORMANCE INDICATOR	BASELINE	2010 - 2010				REASONS FOR VARIANCE	EVIDENCE
			ANNUAL TARGET	QUARTERLY TARGET	ACTUAL PERFORMANCE	VARIANCE		
Contribute towards shared economic growth.	Revenue Audits	A number of audit reports on revenue and compliance audits.	16	4	21	+ 5	Reduction in the audit turnaround time	Audit reports
	Monitoring Reports	A number of monitoring reports	12 Reports	3 Reports	12 Reports	None	N/A	Monitoring Report

PROGRAMME 4: BUSINESS REGULATION

STRATEGIC OBJECTIVE	PERFORMANCE INDICATOR	BASELINE	2010 - 2010				REASONS FOR VARIANCE	EVIDENCE
			ANNUAL TARGET	QUARTERLY TARGET	ACTUAL PERFORMANCE	VARIANCE		
Regulate the gambling and liquor industry.	Investigations conducted to combat illegal gambling.	Number of investigations	12 investigations p.a.	4 Investigations	17 illegal gambling operations conducted	+ 5 2 Investigation Blitz conducted	Overwhelming number of illegal gambling and trading activities reported.	Evidence available.
	Verification of Jackpots.	Number of Jackpots over R50 000 verified.	100% Jackpots above R50 000 verified.	100% Jackpots above R50 000 verified.	100% of Jackpots above R50 000, verified	None	N/A	Reports available.

PROGRAMME 5: LICENSING

STRATEGIC OBJECTIVE	PERFORMANCE INDICATOR	BASELINE	2010 - 2010				REASONS FOR VARIANCE	EVIDENCE
			ANNUAL TARGET	QUARTERLY TARGET	ACTUAL PERFORMANCE	VARIANCE		
Regulate the gambling and liquor industry.	Probity to establish the suitability of prospective casino employees and bookmakers.	All casino employees to be vetted.	100% investigations to be conducted	100% investigations to be conducted	Investigations conducted, all casino employees vetted.	None	N/A	Documented in the report all approved files are available
	Enforcing compliance to BBEE codes	Percentage ownership and BEE procurement by casinos.	30%	100% Compliance.	80% Compliance.	20%	Investigating the legitimacy of other licensees 'compliance claims.	Report will be submitted once the investigation is completed.

B. CORPORATE GOVERNANCE

The Free State Gambling and Liquor Authority and its Management recognize the need to conduct the business of the Board with integrity and in accordance with sound corporate governance practices and are therefore dedicated to the principles of openness, fairness, integrity and accountability.

Processes and practices are reviewed and revised on an ongoing basis to ensure compliance with good corporate governance.

THE BOARD

The Board comprises of ten (10) non-executive members appointed in terms of Section 4 of the Free State Gambling and Liquor Act, 2010 (Act 6 of 2010). Two members represent Provincial Government Departments whilst the remaining seven members are independent members appointed by virtue of their specialist knowledge and skills. The Chief Executive Officer of the Board is an ex-officio member of the Board.

The Board consists of men and women of integrity who bring a wealth of experience from different industries and backgrounds, which serves as a reservoir of knowledge to the Board.

The Board meets at least once every quarter to deal with strategic issues pertinent to the business of the Board in pursuit of its mandate.

The names of Board members and attendance of meetings are as set out on page 14 to 16.

EXECUTIVE MANAGEMENT

The Executive Management Committee is chaired by the Chief Executive Officer and comprises of two GM's, the CFO and three Managers within the Authority, namely, Corporate Services, Technical Services, Finance, Internal Audit, Governance and Strategy, Special Projects.

The Executive Management Committee is entrusted with; *inter alia*, the following responsibilities:

- Ensuring that the objectives of the Authority are achieved, as planned.
- Implementing decisions of the Authority and ensuring compliance with all legislative requirements relevant to the Authority.
- Reporting to the Board and its related Committees on the performance against the set objectives; and
- Providing the Board with the necessary advice on all relevant issues on an ongoing basis.

BOARD COMMITTEES

The Board has established a number of Committees to assist in the discharge of its responsibilities and to ensure continuity through a spread of workload. All power and authority however remains with the Board unless delegated explicitly to any Committee.

All of the Board Committees are chaired by a non-executive member and the majority of its members are non-executive. Management also forms part of the Board Committees but have no voting rights.

FINANCE AND IT COMMITTEE

The Committee is responsible to oversee the finances of the Board. Its functions include the review of the budget process and recommendation of the annual budget for approval by the Board, the review of and recommendation of the Annual Financial Statements for approval by the Board and to advise the Board on all matters with financial implications.

The Committee is therefore tasked to ensure that appropriate internal controls are implemented and that the PFMA and Treasury Regulations are complied with.

The Committee also develops and oversees the implementation of information technology strategy and policy.

CORPORATE SERVICES COMMITTEE

The Committee is responsible for the reviewing of staff policies and procedures and ensuring that they are in compliance with the relevant labor laws. It is furthermore the function of the Committee to monitor the appointment of staff, to review and control personnel costs and to make recommendations to the Board with regards to performance bonuses and annual increases.

OPERATIONS COMMITTEE

This Committee is responsible for monitoring the adherence by licensees with bid commitments and license conditions. The Committee is further responsible for policy formulation in respect of the licensees as well as advising the Board on licenses applications and the amendment of licenses. In addition, the Committee oversees the promotion and implementation of responsible gambling strategies in the Province.

AUDIT COMMITTEE

The Audit Committee is constituted in accordance with the requirements of the PFMA. The Chairperson is independent and non-executive and the Committee consists of a majority of independent members. A representative of the Auditor-General regularly attends meetings of the Audit Committee in an observer capacity.

The Audit Committee has adopted appropriate formal Terms of Reference, which have been approved by the Board and are encapsulated in the Audit Committee Charter.

NOTE OF APPRECIATION

The management of the Board wishes to express its appreciation to all parties who participated in its activities and assisted it in the year under review, and particularly the following:

- The Chairperson and members of the Board;
- The Responsible Member;
- The Head of Department and staff of the Department for Tourism, Environmental and Economic Affairs in the Province;
- The Executive Council of the Free State Provincial Government;
- All applicants for licenses and licensees;
- The staff of the Board for their dedication and commitment;
- The National and Provincial Gambling Boards;
- The South African Police Services ;
- Service providers of the Board.



Matilda Gasela
CHIEF EXECUTIVE OFFICER

CHAPTER FOUR



CHAPTER FOUR

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE ON FINANCIAL STATEMENTS OF THE FREE STATE GAMBLING AND RACING BOARD

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Free State Gambling and Racing Board, which comprise the statement of financial position as at 10 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 44 to 72.

Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 40(2) of the PFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion Property, plant and equipment

7. As disclosed on the financial statement of performance and note 11 to the financial statements, the valuation of property, plant and equipment amounting to R919 000 could not be confirmed. The entity did not review the residual values and useful lives of assets for the current reporting date in accordance with Standard of Generally Recognized Accounting Practice, GRAP 17, *Property, plant and equipment*. No adjustment was therefore made to the carrying amount of assets resulting in the misstatement of depreciation and accumulated depreciation. I was unable to confirm or verify by alternative means the value of property, plant and equipment included in the financial statements.

Intangible Assets

8. As disclosed on the financial statement of performance and note 12 to the financial statements, the valuation of property, plant and equipment amounting to R73 000 could not be confirmed. The public entity did not review the useful lives of assets for the current reporting date in accordance with Standard of Generally Recognised Accounting Practice, GRAP 102, *Intangible assets*. No adjustment was therefore made to the carrying amount of assets resulting in the misstatement of amortisation and accumulated amortisation. I was unable to confirm or verify by alternative means the value of property, plant and equipment included in the financial statements.

Inventory

9. I was unable to verify the existence, completeness, rights and obligations and valuation of inventory in the prior year amounting to R86 000 as disclosed in the statement of financial position and note 13 to the financial statements. The balance of inventory reflected in the final stock sheets does not agree to the balance reflected in the general ledger and annual financial statements. The entity's records did not permit the application of alternative audit procedures.

Expenses

10. The Standards of Generally Recognised Accounting Practice, *Framework for Preparation and Presentation of Financial Statements*, requires that expenses are recognised in the statement of financial performance when a decrease in future economic benefits or service potential related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. As indicated in note 8 to the financial statements, operating leases are overstated by R93 659 and the relating debtor account understated. This is the result of management not performing creditor reconciliations.

Fruitless and wasteful expenditure

11. As disclosed in note 31 to the financial statements, fruitless and wasteful expenditure to the amount of R13 000 in the current year was incurred that was identified during the audit and was not prevented or detected by the entity's system of internal control. An amount of R49 064 was incurred in the prior year that was not disclosed in the financial statements.

I could not be provided with sufficient, appropriate audit evidence that management has properly identified, investigated and recorded all fruitless and wasteful expenditure transactions during the year under review. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance regarding the completeness of fruitless and wasteful expenditure in the prior year.

Qualified Opinion

12. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Free State Gambling and Racing Board as at 10 June 2010, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the PFMA.

Emphasis of matters

13. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainties regarding pending litigation

14. With reference to the note 27 to the financial statements, the following litigation was filed against the entity with an total estimated cost of R1 817 000.
 - The former Chief Executive Officer of the Free State Gambling and Racing Board instituted proceedings against the member of the executive council of the Department of Economic, Traditional and Environmental Affairs in the Labour Court, to contest his dismissal. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.
 - The entity is pursuing civil action against a company for defrauding the Board. The total estimated financial exposure to the entity is R17 000.
 - Litigation was filed against the entity relating to the awarding of route operator licenses. An agreement was reached between applicant and the board to settle the matter outside of court. The total estimated financial exposure to the entity is R1 800 000.

Irregular expenditure

15. R392 000 of irregular expenditure was incurred in the period as a result of the contravention of supply chain management (SCM) regulation. 100% of the irregular was identified during the audit process and disclosed in note 30 to the financial statements of the Free State Gambling and Racing Board. The incomplete identification of SCM irregular expenditure was as a result of inadequate processes or procedures to identify irregular expenditure with regards to SCM.

Going concern

16. Note 25 to the financial statements indicates that the Free State Gambling and Racing Board's total liabilities exceeded its total assets by R849 000 as at 10 June 2010. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern. The entity merged with the Free State Liquor Authority on 11 June 2010 and the merged entity had a favourable going concern assumption as at 31 March 2011.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages 25 to 34 and material non-compliance with laws and regulations applicable to the public entity.

Predetermined objectives

18. The entity has not reported performance against predetermined objectives, as required by *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*. Due to the merger that took place on 11 June 2010, performances against predetermined objectives are included in the performance report of the merged entity.

Compliance with laws and regulations Strategic planning and performance management

19. The accounting authority did not ensure that the public entity has and maintained an effective, efficient and transparent system of internal control regarding performance management, which described and represented how the entity's processes of performance planning, monitoring, measurement, review and reporting was conducted, organised and managed as required by section 51(1)(a)(i) of the PFMA.

Budgets

20. The accounting authority did not submit a budget of estimated revenue and expenditure for that financial year, for approval by the executive authority responsible for that public entity, at least six months before the start of the financial year of the department designated in terms of subsection (2) or another period agreed to between the executive authority and the public entity, as per the requirements of PFMA section 53(1).

Annual financial statements

21. The accounting authority did not submit the financial statements for auditing within two months after the end of the financial year as required by section 55(1)(c)(i) of the PFMA.
22. The accounting authority submitted financial statements for auditing that were not prepared in all material aspects in accordance with generally accepted accounting practice and supported by full and proper records as required by section 55(1) (a) and (b) of the PFMA. Certain material misstatements identified by the AGSA with regards to salary apportionment, expenditure and prior period errors were subsequently corrected, however the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion in contravention of section 55(2)(a).

Procurement and contract management

23. Goods and services with a transaction value between R10 000 and R500 000 were procured without inviting at least three written price quotations from prospective suppliers as per the requirements of TR 16A6.1 and National Treasury Practice Note 8 of 2007/08.
24. Goods and services with a transaction value of over R500 000 were not procured by means of a competitive bidding process as per the requirements of TR 16A6.1, TR 16A6.4 and National Treasury Practice Note 6 and 8 of 2007/08
25. A list of prospective suppliers was not in place for procuring goods and services through quotations as required of National Treasury Practice Note 8 of 2007/08.

Expenditure management

26. The accounting authority did not take effective and appropriate steps to prevent irregular expenditure as per the requirements of section 51(1)(b) of the PFMA.
27. The accounting authority did not take effective and appropriate steps to prevent fruitless and wasteful expenditure as per the requirements of section 51(1)(b) of the PFMA.

Asset Management

28. The accounting authority did not exercise utmost care to ensure reasonable protection and safeguarding of the assets and records of the public entity as required by section 50(1)(a) and 51(1)(c) of the PFMA.

INTERNAL CONTROL

In accordance with the PAA and in terms of General notice 1111 of 2010, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

29. The accounting authority did not in all instances exercise oversight responsibility regarding financial and performance reporting, compliance and related internal controls.
30. Decisive action was not taken in response to the risk of non-compliance with the supply chain management policy/regulations, by implementing controls to prevent the occurrence of irregular and fruitless and wasteful expenditure.
31. The accounting authority failed to implement adequate controls over compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.
32. The accounting authority did not implement effective human resource management to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored. Consequently property, plant and equipment, intangible assets and inventory were qualified.
33. Management does not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. This resulted in a qualification on expenditure and performance information.

Financial and performance management

34. The Financial statements were subjected to material corrections resulting from the audit process which are attributable to the weaknesses in design and implementation of internal control in respect of financial management.
35. Management does not review and monitor compliance with applicable laws and regulations which resulted in non-compliance to the applicable laws and regulations and irregular expenditure.

OTHER REPORTS

Investigations

36. An investigation was conducted by an independent consulting firm on request of the Department of the Premier. The investigation mainly related to the operations of the board, awarding of licenses and enforcement of license conditions. The investigation was still ongoing at the reporting date.

