

Chapter 6

CHAPTER 6 – AUDITOR GENERAL AUDIT FINDINGS

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)

Audit Report Status:	Unqualified
Findings	Remedial Action Taken
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	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.

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Audit Report Status:	Unqualified
Findings	Remedial Action Taken
suppliers	
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.

COMPONENT B: AUDITOR-GENERAL OPINION YEAR 0 (CURRENT YEAR)

6.2 AUDITOR GENERAL REPORT YEAR 0

Auditor-General Report on Service Delivery Performance: Year 0*	
Status of audit report**:	Unqualified
Non-Compliance Issues	Remedial Action Taken
Operating deficit more than five percentage of revenue	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. In addition the anticipated unfunded mandate of R38,5 million for Emergency Medical services rendered to the Provincial Department

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Auditor-General Report on Service Delivery Performance: Year 0*	
Status of audit report**:	Unqualified
Non-Compliance Issues	Remedial Action Taken
	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.
AOPO: Actual performance against targets not included in the annual performance report	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.
The valuation of the commitment note 27.2 as per the AFS is incorrect and the schedule of commitments is not complete	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.
Supplier Chain Management: Information not submitted for audit	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.
AOPO: Budgeted amount is not included in the SDBIP for all objectives	Actual budgeted amounts were captured in the SDBIP for all objectives.
AOPO: Performance Indicators not Measurable	SDM will integrate data in all three columns (Indicator, Unit of Measure and Target) in order to make indicators measurable.
SCM: Amount paid to service provider exceeds the original contract amount	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

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Auditor-General Report on Service Delivery Performance: Year 0*	
Status of audit report**:	Unqualified
Non-Compliance Issues	Remedial Action Taken
	not originally part of the tender. The Audit Committee approved the annual internal audit plans which included the revised scope of work.
Assets : Lease agreement incorrectly classified	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.
SCM: Declaration of interest not submitted for audit	Management will implement control measures to verify tax clearance and declaration of interest prior to releasing payment in terms of SCM Regulation 43 & 44
SCM: Three quotations not obtained	<p>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.</p> <p>SDM shall implement controls to ensure that supporting documentations are readily available when requested by the auditors.</p>
SCM: Tax clearance not provided for audit	Management will implement control measures to verify tax clearance and declaration of interest prior to releasing payment in terms of SCM Regulation 43 & 44
Information Technology Governance	<p>The service level agreements with the vendors will be reviewed and the recommendations of this report will be included in the revised agreements.</p> <p>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.</p> <p>A biannual review of the performance of the service provider will</p>

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Auditor-General Report on Service Delivery Performance: Year 0*	
Status of audit report**:	Unqualified
Non-Compliance Issues	Remedial Action Taken
	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)..... Dated

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON SEDIBENG DISTRICT MUNICIPALITY

Report on the financial statements

Introduction

1. I have audited the financial statements of the Sedibeng District Municipality set out on pages 1 to 44 , which comprise the statement of financial position as at 30 June 2014, the statement of financial performance , statement of changes in net assets and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's Responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Sedibeng District Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Funding of operations

8. Note 31 to the financial statements indicates that the Sedibeng District Municipality incurred a net loss of R 28 014 398 during the year ended 30 June 2014 and, as of that date, the municipality's current liabilities exceeded its current assets by R 59 855 797. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Significant uncertainties

9. With reference to note 28 to the financial statements, the municipality is a defendant in a number of lawsuits. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

10. As disclosed in note 29 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered in the financial statements of Sedibeng District Municipality during the year ended 30 June 2014.

Additional matter

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

Unaudited disclosure notes

12. 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 I do not express an opinion thereon.

Report on other legal and regulatory requirements

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected programme presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predefined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:
- Objective 1: Improving stakeholder relations through public participation on pages 8 to 19
 - Objective 2: The pursuit of efficient, accountable, co-operative governance pages 21 to 29
 - Objective 3: Promote and Develop the Tourism Sector pages 175 to 190
 - Objective 4: Create long term sustainable jobs, reduce unemployment, poverty and inequalities pages 175 to 190
 - Objective 5: Promote Residential Development and Urban Renewal pages 208 to 211
 - Objective 6: Plan for effective, efficient and sustainable infrastructure for water and sanitation, and provision of electricity pages 243 to 244
 - Objective 7: Implementation of effective and efficient environmental management in the Sedibeng District Municipality pages 229 to 236
 - Objective 8: Ensure the implementation of MHS programmes to reduce environmental health risks pages 245 to 249
 - Objective 9: Plan and develop accessible, safe and affordable public transport systems and facilities pages 248 to 249
 - Objective 10: Promote efficient movement of freight in the region pages 239 to 242
 - Objective 11: Render an efficient, effective and corruption free vehicle state registration and licensing service pages 239 to 242
 - Objective 12: Facilitate and coordinate internal and external HIV, AIDS and TB mainstreaming pages 163 to 166
15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. I evaluated the usefulness of the reported performance information to determine whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as

required by the National Treasury's *Framework for managing programme performance information*.

17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not raise any material findings relating to the usefulness and reliability of the reported performance information for the selected objectives.

Additional matter

19. I draw attention to the following matter:

Achievement of planned targets

20. Refer to the annual performance report for information on the achievement of planned targets for the year.

Compliance with legislation

21. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

22. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

Other reports

Investigations

23. An internal investigation was conducted at the request of the municipality, which covers the period 1 July 2013 to 30 June 2014. The investigation was initiated based on an allegation of the possible misuse of an executive director's position in the municipality. The investigation was still ongoing at the reporting date.

AUDITOR - GENERAL

Johannesburg

30 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence