

EMAKHAZENI LOCAL MUNICIPALITY



2015/16 OVERSIGHT REPORT

TABLE OF CONTENT

1. PURPOSE OF REPORT	3
2. BACKGROUND	3
2.1. Legal Requirements	3
2.2. Purpose of the Annual Report	3
2.3. Annual Report Requirements	4
2.4 Submissions and Tabling of the Annual Report	4
3. PROCESS FOLLOWED BY MPAC	5
4. OF CONCERN TO MPAC	6
5. GENERAL COMMENTS ON CONTENT OF THE ANNUAL REPORT	7
6. RECOMMENDATIONS	7
7. CONCLUSION	7
8. ANNEXURE A: RESPONSES FROM MANAGEMENT	8 - 19

1. PURPOSE OF REPORT

The main purpose of this report is to recommend to Council the consideration of the 2015/16 Annual Report and to adopt an oversight report containing Council's comments on the Annual Report in terms of Section 129 (1) of the Local Government : Municipal Finance Management Act, 2003 (Act no.56 of 2003).

2. BACKGROUND

2.1. Legal Requirements

Section 121 (1), (2) and (3) of the MFMA states that: Every Municipality and every municipal entity must for each financial year prepare an Annual Report in accordance with this Chapter. The Council of a municipality must within nine months after the end of a financial year deal with the Annual Report of the municipality and of any municipal entity under the municipality's sole or shared control in accordance with section 129.

2.2. Municipal Public Accounts Committee

The Municipal Public Accounts Committee is the mechanism through which Council exercises oversight over the management and expenditure of public funds. Council must provide assurance to the public that public monies and assets are being managed properly and that value for money is being rendered by public sector institutions in their spending of public funds. Municipal Public Accounts Committees are established in terms of Section 79 of the Municipal Structures Act to conduct oversight functions.

2.3. Purpose of the Annual Report

The purpose of the Annual Report is: -

- a) To provide a record of the activities of the municipality or municipal entity during the financial year to which the report relates;

- b) To provide a report on performance against the budget of the municipality or municipal entity for that financial year; and
- c) To promote accountability to the local community for the decisions made throughout the year by the municipality or municipal entity.

2.4 Annual Report Requirements

The Annual Report of a municipality must include:-

- Chapter 1: Mayor's Foreword and Executive Summary;
- Chapter 2: Governance;
- Chapter 3: Service Delivery Performance;
- Chapter 4: Organisational Development Performance;
- Chapter 5: Financial Performance;
- Chapter 6: Auditor General's Findings;
- Appendices; and AFS

2.5 Submissions and Tabling of the Annual Report

In terms of Section 127 (5) of the MFMA, the Accounting Officer must immediately after the Annual Report is tabled, make public the Annual Report, invite the local community to submit the representations in connection with the Annual Report and submit the Annual Report to the Auditor-General, the relevant provincial treasury and the provincial department responsible for local government in the province.

The Annual Report of the municipality for the 2015/16 financial year was tabled in the Council at its meeting held on 25th January 2017 in terms of section 127 (2) of the Local Government Municipal Finance Management Act, 2003.

**In the minutes of the Council meeting held on the 25 January 2017,
Council resolved that:**

1. The Audited Annual Report: 2015/2016 of Emakhazeni Local Municipality is noted.
2. It is noted that the 2015/2016 Audit Report for Emakhazeni was received on 22 December 2016 from the Auditor General.
3. The 2015/2016 Audited Annual Report be made public and the community be invited to submit representations in accordance with Section 21A of the Municipal Systems Act, as required in terms of section 127 (5) (a) of the MFMA.
4. The 2015/2016 Audited Annual Report be submitted to the Auditor General, Department of Corporative Governance and Traditional Affairs and to the Mpumalanga Provincial Legislature as required in terms of section 127 (5) (b) of the MFMA.
5. The 2015/2016 Audited Annual Report be considered by the Oversight Committee and an Oversight Report be tabled before Council by no later than two months from the date on which the Audited Annual Report was tabled in Council.