AUDITOR - GENERAL

Bloemfontein

31 July 2011



FREE STATE GAMBLING AND RACING BOARD

STATEMENT OF COMPREHENSIVE INCOME

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
Revenue			
Transfers and subsidies received	3	2,850	17,300
Other income	4	2	12
Net finance income	10	18	230
Total revenue		2,870	17,542
Expenditure			
Administrative expenses	5	32	787
Staff costs	6	2,100	11,337
Audit fees	7	275	1,177
Other operating expenses	8	892	3,915
Surplus surrendered to revenue fund	9	20	985
Total expenditure		(3,319)	(18,201)
Deficit for the period		(449)	(659)
Attributable to:			
Net asset holders of the controlling entity		(449)	(659)

FREE STATE GAMBLING AND RACING BOARD

STATEMENT OF FINANCIAL POSITION

as at 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
Assets			
Non-current assets			
Property, plant and equipment	11	-	1,005
Intangible assets	12	-	95
		-	1,100
Current assets			
Inventory	13	-	86
Loans and receivables	14	-	139
Cash and cash equivalents	15	-	6,068
		-	6,293
Total assets		-	7,393
Liabilities			
Current liabilities			
Trade and other payables	16	-	2,571
Bonus provision	18	-	730
Funds to be surrendered to DETEA	17	-	4,494
		-	7,795
Accumulated deficit	20	-	(402)
Total net assets		-	(402)
Total net assets and liabilities		-	7,393

FREE STATE GAMBLING AND RACING BOARD

STATEMENT OF CHANGES IN NET ASSETS

for the period ended 10 June 2010

	Notes	Accumulated Surplus	General Reserve	Revaluation Surplus	Total
Balance at 1 April 2009		256	-	-	256
Revised deficit for the year		(659)	-	-	(659)
Deficit for the year as previously stated		(676)	-	-	(676)
Prior year error	24	17	-	-	17
Restated balance as at 31 March 2010		(403)	-	-	(403)
Restated balance at 1 April 2010		(403)	-	-	(403)
Deficit for the year		(449)	-	-	(449)
Net asset value de-recognised as part of entity combinations	28	852	-	-	852
		-	-	-	-
Balance as at 10 June 2010					

FREE STATE GAMBLING AND RACING BOARD

CASH FLOW STATEMENT

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		2,870	17,542
Transfers and subsidies		2,850	17,300
Interest, dividends and rent on land		2	12
Other operating revenue		18	230
Cash paid to suppliers and employees		(10,782)	(28,893)
Compensation of employees		(2,100)	(11,337)
Administrative expenses		(32)	(787)
Audit fees		(275)	(1,177)
Other operating expenses		(8,375)	(15,592)
Net cash inflows from operating activities	21	(7,912)	(11,351)
CASH FLOW FROM INVESTING ACTIVITIES			
Disposal/(acquisition) of property, plant and equipment	11	919	(297)
Intangible assets	12	73	-
Net proceeds/(outflow) from entity combinations	28	852	-
Net cash flow from investing activities		1,844	(297)
CASH FLOW FROM FINANCING ACTIVITIES			
Interest paid		-	-
Net cash flow from financing activities		-	-
Net increase in cash and cash equivalents		(6,068)	(11,648)
Cash and cash equivalents at the beginning of the year	15	6,068	17,716
Cash and cash equivalents at end of the year	16	-	6,068

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

1. ACCOUNTING POLICIES

The annual financial statements have been prepared on the historical cost basis and include the following principal accounting policies of the Free State Gambling and Racing Board which are, in all material respects, consistent with those applied in the previous year, except as otherwise indicated.

1.1 Basis of preparation

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board.

1.1.1 The cash flow statement can only be prepared in accordance with the direct method.

1.1.2 Specific information has been presented separately on the statement of financial position such as:

- (a) receivables from non-exchange transactions, including taxes and transfers;
- (b) taxes and transfers payable;
- (c) Trade and other payables from non-exchange transactions.

1.1.3 The entity elected to use option one (Reconciliation between budget and statement of financial performance) as per GRAP 24 for disclosing/ presentation of budget information.

1.1.4 The following GRAP statements were issued but not yet effective as at 10 June 2010.

These standards are not effective yet as it will only be effective on the date to be determined by the Minister of Finance.

Initial application of these standards are not expected to affect the entity's Financial Statements

GRAP18: Segment Reporting - issued 26 April 2006

GRAP21: Impairment of Non cash - generating assets - issued 1 March 2009

GRAP23: Revenue from Non-exchange Transactions (Taxes and Transfers) - issued 14 February 2008

GRAP24: Presentation of Budget Information - issued 22 November 2007

GRAP25: Employee benefits - issued 11 December 2009

GRAP26: Impairment of cash generating assets - issued 1 March 2009

GRAP103: Heritage assets - issued 28 July 2008

GRAP104: Financial Instruments - issued 15 October 2009

GRAP105: Transfer of functions between entities under common control – issued November 2010

GRAP106: Transfer of functions between entities not under common control – issued November 2010

GRAP107: Mergers - issued November 2010

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

1.2 Presentation currency

These financial statements are presented in South African Rand since that is the currency in which the entity's transactions are denominated.

1.3 Revenue recognition (Non- exchange transactions)

Revenue is recognized when it is probable that economic benefits associated with the transaction will flow to the Free State Gambling and Racing Board, (Board). Probability test is satisfied once revenue is appropriated in terms of the Appropriation Act of the relevant financial year.

Revenue comprises budget allocations for the activities of the Board provided for in the budget of Department Economic Development, Tourism, Economic & Environmental Affairs (DETEA) as transfer payments and other non-operating income.

Budget allocations are recognized as revenue when it is probable that such funds will accrue to the Board.

Interest income is accrued on a time proportion basis, taking into account the capital outstanding and the effective interest rate over the period to maturity.

Interest accrued on investment/call accounts of the government grants is returned to the Executive Authority on finalization of the financial statements in terms of the transfer agreement between the Board and the Executive Authority.

1.4 Irregular and fruitless and wasteful expenditure

In terms of section 55(2) (b) (i) of the Public Finance Management Act, 1999 the financial statements must include particulars of any irregular and fruitless and wasteful expenditure.

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including:

- The PFMA, or
- Any provincial legislation providing for procurement procedures in the Provincial Government.

Fruitless and wasteful expenditure means expenditure that was made in vain and could have been avoided had reasonable care been exercised.

All irregular and fruitless and wasteful expenditure is charged against income in the period in which they are incurred.

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

1.5 Property, plant and equipment

All property, plant and equipment are initially recorded at cost. Assets are stated at cost less any subsequent accumulated depreciation and impairment losses and are written off over the estimated useful life of the asset to its residual value.

Depreciation is calculated on the straight-line method to write off the cost of assets over their estimated useful lives to its residual value as follows:

Plant	20%
Equipment	25%
Vehicles	20%
Computer Equipment	33%
Furniture and Fittings	10%
Library Books	33%

The assets' useful lives and residual values are reviewed, and adjusted if appropriated, at each reporting date.

The gain or loss arising from the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in or charged against income.

1.6 Intangible assets

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with identifiable software products controlled by the Board and that will generate benefits exceeding cost beyond one year, are recognized as intangible assets. Intangible assets are stated at historical cost less accumulated amortization and are written off over a period of three years on the straight line method. The useful life of intangible assets is finite. It is the policy of the Board to review amortization period and amortization method for intangible assets at each reporting date.

The following amortization rates have been used:

Computer Software	33%
Licenses	33%

1.7 Leased assets

Leases of assets are classified as finance leases whenever the lease term is for the major part of the economic life of the asset even if the title is not transferred.

Assets held under finance leases are recognized as assets at their fair value at the inception of the lease or if lower at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the statement of financial performance.

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straight line basis over the term of the relevant lease.

1.8 Impairment

At each reporting date, the Board reviews the carrying amounts of its assets to determine whether there is any indication that those assets may be impaired.

Impairment of assets is evaluated against the following indicators:

External sources of information

- (a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- (b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
- (c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- (d) The carrying amount of the net assets of the entity is more than its market capitalization.

Internal sources of information

- (a) evidence is available of obsolescence or physical damage of an asset
- (b) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite.
- (c) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (if any). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are immediately recognised as an expense.

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

1.9 Inventories

Inventories are stated at the lower of cost or net realizable value. Net realisable value represents the estimated price in the ordinary course of business.

The cost is determined on the following basis:

Stationery, cartridges and promotional items are recorded at average cost.

1.10 Financial instruments

Financial instruments carried on the statement of financial position include cash and bank balances, receivables and trade payables. These financial instruments are generally carried at their estimated fair value, which is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

Recognition

Financial instruments are recognized when the Board becomes a party to the contractual provisions of the instrument.

Measurement

Financial instrument are initially measured at fair value, which includes transaction costs, where applicable. Subsequent to initial recognition these instruments are measured as set out below.

Trade payables

Trade payables are stated at amortized cost, comprising original debt less principal payments.

Cash and cash equivalents

Cash and cash equivalents are measured at realizable value.

Loans and Receivables

Loans and receivables are stated at their fair value as reduced by appropriate allowance for estimated irrecoverable amounts.

Gains and losses

Gains and losses arising from a change in the fair value of financial instruments are included in net surplus or deficit in the period in which they arise.

1.11 Government grant

Government grants are recognized when there is a reasonable assurance that the entity will comply with the conditions of the transfer agreement and that the grant will be received. Any excess portion of the grant should be returned to the Executive Authority as prescribed by the transfer agreement.

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

1.12 Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

1.13 Employee benefits

Short term employee benefits

The cost of all short term employee benefits is recognized during the period in which the employee renders the related service.

Accruals for employee entitlements to salaries and wages, and annual leave represent the amount which the Board has a present obligation to pay as a result of employee's services provided at the reporting date.

Accruals have been calculated at undiscounted amounts based on current wage and salary rates.

1.14 Retirement benefit costs

The Board operates a defined contribution plan, the assets of which are held in separate trustee-administered funds. The plan is funded by payments from the Board and employees.

Contributions to the plan are charged against income as incurred.

1.15 Comparative figures

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

1.16 Events after financial position date

Management continuously review events after the financial position date which might have an adjusted or non-adjusted effect on the financial statement. Events after the financial position date are disclosed in the financial statements.

1.17 Taxation

The Board's income is exempt from taxation in terms of Section 10 (1) (CA) (i) of the Income Tax Act.

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	2010/11 R'000	Restated 2009/10 R'000
2. Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance		
Net deficit per the statement of financial performance	(449)	(659)
Adjusted for:		
Phumelela (Management fees)	(2)	(12)
Decreases in provisions	(650)	357
Depreciation	108	617
Interest received	(18)	(230)
Assets purchased	-	(297)
Transfers and subsidies	20	985
Net surplus/deficit per approved budget	(991)	761
3. Transfers and subsidies received		
DETEA	2,850	17,300
Total transfers and subsidies received	2,850	17,300
4. Other income		
Management fees	2	12
Discount Received	-	-
Insurance income	-	-
Total other income	2	12

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
5. Administrative expenses			
Venues and facilities		-	3
Internal audit fees		5	468
As previously stated		-	464
Prior period adjustment	24	-	4
Stationery and printing		12	168
As previously stated		-	169
Prior period adjustment	24	-	(1)
Bank charges		11	43
Training and staff development		4	105
As previously stated		-	99
Prior period adjustment	24	-	6
Total administrative expenses		32	787
6. Staff costs			
Wages and salaries		1,943	10,584
Basic salaries		959	4,974
Performance awards		-	417
Temporary staff		-	2
Leave provision		115	358
Directors fees	22.3	55	347
Executive management salaries	22.4	814	4,486
Defined contribution plan expense		157	753
Medical		34	167
UIF		8	42
*Pension		115	544
Compensation commissioner and committee pension fund		-	-
		2,100	11,337

* Employers contribution to pension fund is as per
Defined contribution plan

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
7. Audit fees			
Statutory audit		275	1,177
As previously stated		-	1,183
Prior period adjustment	24	-	(6)
8. Other operating expenses			
Subscriptions / Membership Fees		3	74
Advertising		-	48
Publication		-	59
Promotions and Public hearings		-	6
Consultants, contractors and special services		209	214
Health and safety		1	2
Legal resources		-	24
Computer software and IT infrastructure		24	280
As previously stated		-	297
Prior period adjustment	24	-	(17)
Security		25	125
Insurance		37	185
Bad debts provided		5	1
Study Bursaries		-	28
Destroying of illegal machines		-	1
Maintenance, repairs and running costs		25	80
Property and buildings		-	5
Machinery and equipment		6	9
Other maintenance, repairs and running costs		19	66
Sub Totals		329	1,127

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
8. Other operating expenses (continued)			
Subtotal brought forward		329	1,127
Depreciation		86	474
Amortization		22	143
Stores/Consumables		11	35
As previously stated		-	34
Prior period adjustment	24	-	1
Municipal services		24	126
Travel and subsistence		77	503
As previously stated		-	504
Prior period adjustment	24	-	(1)
Courier and delivery charges		1	7
As previously stated		-	8
Prior period adjustment	24	-	(1)
Communication costs		129	593
Investigation fees		1	21
Meals and Refreshments		23	58
As previously stated		-	60
Prior period adjustment		-	(2)
Team Building		-	-
Rentals in respect of operating leases		189	828
Buildings		189	761
Plant, machinery and equipment		-	67
Total operating expenses		892	3,915
9. Surplus surrendered to revenue fund			
Surplus surrendered		-	743
Interest on surplus funds		18	230
Other		2	12
Total surplus surrendered to revenue fund		20	985

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
10. Net finance income			
Interest on			
Cash and bank deposits		18	230
Net finance income		18	230
11. Property, plant and equipment			
11.1 Plant and equipment			
Opening net carrying amount 1 April 2010		60	91
Gross carrying amount		273	533
Accumulated depreciation		(213)	(442)
Additions		-	-
Depreciation charge		(5)	(30)
Disposal		-	(260)
Disposal of accumulated depreciation		-	259
Closing net carrying amount 10 June 2010		-	60
Gross carrying amount		273	273
Accumulated depreciation		(218)	(213)
Derecognised as part of entity combinations	28	(55)	-
11.2 Security equipment			
Opening net carrying amount 1 April 2010		-	-
Gross carrying amount		88	104
Accumulated depreciation		(88)	(104)
Disposal		-	(16)
Disposal of accumulated depreciation		-	16

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
11.2 Security equipment (continued)			
Closing net carrying amount 10 June 2010		-	-
Gross carrying amount		88	88
Accumulated depreciation		(88)	(88)
Derecognised as part of entity combinations	28	-	-
11.3 Vehicles			
Opening net carrying amount 1 April 2010		229	327
Gross carrying amount		622	622
Accumulated depreciation		(393)	(295)
Additions		-	-
Depreciation charge		(18)	(98)
Closing net carrying amount 10 June 2010		-	229
Gross carrying amount		622	622
Accumulated depreciation		(411)	(393)
Derecognised as part of entity combinations	28	(211)	-
11.4 Computer equipment			
Opening net carrying amount 1 April 2010		427	365
Gross carrying amount		2,663	2,842
Accumulated depreciation		(2,236)	(2,477)
Additions		-	296
Depreciation charge		(51)	(234)
Disposal		-	(475)
Disposal of accumulated depreciation		-	475

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
11.4 Computer equipment (Continued)			
Closing net carrying amount 10 June 2010		-	427
Gross carrying amount		2,663	2,663
Accumulated depreciation		(2,287)	(2,236)
Derecognised as part of entity combinations	28	(376)	-
11.5 Office furniture and fittings			
Opening net carrying amount 1 April 2010		287	407
Gross carrying amount		908	1,076
Accumulated depreciation		(621)	(669)
Additions		-	-
Depreciation charge		(12)	(110)
Disposal		-	(167)
Disposal of accumulated depreciation		-	157
Closing net carrying amount 10 June 2010		-	287
Gross carrying amount		908	908
Accumulated depreciation		(633)	(621)
Derecognised as part of entity combinations	28	(275)	-
11.6 Library books			
Opening net carrying amount 1 April 2010		1	3
Gross carrying amount		9	9
Accumulated depreciation		(8)	(6)
Additions		-	-
Depreciation charge		-	(2)

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
11.6 Library books (continued)			
Closing net carrying amount 10 June 2010		-	1
Gross carrying amount		9	9
Accumulated depreciation		(8)	(8)
Derecognised as part of entity combinations	28	(1)	-
11.7 Total property, plant and equipment			
Opening net carrying amount 1 April 2010		1,005	1,193
Gross carrying amount		4,566	5,187
Accumulated depreciation		(3,561)	(3,994)
Additions		-	297
Depreciation charge		(86)	(474)
Disposal		-	(918)
Disposal of accumulated depreciation		-	907
Closing net carrying amount 10 June 2010		-	1,005
Gross carrying amount		4,566	4,566
Accumulated depreciation		(3,647)	(3,561)
Derecognised as part of entity combinations	28	(919)	-

The following assets are included in the fixed asset register at R1. The assets are still currently in use and are not lying idle.

