

EMAKHAZENI LOCAL MUNICIPALITY



2013/2014 OVERSIGHT REPORT

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1. PURPOSE OF THE REPORT

The main purpose of this report is to recommend to Council the consideration of the 2013/14 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 determines 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. Submission 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 2013/14 financial year was tabled in the Council at its meeting held on 29th January 2015 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 29 January 2015, Council resolved:

- a) That the Annual Report of Emakhazeni Local Municipality, inclusive of the Annual Financial Statements and the report of the Auditor-General for the 2013/2014 financial year, *be noted*.
- b) That the report *be referred* to the Municipal Public Accounts Committee (MPAC) for the oversight process as contemplated in section 129 of the Municipal Finance Management Act.
- c) That the Municipal Public Accounts Committee *report back* to Council by no later than the end March 2015 as required by section 129 of the Municipal Finance Management Act.

3. PROCESSES FOLLOWED BY MPAC

The MPAC adopted the following approach:

The Committee inspected the municipality's 2013/14 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.
- Performance of the consultants appointed was not incorporated in the draft tabled annual report. Corrections were also made.

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

MPAC invited Office of Auditor-General for a brief overview on the audit outcome and other findings in respect of municipality's 2013/14 financial year. The meeting was held on the **10th March 2014**.

Public Hearings:

The Committee conducted the public hearing session on the 19th March 2015. Minutes are attached as **Annexure B**. Auditor General of South Africa (AGSA) representatives also attended the public hearing session.

Auditor General of South Africa (AGSA) acknowledged the work done by MPAC and indicated its intention to support the municipality with regard to Performance Management System (PMS) in general by offering training on PMS. The matter is receiving attention and progress will be reported to Council.

MFIP II Technical Advisor from the National Treasury deployed to the municipality was also invited and issues of compliance were also discussed.

4. CONCERNS OF MPAC:

The municipality received a disclaimer of opinion for 2013/14 financial year whereas Consultants were in place to assist in improving the municipality performance especially in Asset Management. This is an indication of lack of monitoring of Consultant's activities.

Management must refrain from outsourcing functions that cannot be closely monitored internally, and rather request support from Provincial Treasury (PT) COGTA or District Office.

MPAC is very much concerned about municipality's failure to manage Performance Management as required, and as a result, an agreement was reached with Office of the Auditor General with regard to offering PMS training to the municipality. Training date will be announced very soon.

Time taken to fill up key positions especially in Finance , renders the municipality ineffective since acting officials most of the time will not commit themselves like full time owners of the positions would do and this lead to uncontrolled budget spending in these departments.

MPAC Office does not have resources to perform its administrative functions. A provision must be made for the committee's budget that will cover the following items amongst others:

- Appointment of a Researcher in the MPAC office.
- Procurement of relevant documents that will support the committee in delivering its mandate such as set of Local government legislation pack, etc.

5. GENERAL COMMENTS ON THE CONTENT OF THE ANNUAL REPORT

- All Councilors should play an active role in the review of the tabled Annual Report.
- Efforts should be made to include public participation in the review of annual report.

6. RECOMMENDATIONS

MPAC resolves that:-

- a) Council having fully considered the 2013/14 financial year's annual report of the Emakhazeni Local Municipality adopts the oversight report.
- b) Council approves the annual report without reservations.

- c) 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 wishes 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

Basis for disclaimer of opinion

1. Non-disclosure of going-concern uncertainty

According to Auditor General for at least the past three years, the municipality has incurred material net losses, and its current liabilities have materially exceeded its current assets. This situation indicates the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern. Therefore the municipality may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements and notes thereto do not fully disclose this fact.

- a) Why did the Accounting Officer fail to disclose the municipality's going concern uncertainty in the financial statements and notes?**
- b) Is there any action taken to address the municipality's going concern uncertainty.**
- c) If yes, please provide proof.**
- d) If not, provide reasons for not having taken an action to address the municipality's going concern uncertainty.**

ANSWER

- a) The Accounting Officer did disclose the municipality's going concern uncertainty in the financial statements under Accounting Policies. See attached copy.**
- b) Yes, there are actions taken to address the municipality's going concern uncertainty, and these are the following amongst others.**
 - o Municipality is in process of reviewing Revenue Enhancement Strategy.**
 - o The municipality is also in the process of reviewing its Tariff Structure to ensure that they are cost reflective.**
- c) Attached is the copy of accounting policies and draft Tariff Policy.**

2. Property plant and equipment

Auditor General states that they could not obtain sufficient appropriate audit evidence for property, plant and equipment. They were again unable to confirm property, plant and equipment by alternative means, due to unexplained differences of R11 410 370 between the asset register and the financial statements.