3 PROCESS FOLLOWED BY MPAC

The MPAC adopted the following approach:

The Committee inspected the municipality's 2015/16 tabled Annual Report and the findings were:

- Compilation of the report was indeed according to legislated requirements and in line with paragraph 2.4 above, except for the issues raised by the Office of Auditor General with regard to performance information reported.
- Management errors and oversights were highlighted, brought to Accounting Officer's attention, and were also corrected.
- The late submission of the 2015/16 Annual Financial Statements to the Auditor General was also noted by the Committee with disappointment and concern.

Preliminary questions on issues raised by Auditor-General, requesting written response were forwarded to the Accounting Officer and responses were also received. Attached as **Annexure A** is a copy of the preliminary questions and answers from Accounting Officer.

MPAC invited the Office of Auditor-General for a brief overview on the audit outcome and other findings in respect of the municipality's 2015/16 financial year. The meeting was held on the 15th March 2017.

Public Hearing:

The Committee conducted the public hearing session on the 22nd March 2017. Minutes of the Public Hearing are attached as **Annexure B**. Representatives of the Office of the Auditor General of South Africa also attended the public hearing.

4 OF CONCERN TO MPAC

The Committee is concerned over the manner in which employees of the municipality carried themselves and the overall attitude that managers had towards their work. According to the Committee, this leads to poor performance because employees do not take their work seriously.

The Committee is also concerned by the municipality's failure to adhere to compliance requirements as well as the need for the Municipal Manager to strengthen the municipality's consequence management system in order to deal with those who fail to perform their duties as per expectation.

There is concern over the failure by management to implement recommendations of Council Committees as well as recommendations by the Audit Committee.

The Committee further encourages management to work hard and improve communication between departments in order to improve service delivery.

5 GENERAL COMMENTS ON THE CONTENT OF THE ANNUAL REPORT

- Thorough review of the Annual Report must be exercised by management in order to improve the standard and quality of reporting
- Proper planning must be done in order to ensure that reporting is done on time and in line with legislative requirements.

6 RECOMMENDATIONS

MPAC resolves that:-

- 6.1 Council having fully considered the 2015/16 financial year's Annual Report of Emakhazeni Local Municipality adopts the Oversight Report.
- 6.2 Council approves the 2015/16 Annual Report without reservations.
- 6.3 Council further requires the Accounting Officer to ensure that concerns raised by MPAC on the report receive full attention.

7 CONCLUSION

The Chairperson and the members of MPAC wish to place on record its appreciation and gratitude to the office of the Auditor-General for the assistance and support rendered and more especially making available, to the Committee, representatives as and when invited by the municipality.

Author: Cllr. X.D MASINA

MPAC Chairperson

8 ANNEXURE A. RESPONSES FROM MANAGEMENT

Basis for qualified opinion

1. PROPERTY PLANT AND EQUIPMENT

In terms of GRAP 17, Property, plant and equipment, an entity must measure items of property, plant and equipment that meet the recognition and measurement criteria of assets at cost in the financial statements. Contrary to this requirement, componentisation differences between amounts disclosed in the annual financial statements and the supporting documentation amounting to R147 669 452 were identified. Furthermore, opening balances were restated without proper supporting documents as disclosed in note 41 to the financial statements. I was unable to confirm the adjustment by alternative means. Consequently, I was unable to determine whether any adjustment to property, plant and equipment amounting of R780 302 698 (2015: R771 690 517), as disclosed in note 4 to the financial statements, were necessary. Additionally, there was a resultant impact on depreciation and accumulated depreciation.

QUESTION

- a) Why were there componentisation differences between amounts disclosed in the annual financial statements (AFS) and the supporting documentation amounting to R147 669 452. ?**

Response: There were componentisation differences between amounts disclosed in the AFS and the supporting documents because the Municipality's invoices which are supporting documents were consistent with the Fixed Assets Register (FRA). It be noted that while the FAR was compiled from scratch dating back to 2009 there were invoices which were missing and as such not all assets were supported through an invoice. In order to circumvent this, municipality will in future be changing valuation methodology from Actual to Current Replacement Cost for assets where invoices cannot be traced. CRC is the methodology determined by a formula used if the value of such asset were to be replaced. All supporting documents will be availed.

- b) Is there any action taken to correct the differences disclosed in the annual financial statements (AFS) and the supporting documentation amounting to R147 669 452. ?**

Response: Yes, the Municipality will be changing its valuation methodology from ACTUALS – which means that the Municipality is to provide supporting documents thereof on the FAR – CRCs which is the methodology determined by a formula to support all figures on the FAR. Service Provider will be directed to comply with the above.

- c) If yes, please provide proof.**

Response: No physical evidence is available since the municipality in this regard has to comply with GRAP standards when the FAR is compiled.

d) If not, provide reasons for not having taken an action to correct such a difference.

Response: Not application since action is being taken.

e) Why did management restate opening balances without supporting documents?

Response: The general valuation roll was used as supporting documents to restate the opening balances, since the opening balances were as a result of correcting the FAR, particularly on land, which was identified to be missing on the previous financial years` FAR of 2014/15 – through a deeds search. Therefore, the AG was not happy with the supporting documents provided. The matter is receiving attention and is being corrected.

f) What action did management take so far in correcting the issue in e)?

Response: It must be noted that the componentisation is a special work that requires services of Engineers and the municipality does not have this capacity. Therefore a quotation is sought from an external service provider, to perform the identified actions for the Municipality since these works are technical in nature.

g) If there is any action taken, please attach proof.

Response: See the attached Scope of Works marked as Annexure A.

2. REVENUE FROM NON-EXCHANGE TRANSACTIONS

In terms of GRAP 23, Revenue from non-exchange transactions, an entity must recognise revenue from rendering of services when the transaction occurs. Contrary to the requirement, the municipality failed to bill some of the property owners included on the valuation roll. Furthermore, incorrect rates were used in calculating the property rates revenue. I was unable to determine the extent of this misstatement, as it was impracticable to do so. Consequently, property rates revenue stated at R29 065 057 (2014 15: R16 928 257) and receivables from non- exchange transaction stated at R12 921 139 (2014 15: R4 016 400), as disclosed in note 19 and note 9 to the financial statements, respectively, were misstated. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.

QUESTION

a) Why did the Accounting Officer fail to bill some of the property owners included on the valuation roll?

Response: The Accounting Officer failed to bill some of the property owners included on the valuation roll due to the lack of monthly reconciliation between the valuation roll and Munsoft system in relation to the property owners.

b) Why did management use incorrect rates to calculate the property rates?

Response: Incorrect rates were used to calculate the property rates because of lack of monthly reconciliation between the valuation roll and Munsoft system in relation to the charges which would have indicated the correct rates to be used for billing purpose.

c) Is there any action taken to ensure that the municipality complies with GRAP 23?

Response: Yes, Reconciliation of the Valuation Roll and Munsoft is underway. Thus far July has been conducted. Conducted a comparison of reconciliation of the fixed asset register and valuation roll.

d) If yes, please provide proof.

Response: See the attached Marked as **Annexure B** proof of reconciliation of valuation roll and fixed asset register and July reconciliation of Munsoft and Valuation Roll.

e) If not, provide reasons for not having taken an action to ensure that the municipality complies with GRAP 23.

Response: Not Applicable.

3. REVENUE FROM EXCHANGE TRANSACTIONS

In terms GRAP 23, Revenue from exchange transaction, the municipality is required to recognise revenue from the rendering of service when it can be estimated reliably. Contrary to this requirement, some electricity meters installed during the current year were not captured on the billing system, resulting in owners of those meters not being billed for services rendered. I was unable to determine the extent of this misstatement, as it was impracticable to do so. Consequently, electricity revenue stated at R44 373 781 (2014 15: R32 894 673) in note 20 and receivables from exchange transaction stated at R20 173 284 (2014 15: R75 510 137), as disclosed in note 20 and 10 to the financial statements, respectively, were misstated. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.