Classification	Cost Price	Accumulated Depreciation	Gross Carrying Amount
Plant and equipment	153 324,85	153 309,85	15,00
Security equipment	88 430,00	88 424,00	6,00
Motor vehicle	149 706,32	149 700,32	6,00
Computer equipment	1 879 115,23	1 879 042,23	73,00
Furniture & fittings	318 175,68	318 031,68	144,00
Library books	4 752,49	4 739,49	13,00
TOTAL	R2 593 504.97	R 2 593 247.57	R 257

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
12. Intangible assets			
12.1 Computer Software and Licenses			
Opening net carrying amount 1 April 2010		95	238
Gross carrying amount		411	435
Accumulated amortization		(316)	(197)
Additions		-	-
Amortization charge		(22)	(143)
Disposal		-	(23)
Disposal of accumulated amortization		-	23
Closing net carrying amount 10 June 2010		-	95
Gross carrying amount		411	411
Accumulated amortization		(338)	(316)
Derecognised as part of entity combinations	28	(73)	-
All computer software is externally acquired			
13. Inventory			
Stationery, promotional items and cartridges		82	86
Derecognised as part of entity combinations	28	(82)	-
Total inventory		-	86

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
14. Loans and receivables			
Net staff Loans		44	72
Gross staff loans		49	72
Less provision for bad debts		(5)	-
Municipality service deposit		5	5
Prepayments		61	61
Garnish order		-	-
Medical Aid		30	1
Derecognised as part of entity combinations	28	(139)	-
Total loans and receivables		-	139
15. Cash and cash equivalents			
Cash and balances with banks		4,782	6,068
Derecognised as part of entity combinations	28	(4,782)	-
Total cash and cash equivalents		-	6,068
For the purpose of the cash flow statement			
Cash and cash equivalents		4,782	6,068
Derecognised as part of entity combinations	28	(4,782)	-
Total cash and cash equivalents		-	6,068
16. Trade and other payables			
Trade creditors		513	303
Accruals and leave provision		1,311	1,723
As previously stated		-	1,741
Prior period adjustment	24	-	(18)
PAYE		149	154
Social club		8	7

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
16. Trade and other payables (continued)			
Control Account		352	384
Garnish order		-	7
Salary		310	57
Union fees		-	1
UIF		-	8
Pension fund		-	273
Forfeited cash		42	38
Derecognised as part of entity combinations	28	(2,333)	-
Total trade and other payables		-	2,571
17. Funds to be surrendered to DETEA			
Levies		2,165	2,629
Grant remaining		743	743
Interest on grant		248	230
Other income		14	12
Fees to surrendered to DETEA		1,345	-
License renewals		-	880
Derecognised as part of entity combinations	28	(4,515)	-
Total funds to be surrendered to DETEA		-	4,494
18. Bonus provision			
Where performance appraisals have not yet been performed at year-end, a performance bonus provision is made on the performance management policy stipulations as well as previous performance bonus payment trends.			
Opening balance		730	562
Paid during the year		(730)	(562)
Provided for 2009/10		-	730
Balance at the end of the year		-	730

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
19. Deferred income			
Opening balance		-	13,224
Interest for the year		-	-
Paid to the Department		-	(13,224)
Closing balance		-	-
20. Accumulated (deficit) /surplus			
Balance at the beginning of the year as originally stated		(403)	179
Prior year error – Accrual overstated		-	77
As restated		(403)	256
Deficit for the year		(449)	(659)
Deficit as previously stated		-	(676)
Prior period adjustment	24	-	17
Net asset value de-recognised as part of entity combinations	28	852	-
Balance at the end of the year		-	(403)
21. Cash generated from (utilized in) operations			
Net Deficit		(449)	(673)
Depreciation		86	474
Amortisation		22	143
(Decrease) in deferred income and revenue surrendered DETEA		(4,494)	(12,294)
Impairment of assets		-	(928)
(Decrease)/Increase in trade and other payables		(2,571)	1,101
(Decrease)/Increase in bonus provision		(730)	168
Decrease/(Increase) in loan receivables		139	(12)
Decrease/(Increase) in inventories		86	(2)
Doubtful debts		-	(1)
Other adjustments		(1)	-
Net cash flows from operating activities		(7,912)	(11,351)

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
22. Related party transactions			
The following related party transactions occurred during the financial year:			
22.1 Transfer and subsidies received			
Free State Department of Economic Development, Tourism & Environmental Affairs (DETEA)	3	2,850	17,300
The Board (FSGRB) received the grant from DETEA to fulfill its mandate of regulating and monitoring gambling industry in the Free State Province, as per FSGRB Act no: 6. Of 1996			
22.2 Funds collected in terms of the Free State Gambling and Racing Act, Act no 6. of 1996			
Horseracing levies and tax revenues		1,001	5,677
Casino levies and tax revenues		5,533	24,231
Phumelela levies		21	120
Total funds collected		6,555	30,028

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

22.3 Non - Executive Management (Board members April 2010 – June 2010)

BOARD MEMBER	BOARD FEES	SUB COMMITTEE FEES AND SPECIAL TASKS	SUB-TOTAL	CELL PHONE ALLOWANCE	SUBSISTENCE AND TRAVEL ALLOWANCE	ALLOWANCES TOTAL
M.J. Tladi Chairperson	22	-	22	3	-	3
Hattingh, J.L.	15	2	17	2	-	2
Pillay, D.	-	-	-	-	-	-
Mule, L.L.	12	4	16	2	5	7
Ramorena,	-	-	-	2	-	2
Strickett, C	-	-	-	2	3	5
Mokoena,	-	-	-	2	-	2
Mayeza, HB	-	-	-	2	-	2
Total	49	6	55	*15	*8	*21

* Cell phone Allowance and Subsistence Allowance were included under operating expenses

22.4 Executive management

Short term employee benefits

EMPLOYEE	SALARIES	CAR ALLOWANCE	13TH CHEQUE	MEDICAL CONTRIBUTION	PENSION CONTRIBUTION	TOTAL	OTHER ALLOWANCE
M.J Bokwa : CEO	128	35	-	7	20	190	4*
L.T. Motsoasele : Manager: Gambling and Racing Audit	113	10	-	7	15	145	2*
M.E. Ratsomo : Manager: Investigation and Licensing	113	12	-	-	14	139	2*
E. Rautenbach : Manager: Legal and Secretariat	111	4	-	-	13	128	2*
B.P Tollie : Manager: Gambling and Racing Control	56	16	-	6	9	87	2*
M.M Mofokeng: manager Corporate Services	94	12	-	6	13	125	2*
Total	615	89	-	26	84	814	14*

*Other allowance is cell phone allowance and it was included under operating expense.

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	2010/11 R'000	Restated 2009/10 R'000
23. Financial Instruments		
Measurement		
Financial instruments are measured at fair value with change in carrying value being recognized to the profit and loss in the financial year which they relate to. All financial assets/ and liabilities of the Board are current.		
Financial Assets		
Cash and cash equivalent		
Opening balance bank	6,068	17,716
Movement	(1,286)	(11,648)
Derecognised as part of entity combination	(4,782)	-
Closing balance	-	6,068
Loans and Receivables		
Opening balance	140	135
Movement	-	5
Derecognised as part of entity combination	(140)	-
Closing balance	-	140
Financial Liabilities		
Trade and other payable		
Opening balance	(7,795)	(4,235)
Movement	947	(3,560)
Derecognised as part of entity combination	6,848	-
Closing balance	-	(7,795)

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

Credit risk management Potential concentrations of credit risk consist mainly of accounts receivable and cash and cash equivalents.

The Board places its cash and short term deposits with well-established financial institution of high credit standing.

Credit risk with respect to accounts receivable is limited due to the nature of the Board's business and its reliance on government grant as the main source of funding.

Interest rate risk management The Board manages its interest rate risk by investing in current and short term deposit accounts. These accounts are held with well-established financial institution of high quality credit standing and the accounts bear interest at prevailing market rates.

Fair value The carrying amounts of financial assets and liabilities approximate their fair values at 10 June 2010 due to the short term maturities of these assets and liabilities.

24. Prior period error (Comparative amounts 2009/10)

	Initial	Restated	Movement
Administrative expenses	778	787	9
Audit fees	1,183	1,177	(6)
Other operating expenses	3,935	3,915	(20)
Effect on surplus/(deficit)			(17)
Trade and other payables	2,589	2,571	18

The restatement of prior year financial statement was due to the following:

- Reconciliation of accrual listing to actual supplier invoices
- Duplication of expenses for audit fees (not the payment)
- Unrecorded accruals in 2009/10 financial year

25. Going Concern Assumption

As at 10 June 2010, total liabilities exceeded total assets with R 402 000 (before transfer of assets and liabilities at merger date) which creates significant uncertainty as to the going concern assumption for FSGRB.

Management are however of the opinion that FSGRB will continue to be a going concern as its operations are being incorporated into the FSGLA.

Further reference can then also be made to the fact that transfer from Department will continue to be received in the 2011/12 financial year.

26. Events after financial position date

No significant events after the financial position date were identified up to the date of signing the report.

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

27. Contingent liability

LITIGATIONS FOR AND AGAINST THE BOARD

PROCEEDINGS AGAINST FORMER CEO

Mr. C.J. Moeko, a former CEO of the FSGRB, instituted proceedings against the MEC of DETEA in the Labour Court, to contest his dismissal. The MEC is the 1st Respondent in this matter; and the Board has been quoted as a respondent to the extent that it might have an interest in the matter. The applicant, Mr. Moeko, was supposed to have filed his Heads of Argument by January 2010. According to Ms. Maranyane, the State Attorney handling the matter, this has not been done and the matter remains pending.

At year end, there was no estimated financial exposure to the Authority.

CECIL NURSE V FREE STATE GAMBLING AND RACING BOARD

The State Attorney was instructed to pursue civil action against Mr Saliwe of Zion Consulting for the recovery of the Board's damages and, in addition, to assist the Board in instituting criminal charges against Mr. Saliwe for defrauding the Board. The matter was delayed as Mr. Saliwe could not be located, and a tracing agent had to be appointed by the State Attorney to find Mr. Saliwe. Further feedback on the matter is at present awaited from the State Attorney.

The total estimated financial exposure to the Authority is R17 000.

VUKANI GAMING V FSGRB AND OTHERS

In its judgment in the review application, delivered on the 18th of March 2010, the Free State High Court declared the licenses issued to both Interplay Gaming FS and Thuo Gaming FS invalid and null and void, and ordered the Board to issue a Route Operator License to Vukani FS.

An urgent application was lodged by Vukani FS against the Authority on the 18th of October 2010, for an order directing the Authority to invite applications for limited gambling machine site licenses by publishing an invitation in the next Provincial Gazette and two newspapers circulating in the Province.

The Board opposed the application. After hearing the application, the Court rejected the Authority's arguments in opposition of the application and found in favour of Vukani.

Application for leave to appeal was lodged; but the matter has subsequently been settled outside of court, after an agreement was reached between Vukani and the Board.

The total estimated financial exposure to the Authority is R1 800 000.

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
28. De-recognition of assets and liabilities at merger date			
Property, plant and equipment		(919)	-
Intangible assets		(73)	-
Inventory		(82)	-
Loans and receivables		(140)	-
Cash and cash equivalents		(4,782)	-
Trade and other payables		2,333	-
Bonus provision		-	-
Funds to be surrendered to DETEA		4,515	-
Net asset/(liability) value recognised in accumulated surplus		(852)	-

In terms of the Free State Gambling and Liquor Act, the Free State Gambling and Racing Board (FSGRB) merged with the Free State Liquor Authority (FSLA) to form the Free State Gambling and Liquor Authority (FSGLA). Since no future economic benefits will be realised from the assets held at year end and no economic outflow of benefits will take place for liabilities at year end, the assets and liabilities are derecognized at merger date. The difference between the carrying amounts of the assets transferred and liabilities derecognized shall be recognized in accumulated surplus or deficit.

29. Soccer world cup expenditure Purchase of world cup apparel

T-shirts		17	-
As previously disclosed		-	17
Prior period adjustment	24	-	(17)

A total of 29 t-shirts were ordered in the 2009/10 financial year and an accrual of R17,000 was raised. However delivery did not take place and the transaction was accordingly reversed. A new transaction was concluded during the current financial year also to the value of R17,000.