In terms of GRAP 17, *property, plant and equipment*, an entity shall recognise the item of property, plant and equipment that qualifies for recognition as assets in the financial statement. Contrary to this requirement, the municipality did not recognise all assets in its financial statements, as selected assets could not be traced to the asset register. In addition,

some of the assets' depreciable replacement cost was not accurately accounted for. I was not able to determine the full extent of the understatement of property, plant and equipment, as it was impracticable to do so.

Consequently I was unable to determine whether any further adjustments were necessary relating to the property, plant and equipment of R469 613 733 (2013: R496 959 366) disclosed in the statement of financial position and note 4 to the financial statements.

- a) Why did the Accounting Officer fail to provide AG with sufficient audit evidence for PPE.
- b) Why was there a difference of R 11 410 370.00 between the asset register and the financial statements.
- c) How is the Accounting Officer going to ensure that a) and b) mentioned above are addressed.
- d) Why did the Accounting Officer fail to implement GRAP 17?
- e) Is there any action taken to ensure that the municipality complies with GRAP 17.
- f) If yes please submit proof of action taken.
- g) If no, please give reasons why the municipality is unable to take a corrective action in this regard.

ANSWER

- a) The Accounting Officer could not provide AG with sufficient audit evidence for PPE because of misplaced documents.
- b) There was a difference of R 11 410 370.00 between the asset register and the financial statements because there was no proper hand over between consultant working for the municipality and Asset Unit.
- c) The Accounting Officer will ensure that:
 - i. Proper filing system is put in place to minimise the risk of misplacing documents.
- d) The Accounting officer could not fully comply with GRAP 17 due to lack of skill in Asset Management.
- e) Yes, National Treasury is on the process of assisting the Municipality by acquiring a professional service provider to assist in fully complying with GRAP 17.

3. Revenue

According to Auditor General the municipality did not always update its valuation roll with the values of the properties affected by re-zoning during the financial year. The accounts in the general ledger could not be found in the valuation roll and some of the properties in the valuation roll were not included as rateable properties in the accounting records. Property owners on the valuation roll also differed from the ones captured in the financial system of the municipality. Furthermore, electricity customers were not billed throughout the year. I was unable to confirm property rates and service charge revenue by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary relating to property rates and services charges of R54 522 901 and R64 938 340, respectively, disclosed in the statement of financial performance and note 20 and 21 to the financial statements.

- a) **Why did the Accounting Officer fail to update municipal valuation roll with the values of the properties affected by re-zoning during the financial year 2013/2014.**
- b) **Why some of the accounts in the municipal General Ledger could not be found in the valuation roll during auditing.**
- c) **Why were some of the properties in the municipal valuation roll not included in the accounting records as rateable properties?**
- d) **Why were some of the property owners on the valuation roll differed from the ones captured in the financial system of the municipality.**
- e) **Why were some of electricity customers not billed throughout the year.**
- f) **Is there any action taken to address queries a) to e) above.**
- g) **If yes provide the proof of action taken, and**
- h) **If no, please provide reasons why an action is not taken to address the above mentioned issues.**

ANSWER

- a) **The Accounting Officer could not update municipal valuation roll with the values of the properties affected by re-zoning during the financial year 2013/2014 due to lack of communication between Town Planning, Finance and the Municipal Valuer for the production of Supplementary Valuation Roll.**
- b) **Some of the accounts in the municipal General Ledger could not be found in the valuation roll during auditing because they are tenants and not the property owners.**

- c) Some of the properties in the municipal valuation roll were not included in the accounting records as rateable properties because of lack of supervision for the work done by the service providers (Munsoft) and non-monthly reconciliations between Billing System and Valuation Roll.
- d) Some of the property owners on the valuation roll differed from the ones captured in the financial system of the municipality because of the regular property transfers between owners.
- e) Some of electricity customers were not billed throughout the year because conventional meters were not disconnected on the system after prepaid meters were installed due to lack of proper communication between Technical and Finance department.
- f) Yes, there are actions taken to address issues from a) to e). The table below depicts actions taken so far in this regard.