QUESTION

a) Why did the Accounting Officer fail to capture on the billing system electricity meters installed during the financial year.

Response: Accounting Officer failed to capture on the billing system electricity meters installed during 2015/16 on the system due to lack of communication between Finance and Technical Services on the meters that were replaced during the financial year.

b) Is there a procedure or process in place that directs or gives guidance on the management of installed meters for both water and electricity?

Response: Yes, there is a procedure in place for the Departments to communicate the changes of meters however there are flaws evident in this procedure as changes are not always communicated.

c) If yes, please submit proof.

Response: Yes there is a documented procedure in place, see the attached marked as **Annexure C**.

d) Is there any action taken to address a) above.

Response: Verification of electricity meters actual account holder versus details on the system was conducted especially on pre-paid electricity sales. The municipality is still busy replacing conversional with pre-paid meters and customer information is verified.

e) If not, provide reasons why corrections cannot be effected.

Response: Not Applicable.

4. RECEIVABLES FROM EXCHANGE AND NON-EXCHANGE TRANSACTIONS

In terms of GRAP 104, Financial instruments, an entity is required to assess individually significant financial assets for impairment where there are indicators of impairment and collectively assess insignificant financial assets with group of assets with similar credit characteristics. Contrary to this requirement, the municipality applied a similar rate of impairment for their debtors regardless of their credit characteristics. I was unable to determine the extent of this misstatement, as it was impracticable to do so. Consequently, the receivables from exchange and non-exchange transactions were misstated by R72 197 474 (2014 15: R32 363 924) disclosed in note 28 to the financial statements was misstated and expenditure was misstated by the same amount. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.

QUESTION

a) Why did the Accounting Officer fail to individually assess significant financial assets for impairment in terms of GRAP 104?

Response: The Accounting Officer failed to individually assess significant financial assets for impairment due to lack of capacity in Finance. It be noted that the task requires that all accounts are assessed and impaired based on the applicable ratio. During this financial year, position of Deputy Manager Income was not always filled.

b) Is there any action taken to ensure that the municipality complies with GRAP 104?

Response: Yes, the municipality has engaged a service provider (Cross Check) to assist in the individual assessment of accounts where payment is not made and then these will be impaired in terms of the applicable ratios.

c) If yes, please provide proof.

Response: See the attached marked as Annexure D confirmation of receipt from Cross Check.

d) If not, provide reasons for not having taken an action to ensure that the municipality complies with GRAP 104.

Response: Not Applicable.

5. IRREGULAR EXPENDITURE

In terms of section 125 (2) (d) (i) of the MFMA, the notes to the financial statements of a municipality must include any material irregular expenditure incurred during the current year. Contrary to the requirement of the act, irregular expenditure amounting to R26 129 262 was not disclosed in the municipality's financial statements. I was unable to determine the extent of this misstatement, as it was impracticable to do so. Consequently, irregular expenditure amounting to R39 745 973 (2014-15: R21 950 973) disclosed in note 45 to the financial statements is understated.

QUESTION

a) Why did the Accounting Officer fail to identify irregular expenditure amounting to R26 129 262 during the financial year.

Response: The Irregular Expenditure identified during the audit could not have been declared as such in the AFS by the municipality in its AFS since the institution relied on evidence that was rejected by the Auditor General. So, at the time of compilation of AFS, the documents relating to procurement acquired in terms of regulation 32 of Local Government SCM Regulations were deemed to be complaint however were since declared unacceptable by the AG and resulted on the irregular expenditure. This affected contracts valued at R 7 498 781 and R 5 525 806 which were sourced from Department of Water and Sanitation.

Also that AG identified the award of tender wherein the municipality advertised it for 12 instead of 14 days. The reasons for reducing the tender advert days were not compiled and approved by the Municipal Manager since the security contract was ending. The tender amount was R7 238.400.00

The AG declared the award of tender where a service provider submitted a lease agreement instead of municipal utility account as irregular since the utility account is not in their name but that of the Lessor. The contract was for R 4 931 785.

b) Why did the Accounting Officer fail to disclose irregular expenditure amounting to R26 129 262 in the municipality's financial statements?

