



# Chapter 6

## INTRODUCTION

Note: The Constitution S188 (1) (b) states that the functions of the Auditor-General includes the auditing and reporting on the accounts, financial statements and financial management of all municipalities. MSA section 45 states that the results of performance measurement... must be audited annually by the Auditor-General.

## COMPONENT A

## AUDITOR-GENERAL OPINION OF FINANCIAL STATEMENTS YEAR -1

## 6.1 AUDITOR GENERAL REPORTS YEAR -1 (PREVIOUS YEAR)

<b>Audit Report Status</b>	<b>Unqualified</b>
<b>Findings</b>	<b>Remedial Action Taken</b>
Incorrect classification of Provision for Retirement bonus	Financial Statements has been changed retrospectively in order to remove the pro rata bonus provision.
AOPO targets not met	Improve monitoring on targets made.
Fraud Prevention Plan not reviewed regularly	Management engaged the Gauteng Provincial Forensic Services Unit (FSU) to assist the Sedibeng District Municipality in the process of reviewing the Fraud Prevention Plan. The process has started as there are ongoing meetings held on this issue.
Leave not properly administered	We will amend our Leave SOP's to include that: The captured leave forms must be referred, on a weekly basis, to the Assistant Manager; Workstudy and Quality Assurance for control purposes/verify correct capturing on the pay day system.
Award made to suppliers in which employees of Sedibeng have interest in those suppliers	Municipality will perform a follow up CAATS audit by their Internal Audit Department to ensure that the findings and any other future findings are cleared in line with the SCM regulations.
Security Management	More secure password parameters were requested from the service provider and will be loaded into the system.
User Access Management	A policy will be developed and procedures implemented to ensure compliance.
Information Technology service continuity	The DRP developed, approved and maintained by IT will form part of this BCP. BCP and risk management fall within the ambit of the Office of the Chief Operations Officer.

## 6.2 AUDITOR GENERAL REPORT YEAR 0

Auditor-General Report on Service Delivery Performance: Year 0*	
<b>Status of audit report**</b>	<b>Unqualified</b>
<b>Non-Compliance Issues</b>	<b>Remedial Action Taken</b>
<b>Operating deficit more than five percentage of revenue</b>	<p>The reduction has been reported to National Treasury as our revenue source diminished. It was based on this reason that the District Municipality implemented austerity measures over the last 4 years which is still in place (HR dashboard- attrition, leave management, etc.) and our Financial snapshot position of municipality performed monthly from the CFO's Office. The municipality performs daily, weekly and monthly cash flow reconciliations with projections to ensure that we are able to meet our obligations based on the grants received. The grants has been ring-fenced and are adequately apportioned for its main purpose. The municipality adopted a pro-poor budgeting approach and followed National Treasury budget guide as a principle for provision on depreciation and employee cost.</p> <p>In addition the anticipated unfunded mandate of R38,5 million for Emergency Medical services rendered to the Provincial Department of Health is still owed to Sedibeng District Municipality. Negotiations which ensued was to settle the amount of R25million in good faith to ensure that R19,25 million would be paid during the audit period under review and the balance payable in the 2014/15 financial year.</p>
<b>AOPO: Actual performance against targets not included in the annual performance report</b>	The actual performance against planned targets is available in the detailed Annual Performance Report in the Sedibeng District Municipality's electronic Performance Management System. The detailed Annual Performance Report 2013/14 was made available to the Auditor General, thus to be published in the SDM website.
<b>The valuation of the commitment note 27.2 as per the AFS is incorrect and the schedule of commitments is not complete</b>	The annual financial statements was corrected to ensure that the commitment note reflects all commitments at the correct amount. The municipality has adjusted the annual financial statements for the year ended as at 30 June 2014 to reflect only those commitments that are non- routine and none cancellable.
<b>Supplier Chain Management: Information not submitted for audit</b>	The outstanding information was subsequently provided to the auditors. The finding is resolved. It is recommended that the municipality implement controls to ensure that supporting documentations are readily available when requested by the auditors.
<b>AOPO: Budgeted amount is not included in the SDBIP for all objectives</b>	Actual budgeted amounts were captured in the SDBIP for all objectives.
<b>AOPO: Performance Indicators not Measurable</b>	SDM will integrate data in all three columns (Indicator, Unit of Measure and Target) in order to make indicators measurable.
<b>SCM: Amount paid to service provider exceeds the original contract amount</b>	Management partially agrees with the finding to the extent that the contracted amount was exceeded. It must however be noted that the scope of work for the Service Provider (Grant Thornton) was inadvertently extended given the new requirements which were

<b>Auditor-General Report on Service Delivery Performance: Year 0*</b>	
<b>Status of audit report**</b>	<b>Unqualified</b>
<b>Non-Compliance Issues</b>	<b>Remedial Action Taken</b>
	not originally part of the tender. The Audit Committee approved the annual internal audit plans which included the revised scope of work.
<b>Assets : Lease agreement incorrectly classified</b>	The lease agreement was incorrectly classified and therefore the financial statements were adjusted to correct the classification error. The financial statements were adjusted to take into account the finance lease and reverse the operating lease.
<b>SCM: Declaration of interest not submitted for audit</b>	Management will implement control measures to verify tax clearance and declaration of interest prior to releasing payment in terms of SCM Regulation 43 & 44.
<b>SCM: Three quotations not obtained</b>	In the instances where it was impossible to follow SCM procedures, approval was obtained from AO in terms of SCM Regulation 36 and the reasons therein duly recorded. Details are logged in the deviation register.  SDM shall implement controls to ensure that supporting documentations are readily available when requested by the auditors.
<b>SCM: Tax clearance not provided for audit</b>	Management will implement control measures to verify tax clearance and declaration of interest prior to releasing payment in terms of SCM Regulation 43 & 44.
<b>Information Technology Governance</b>	The service level agreements with the vendors will be reviewed and the recommendations of this report will be included in the revised agreements.  Regular monitoring and a proper definition of the service levels expected will be added to existing contracts through the office of the Director Legal. Contracts will be renewed through a formal review process and amended, where necessary, with the approval of both parties.  A biannual review of the performance of the service provider will be performed and will be a stipulation of the amended contract.

#### **AUDITOR GENERAL REPORT ON THE FINANCIAL STATEMENTS: YEAR 0**

AG's opinion on SDM: Unqualified status (See attached report).


#### **COMMENTS ON AUDITOR-GENERAL'S OPINION YEAR 0:**

The Sedibeng District Municipality welcomes the Unqualified opinion from the Auditor General, the second time in a row. This is a result of dedication and determination by all managers and employees of the municipality. As promised last year, we have initiated and implemented strategies to clear out all other matters as raised before, and as such remained on course.

#### **COMMENTS ON MFMA SECTION 71 RESPONSIBILITIES:**

Section 71 of the MFMA requires municipalities to return a series of financial performance data to the National Treasury at specified intervals throughout the year. The Chief Financial Officer states that these data sets have been returned according to the reporting requirements.

**Signed (Chief Financial Officer)**

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