FREE STATE GAMBLING AND RACING BOARD

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
30. Irregular expenditure			
Opening balance		-	-
Balance acquired through entity combination		-	-
Irregular expenditure – current year		392	-
Irregular expenditure – condoned		-	-
Transferred to receivables for recovery		-	-
Closing balance		392	-
Irregular expenditure is broken down as follows:			
No three quotations obtained and suppliers not on Centralised Supplier Database		256	-
No tender process followed		136	-
Total		392	-
31. Fruitless and wasteful expenditure			
Opening balance		-	-
Balance acquired through entity combination		-	-
Fruitless and wasteful expenditure – current year		13	-
Fruitless and wasteful expenditure – condoned		-	-
Transferred to receivables for recovery		-	-
Closing balance		-	-
Overpayment of the rental expenses and interest incurred. In comparison of the rent as per invoice and rent as per the contract, differences were identified and management is still investigating.		13	-

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE ON THE FINANCIAL STATEMENTS OF THE FREE STATE LIQUOR AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Free State Liquor Authority, which comprise the statement of financial position as at 10 June 2010, the statement of financial performance, statement of changes in net assets and cash flow statement for the period then ended, a summary of significant accounting policies and other explanatory information, as set out on pages 76 to 90.

Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and section 22 of the Free State Liquor Act, 2007 (Act No. 3 of 2007), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Free State Liquor Authority as at 10 June 2010, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the PFMA.

Emphasis of matter

8. I draw attention to the matter below. My opinion is not modified in respect of this matter..

Restatement of corresponding figures

9. As disclosed in note 18 to the financial statements, the corresponding figures for 31 March 2010 have been restated as a result of errors discovered during 2011 in the financial statements of the Free State Liquor Authority for the period ended, 10 June 2010.

Going concern

10. Note 13 to the financial statements indicates that the Free State Liquor Authority's total assets exceeded its total liabilities by R285 000 as at 10 June 2010, which indicates that the entity will still continue as a going concern in the foreseeable future. The entity merged with the Free State Gambling and Racing Board on 11 June 2010 and the merged entity had a favourable going concern assumption as at 31 March 2011.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages 25 to 34 and material non-compliance with laws and regulations applicable to the public entity.

Predetermined objectives

12. The entity has not reported performance against predetermined objectives, as required by *General Notice 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*. Due to the merger that took place on the 11 June 2010, performances against predetermined objectives are included in the report of the merged entity.

Compliance with laws and regulations Annual financial statements

13. Annual financial statements of the Free State Liquor Authority were not submitted within two months after the end of the financial year, as per the requirement of section 55(1)(c) of the PFMA.
14. The accounting authority submitted financial statements for auditing that were not prepared in all material aspects in accordance with generally recognised accounting practice as required by section 55(1)(a) and (b) of the PFMA. The material misstatements identified by the AGSA with regard to other operating expenses and account payables were subsequently corrected.

INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the PFMA and Free State Liquor Act, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the deficiencies identified during the audit.

Leadership

15. The accounting authority did not in all instances exercise oversight responsibility regarding financial and performance reporting, compliance and related internal controls.

Financial and performance management

16. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Governance

16. The accounting authority did not take decisive action to establish an internal audit unit, since the Free State Liquor Authority was in the process of merging with the Free State Gambling and Racing Board. Due to lack of an internal audit unit, ongoing monitoring and supervision were not undertaken to enable an assessment of the effectiveness of internal control over performance reporting.

OTHER REPORTS

Investigations

17. An investigation was conducted by an independent consulting firm on request of the Department of the Premier. The terms of reference of the investigation were not provided upon request from the department. The investigation was still ongoing at the reporting date.

AUDITOR - GENERAL

Bloemfontein

31 July 2011



FREE STATE LIQUOR AUTHORITY

STATEMENT OF FINANCIAL PERFORMANCE

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
Revenue			
Transfers and subsidies received	3	854	5,383
Total revenue		854	5,383
Expenditure			
Staff costs	4	(142)	(815)
Operating expenses	5	(704)	(4,165)
Total expenditure		(846)	(4,980)
Surplus for the period	9	8	403
Attributable to:			
Net asset holders of the controlling entity		8	403

FREE STATE LIQUOR AUTHORITY

STATEMENT OF FINANCIAL POSITION

as at 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
Assets			
Non-current assets			
Property, plant and equipment	7	-	285
Total assets		-	285
Liabilities			
Current liabilities			
Trade and other payables	8	-	8
Total liabilities		-	8
Accumulated surplus	10	-	277
Total net assets		-	277
Total net assets and liabilities		-	285

FREE STATE LIQUOR AUTHORITY

STATEMENT OF CHANGES IN NET ASSETS

for the period ended 10 June 2010

	Notes	Accumulated Surplus	General Reserve	Revaluation Surplus	Total
Balance at 1 April 2009 as originally stated	10	(252)	-	-	(252)
Surplus for the year		403	-	-	403
Other movements		126	-	-	126
Balance as at 31 March 2010	10	277	-	-	277
Balance as at 1 April 2010	10	277	-	-	277
Surplus for the year	9	8	-	-	8
Net asset value de-recognised as part of entity combinations	17	(285)	-	-	(285)
Balance as at 10 June 2010	10	-	-	-	-

FREE STATE LIQUOR AUTHORITY

CASH FLOW STATEMENT

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers			
Transfers and subsidies		854	5,383
Cash paid to suppliers and employees		(854)	(5,106)
Compensation of employees		(142)	(815)
Other operating expenses		(712)	(4,291)
Net cash inflows from operating activities		-	285
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of:			
Property, plant and equipment		-	(285)
Net cash flow from investing activities		-	(285)
CASH FLOW FROM FINANCING ACTIVITIES			
Interest paid		-	-
Net cash flow from financing activities		-	-
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at end of the year		-	-

FREE STATE LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

1. ACCOUNTING POLICIES

The annual financial statements have been prepared on the historical cost basis and include the following principal accounting policies of the Free State Liquor Authority which are, in all material respects, consistent with those applied in the previous year, except as otherwise indicated:

1.1 Basis of preparation

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board.

1.1.1 The cash flow statement can only be prepared in accordance with the direct method.

1.1.2 Specific information has been presented separately on the statement of financial position such as:

- (a) receivables from non-exchange transactions, including taxes and transfers;
- (b) taxes and transfers payable;
- (c) Trade and other payables from non-exchange transactions.

1.1.3 The entity elected to use option one (Reconciliation between budget and statement of financial performance) as per GRAP 24 for disclosing/ presentation of budget information.

1.1.4 The following GRAP statements were issued but not yet effective as at 10 June 2010.

These standards are not effective yet as it will only be effective on the date to be determined by the Minister of Finance.

Initial application of these standards are not expected to affect the entity's Financial Statements

GRAP18: Segment Reporting - issued 26 April 2006

GRAP21: Impairment of Non cash - generating assets - issued 1 March 2009

GRAP23: Revenue from Non-exchange Transactions (Taxes and Transfers) - issued 14 February 2008

GRAP24: Presentation of Budget Information - issued 22 November 2007

GRAP25: Employee benefits - issued 11 December 2009

GRAP26: Impairment of cash generating assets - issued 1 March 2009

GRAP103: Heritage assets - issued 28 July 2008

GRAP104: Financial Instruments - issued 15 October 2009

GRAP105: Transfer of functions between entities under common control – issued November 2010

GRAP106: Transfer of functions between entities not under common control – issued November 2010

GRAP107: Mergers - issued November 2010

FREE STATE LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

1.2 Presentation currency

These financial statements are presented in South African Rand since that is the currency in which the entity's transactions are denominated.

1.3 Revenue recognition (Non- exchange transactions)

Revenue is recognized when it is probable that economic benefits associated with the transaction will flow to the Free State Liquor Authority, (the Authority). Probability test is satisfied once revenue is appropriated in terms of the Appropriation Act of the relevant financial year.

Revenue comprises budget allocations for the activities of the Authority provided for in the budget of Department of Economic Development, Tourism and Environmental Affairs (DETEA) as transfer payments and other non-operating income.

Budget allocations are recognized as revenue when it is probable that such funds will accrue to the Authority.

Interest income is accrued on a time proportion basis, taking into account the capital outstanding and the effective interest rate over the period to maturity.

Interest accrued on investment/call accounts of the government grants is returned to the Executive Authority on finalization of the financial statements in terms of the transfer agreement between the Authority and the Executive Authority.

1.4 Irregular and fruitless and wasteful expenditure

In terms of section 55(2) (b) (i) of the Public Finance Management Act, 1999 the financial statements must include particulars of any irregular and fruitless and wasteful expenditure.

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including:

- The PFMA, or
- Any provincial legislation providing for procurement procedures in the Provincial Government.

Fruitless and wasteful expenditure means expenditure that was made in vain and could have been avoided had reasonable care been exercised.

All irregular and fruitless and wasteful expenditure is charged against income in the period in which they are incurred.

FREE STATE LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

1.5 Property, plant and equipment

All property, plant and equipment are initially recorded at cost. Assets are stated at cost less any subsequent accumulated depreciation and impairment losses and are written off over the estimated useful life of the asset to its residual value.

Depreciation is calculated on the straight-line method to write off the cost of assets over their estimated useful lives to its residual value as follows:

Plant	20%
Equipment	20%
Computer Equipment	33%
Furniture and Fittings	33%

The assets' useful lives and residual values are reviewed, and adjusted if appropriated, at each reporting date.

The gain or loss arising from the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in or charged against income.

1.6 Impairment

At each reporting date, the Authority reviews the carrying amounts of its assets to determine whether there is any indication that those assets may be impaired.

Impairment of assets is evaluated against the following indicators:

External sources of information

- (a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- (b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
- (c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- (d) The carrying amount of the net assets of the entity is more than its market capitalization.

FREE STATE LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

Internal sources of information

- (a) evidence is available of obsolescence or physical damage of an asset
- (b) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite.
- (c) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

1.7 Government grant

Government grants are recognized when there is a reasonable assurance that the entity will comply with the conditions of the transfer agreement and that the grant will be received. Any excess portion of the grant should be returned to the Executive Authority as prescribed by the transfer agreement.

1.8 Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

1.9 Employee benefits

Short term employee benefits

The cost of all short term employee benefits is recognized during the period in which the employee renders the related service.

Accruals for employee entitlements to salaries and wages, and annual leave represent the amount which the Authority has a present obligation to pay as a result of employee's services provided at the reporting date.

Accruals have been calculated at undiscounted amounts based on current wage and salary rates.

1.10 Comparative figures

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

1.11 Taxation

The Authority's income is exempt from taxation in terms of Section 10 (1) (CA) (i) of the Income Tax Act.

FREE STATE LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
2. Reconciliation of budget surplus with the surplus in the statement of financial performance			
Net surplus as per the statement of financial performance		-	403
Adjusted for:			
Transfers and subsidies		-	(126)
Net surplus per approved budget		-	277
3. Transfers and subsidies received			
DETEA		854	5,383
Total transfers and subsidies received		854	5,383
4. Staff costs		142	815
Basic salaries		142	815
5. Operating expenses		704	4,165
Administrative fees		65	471
Advertising		227	159
Audit fees		75	139
Consultants, contractors and special services		94	324
Entertainment		-	24
Maintenance, repairs and running costs		-	8
Operating leases		18	86
Transport costs		24	56
As previously stated		-	48
Prior period error	16	-	8
Travel and subsistence		53	247
Training and staff development		-	47
Venues and facilities		-	25
Other operating expenses		148	2,552

FREE STATE LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
6. Surplus surrendered to revenue fund			
Surplus surrendered		-	-
Total surplus surrendered to revenue fund		-	-
7. Property, plant and equipment			
7.1 Plant and equipment			
Opening net carrying amount 1 April 2010		285	285
Gross carrying amount		285	285
Accumulated depreciation		-	-
Additions		-	-
Depreciation charge		-	-
Disposal		-	-
Disposal of accumulated depreciation		-	-
Closing net carrying amount 10 June 2010		-	285
Gross carrying amount		285	285
Accumulated depreciation		-	-
Derecognised as part of entity combinations	17	(285)	-
Lost assets		11	11
Lost assets are two assets that were lost in the prior financial years. Investigations are still in place and the decision on whether to recover or write-off will be taken once the investigation is finalised			
8. Trade and other payables			
Accruals		-	8
As previously stated		-	-
Prior period adjustment		-	8
9. Surplus for the period			
Surplus for the period		8	403

FREE STATE LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	Notes	2010/11 R'000	Restated 2009/10 R'000
10. Accumulated surplus			
Balance at the beginning of the year as originally stated		277	(252)
Prior year error – Accrual overstated		-	126
As restated		277	(126)
Surplus for the period		8	403
Surplus as previously stated		8	411
Prior period adjustment	16	-	(8)
Balance at the end of the year		285	277
11. Related party transactions			
The following related party transactions occurred during the financial year:			
11.1 Transfer and subsidies received			
Free State Department of Economic Development, Tourism and Environmental Affairs (DETEA)		854	5,383
The Authority received the grant from DETEA to fulfill its mandate of regulating and monitoring liquor industry in the Free State Province.			
11.2 Funds collected in terms of the Free State Liquor Act			
Liquor revenue		129	-
11.3 Key Management Personnel			
Remuneration of key management		142	815
Key Management comprises of the following			
- Chief Executive Officer – Mr B Molotsi		142	815
- Chief Financial Officer – Mr K Khotle		-	-
The Chief Financial Officer was seconded from DETEA and his salary was paid by DETEA.			

FREE STATE LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

12. Financial Instruments

Measurement

Financial instruments are measured at fair value with change in carrying value being recognized to the profit and loss in the financial year which they relate to. All financial assets/ and liabilities of the Authority are current.

Financial Assets

Credit risk management

Potential concentrations of credit risk consist mainly of accounts receivable and cash and cash equivalents.

The Authority places its cash and short term deposits with well-established financial institution of high credit standing.

Credit risk with respect to accounts receivable is limited due to the nature of the Authority's business and its reliance on government grant as the main source of funding.

Interest rate risk management

The Authority manages its interest rate risk by investing in current and short term deposit accounts. These accounts are held with well-established financial institution of high quality credit standing and the accounts bear interest at prevailing market rates.

Fair value

The carrying amounts of financial assets and liabilities approximate their fair values at 10 June 2010 due to the short term maturities of these assets and liabilities.

13. Going Concern Assumption

As at 10 June 2010, total assets exceeded total liabilities with R 285,000 which indicates that the Authority will still continue as a going concern in the foreseeable future.

Management are however of the opinion that FSLA will continue to be a going concern as its operations are being incorporated into the FSGLA.