Response: The reason for non-disclosure of these transactions as irregular was because the municipality did not deem those as Irregular. In order to prevent this from re-occurring, pre-audit of SCM will be conducted so that such matters are properly disclosed.

- c) Is there any mechanism in place to ensure that all irregular expenditures incurred during the year are identified and disclosed in the AFS?**

Response: For Sec 32 procurement, a template or checklist for ensuring compliance is developed and attached marked as **Annexure E**.

A template has been developed to ensure that Bid Specification Committee complies with the various compliance matters including the number of days of the advert attached hereto marked as **Annexure F**.

Regarding the Municipal Utility account, the requirements have been improved in the tender document as attached hereto marked as marked as **Annexure G** for rejection of lease agreements and acceptance of Utility Accounts.

- d) If yes, please provide proof.**

Response: See the attached **Annexure E-G**:

- e) If not, provide reasons why there is no action taken to obtain the information.**

Response: Not Applicable.

6. USEFULNESS OF REPORTED PERFORMANCE INFORMATION

Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. Important reported objectives, indicators and targets were not consistent with those in the approved integrated development plan.

The FMPPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance and specify the period or deadline for delivery. Important targets were not specific.

QUESTION

- a) Why did the Accounting Officer fail to comply with MSA, section 41(c) resulting in some important reported objectives, indicators and targets being inconsistent with the approved IDP?**

Response: The municipality failed to comply with section 41 of MSA in that some objectives, indicators and targets in the SDBIP were not consistent with those in the IDP because of limited capacity in PMS. Equally, the process of drafting the IDP as well as SDBIP was not conducted jointly which led to misalignment in some critical area.

- b) Is there any action taken to ensure consistency between reported targets and the IDP?**

Response: Currently, the crafting of the IDP and SDBIP are being processes jointly with all Departments actively participating to ensure alignment and consistency. Furthermore, it be noted that while there were some inconsistencies AG noted improvement when comparing the 2014/15 Performance Information with that of 2215/16.

- c) If yes, please provide proof.**

Response: This matter can only be corrected in the 2017/18 IDP and SDBIP the process which is now underway.

d) If not, provide reasons why action cannot be taken to ensure that the municipality complies with MSA Section 41(c).

Response: Action is taken however since the process is still underway, no physical evidence can be provided now.

7. RELIABILITY OF REPORTED PERFORMANCE INFORMATION

The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

QUESTION

a) Why did the Accounting Officer fail to comply with the requirements of FMPPI?

Response: The Municipality developed a document that was meant to focus on the process to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The Municipality is currently in the process of developing departmental standard operating procedures in order to adhere to the requirements of the FMPPI.

b) Is there any action taken to ensure that the municipality complies with the FMPPI?

Response: The Municipality is currently in the process of developing departmental standard operating procedures. Attached hereto please find the draft standard operating procedure manual from Community Services Department.

a) If yes, please provide proof

Response: Attached hereto marked as Annexure H.

c) If not, provide reasons why action cannot be taken to ensure that the municipality complies with the FMPPI.

Response: Not Applicable.

8. STRATEGIC PLANNING AND PERFORMANCE MANAGEMENT

According to AG, the adopted integrated development plan (IDP) did not reflect and identify a financial plan, as required by sections 26 and 41 of the MSA, as well as municipal planning and performance management regulation 2(1)(c).

QUESTION

- a) Why did the Accounting Officer fail to comply with Section 26 and 41 of the MSA?**

Response: The municipality acknowledge the oversight on the part of management since the IDP did not include financial plan for the 3 outer years. Only plans for the two financial years were included.

- b) Is there any action in place to ensure that in future the municipality complies with Section 26 and 41 of the MSA?**

Response: Yes, the Draft IDP is under compilation and compliance with section 26 of the MSA has been addressed in that the IDP has a 3 year financial plan.