a) Rezoned Properties	b) c) and d) Difference between GL / Valuation Roll / Deeds Registry	e) Electricity Consumers not billed throughout the year.
<p>A good working relationship between Finance and Town Planning is established.</p> <p>Building Inspectors provided with templates to populate monthly with all approved rezoned properties.</p> <p>All building plans approved for property development from July 2014 will be tracked.</p> <p>All Certificates of Occupation issued from July 2014 will also be tracked.</p> <p>The whole information will be submitted to the Municipal Valuer for valuation and production of a Supplementary Valuation Roll.</p> <p>Approved Building Plans Templates are attached.</p>	<p>An agreement between Finance and Town Planning was that access to Deeds Registry information will be extended to Finance staff so that accurate monthly reconciliations must be performed.</p> <p>Application for extra licences will be made for Finance Staff.</p> <p>Comprehensive Monthly Recon Template between GL, Valuation Roll and Deeds Registry is established and distributed to all satellite offices.</p> <p>Corrections are already made on the Billing system.</p> <p>GL/ Valuation Roll / Deeds Registry Reconciliation Template is attached.</p>	<p>Establishment of a good working relationship between Finance and Technical Department is in process.</p> <p>Finance's Draft Internal Control and Procedure Manual (ICPM) makes a provision for submission of all billing related information to Finance by Technical Services, such as:</p> <ul style="list-style-type: none"> ○ Any changes in water or electricity meters. ○ Newly installed meters etc. <p>Draft Finance Internal Control and Procedure Manual (ICPM) is attached.</p>

4. Traffic Fines

The municipality did not recognize traffic fine revenue on the accrual basis in accordance with iGRAP 1 *Applying the probability test on initial recognition of exchange revenue*. The municipality recognized traffic fine revenue on a cash basis. I was not unable to determine the full extent of the understatement of revenue from traffic fines adjustments were necessary to the revenue from fines of R9 206 921 disclosed in the statement of financial performance.

- a) **Why did the Accounting Officer fail to recognize traffic fines revenue on the accrual basis in accordance with IGRAP 1.**
- b) **Is there any action taken to correct the accounting treatment of municipal traffic fines.**
- c) **If yes, please provide proof.**
- d) **If no, please provide reasons why an action is not taken to address the above mentioned issues.**

ANSWER:

- a) **The Accounting officer could not recognise traffic fines on the accrual basis because the Accounting Standard Board (ASB) revised the accounting treatment of traffic fines in 2012, the IGRAP 1, applying the Probability Test on the Initial Recognition of Revenue to include revenue from non-exchange transactions. This amendment became applicable to municipalities from 1 July 2013. It was an oversight from management and traffic fines will now be treated accordingly.**
- b) **Yes, there are actions already taken by management to correct the accounting treatment of traffic fines and these are ;**
 - **Sessions were held with Revenue staff on Accounting Guidelines on Traffic fines released by National Treasury in July 2014, to assist municipalities in implementing IGRAP1.**
 - **A good working relationship has been established between Community Services (Traffic) and Finance.**
 - **Copies of all traffic fines from July 2013 and proofs of payments have been submitted to Finance by Traffic Section and will be done on monthly basis.**
 - **Attached hereto is the Accounting Guidelines on Traffic Fines and copies of traffic fines received from Community Services.**

5. Receivables

Auditor General was unable to obtain sufficient appropriate audit evidence for receivables from exchange and non-exchange transactions. I was unable to confirm the receivables from exchange and non-exchange transactions by alternative means as the assumptions used in estimating the impairment of debtors could not be provided for auditing. Furthermore, the municipality did not recognize all its debtors in the financial statements, as selected debtors could not be traced to the debtors listing. Consequently, I was unable to determine whether any further adjustments were necessary relating to receivables from exchange and non-exchange transactions of R24 074 809 and R33 064 241 (2013: R30 968 246 and R15 844 245) respectively, disclosed in the statement of financial position and notes 10 and 11 to the financial statements.

- a) **Why did the Accounting Officer fail to provide sufficient audit evidence for receivables from exchange and non-exchange transactions?**
- b) **According to AG, selected debtors for auditing purposes could not be traced to the debtors listing. Why are some of the municipal debtors not in the debtors listing?**
- c) **Is there any action taken to address the above situation.**
- d) **If yes, please provide the proof.**
- e) **If no, please provide reasons why an action is not taken to address the above mentioned issues.**

ANSWER

- a) **Unforeseen circumstances was experienced by the municipality which made it difficult to effectively communicate with the Auditor General as the information was submitted but it was not explained to Auditor General**
- b) **Selected debtors were not found on the debtors listing as they were classified under sundry debtors in the AFS**
- c) **The municipality will ensure that all the supporting documents for each transaction on the Annual Financial Statements are included in the audit file.**

6. Cash flow

Auditor General was unable to obtain appropriate audit evidence to determine whether the cash flow statement was fairly stated, due to numerous items contributing to the disclaimed opinion that affected the items in the statement of financial position and the statement of financial performance. Furthermore, the municipality included in its cash flows from investing activities donated assets to the value of R7 636 587 as though they had been purchased by

the municipality. Consequently, the cash and cash equivalents was understated by the same amount.