Further reference can then also be made to the fact that transfer from Department will continue to be received in the 2011-12 year.

14. Events after financial position date

No significant events after the financial position date were identified up to the date of signing the report.

FREE STATE LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

15. Contingent liability

LITIGATIONS FOR AND AGAINST THE AUTHORITY

LIQUOR LICENSE CASES

Refer to below for a list of all litigations and estimated costs for Free State Liquor Authority.

MANAGEMENT'S DESCRIPTION	ESTIMATED COSTS
Nicolas Charilaou – Application for review of decision to approve a liquor license – Pending: Application opposed	R14 000
Joy's Bottle Store: NE Kotze – Application to compel the FSLA to take decision on liquor license application – Finalised: Settlement Agreement	R14 747
Calabash Inn / PJ Sesike – Application to compel the FSLA to take decision on liquor license application – Finalised: Not opposed	R10 382.40
Matwabeng Lounge and Liquor Store – Application to compel the FSLA to take decision on liquor license application – Finalised: Not opposed	R10 000 to R12 000
Pick 'n Pay Kroonstad and P'nP BFN – Application to compel the FSLA to take decision on liquor license application – Finalised: Not opposed	R12 000 to R14 000
Stuck in the Mud – Z Oosthuizen – Application to compel the FSLA to take decision on liquor license application – Finalised: Not opposed	None – No cost order against FSGLA
JH Binns – Watergat Restaurant – Application to compel the FSLA to take decision on liquor license application – Finalised: Not opposed	None – No cost order against FSGLA
Hans Seuntjie Matoto h/a Matoto Eating House – Application to compel the FSLA to take decision on liquor license application – Finalised – Not opposed	None – No cost order against FSGLA
DC Forster t/a Vasco's Portuguese Restaurant – Application to compel the FSLA to take decision on liquor license application – Pending	Estimated costs: R14 000
Shoprite Checkers (Edms)Bpk t/a Checkers Liquor Shop Goldfields Mall – Application to compel the FSLA to take decision on liquor license application – Pending	R14 000
JA Erasmus t/a A-Lodge – Application to compel the FSLA to take decision on liquor license application – Pending	R14 000
NE Kotze (Joy's Bottle Store) – Application for cost order – Pending	R14 000
TJ Chabedi t/a Chabedi's Inn – Application for review of decision to refuse a liquor license – Pending	R14 000
PJ Sesike t/a Calabash Inn – Application for review of decision to refuse a liquor license – Pending	R14 000
SJ Mkwanzazi t/a Jack's Lounge – Application for review of decision to refuse a liquor license – Pending	R14 000

FREE STATE LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

15. Contingent liability (continued)

MANAGEMENT'S DESCRIPTION	ESTIMATED COSTS
JA Erasmus t/a A-Lodge- Application to compel the FSGLA to take decision on liquor license application	R14 000
Calandra Trading 634cc-Application to compel the FSGLA to take decision on liquor license application	R14 000
Christo van Heerden-Application to compel the FSGLA to take decision on liquor license application	R14 000
Basfour 3740 (PTY)-Application to compel the FSGLA to take decision on liquor application	R14 000
John Gawie Duiker- Review application	R14 000
Mutuzeli Sidney Mid-Application to compel the FSGLA to take decision on the application for permanent removal of a registration certificate	R14 000
TOTAL ESTIMATED COSTS	R2 060 129.40 to R2 064 129.40

16. Prior period error (Comparative amounts 2009/10)

	Initial	Restated	Movement
Other operating expenses	712	704	8
Effect on surplus/(deficit)			8
Trade and other payables	-	8	(8)
The restatement of prior year financial statement was due to the following:			
- Unrecorded accruals in 2009/10 financial year			
17. De-recognition of assets and liabilities at merger date			
Property, plant and equipment		(285)	-
Net asset/(liability) value recognised in accumulated surplus		(285)	-

In terms of the Free State Gambling and Liquor Act, the Free State Gambling and Racing Board (FSGRB) merged with the Free State Liquor Authority (FSLA) to form the Free State Gambling and Liquor Authority (FSGLA). Since no future economic benefits will be realised from the assets held at year end and no economic outflow of benefits will take place for liabilities at year end, the assets and liabilities are derecognised at merger date. The difference between the carrying amounts of the assets transferred and liabilities derecognized shall be recognized in accumulated surplus or deficit.

FREE STATE LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 10 June 2010

	2010/11 R'000	Restated 2009/10 R'000
18. Fruitless and wasteful expenditure		
Opening balance	70	-
Fruitless and wasteful expenditure – current year	-	70
Fruitless and wasteful expenditure – condoned	-	-
Transferred to receivables for recovery	-	-
Closing balance	70	70

Board members submitted claims that were subsequently paid for meetings that did not materialise due to the fact that a quorum could not be formed.

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE ON THE FINANCIAL STATEMENTS OF THE FREE STATE GAMBLING AND LIQUOR AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Free State Gambling and Liquor Authority, which comprise the statement of financial position as at 31 March 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 98 to 127.

Accounting officer authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 40(2) of the PFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion Revenue

7. As disclosed in the statement of financial performance and note 3 to the annual financial statements the occurrence, classification, completeness, accuracy and cut-off of revenue amounting to R29 464 000 could not be confirmed. Included in the amount is an amount of R1 274 374 for which sufficient appropriate audit evidence relating to expenditure paid by the department on behalf of the entity could not be obtained.
8. The entity's records did not permit the application of alternative audit procedures regarding revenue, consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the occurrence, completeness, accuracy, classification and cut -off of revenue.

Property, plant and equipment

9. The valuation of property, plant and equipment amounting to R1 367 000 as disclosed on the statement of financial position and note 9 to the financial statements, could not be confirmed. The entity did not review the residual values and useful lives of assets for the current reporting date in accordance with SA Standards of GRAP, GRAP 17, *Property, plant and equipment*, paragraph 61. No adjustment was therefore made to the carrying value of assets resulting in the misstatement of depreciation and accumulated depreciation. I was unable to confirm or verify by alternative procedures the value of property, plant and equipment disclosed in the financial statements.

Leave accruals

10. The entity shall recognise the undiscounted amount of short term employee benefits expected to be paid in exchange for that service in terms of International Accounting Standard 19: *Employee Benefits*, paragraph 10 and 11. The entity did not correctly accrue for the leave amounting to R1 049 000 as stated on the statement of financial position and note 14.3 to the financial statements. This is the result of management not reconciling the manual leave forms to the system resulting in differences in leave balances. Had the correct amount been accrued for, the effect would have been to reduce the surplus for the period and the accumulated surpluses by R317 570 and to increase the accrual in the statement of financial position by an equal amount.

Intangible Assets

11. The valuation of intangible assets amounting to R431 000 could not be confirmed as management did not review the useful lives of assets for the current reporting date in accordance with SA Standards of GRAP, GRAP 102, *Intangible Assets*, paragraph 107. No adjustment was therefore made to the carrying amount of assets resulting in the misstatement of amortisation and accumulated amortisation. I was unable to confirm or verify by alternative procedures the value of intangible assets included in the financial statements.

Irregular expenditure

12. Section 51(1)(a)(iii) of the PFMA requires the entity to implement and maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective. The entity incurred irregular expenditure amounting to R2 608 000. Payments amounting to R2 322 000 were made in contravention of the supply chain management requirements. Expenditure totaling R286 000 were made in contravention with the Free State Gambling and Liquor Act 2010 (Act No. 6 of 2010) as this Act requires the CEO to be appointed by the MEC, I could not be provided with a employment contract which was signed by the MEC for the appointment of the CEO, therefore the payments made to the CEO is seen to be irregular expenditure. This irregular expenditure was identified during the audit and was not prevented or detected by the entity's system of internal control.

13. I could not be provided with sufficient, appropriate audit evidence that management has properly identified, investigated and recorded all irregular expenditure transactions during the year under review. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance regarding the completeness of irregular expenditure.

Fruitless and wasteful expenditure

14. The entity incurred fruitless and wasteful expenditure to the amount of R56 456. Included in this amount is R29 456 identified during the audit and not prevented or detected by the entity's system of internal control. I could not be provided with sufficient, appropriate audit evidence that management has properly identified, investigated and recorded all fruitless and wasteful expenditure transactions during the year under review. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance regarding the completeness of fruitless and wasteful expenditure.

Related party transactions

15. Occurrence and rights and obligations, accuracy and valuation, classification and understandability and completeness of related party transactions in respect of liquor revenue collected on behalf of the department amounting to R4 002 199 could not be confirmed as sufficient appropriate audit evidence to substantiate the amount disclosed in note 17.2 in the financial statements could not be obtained. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance as there were no controls over the issue and renewal of liquor licenses.
16. Occurrence and rights and obligations, accuracy and valuation, classification and understandability and completeness relating to board fees and allowances of non executive management amounting to R309 000 could not be confirmed as sufficient appropriate audit evidence to substantiate the amount disclosed in note 17.3 of the financial statements could not be obtained. The entity's records did not permit the application of alternative audit procedures.
17. International Public Sector Accounting Standard, IPSAS 20, *Related-party disclosures* paragraph 6, requires disclosure of the remuneration of key management personnel. As disclosed in note 17.4, the executive management short-term benefits are overstated by R13 620 as a result of management not reconciling the payroll records to the disclosure note in the financial statements.

Qualified Opinion

18. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Free State Gambling and Liquor Authority as at 31 March 2011, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the PFMA.

Emphasis of matters

19. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainties regarding pending litigation

20. With reference to the note 21 to the financial statements, the entity is involved in the following litigation:
 - The former Chief Executive Officer of the Free State Gambling and Racing Board instituted proceedings against the member of the executive council of the department of Economic Development, Tourism and Environmental Affairs in the Labour Court, to contest his dismissal. The entity is opposing the claim and the ultimate outcome of the matter cannot presently be determined. Therefore no provision for any liability that may result has been made in the financial statements.

Significant uncertainties regarding pending litigation (continued)

- The entity is pursuing civil action against a company for defrauding the Board. The total estimated financial exposure to the entity is R17 000.
- Litigation was filed against the entity relating to the awarding of route operator licenses. An agreement was reached between applicant and the entity to settle the matter outside of court. The total estimated financial exposure to the entity is R1 800 000.
- Liquor applicants lodged applications to compel the entity to take decisions on liquor license applications or to revisit the decision to refuse the application. The total estimated financial exposure to the entity is between R243 129 and R247 129.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

21. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages 25 to 34 and material non-compliance with laws and regulations applicable to the public entity.

Predetermined objectives Usefulness of information guideline

22. The reported performance information was evaluated in respect of the following criteria:
 - Consistency: The reported objectives, indicators and targets are consistent with the approved annual performance plan.
 - Relevance: There is a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets.
 - Measurability: The indicators are well defined and targets are specific, and/or measurable, and/or time bound.
23. The following audit findings relate to the above criteria:

Reported indicators and targets are not consistent and complete when compared with the planned indicators and targets

24. Reported performance against predetermined indicators and targets is not consistent with the approved annual performance plan
25. The actual achievements with regard to at least 51% of all planned indicators and targets specified in the annual performance plan for the year under review were not included in the report on predetermined objectives submitted for audit purposes.

Planned and reported indicators and targets are not specific and time bound.

26. For the selected objectives, 21% of the planned and reported targets were not specific in clearly identifying the nature and the required level of performance;
27. For the selected objectives, 51% of the planned and reported targets were not time-bound in specifying the time period or deadline for delivery.

Planned and reported indicators are not well defined

28. For the selected objectives, 21% of the planned and reported indicators were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

Reliability of information

29. The reported performance information was evaluated in respect of the following criteria:
- Validity: The reported performance does occur and pertains to the entity.
 - Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
 - Completeness: All actual results and events that should have been recorded have been included in the reported performance information.
30. The following audit findings relate to the above criteria.

Reported performance against indicators and targets is not valid, accurate and complete when compared to source information

31. For the selected objectives, 51% of the reported indicators and targets were not valid, accurate and complete based on the source information or evidence provided.
32. All actual results and events that should have been recorded have not been included in the reported performance information.

Compliance with laws and regulations Strategic planning and performance management

33. The accounting authority did not ensure that the entity has and maintained an effective, efficient and transparent system of internal control regarding performance management, which described and represented how the entity's processes of performance planning, monitoring, measurement, review and reporting was conducted, organised and managed as required by section 51(1)(a)(i) of the PFMA.
34. The accounting authority did not establish procedures for quarterly reporting to the executive authority in order to facilitate effective performance monitoring, evaluation and corrective action as required by TR 30.2.1

Budgets

35. The accounting authority did not submit to the executive authority a budget of estimated revenue and expenditure for the 2010-2011 financial year, at least six months before the start of the financial year of the governing department in terms of subsection (2) or another period agreed to between the executive authority and the public entity, as per the requirements of section 53(1) of the PFMA.

Annual financial statements, performance and annual report

36. The accounting authority submitted financial statements for auditing that were not prepared in all material aspects in accordance with generally recognised accounting practice and supported by full and proper records as required by section 55(1) (a) and (b) of the PFMA. Material misstatements identified by the AGSA were not subsequently corrected adequately which resulted in the financial statements receiving a disclaimer of audit opinion in contravention of section 55(2)(a) of the PFMA.

Audit committees

37. The accounting authority did not insure that the entity had an audit committee as required by Treasury regulation 27.1.1. The final external member of the audit committee was only appointed on 28 March 2011 and the only meeting the audit committee had was on 31 March 2011, therefore they could not perform the functions as required by PFMA and Treasury Regulations.

Internal audit

38. The internal audit function did not adhere to the requirements as set by section 51(1)(a)(ii) of the PFMA and Treasury Regulation 27.2, in that.
 - The internal audit function was not under the control and direction of the audit committee as per requirements of section 51(1)(a)(ii) of the PFMA.
 - The purpose, authority and responsibility of the internal audit function were not formally defined in an audit charter.
 - The internal audit unit did not prepare a three year strategic internal audit plan.

Procurement and contract management

39. Goods and services with a transaction value between R10 000 and R500 000 were procured without inviting at least three written price quotations from prospective suppliers as per the requirements of TR 16A6.1 and National Treasury Practice Note 8 of 2007/08.
40. Goods and services with a transaction value of over R500 000 were not procured by means of a competitive bidding process as per the requirements of TR 16A6.1, TR 16A6.4 and National Treasury Practice Notes 6 and 8 of 2007/08.
41. A list of prospective suppliers was not in place for procuring goods and services through quotations as required of National Treasury Practice Note 8 of 2007/08.