- c) If yes, please provide proof.**

Response: The Draft IDP will be tabled to Council on 30 March 2017, currently there is no proof that can be tabled to MPAC on this matter.

- d) If not, provide reasons why the action cannot be taken to ensure that the municipality complies with Section 26 and 41 of the MSA.**

Response: Not Applicable

9. ANNUAL FINANCIAL STATEMENTS

The annual financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

QUESTION

- a) Why did the Accounting Officer fail to submit the Annual Financial Statements within two months as required by section 126(1)(a) of the MFMA?**

Response: The municipality failed to submit financial statements on time because it was not ready by the 31st August 2016 due to the Municipal strike that broke out on 18 - 27 July 2016. This resulted in the late closure of the financial system and in turn affected the readiness to comply with the submission date. AFS were since submitted on 15 September 2016.

- b) Are there any measures put in place to ensure that the Annual Financial Statements are submitted within two months after the end of the financial year?**

Response: Yes there are measures that have been put in place to ensure that Annual Financial Statements are submitted on time. This includes Deputy Manager Income and Senior Accountant Salaries which regrettably declined the offer. Currently monthly reconciliations conducted and the municipality prepared Interim Financial Statements for 2015/16.

- c) If yes, please provide proof.**

Response: See Annexure I1 – I3 Appointment letter of the Deputy Manager – Income, Offer made to Senior Accountant Salaries, Copy of monthly bank reconciliations and Copy of Interim Financial Statements

- d) If not, provide reasons why the action cannot be taken to ensure that the municipality comply with section 126(1)(a) of the MFMA.**

Response: Not Applicable.

10. MATERIAL LOSSES

- a) As disclosed in note 47 to the financial statements, material losses of R9 356 700 (2014-15: R2 677 200) were incurred as a result of electricity distribution losses, which represent 24% (2014-15: 9%) of the total electricity purchased. Material losses of R3 740 292 (2014-15: R1 828 190) were incurred as a result of water distribution losses, which represent 52% (2014-15: 22%) of the total water purchased.

QUESTION

- a) **Why did the Accounting Officer fail to put in place measures to reduce water and electricity losses?**

Response: It be noted that currently, Emakhazeni municipality does not measure its consumption due to lack of bulk meters for its various operations. In the categorization of distribution losses, municipal consumption and other utilised capacity points that are not measured is included. The municipality needed financial resources to ensure metering of all the unmetered points of utilisation. Due to the constrained budget available, the municipality could not implement relevant measures.

- b) **Is there a strategy in place to reduce water and electricity losses?**

Response: The municipality currently appointed a service provider for the installation of electricity meters to assist in the accounting for the actual electricity distribution losses. The municipality with the support of Nkangala District Municipality has also appointed a service for the installation of the water meters in Dullstroom; however, this shall not completely resolve the matter as Emgwenya and other parts of Dullstroom remain without water meters. The municipality needs financial resources to resolve all the challenges that relate to the distribution losses, particularly water distribution losses.

- c) **If yes, please provide proof.**

Attached hereto marked as **Annexure J 1-2** are the copies of the projects initiated to address losses.

- d) **If not please give reasons why such a strategy cannot be developed.**

Response: Not Applicable

11. PROCUREMENT AND CONTRACT MANAGEMENT

Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.

QUESTION

- a) Why did the Accounting Officer fail to comply with section 116(2)(b) of the MFMA**

Response: Contracts were monitored however at the departmental level and evidence thereof was submitted to AG through emails which were not formally documented. Thus far, a contract management committee has been established where contracts are monitored and reviewed on a monthly basis.

- b) Why was the performance of contractors or providers not monitored on a monthly basis, as required by section 116(2) (b) of the MFMA.**

Response: Contracts were monitored on a monthly basis, however were not formally documented through minutes of meetings which is what the AG required as evidence.

- c) Why were goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c).**

Response: Due to poor record keeping.

- d) Please give reasons for non-compliance with legislation on the above mentioned transactions.**

Response: Improper filing of documents on one folder resulted in that AG found transactions to be in contravention of the SCM regulation 17(a) and (c), sighting that the documents are not complete.