- a) Why did donated assets to the value of R7 636 587.00 included in the cash-flow from investing activities as though they had been purchased by the municipality.
- b) Is there any action taken to prevent this from occurring in future.
- c) If yes, provide proof.
- d) If no, please provide reasons why an action is not taken to address the above mentioned issue.

Answers

The inclusion of the donated assets in the cash flow from investing activities was based on the increase of assets for investing purposes by the municipality. Corrections will done in line with GRAP Guidelines

7. Distribution losses

According to Auditor General, Section 125(2) (d) of the MFMA requires that the notes to the financial statements must disclose particulars of any material losses. Distribution losses of R8 202 400 were disclosed at zero in note 47 to the financial statements. This resulted in an understatement of the distribution losses in note 47 to the financial statements by R 8 202 400.

- a) Why did the Accounting Officer fail to disclose distribution losses of R8 202 400 in the financial statements.
- b) Is there any action taken to stop non-disclosure of distribution losses in the financial statements in future.
- c) If yes, please provide proof.
- d) If no, please provide reasons why an action is not taken to address the above mentioned issue.

Answers

The lack of capacity led to the failure to disclose distribution losses. This matter will have to be corrected on an ongoing basis.

8. Irregular expenditure

Auditor General found that irregular expenditure of R14 564 000 identified during year was not disclosed in note 45 to the financial statements, resulting in an understatement of irregular expenditure.

- a) **Why did the Accounting Officer fail to disclose irregular expenditure of R 14 564 000.00 identified during the year in note 45.**

According to AG, Section 170 of the MFMA requires that irregular expenditure resulting from non-compliance with the MFMA can only be condoned by the National Treasury. Irregular expenditure amounting to R3 400 973 was incorrectly condoned by the municipality, although it is not the relevant condoning authority. As a result, the irregular expenditure disclosed in the financial statements was further understated by R3 400 973.

- b) **Why did the municipality incorrectly condone the irregular expenditure of R3 400 973.00.**
- c) **Is there any action taken to prevent this from occurring in future.**
- d) **If yes, please submit proof.**
- e) **If no, please provide reasons why an action is not taken to prevent this action from occurring in future.**

ANSWER

- a) **The Accounting Officer did disclose irregular expenditure of the amount of R3 400 973. For the prior year R 1 736 285.**

During the audit the auditor general picked up other irregular expenditure that was not identified during the year.

- b) **The municipality was of the view that since the irregular expenditure was the results of cash flow problems, then Council could condone as they are aware of the financial challenges faced by the Municipality**
- c) **Yes, there is an action taken to prevent this from occurring in future and these are:**
- o **The municipality has introduced a register of irregular expenditure.**
 - o **Irregular expenditure identified during the year will be treated in line with MFMA section 32.**
- d) **Attached is the Register of irregular expenditure already reported to council for further investigation.**

9. Aggregation of immaterial uncorrected misstatements

According to AG, financial statements as a whole were materially misstated due to the cumulative effect of numerous individually *immaterial uncorrected* misstatements in the following elements making up the statement of financial position, the statement of financial performance and notes to the financial statements:

- i. Expenditure reflected as R 223 265 222 was overstated by R 3 247 513.
- ii. Revenue reflected as R 199 525 305 was understated by R 9 363 460.
- iii. Employee related cost reflected as R60 499 221 was understated by R570 000.
- iv. Property, plant and equipment reflected as R469 613 733 was overstated by R8 967

- 167.
- v. Inventory reflected at R2 149 601 was overstated by R441 072.
 - vi. Value-added tax payables reflected at R5 606 623 was overstated by R2 764 772.
 - vii. Receivables from non-exchange transactions reflected at R33 064 241 were understated by R319 700.
 - viii. Commitments reflected at R2 749 923 was understated by R810 000.
 - ix. Deviations from procurement processes reflected at R3 400 973 were overstated by R93 964.
 - x. Payables reflected as R 89 612 080 were understated by R 7 473 664.
 - xi. Contingent liabilities reflected as R 4 740 774 were understated by R 5 769 000.
 - xii. Related parties reflected as R 0 were understated by R 1 865 000.