Expenditure management

42. The accounting authority did not take effective and appropriate steps to prevent irregular expenditure as per the requirements of section 51(1)(b) of the PFMA.
43. The accounting authority did not take effective and appropriate steps to prevent and detect fruitless and wasteful expenditure as per the requirements of section 51(1)(b) of the PFMA.

Asset management

44. The accounting authority did not exercise utmost care to ensure reasonable protection and safeguarding of the assets and records of the public entity as required by section 50(1)(a) and (c) of the PFMA.

INTERNAL CONTROL

In terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for qualified of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

45. The accounting authority does not implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored. Consequently property, plant and equipment, intangible assets, and provisions were qualified.
46. The accounting authority did not take decisive action in response to the risk of non-compliance with the supply chain management policy/regulations, by implementing controls to prevent the occurrence of irregular, fruitless and wasteful expenditure.
47. The accounting authority failed to implement adequate controls over compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

Financial and performance management

48. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.
49. Management does not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. This resulted in a qualification on revenue, property, plant and equipment, leave accruals, intangible assets, irregular and fruitless and wasteful expenditure, related parties and performance information.

Governance

50. The audit committee does not promote accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment.

OTHER REPORTS

Investigations

51. An investigation was conducted by an independent consulting firm on request of the Department of the Premier. The terms of reference of the investigation were not provided upon request from the department. The investigation was still ongoing at the reporting date.

AUDITOR - GENERAL

Bloemfontein
31 July 2011



FREE STATE GAMBLING AND LIQUOR AUTHORITY

STATEMENT OF FINANCIAL PERFORMANCE

for the period ended 31 March 2011

	Notes	2010/11 R'000
Revenue		
Transfers and subsidies received	3	29,464
Interest received	4	114
Other income	5	31
Profit on disposal of assets	9	51
Total revenue		29,660
Expenditure		
Compensation of employees	6	(13,639)
Operating expenses	7	(9,541)
Depreciation	9 & 10	(491)
Total expenditure		(23,671)
Surplus for the period		5,989
Attributable to:		
Net asset holders of the controlling entity		5,989

FREE STATE GAMBLING AND LIQUOR AUTHORITY

STATEMENT OF FINANCIAL POSITION

as at 31 March 2011

	Notes	2010/11 R'000
Assets		
Non-current assets		
Property, plant and equipment	9	1,367
Intangible assets	10	431
		1,798
Current assets		
Inventory	11	138
Trade and other receivables	12	262
Cash and cash equivalents	13.1	9,319
		9,719
		11,517
Total assets		
Liabilities		
Current liabilities		
Trade and other payables	14.1 & 14.2	5,307
Leave accrual	14.3	1,049
Bank overdraft	13.2	28
		6,384
Accumulated surplus	15	5,133
		5,133
		11,517
Total net assets and liabilities		

FREE STATE GAMBLING AND LIQUOR AUTHORITY

STATEMENT OF CHANGES IN NET ASSETS

for the period ended 31 March 2011

	Notes	Accumulated Surplus	General Reserve	Total
Balance at 11 June 2010		-	-	-
Net reserves acquired through entity combination	22	-	(852)	(852)
Surplus for the year		5,989	-	5,989
Other adjustments		-	(4)	(4)
Balance as at 31 March 2011	15	5,989	(856)	5,133

FREE STATE GAMBLING AND LIQUOR AUTHORITY

CASH FLOW STATEMENT

for the period ended 31 March 2011

	Notes	2010/11 R'000
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts from customers		29,609
Transfers and subsidies		29,464
Interest, dividends and rent on land		114
Other operating revenue		31
Cash paid to suppliers and employees		(17,229)
Compensation of employees		(13,639)
Other operating expenses		(3,590)
Net cash inflows from operating activities	16	12,380
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of:		
Property, plant and equipment		(2,288)
- Purchases	9 & 10	(1,297)
- Acquired through entity combinations	9 & 10	(991)
Proceeds from the sale of assets		51
Net proceeds/(outflow) from entity combinations	22	(852)
Net cash flow from investing activities		(3,089)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from borrowings		-
Net cash flow from financing activities		-
Net increase in cash and cash equivalents		9,291
Cash and cash equivalents at the beginning of the year		-
Cash and cash equivalents at end of the year	13	9,291

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

1. ACCOUNTING POLICIES

The annual financial statements have been prepared on the historical cost basis and include the following principal accounting policies of the Free State Gambling and Liquor Authority which are, in all material respects, consistent with those applied in the previous year, except as otherwise indicated.

1.1 Basis of preparation

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board.

1.1.1 The cash flow statement can only be prepared in accordance with the direct method.

1.1.2 Specific information has been presented separately on the statement of financial position such as:

- (a) receivables from non-exchange transactions, including taxes and transfers;
- (b) taxes and transfers payable;
- (c) Trade and other payables from non-exchange transactions.

1.1.3 The entity elected to use option one (Reconciliation between budget and statement of financial performance) as per GRAP 24 for disclosing/ presentation of budget information.

1.1.4 The following GRAP statements were issued but not yet effective as at 31 March 2011.

These standards are not effective yet as they will only be effective on the date to be determined by the Minister of Finance.

Initial application of these standards are not expected to affect the entity's Financial Statements

GRAP18: Segment Reporting - issued 26 April 2006

GRAP21: Impairment of Non cash - generating assets - issued 1 March 2009

GRAP23: Revenue from Non-exchange Transactions (Taxes and Transfers) - issued 14 February 2008

GRAP24: Presentation of Budget Information - issued 22 November 2007

GRAP25: Employee benefits - issued 11 December 2009

GRAP26: Impairment of cash generating assets - issued 1 March 2009

GRAP103: Heritage assets - issued 28 July 2008

GRAP104: Financial Instruments - issued 15 October 2009

GRAP105: Transfer of functions between entities under common control – issued November 2010

GRAP106: Transfer of functions between entities not under common control – issued November 2010

GRAP107: Mergers - issued November 2010

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

1.2 Presentation currency

These financial statements are presented in South African Rand since that is the currency in which the entity's transactions are denominated.

1.3 Revenue recognition (Non- exchange transactions)

Revenue is recognized when it is probable that economic benefits associated with the transaction will flow to the Free State Gambling and Liquor Authority, (the Authority). Probability test is satisfied once revenue is appropriated in terms of the Appropriation Act of the relevant financial year.

Revenue comprises budget allocations for the activities of the Authority provided for in the budget of Department of Economic Development, Tourism and Environmental Affairs (DETEA) as transfer payments and other non-operating income.

Budget allocations are recognized as revenue when it is probable that such funds will accrue to the Authority.

Interest income is accrued on a time proportion basis, taking into account the capital outstanding and the effective interest rate over the period to maturity.

Interest accrued on investment/call accounts of the government grants is returned to the Executive Authority on finalization of the financial statements in terms of the transfer agreement between the Board and the Executive Authority.

1.4 Irregular and fruitless and wasteful expenditure

In terms of section 55(2) (b) (i) of the Public Finance Management Act, 1999 the financial statements must include particulars of any irregular and fruitless and wasteful expenditure.

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including:

- The PFMA, or
- Any provincial legislation providing for procurement procedures in the Provincial Government.

Fruitless and wasteful expenditure means expenditure that was made in vain and could have been avoided had reasonable care been exercised.

All irregular and fruitless and wasteful expenditure is charged against income in the period in which they are incurred.

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

1.5 Property, plant and equipment

All property, plant and equipment are initially recorded at cost. Assets are stated at cost less any subsequent accumulated depreciation and impairment losses and are written off over the estimated useful life of the asset to its residual value.

Depreciation is calculated on the straight-line method to write off the cost of assets over their estimated useful lives to its residual value as follows:

Plant	20%
Equipment	25%
Vehicles	20%
Computer Equipment	33%
Furniture and Fittings	10%
Library Books	33%

The assets' useful lives and residual values are reviewed, and adjusted if appropriated, at each reporting date.

The gain or loss arising from the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in or charged against income.

1.6 Intangible assets

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with identifiable software products controlled by the Authority and that will generate benefits exceeding cost beyond one year, are recognized as intangible assets. Intangible assets are stated at historical cost less accumulated amortization and are written off over a period of three years on the straight line method. The useful life of intangible assets is finite. It is the policy of the Authority to review amortization period and amortization method for intangible assets at each reporting date.

The following amortization rates have been used:

Computer Software	33%
Licenses	33%

1.7 Leased assets

Leases of assets are classified as finance leases whenever the lease term is for the major part of the economic life of the asset even if the title is not transferred.

Assets held under finance leases are recognized as assets at their fair value at the inception of the lease or if lower at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the statement of financial performance.

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straight line basis over the term of the relevant lease.

1.8 Impairment

At each reporting date, the Board reviews the carrying amounts of its assets to determine whether there is any indication that those assets may be impaired.

Impairment of assets is evaluated against the following indicators:

External sources of information

- (a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- (b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
- (c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- (d) The carrying amount of the net assets of the entity is more than its market capitalization.

Internal sources of information

- (a) evidence is available of obsolescence or physical damage of an asset
- (b) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite.
- (c) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are immediately recognised as an expense.

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

1.9 Inventories

Inventories are stated at the lower of cost or net realizable value. Net realisable value represents the estimated price in the ordinary course of business.

The cost is determined on the following basis:

Stationery, cartridges and promotional items are recorded at average cost.

1.10 Financial instruments

Financial instruments carried on the statement of financial position include cash and bank balances, receivables and trade payables. These financial instruments are generally carried at their estimated fair value, which is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

Recognition

Financial instruments are recognized when the Authority becomes a party to the contractual provisions of the instrument.

Measurement

Financial instrument are initially measured at fair value, which includes transaction costs, where applicable. Subsequent to initial recognition these instruments are measured as set out below.

Trade payables

Trade payables are stated at amortized cost, comprising original debt less principal payments.

Cash and cash equivalents

Cash and cash equivalents are measured at realizable value.

Loans and Receivables

Loans and receivables are stated at their fair value as reduced by appropriate allowance for estimated irrecoverable amounts.

Gains and losses

Gains and losses arising from a change in the fair value of financial instruments are included in net surplus or deficit in the period in which they arise.

1.11 Government grant

Government grants are recognized when there is a reasonable assurance that the entity will comply with the conditions of the transfer agreement and that the grant will be received. Any excess portion of the grant should be returned to the Executive Authority as prescribed by the transfer agreement.

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

1.12 Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

1.13 Employee benefits

Short term employee benefits

The cost of all short term employee benefits is recognized during the period in which the employee renders the related service.

Accruals for employee entitlements to salaries and wages, and annual leave represent the amount which the Authority has a present obligation to pay as a result of employee's services provided at the reporting date.

Accruals have been calculated at undiscounted amounts based on current wage and salary rates.

1.14 Retirement benefit costs

The Board operates a defined contribution plan, the assets of which are held in separate trustee-administered funds. The plan is funded by payments from the Authority and employees.

Contributions to the plan are charged against income as incurred.

1.15 Comparative figures

No comparative figures have been presented/disclosed as the Authority is in its first year of operation.

1.16 Events after financial position date

Management continuously reviews events after the financial position date which might have an adjusting or non-adjusting effect on the financial statement. Events after the financial position date are disclosed in the financial statements.

1.17 Taxation

The Authority's income is exempt from taxation in terms of Section 10 (1) (CA) (i) of the Income Tax Act.

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

	Notes	2010/11 R'000
2. Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance		
Net surplus per the statement of financial performance		5,989
Adjusted for:		
Phumelela (Management fees)		(10)
Increase in leave accrual		1,049
Depreciation		491
Interest received		(114)
Assets purchased		(1,297)
Transfers and subsidies		194
Net surplus per approved budget		6,301
3. Transfers and subsidies received		
DETEA		29,464
Total transfers and subsidies received		29,464
4. Net finance income		
Interest on:		
Cash and bank deposits		114
Net finance income		114
5. Other income		
Management fees		10
Discount Received		14
Insurance income		5
Sundry income		2
Total other income		31

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

	Notes	2010/11 R'000
6. Compensation of employees		
Wages and salaries		12,930
Basic salaries		4,665
13th Cheque		400
Temporary staff		29
Leave accrual		113
Directors fees	17.4	1,106
Executive management salaries	17.5	6,617
Defined contribution plan expense		686
Medical		137
UIF		40
*Pension		509
Compensation commissioner and committee pension fund		23
Total		13,639
* Employers contribution to pension fund is as per Defined contribution plan		

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

	Notes	2010/11 R'000
7. Other operating expenses		
Administrative fees		1,187
Advertising		847
Audit fees		2,747
Consultants, contractors and special services		975
Courier and delivery costs		10
Entertainment		145
Inventory consumed		124
Maintenance, repairs and running costs		608
Operating leases	7.1	767
Travel and subsistence		1,734
Training and staff development		85
Other operating expenditure		312
Total goods and services		9,541
7.1 Operating leases		
Minimum lease payments		
Due within one year		-
The Authority lease office space and warehouse on a month to month contract. This is due to the fact that the lease contract has expired and there are plans in place to secure a new lease agreement (bigger office space).		
8. Surplus surrendered to revenue fund		
Surplus surrendered		-
Interest on surplus funds		175
Other		10
Total		185

Approval has been granted by the Free State Provincial Treasury to retain surplus for the period.