- e) On each transaction as identified by AG above, please indicate if there is any action in place / measures to ensure compliance in all procurement and contract management transactions.**

- f) If yes, please provide proof.**

Response: Documents would be packaged on one folder and scanned, to ensure that even if there are missing documents, be retrieved from the scanned documents so as to ensure that they comply with the required legislations.

g) If not, provide reasons why measures cannot be put in place in this regard.

Response: Not Applicable

12. LEADERSHIP

The accounting officer did not review the financial statements and the annual performance report before submitting them for auditing. Management did not monitor adherence to the audit action plans in a timely manner. The accounting officer delegated the implementation of daily and monthly controls to management. However, the monitoring tools used by the accounting officer to monitor the implementation of these controls were not effective to identify challenges facing the municipality and to allow for timely corrective action where required.

QUESTION

a) Why did the Accounting Officer fail to review the financial statements and the annual performance report before submission for auditing?

Response: The municipality did review the financial statements and the annual performance report to the extent that the AG issued an improved audit outcome from disclaimer to qualification. Never the less, the misstatements identified are an indication that timeous review is required so that misstatements could be corrected internally.

b) Are there any plans in place to ensure that the financial statements and performance report are reviewed before submission?

Response: Draft AFS will be prepared timiously in order for a service provider (who will be appointed) to assist the municipality with the review. Audit Committee will continuously assist the Accounting Officer on the annual performance report before submission to Auditor General for auditing.

c) If yes, please provide proof.

Response: Plans are underway to appoint a Service Provider as per the attached Council Resolution marked as Annexure K. Service providers are being engaged on the matter.

d) If not, provide reasons why measures cannot be put in place in this regard

Response: Not Applicable.

13. FINANCIAL AND PERFORMANCE MANAGEMENT

AG found out that controls over daily and monthly processing and reconciliations were not implemented, resulting in inaccurate and incomplete financial statements and a performance report that was not supported by reliable supporting information.

QUESTION

- a) Why did the Accounting Officer fail to ensure that controls over daily or monthly processing and reconciliation were implemented to prevent inaccurate and incomplete financial and performance reports?**

Response: Due to limited supervision of the entire value chain. Furthermore, there were lack of systems in place to ensure a seamless completion of responsibilities from as basic as meter reading until management level.

- b) Are there any plans in place to ensure that controls over daily or monthly processing and reconciliation are implemented?**

Yes there are plans in place. The Deputy Manager Income has been appointed and strict measures by the CFO have been put in place to ensure monthly reconciliation. Progress to date:

- Daily Reconciliations from July to February 2017 are completed.
- Bank Reconciliation from July to December 2016
- Reconciliation of Prepaid system and Munsoft is 80 % complete
- Creditors reconciliation done monthly
- Valuation roll to the Billing System underway

Furthermore, the municipality will be cascading PMS to Deputy Managers who will be tasked and assessed in so far as ensuring reconciliations are performed.

- c) If yes, please submit proof.**

Response: See the Attached marked as Annexure L.

14. GOVERNANCE

According to AG, recommendations were made to management on improvements to the internal controls to ensure reliable reporting of both financial and performance information as well as compliance with legislation. However, this did not result in an improvement in the controls due to management not implementing the recommendations, which led to the adverse assessment of the impact of this unit and committee.

- a) Why did the Accounting Officer fail to ensure that management implements the recommendations by Internal Audit and the Audit Committee?**

Response: It be noted that some recommendations of both Internal and Audit Committee were implemented however, others could not be completed due to shortage of staff.

- b) Are there any measures put in place to ensure that recommendations are implemented?**

Response: Yes, An Audit resolution register has been developed and progress is measured against the register. Senior Manager's performance is also measured against implementation of Audit and Risk Management resolutions. Section 79 plays oversight on Council resolutions.

c) If yes, please submit proof.

Response: See Attached marked as **Annexure M** copy of Audit Committee agenda and SDBIP for the CFO.

-----END-----