- a) **Why did the Accounting Officer fail to correct the above listed immaterial items from roman figure i to xii during audit.**
- b) **Is there any action taken to ensure that immaterial items identified during audit are corrected before audit is completed.**
- c) **If yes, please provide proof.**
- d) **If no, provide reasons why remedial action cannot be taken.**

Answers:

- (a) **Due to the unforeseen circumstances that the municipality faced during the audit, we were unable to submit a revised set of Annual Financial Statements addressing the above findings**
- (b) **Currently the municipality is reviewing the above issues to correct as prior year error.**
- (c) **See the attached journal attached.**

10 Material impairments

According to Auditor General, as disclosed in note 10 and 11 to the financial statements, the receivables balance was significantly impaired. The impairment of consumer debtors amounted to R R90 456 581 (2013: R59 231 123), which represented 81% (2013: 69%) of the total consumer debtors. The contribution to the provision for debt impairment was R31 225 459 (2013: -R8 742 327).

- a) **Why did the Accounting Officer significantly impair the receivables balance?**
- b) **Is there any action taken to ensure accurate impairment of receivables at any reporting period?**
- c) **If yes, please provide proof.**
- d) **If no, provide reasons why remedial action cannot be taken to ensure accurate calculation of impairment.**

Answers

- (a) Based on the collection rate and the increased in the debtor's book of the municipality, an assumption was then utilised that had the significant impairment.
- (b) The municipality is in the process of developing debt impairment policy which will guide the processes of debt impairment

11 Unaudited supplementary schedules

According to AG, supplementary information set out on pages ... to ... did not form part of the financial statements and was presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

- a) Why did the Accounting Officer presented to AG additional information for auditing and not simultaneously with financial statements.
- b) Is there any action taken to prevent the occurrence of this nature in future?
- c) If yes, please submit proof.
- d) If no, provide reasons for not putting remedial action in place to avoid recurrence of submission of information to AG in piece-meal for auditing.

Answer:

At the time of audit, there was a strike action in the municipality. This matter will have to be corrected in 2014/2015 financial year.

12 Unaudited disclosure notes

According to AG, in terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly AG could not express an opinion thereon.

- a) Why did the Accounting Officer fail to comply with section 125(2) of the MFMA?
- b) Is there any action taken to ensure compliance with section 125 (2) of the MFMA.
- c) If yes, please provide proof.
- d) If no, provide reasons why remedial action cannot be taken to ensure compliance with section 125(2) of the MFMA.

Answer:

Disclosure was not made in terms of MFMA due to lack of capacity. This will have to be corrected on an ongoing basis.

13. Consistency of objectives, indicators and targets

According to AG, section 41(c) of the Municipal Systems Act of South Africa, 2000(Act No. 32 of 2000) 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. ***A total of 42% of the targets were not consistent with those in the approved annual performance, integrated development plan, service delivery and budget implementation plans. This was due to lack of monitoring and review by the management.***

- a) Why did the Accounting officer fail to monitor and review the performance information to ensure that performance targets were consistent with those in the approved annual performance, integrated development plan, service delivery and budget implementation plans?**
- b) Is there any mechanism put in place to ensure consistency of targets in the IDP, Budget, SDBIP and approved annual performance.**
- c) If yes, please submit proof.**
- d) If not, provide reasons why mechanisms cannot be put in place to prevent reoccurrence of this issue.**

Answers

- (a) Lack of capacity, however, corrections were made during the audit but unfortunately other departments could not finalize the corrections due to disturbances in the operations of the municipality.**
- (b) The municipality engaged other departments/municipalities for assistance and further discussed the matter in detail during the strategic planning session.**
- (c) IDP 2015/2016, draft Budget 2015/2016 and draft SDBIP's 2015/2016.**

14. Reliability of reported performance information

According to AG, the FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Auditor General was unable to obtain the information and explanations considered necessary to

satisfy himself as to the reliability of the reported performance information. This was because the municipality could not provide sufficient appropriate evidence in support of the reported performance information and the municipality's records not permitting the application of alternative audit procedures.

- a) **Why did the Accounting Officer fail to provide sufficient appropriate evidence in support of the reported performance information to AG during audit?**
- b) **Why is there no appropriate systems to collect, collate, verify and store performance information in the municipality to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.**
- c) **Is there any action taken to correct a) and b) above.**
- d) **If yes, please provide proof.**
- e) **If not, provide reasons for not putting in place a remedial action to avoid recurrence of a and b above.**

Answers

- (a) **Evidence could not be submitted on time due to the fact that records management is not centralized and some of the records were misplaced during the March/May 2014 strike.**
- (b) **The information is stored, however, the challenge is the unavailability of enough storage space.**
- (c) **The municipality is the process of upgrading the storage area in order that records management can be centralized and stored properly.**
- (d) **Storage area behind Beyers Naude Hall**
- (e) **N/A**

Compliance with legislation

15. Strategic planning and performance management

According to AG, the municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.