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

	Notes	2010/11 R'000
9. Property, plant and equipment		
9.1 Plant and equipment		
Opening net carrying amount 1 April 2010		-
Gross carrying amount		-
Accumulated depreciation		-
Additions		27
Depreciation charge		(22)
Assets acquired through entity combination		
- Cost price		272
- Accumulated depreciation		(216)
Closing net carrying amount 31 March 2011		61
Gross carrying amount		299
Accumulated depreciation		(238)
9.2 Security equipment		
Opening net carrying amount 1 April 2010		-
Gross carrying amount		-
Accumulated depreciation		-
Disposal		-
Assets acquired through entity combination		
- Cost price		88
- Accumulated depreciation		(88)

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

	Notes	2010/11 R'000
9.2 Security equipment (continued)		
Closing net carrying amount 31 June 2011		-
Gross carrying amount		88
Accumulated depreciation		(88)
9.3 Vehicles		
Opening net carrying amount 1 April 2010		-
Gross carrying amount		-
Accumulated depreciation		-
Additions		251
Depreciation charge		(76)
Disposals		-
Assets acquired through entity combination		
- Cost price		622
- Accumulated depreciation		(411)
Closing net carrying amount 31 March 2011		386
Gross carrying amount		739
Accumulated depreciation		(353)
9.4 Computer equipment		
Opening net carrying amount 1 April 2010		-
Gross carrying amount		-
Accumulated depreciation		-
Additions		524
Depreciation charge		(232)
Assets acquired through entity combination		
- Cost price		2,663
- Accumulated depreciation		(2,287)

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

	Notes	2010/11 R'000
9.4 Computer equipment (Continued)		
Closing net carrying amount 31 March 2011		668
Gross carrying amount		3,187
Accumulated depreciation		(2,519)
9.5 Office furniture and fitting		
Opening net carrying amount 1 April 2010		-
Gross carrying amount		-
Accumulated depreciation		-
Additions		27
Depreciation charge		(49)
Assets acquired through entity combination		
- Cost price		909
- Accumulated depreciation		(635)
Closing net carrying amount 31 March 2011		252
Gross carrying amount		936
Accumulated depreciation		(684)
9.6 Library books		
Opening net carrying amount 1 April 2010		-
Gross carrying amount		-
Accumulated depreciation		-
Depreciation charge		(1)
Assets acquired through entity combination		
- Cost price		10
- Accumulated depreciation		(10)
Closing net carrying amount 10 June 2010		-
Gross carrying amount		10
Accumulated depreciation		(10)

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

	Notes	2010/11 R'000
9.7 Total property, plant and equipment		
Opening net carrying amount 1 April 2010		-
Gross carrying amount		-
Accumulated depreciation		-
Additions		829
Depreciation charge		(380)
Disposal		-
Assets acquired through entity combination		
- Cost price		4,564
- Accumulated depreciation		(3,646)
Closing net carrying amount 31 March 2011		1,367
Gross carrying amount		5,259
Accumulated depreciation		(3,892)

The following assets are included in the fixed asset register at a value of R1. The assets are still currently in use and are not lying idle.

Classification	Cost Price	Accumulated Depreciation	Gross Carrying Amount
Audio	172 573	172 558	15
Computer equipment	879 763	879 675	88
Computer network infrastructure	1 405 636	1 405 621	15
Furniture & fittings	413 341	413 178	163
Law enforcement equipment	4 141	4 138	3
Library books	9 252	9 235	17
Motor vehicle	16 667	16 664	3
Security	88 430	88 424	6
Total	2 989 803	2 989 493	310

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

	Notes	2010/11 R'000
10. Intangible assets		
10.1 Computer Software and Licenses		
Opening net carrying amount 1 April 2010		-
Gross carrying amount		-
Accumulated amortization		-
Additions		469
Amortization charge		(111)
Assets acquired through entity combination		
- Cost price		413
- Accumulated depreciation		(340)
Closing net carrying amount 31 March 2011		431
Gross carrying amount		882
Accumulated amortization		(451)
All computer software is externally acquired		

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

	Notes	2010/11 R'000
11. Inventory		
Stationery, promotional items and cartridges		138
Total inventory		138
12. Trade and other receivables		
Deposits		146
Net staff loans		116
Gross staff loans		121
Less provision for bad debts		(5)
Control accounts		-
Salary		-
Medical Aid		-
Pension fund		-
Total trade and other receivables		262
13. Cash and cash equivalents		
13.1 Cash and cash equivalents		
Bank balances and cash on hand		4,892
Call deposits		4,427
Total cash and cash equivalents		9,319
13.2 Bank overdraft		
Cash book bank overdraft (Outstanding cheques)		(28)
Total cash and cash equivalents		(28)
For the purpose of the cash flow statement		
Cash and cash equivalents		9,291
Total cash and cash equivalents		9,291

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

	Notes	2010/11 R'000
14.1 Trade and other payables		
Trade creditors		1,395
PAYE		572
Control Accounts		120
Garnish order		5
Salary		52
Union fees		1
UIF		14
Medical aid		5
Forfeited cash		43
Other payables		600
Sub-total		2,687
14.2 Funds to be surrendered to DETEA		
Levies - Gambling		1,370
Levies - Liquor		136
Interest on grant		182
Phumelela administrative fee		12
License renewals		920
Sub-total		2,620
14.3 Accruals		
Leave accrual		1,049
Sub-total		1,049
Grand total		6,356

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

	Notes	2010/11 R'000
15. Accumulated surplus		
Balance at the beginning of the year as originally stated		-
Net reserves acquired through entity combination		(852)
Surplus for the year		5,989
Other adjustments		(4)
Balance at the end of the year		5,133
16. Cash generated from (utilized in) operations		
Net surplus		5,989
Depreciation		380
Amortisation		111
Profit on disposal of assets		(51)
Increase in trade and other payables		5,307
Increase in leave accrual		1,049
(Increase) in trade and other receivables		(262)
(Increase) in inventories		(138)
Other adjustments		(5)
Net cash flows from operating activities		12,380

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

	Notes	2010/11 R'000
17. Related party transactions		
The following related party transactions occurred during the financial year:		
17.1 Transfer and subsidies received		
Free State Department of Economic Development, Tourism & Environmental Affairs (DETEA)	3	29,464
The Authority (FSGLA) received the grant from DETEA to fulfill its mandate of regulating and monitoring gambling and liquor industry in the Free State Province, as per FSGL Act no: 6. Of 2010		
17.2 Funds collected in terms of the Free State Gambling and Liquor Act, Act no 6. of 2010		
Horsereading levies and tax revenues		4,369
Casino levies and tax revenues		20,506
Phumelela levies		156
Liquor revenue		4,004
- Self-collected – FSGLA		3,525
- Collected by DETEA		477
- Collected by SARS		2
Total funds collected		29,035
17.3 Operating expenses		
Included in Operating Expenses is an amount of R91,200 paid to Bokwa Attorney for professional work performed on behalf of the former Free State Liquor Authority. The husband of the former CEO (Me Bokwa) is a director of Bokwa Attorneys; however management is of the opinion that the transaction at hand was at arm's length.		
Me Bokwa could not have influenced the appointment/payment of Bokwa Attorneys as the appointment was done at FSLA/DETEA (Me Bokwa was never employed by FSLA) and payment was made by FSGLA in February 2011 (Me Bokwa was CEO only for June 2010).		
		91

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

17.4 Non - Executive Management (Board members April 2010 – June 2010)

BOARD MEMBER	BOARD FEES	SUB COMMITTEE FEES AND SPECIAL TASKS	SUB-TOTAL	CELL PHONE ALLOWANCE	SUBSISTENCE AND TRAVEL ALLOWANCE	ALLOWANCES TOTAL
D Pillay Chairperson	-	-	-	13	-	13
H Mayeza Deputy Chairperson	50	10	60	1	25	26
Molotsi	112	76	188	5	26	31
Monyaki	76	43	119	4	24	28
Netshivhodza	76	53	129	4	37	41
D Lekota	96	42	138	4	38	42
T Mongake	96	83	179	3	4	7
E Mhlambe	-	-	-	9	-	9
L Mule	113	50	163	5	36	41
Liquor Board Members	130	-	130	-	-	-
Total	749	357	1,106	*48	*190	*238

* Cell phone Allowance and Subsistence Allowance were included under operating expenses

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

17.5 Executive management

Short term employee benefits

EMPLOYEE	SALARIES	CAR ALLOWANCE	13TH CHEQUE	MEDICAL CONTRIBUTION	PENSION CONTRIBUTION	TOTAL	OTHER ALLOWANCE
M.J Bokwa : CEO (11 June 2010 to 30 June 2010)	39	18	-	3	8	68	2*
H Mayeza : CEO (1 July 2010 to 31 December 2010)	570	-	37	-	-	607	-
M Gasela : CEO (1 January 2011 to date)	286	-	-	-	11	297	-
B Molotsi : CEO Former FSLA	714	-	-	-	8	722	-
M Ratsomo : GM: Corporate Services	533	60	57	-	66	716	10*
E Mhlambe : GM: Technical Services (1 January 2011 to date)	157	18	-	-	21	196	3*
T Motloi CA (SA) : CFO (1 February 2011 to date)	101	5	-	-	12	118	2*
K Kgotle : Acting CFO (11 June 2010 to 31 January 2011) Seconded from DETEA	-	-	-	-	-	-	-
Other Managers	3,007	261	220	80	325	3,893	61*
Total	5,407	362	314	83	451	6,617	78*

*Other allowance is cell phone allowance and it was included under operating expense.

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

	Notes	2010/11 R'000
18. Financial Instruments		
Measurement		
Financial instruments are measured at fair value with change in carrying value being recognized to the profit and loss in the financial year which they relate to. All financial assets and liabilities of the Authority are current.		
Financial Assets		
Cash and cash equivalent		-
Opening balance bank		9,291
Movement		9,291
Closing balance		
Trade and other receivables		-
Opening balance		262
Movement		262
Closing balance		
Financial Liabilities		
Trade and other payable		-
Opening balance		(5,307)
Movement		(5,307)
Closing balance		

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

- Credit risk management** Potential concentrations of credit risk consist mainly of accounts receivable and cash and cash equivalents.
- The Authority places its cash and short term deposits with well established financial institution of high credit standing.
- Credit risk with respect to accounts receivable is limited due to the nature of the Board's business and its reliance on government grant as the main source of funding.
- Interest rate risk management** The Authority manages its interest rate risk by investing in current and short term deposit accounts. These accounts are held with well established financial institution of high quality credit standing and the accounts bear interest at prevailing market rates.
- Fair value** The carrying amounts of financial assets and liabilities approximate their fair values at 31 March 2011 due to the short term maturities of these assets and liabilities.

19. Going Concern Assumption

As at 31 March 2011, total assets exceeded total liabilities with R 5,133,000 which indicates that the Authority will still continue as a going concern in the foreseeable future.

Further reference can also be made to the fact that transfer from Department will continue to be received in the 2011/12 financial year.

20. Events after financial position date

No significant events after the financial position date were identified up to the date of signing the report.

21. Contingent liability

LITIGATIONS FOR AND AGAINST THE BOARD

All the assets and liabilities of the former FSGRB and FSLA have been transferred to FSGLA, some these litigations were also transferred to FSGLA at merger date.

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

21. Contingent liability (continued)

PROCEEDINGS AGAINST FORMER CEO

Mr. C.J. Moeko, a former CEO of the FSGRB, instituted proceedings against the MEC of DETEA in the Labour Court, to contest his dismissal. The MEC is the 1st Respondent in this matter; and the Board has been quoted as a respondent to the extent that it might have an interest in the matter. The applicant, Mr. Moeko, was supposed to have filed his Heads of Argument by January 2010. According to Ms. Maranyane, the State Attorney handling the matter, this has not been done and the matter remains pending. At year end, there was no estimated financial exposure to the Authority.

CECIL NURSE V FREE STATE GAMBLING AND RACING BOARD

The State Attorney was instructed to pursue civil action against Mr Saliwe of Zion Consulting for the recovery of the Board's damages and, in addition, to assist the Board in instituting criminal charges against Mr. Saliwe for defrauding the Board. The matter was delayed as Mr. Saliwe could not be located, and a tracing agent had to be appointed by the State Attorney to find Mr. Saliwe. Further feedback on the matter is at present awaited from the State Attorney. The total estimated financial exposure to the Authority is R17 000.

VUKANI GAMING V FSGRB AND OTHERS

In its judgment in the review application, delivered on the 18th of March 2010, the Free State High Court declared the licenses issued to both Interplay Gaming FS and Thuo Gaming FS invalid and null and void, and ordered the Board to issue a Route Operator License to Vukani FS.

An urgent application was lodged by Vukani FS against the Authority on the 18th of October 2010, for an order directing the Authority to invite applications for limited gambling machine site licenses by publishing an invitation in the next Provincial Gazette and two newspapers circulating in the Province.

The Board opposed the application. After hearing the application, the Court rejected the Authority's arguments in opposition of the application and found in favour of Vukani. Application for leave to appeal was lodged; but the matter has subsequently been settled outside of court, after an agreement was reached between Vukani and the Board. The total estimated financial exposure to the Authority is R1 800 000.

MANAGEMENT'S DESCRIPTION	ESTIMATED COSTS
Nicolas Charilaou – Application for review of decision to approve a liquor license – Pending: Application opposed	R14 000
Joy's Bottle Store: NE Kotze – Application to compel the FSLA to take decision on liquor license application – Finalised: Settlement Agreement	R14 747
Calabash Inn / PJ Sesike – Application to compel the FSLA to take decision on liquor license application – Finalised: Not opposed	R10 382.40
Matwabeng Lounge and Liquor Store – Application to compel the FSLA to take decision on liquor license application – Finalised: Not opposed	R10 000 to R12 000
Pick'n Pay Kroonstad and P'nP BFN – Application to compel the FSLA to take decision on liquor license application – Finalised: Not opposed	R12 000 to R14 000

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

21. Contingent liability (continued)

MANAGEMENT'S DESCRIPTION	ESTIMATED COSTS
Stuck in the Mud – Z Oosthuizen – Application to compel the FSLA to take decision on liquor license application – Finalised: Not opposed	None – No cost order against FSGLA
JH Binns – Watergat Restaurant – Application to compel the FSLA to take decision on liquor license application – Finalised: Not opposed	None – No cost order against FSGLA
Hans Seuntjie Matoto h/a Matoto Eating House – Application to compel the FSLA to take decision on liquor license application – Finalised – Not opposed	None – No cost order against FSGLA
DC Forster t/a Vasco's Portuguese Restaurant – Application to compel the FSLA to take decision on liquor license application – Pending	Estimated costs: R14 000
Shoprite Checkers (Edms)Bpk t/a Checkers Liquor Shop Goldfields Mall – Application to compel the FSLA to take decision on liquor license application – Pending	R14 000
JA Erasmus t/a A-Lodge – Application to compel the FSLA to take decision on liquor license application – Pending	R14 000
NE Kotze (Joy's Bottle Store) – Application for cost order – Pending	R14 000
TJ Chabedi t/a Chabedi's Inn – Application for review of decision to refuse a liquor license – Pending	R14 000
PJ Sesike t/a Calabash Inn – Application for review of decision to refuse a liquor license – pending	R14 000
SJ Mkwazazi t/a Jack's Lounge – Application for review of decision to refuse a liquor license – Pending	R14 000
JA Erasmus t/a A-Lodge- Application to compel the FSGLA to take decision on liquor license application	R14 000
Calandra Trading 634cc-Application to compel the FSGLA to take decision on liquor license application	R14 000
Christo van Heerden-Application to compel the FSGLA to take decision on liquor license application	R14 000
Basfour 3740 (PTY)-Application to compel the FSGLA to take decision on liquor application	R14 000
John Gawie Duiker- Review application	R14 000
Mutuzeli Sidney Mid-Application to compel the FSGLA to take decision on the application for permanent removal of a registration certificate	R14 000
TOTAL ESTIMATED COSTS	R2 060 129.40 to R2 064 129.40

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

2010/11
R'000

22. Recognition of assets and liabilities at merger date

Property, plant and equipment	919
Intangible assets	73
Inventory	82
Loans and receivables	140
Cash and cash equivalents	4,782
Trade and other payables	(2,333)
Bonus provision	-
Funds to be surrendered to DETEA	(4,515)
Net asset/(liability)	852

In terms of the Free State Gambling and Liquor Act, the Free State Gambling and Racing Board (FSGRB) merged with the Free State Liquor Authority (FSLA) to form the Free State Gambling and Liquor Authority (FSGLA). All the assets and liabilities of FSGRB and FSLA had to be transferred to FSGLA. However only the assets and liabilities of FSGRB were recognized in the financial statements of FSGLA, the assets of FSLA were not recognized due to the fact that they were not transferred to FSGLA (therefore FSGLA never had control of the assets and could not have recognized them). FSLA had no liabilities at year end.

23. Fruitless and wasteful expenditure

Opening balance	-
Balance acquired through entity combination	70
Fruitless and wasteful expenditure – current year	57
Fruitless and wasteful expenditure – condoned	(70)
Transferred to receivables for recovery	-
Closing balance	57

Board members of the former Free State Liquor Authority submitted claims that were subsequently paid for meetings that did not materialise due to the fact that a quorum could not be formed. The Board (new FSGLA) condoned the R70' Board expenses and sent a strong message that such would not happen again.

The other expenditure related to a monetary settlement agreement for unfair dismissal case of a former employee. The settlement was concluded at the CCMA between the employee and FSGLA. The Board is yet to condone/recover this fruitless and wasteful expenditure.

Overpayment of the rental expenses and interest incurred. In comparison of the rent as per invoice and rent as per the contract, differences were identified and management is still investigating.

24. Irregular expenditure

Opening balance	-
Irregular expenditure – current year	2,608
Irregular expenditure – condoned	-
Transferred to receivables for recover	-
Closing balance	2,608

FREE STATE GAMBLING AND LIQUOR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2011

2010/11
R'000

Irregular expenditure is broken down as follows:

Salary of the CEO not formally employed by the DETEA MEC	286
No three quotations obtained and suppliers not on Centralised Supplier Database	969
No tender process followed	1,353
Total	2,608

ACTION PLAN ON MATERIAL FINDINGS OF THE OFFICE OF THE AUDITOR-GENERAL

CATEGORY	AUDIT FINDING	ACTION TO BE TAKEN	RESPONSIBLE MANAGER	DUE DATES
Revenue	As stated in the statement of financial performance and note 3 to the annual financial statements the occurrence, classification, completeness, accuracy and cut-off of revenue amounting to R29 464 000 could not be confirmed.	Supporting documentation for the expenses paid by DETEA on behalf of FSGLA will be requested again during the financial year. The Office of the Provincial Accountant General will also be contacted to facilitate that DETEA avails the supporting documents ASAP.	Chief Financial Officer	No control over delivery.
Property Plant and Equipment	As disclosed on the financial statement of performance and note 9 to the financial statements, the valuation of property, plant and equipment amounting to R1 367 000 could not be confirmed. The entity did not review the residual values and useful lives of assets for the current reporting date in accordance with Standard of Generally Recognised Accounting Practice, GRAP	Useful lives and residual values of assets will be reviewed in line with GRAP. The fixed asset register and the financial statements will be adjusted accordingly.	Chief Financial Officer	31 Jan 2012
Leave accruals	The entity did not correctly accrue for leave amounting to R1 049 000 in terms of International Accounting Standard 19: Employee Benefits, paragraphs 10 and 11. The differences in leave balances arose because management did not reconcile the manual leave forms to the system. The compensation of employees was understated by an amount of R317 570	In order to improve efficiency, the Division has consulted with the service provider to discontinue manual administration and to incorporate leave administration into VIP system. To resolve the current status, we are reconciling the leave forms to arrive at the correct figure	Chief Financial Officer/ GM: Corporate Services	31 October 2011

CATEGORY	AUDIT FINDING	ACTION TO BE TAKEN	RESPONSIBLE MANAGER	DUE DATES
Intangible assets	The valuation of intangible assets amounting to R431 000 could not be confirmed as management did not review the useful lives of assets for the current reporting date in accordance with SA Standards of GRAP, GRAP 102, Intangible Assets. No adjustment was therefore made to the carrying amount of assets, resulting in the misstatement of amortisation and accumulated amortisation. I was unable to confirm or verify by alternative procedures the value of intangible assets included in the financial statements	Useful lives and residual values of assets will be reviewed in line with GRAP. The fixed asset register and the financial statements will be adjusted accordingly.	Chief Financial Officer	31 Jan 2012
Irregular expenditure	As disclosed in note 24 to the annual financial statements irregular expenditure amounting to R2 608 000 was subsequently disclosed in the financial statements. Payments amounting to R2 322 000 were made in contravention of the supply chain management requirements and R286 000 in contravention to the Free State Gambling and Liquor Act. This irregular expenditure was identified during the audit and was not prevented or detected by the municipality's system of internal control	The Authority will investigate the entire population to identify irregular expenditure. These will then be submitted to the Accounting Authority or Executive Authority (depending on the type of irregular expenditure) for condonement.	Chief Financial Officer	31 Jan 2012
Fruitless and wasteful expenditure	As disclosed in note 22 to the financial statements, fruitless and wasteful expenditure to the amount of R56 456 was incurred. Included in the amount is R29 456 that was identified during the audit and was not prevented or detected by the entity's system of internal control. I could not be provided with sufficient, appropriate audit evidence that management has properly identified, investigated and recorded all fruitless and wasteful expenditure transactions during the year under review	The Authority will investigate the entire population to identify fruitless and wasteful expenditure. These will then be submitted to the Accounting Authority or Executive Authority (depending on the type of fruitless and wasteful expenditure) for condonement.	Chief Financial Officer	31 Jan 2012

ACTION PLAN ON MATERIAL FINDINGS OF THE OFFICE OF THE AUDITOR-GENERAL (continued)

CATEGORY	AUDIT FINDING	ACTION TO BE TAKEN	RESPONSIBLE MANAGER	DUE DATES
Related party transactions	Occurrence and rights and obligations, accuracy and valuation, classification and understandability and completeness of related party transactions in respect of liquor revenue collected on behalf of the department amounting to R4 002 199 could not be confirmed as sufficient appropriate audit evidence could not be obtained to substantiate the amount disclosed in note 17.2 in the financial statements.	The Authority has developed a register of applications received, approved and declined for the current financial year (April 2011 to date). New license referencing has been developed to ensure accurate bank reconciliations.	GM: Technical Services	Done
Related party transactions	Occurrence and rights and obligations, accuracy and valuation, classification and understandability and completeness relating to board fees and allowances of non executive management amounting to R309 000 could not be confirmed as sufficient appropriate audit evidence could not be obtained to substantiate the amount disclosed in note 17.3 of the financial statements. The entity's records did not permit the application of alternative audit procedures.	The document was misplaced and later found. However, we are reviewing the systems and procedures to allow for a backup and proper filing.	GM: Corporate Services	31 October 2011
Related party transactions	International Public Sector Accounting Standard, IPSAS 20, Related-party disclosures requires disclosure of the remuneration of key management personnel. As disclosed in note 17.4, the executive management short term benefits are overstated by R13 620 as a result of management not reconciling the payroll records to the disclosure note in the financial statements.	Reconciliation will be performed between the payroll records and the financial statements. If necessary, the financial statements will be adjusted accordingly.	Chief Financial Officer	30 Sept 2011

CHAPTER FIVE

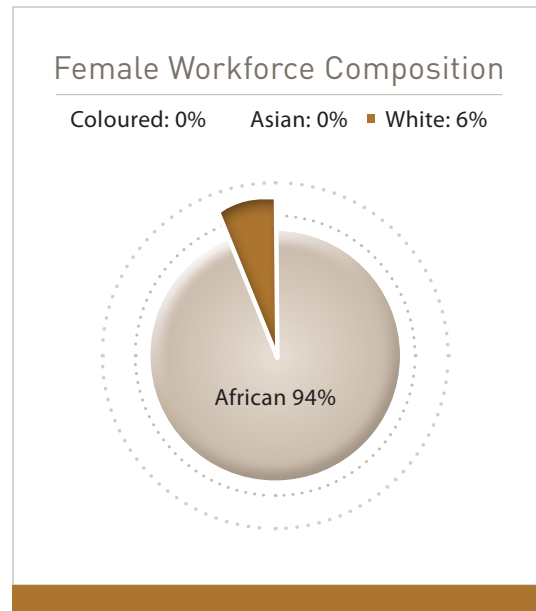
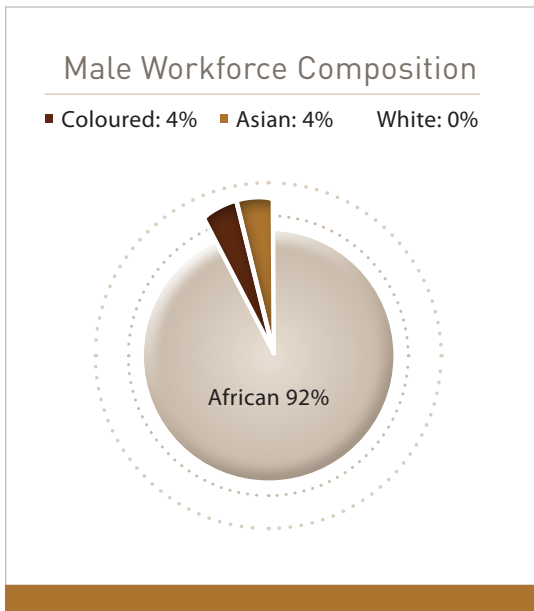


CHAPTER FIVE

HUMAN RESOURCE MANAGEMENT

WORKFORCE AS AT THE END OF MARCH 2011

Permanent Employees	MALE					FEMALE					TOTAL
	African	Asian	Coloured	White	Total Male	African	Asian	Coloured	White	Total Female	
Chief Executive Officer	4	0	0	0	4	3	0	0	0	3	7
Divisional Managers	2	0	0	0	2	1	0	0	0	1	3
Departmental Managers	4	1	0	0	5	3	0	0	0	3	8
Finance	2	0	0	0	2	2	0	0	0	2	4
Technical Services	6	0	1	0	7	16	0	0	0	16	23
Corporate Services	4	0	0	0	4	5	0	0	2	7	11
Auditing	1	0	0	0	1	0	0	0	0	0	1
Total	23	1	1	0	25	30	0	0	2	32	57



PERSONNEL COST

ENTITIES	TOTAL EXPENDITURE	PERSONNEL EXPENDITURE	PERSONNEL COST AS A PERCENTAGE OF TOTAL EXPENDITURE	NUMBER OF EMPLOYEES	AVERAGE PERSONNEL COST PER EMPLOYEE
	R'000	R'000	%		R'000
FREE STATE GAMBLING & RACING BOARD	3,319	2,100	63%	28	75
FREE STATE LIQUOR AUTHORITY	846	142	17%	1	142
FREE STATE GAMBLING & LIQUOR AUTHORITY	23,671	13,639	58%	57	239
	27,836	15,881	57%		

VACANCY RATE

DEPARTMENT	APPROVED POSTS	POSTS FILLED	VACANCY RATE
CEO	7	7	0%
Divisional Managers	3	3	0%
Departmental Managers	8	8	0%
Finance	19	4	79%
Technical Services	31	23	26%
Corporate Services	15	11	27%
Auditing	1	1	0%
Total	84	57	36%

EMPLOYMENT CHANGES

DEPARTMENT	EMPLOYEES at 31 MARCH 2011	APPOINTMENTS	TERMINATIONS/ RESIGNATIONS	TRANSFERS	NET CHANGE	NET % CHANGE
AFRICAN	52	24	3	0	27	52%
Male	23	11	1	0	12	52%
Female	29	13	2	0	15	52%
WHITE	3	0	0	0	0	0%
Male	1	0	0	0	0	0%
Female	2	0	0	0	0	0%
COLOURED	1	0	0	0	0	0%
Male	1	0	0	0	0	0%
Female	0	0	0	0	0	0%
INDIAN	1	1	0	0	1	0%
Male	1	1	0	0	1	0%
Female	0	0	0	0	0	0%
Total	57	25	3	0	28	49%

LEAVE UTILISATION

ANNUAL VACATION LEAVE

2009/2010			2010/2011		
TOTAL DAYS NORMAL TAKEN	NUMBER OF EMPLOYEES	AVERAGE DAYS TAKEN MONTHLY PER EMPLOYEE	TOTAL DAYS NORMAL TAKEN	NUMBER OF EMPLOYEES	AVERAGE DAYS TAKEN MONTHLY PER EMPLOYEE
387.5	29	13.36	439	57	7.70

SICK LEAVE

2009/2010				
TOTAL SICK LEAVE DAYS	% WITHOUT MEDICAL CERTIFICATION	% WITH MEDICAL CERTIFICATION	AVERAGE DAYS PER MONTH PER EMPLOYEE	ESTIMATED COST
182.5	6.1%	93.9%	6.29	R 237 372.24

2010/2011				
TOTAL SICK LEAVE DAYS	% WITHOUT MEDICAL CERTIFICATION	% WITH MEDICAL CERTIFICATION	AVERAGE DAYS PER MONTH PER EMPLOYEE	ESTIMATED COST
132	4.0%	96.0%	2.32	R 178 623.01

FAMILY RESPONSIBILITY LEAVE

2009/2010			2010/2011		
TOTAL DAYS FAMILY RESPONSIBILITY LEAVE TAKEN	NUMBER OF EMPLOYEES	AVERAGE DAYS TAKEN MONTHLY PER EMPLOYEE	TOTAL DAYS FAMILY RESPONSIBILITY LEAVE TAKEN	NUMBER OF EMPLOYEES	AVERAGE DAYS TAKEN MONTHLY PER EMPLOYEE
29	29	1.00	34	57	0.59

ANNUAL REPORT 2010 - 2011



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PR202/2011

ISBN: 978-0-621-40229-2