The annual performance report for the year under review did not include the performance of the municipality, a comparison with the previous financial year, and measures taken to improve performance, as required by section 46 (1)(a)(b) and (c) of the MSA.

- a) **Why did the Accounting Officer fail comply with section 40 of the MSA.**
- b) **Why did the Accounting officer fail to ensure that the annual performance report for the year under review do include the performance of the**

municipality, a comparison with the previous financial year, and measures taken to improve performance, as required by section 46 (1)(a)(b) and (c) of the MSA.

- c) Is there any action taken to correct a) and b) above.
- d) If yes, please provide proof.
- e) If not, provide reasons for not putting in place a remedial action to avoid recurrence of a and b above.

Answers

- (a) Lack of capacity as well as the fact that the municipality did not have a performance management unit.
- (b) Lack of capacity, the municipality submitted the Annual Performance Report and the Annual Report, which did not include a comparison with the previous year, as separate reports.
- (c) The municipality appointed a Performance Management Officer who is busy with a process of reviewing the Performance Management Framework. Corporate Services department is tasked to review the 2013/2014 Annual Report and include a comparison with the previous financial year.
- (d) N/A
- (e) N/A

16. Budgets

AG found out that expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

- a) Why did the Accounting Officer allow expenditure in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
- b) Is there any action taken to correct or prevent unauthorised expenditure.
- c) If yes, please provide proof.
- d) If not, provide reasons for not putting in place any remedial action to avoid recurrence of a) above.

Answers

- (a) The budget vote was exceeded due to the high rate of collection by TMT, it was then above the anticipated revenue.
- (b) Nothing has been done as this assists the financial position of the municipality.

17. Annual financial statements, performance report and annual report

According to AG, the financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not subsequently be provided, which resulted in the financial statements receiving a disclaimed audit opinion.

- a) **Why did the Accounting Officer allow the submission of financial statements that are not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act for auditing which eventually resulted in receiving a disclaimed opinion?**
- b) **Is there any action taken to correct or prevent unauthorised expenditure.**
- c) **If yes, please provide proof.**
- d) **If not, provide reasons for not putting in place any remedial action to avoid recurrence of a) above.**

Answer

- (a) The Accounting Officer submitted financial statement that were also reviewed by external reviewer and the Audit Committee and after taking into consideration Audit Committee's recommendation and the external reviewers comments, it was then submitted to AG.**
- (b) The finance team is attending training and managing the trial balance**

18 Procurement and contract management

According to AG, sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as two tender documents were not submitted for audit, two quotations were not submitted for audit and two contracts were not submitted for audit.

Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).

The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1) (a).

Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.

Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).

- a) **Why did the Accounting officer fail to comply with procurement and contract management?**
- b) **Does the municipality have Supply Chain Management Policy?**
- c) **Are procurement and contract management procedures in place to ensure effective implementation of the SCM Policy and Regulations?**
- d) **If yes, submit the proof.**
- e) **If not, provide reasons why SCM policy, procurement and contract management procedures are not in place.**

ANSWER

- a) **The Accounting officer fail to comply with procurement and contract management because documents requested by Auditor-General were not submitted due to ineffective record keeping system that the Municipality have, as it is very difficult to trace documents filled and processed.**
- b) **Yes.**
- c) **Yes,**
- d) **We are about to finalise the system of internal controls, processes and procedures.**

19. Human resource management and compensation

According to AG, the planning and development manager, CFO, manager corporate service and technical service was appointed without having met the prescribed minimum competency levels as required by section 56(1) (b) of the Municipal Systems Act.

- a) **Why did the Accounting Officer fail to comply with Municipal Regulations on Minimum Competency Levels Regulation? Gazette nr : 29967**
- b) **Are there any plans in place to ensure compliance with the above mentioned regulation?**

ANSWER

- a) Due to the size and location of the municipality, the municipality fails to attract persons with suitable skills, e.g. the Municipal Manager who was appointed in December 2013 and worked for four (4) days and resigned. The municipality was busy with the process of training Senior Managers and Finance officials, See Annexure A. Further, it must be noted that the Minister granted a period of exemption on the requirements of minimum competency levels for financial and supply chain management officials for a period starting from 01 April 2014 to 30 September 2015, the exemption by the Minister has been interpreted as to mean that the exemption covers the CFO and other Senior Managers as they also deal with financial management. See Annexure B .
- b) Yes, the training of the relevant officials started in 2012/2013 financial year, others have completed and others still have outstanding modules. The current training conducted by Kgolo Institute started early in 2014 and only four (4) modules are outstanding. The training is being attended by three female Managers (Former Municipal Manager, Deputy Manager Budget/Financials & Manager Community Services), two male managers (Manager Technical Services & Former Deputy Manager: SCM). The municipality has compiled a list/program for Managers and other officials for training in meeting the minimum competency levels requirements. An advertisement has been prepared by SCM for accredited service providers to train officials as per the list attached as Annexure C.

AG, further indicates that an acting municipal manager was appointed for a period of more than six months in contravention of section 54A (2A) 56(1) (c) of the Municipal Systems Act.

- a) Why was the acting municipal manager appointed for a period of more than six months in contravention of section 54A (2A) 56(1) (c) of the Municipal Systems Act.
- b) How is the municipality intending to ensure that in future it comply with section 54A (2A) 56(1) (c) of the Municipal Systems Act.
- a) Despite advertising the post several times, the municipality could not find a suitable candidate and the only two suitable candidates given offers of employment on different occasions, one declined (Mr. Zimbwa) and one only worked for four (4) days (Mr. Mkhefa). However, it should be noted

that for the period under review, the MEC for Local Government granted approval that Mrs. Shoba be seconded as Acting Municipal Manager with effect from 1 June 2013 until the post was properly filled as provided in terms of section 54A (6) (a) of the Local Government: Municipal Systems Amendment Act, 2011 See Annexure D. The post was filled on 20 March 2014.

- b) In view of the above explanation, the municipality complied with the relevant Act, however, it should be noted that the municipality is aware of the compliance issues in this regard and also consult with the Legal Section of Provincial COGTA for advice if in doubt, to ensure compliance with relevant Acts/Legislation/Regulations.

20. Revenue management

According to AG, an adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2) (e) 97(h) of the MFMA.

- a) As required by section 64(2) (e) 97(h) of the MFMA, does the municipality now, have an adequate management, accounting and information system which—
- (i) recognises revenue when it is earned;
 - (ii) accounts for debtors; and
 - (iii) accounts for receipts of revenue;
- b) If not, please indicate how the municipality is going to address the concern from AG Office in going forward to ensure that it complies with the above sections.

Answer

The municipality does have management, accounting and information system which recognise revenue when it is earned, accounts for debtors and accounts for receipts of revenue and currently it needs improvement. Currently we are reviewing all the revenue policies and preparing revenue reconciliations.

21. Expenditure management

According to AG, money owed by the municipality was not always paid within 30 days, as required by section 65(2) (e) 99 (2) (b) of the MFMA.

- a) Why did the Accounting Officer fail to comply with section 65(2) (e) 99 (2) (b) of the MFMA.

- b) Is there any plan put in place to ensure that the municipality complies with section 65(2) (e) 99 (2) (b) of the MFMA.
- c) If not, provide reasons why plans cannot be developed to ensure compliance with section 65(2) (e) 99 (2) (b) of the MFMA.

Answer

(a) The municipality does not comply with section 65(2)(e) 99(2)(b) of the MFMA due to financial constraints.

(b) To improve the collection of revenue

According to AG, reasonable steps were not taken to prevent unauthorised expenditure; irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1) (d) 95(d) of the MFMA.

- a) Why did the Accounting Officer fail to comply with section 62(1) (d) 95(d) of the MFMA?
- b) Are there any plans in place to ensure that steps are taken to prevent unauthorised expenditure; irregular expenditure and fruitless and wasteful expenditure?
- c) If yes, please provide proof.
- d) If not, give reasons why plans cannot be developed to ensure compliance with section 62(1) (d) 95(d) of the MFMA.

Answer

(a) Financial constraint led to none preventing of fruitless and wasteful expenditure.

(b) Yes, there is an action taken to prevent this from occurring in future by improving revenue of the municipality. SCM has introduce internal control / limitation of deviations to prevent recurrence of unauthorised expenditure

22. Asset management and liability management

According to AG, an effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2) (c) 96(2) (b) of the MFMA.

- a) Why did the Accounting Officer fail to comply with section 63(2) (c) 96(2) (b) of the MFMA.
- b) Are there any plans in place to ensure compliance with section 63(2) (c) 96(2) (b) of the MFMA.
- c) If yes, please submit proof.
- d) If not please provide reasons why the municipality cannot put plans in place to enforce compliance with section 63(2) (c) 96(2) (b) of the MFMA.

Answer:

- (a) The Accounting Officer has the accounting and information system in place but needs to be improve to be more efficient and effective.**
- (b) The municipality is reviewing all the current registers which are in place e.g. assets register.**

23. Consequence management

According to AG, unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

- a) Why did the Accounting Officer fail to comply with section 32(2) of the MFMA?**
- b) Are there any plans in place to ensure compliance with section 32(2) of the MFMA?**
- c) If yes, please submit proof.**
- d) If not please provide reasons why the municipality cannot put plans in place to enforce compliance.**

Answer:

- (a) The municipality was only focusing on the fruitless and wasteful expenditure which were due to financial constraint.**
- (b) Yes, there is an action taken to prevent this from occurring in future and these are:**
 - o The municipality has introduced a register of irregular expenditure.**
 - o Irregular expenditure identified during the year will be treated in line with MFMA section 32.**
 - o A committee has been established to deal with irregular expenditure**

Attached is the Register of irregular expenditure already reported to council for further investigation.

According to AG, the condonation of irregular expenditure was not approved by the appropriate relevant authority, as required by section 1 and 170 of the MFMA.

- a) Why did the Accounting Officer fail to comply with section 1 and 170 of the MFMA?**
- b) Are there any plans in place to ensure compliance with section 1 and 170 of the MFMA?**
- c) If yes, please submit proof.**
- d) If not please provide reasons why the municipality cannot put plans in place to enforce compliance.**

Answer

- a) **The municipality was of the view that since the irregular expenditure was the results of cash flow problems, then Council can condone as they know the financial challenges faced by the Municipality.**
- (b) **A committee has been established to investigate the irregular expenditure and based on the outcome of the investigation, a report will be drafted to the relevant authorities.**

According to AG, irregular, fruitless and wasteful expenditure was not always recovered from the liable person, as required by section 32(2) of the MFMA.

- a) **Why did the Accounting Officer fail to comply with section 32(2) of the MFMA?**
- b) **Are there any plans in place to ensure compliance with section 32(2) of the MFMA?**
- c) **If yes, please submit proof.**

If not please provide reasons why the municipality cannot put plans in place to enforce compliance.

Answer:

- (a) **The municipality was only focusing on the fruitless and wasteful expenditure which were due to financial constraint. There was nothing to recover from a liable person as it was due to cashflow problems**
- (b) **Yes, there is an action taken to prevent this from occurring in future and these are:**
- **The municipality has introduced a register of irregular expenditure.**
 - **Irregular expenditure identified during the year will be treated in line with MFMA section 32.**
 - **A committee has been established to deal with irregular expenditure**
- (c) **Attached is the Register of irregular expenditure already reported to council for further investigation.**

Internal control

24. Leadership

According to AG, the accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. The financial statements and annual performance report submitted for audit was subject to

material misstatement and the action plan developed was not adhered to and areas of concern addressed as required.

- a) Why did the Accounting Officer fail to exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
- b) Are there any plans in place to ensure that audit action plans developed are adhered to and areas of concern are addressed as required?
- c) If yes, please submit proof.

Answers

This matter will be corrected on an ongoing basis.

25. Financial and performance management

According to AG, controls over daily or monthly processing and reconciliation were not implemented resulting in the inaccurate and incomplete financial and performance report that is supported by reliable supporting information.

- 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?
- b) Are there any plans in place to ensure that controls over daily or monthly processing and reconciliation are implemented?
- c) If yes, please submit proof.

Answer

- (a) Daily reconciliation are done but the need to be improved**
- (b) The key position to be filled and training be provided to all staff**

-----END-----

CORRECTIONS TO BE EFFECTED IN THE 2013/2014 ANNUAL REPORT:

PAGE NR	COMMENTS
9	First sentence, remove (by) and leave (maintained internally.)
32	Water services Table: Amount of R 4812 650.82 for Adjustment budget seem to be very high, please check.
35	Sanitation services table- Amount for original budget is omitted, please correct
35	Waste water table: Target and Actual amounts are omitted unless otherwise
36	Electricity Table : Target and Actual amounts are omitted unless otherwise
39	Roads table : Indicator, targets and actuals omitted unless otherwise
41	Storm water table. No figures unless otherwise
154	Correct figures / formulas
155	Correct figures / formulas for year 0
160	Auditor General Report – Qualified or Disclaimer – Remedial Action Please check
176	Third Tier (Administrative) Structure - Administrative omitted in the second row

