



ANNEXURE D

Response to the Auditor General

SENQU MUNICIPALITY: RESPONSE TO THE AUDITOR GENERAL'S REPORT 2010 - 2011

The report which follows reflects Senqu Municipality's Response to the Auditor General Report on the Financial Statements for the year ended 30 June 2011.

PURPOSE

In terms of the Public Audit Act No. 25 of 2004 and s121 (3)(g) of the Municipal Finance Management Act, Act No. 56 of 2003, it is required that the particulars of any corrective action taken or to be taken in response to issues raised in the audit report, be included in the annual report of the municipality.

In responding to the Auditor-General's Report it must be noted that:

- Every reasonable and practical effort will be made to address the issues raised within the Audit Report and commitment is made to regard this as a matter of priority;
- Efforts made to address the deficiencies raised will be detailed through the development of an Audit Action Plan and these issues in the broadest sense will incorporate issues relating to:
 - o Internal controls;
 - o Legislative Compliance;
 - o Management of data; and
 - o Assignment of roles and responsibilities to ensure reporting compliance.

INTRODUCTION AND SUMMARY

Introduction

It must be noted that the Audit Action Plan has been drafted in order to deal with the matters raised by the Auditor General's report. It is noted that a number of issues raised were similar to those raised within the 2009/2010 Audit Report. This report will detail general and specific issues raised within the Audit Report for 2010/2011, while reflecting briefly on issues raised during 2009/2010.

Areas identified to be addressed

During **2009/2010** the following broad issues were identified as issues to be addressed:

- Electricity losses;
- Unauthorized expenditure due to the failure of management to institute effective internal controls;
- Fruitless and wasteful expenditure (due to distribution losses);
- Irregular expenditure (non-adherence to SCM processes and procedures);
- Late IDP submissions and a lack of performance targets;
- Performance agreements and performance evaluations of s57 managers not having been done;
- SDBIP not having been updated or approved timeously by the Mayor;
- Failure to provide a 3 year budget attached to the IDP;
- The municipal performance assessment not having been completed timeously;
- The manner in which the SDBIP targets were formulated and objectives contained within the IDP had not been written specifically and in a measurable format. Additionally the SDBIP and budget were not aligned to the IDP. Baseline data was often missing and performance targets were in many instances reflected as percentages and had no specific time lines making it extremely difficult to measure and assess accurately. Performance targets therefor did not measure the efficiency, effectiveness, quality and impact of the performance of the municipality;
- Expenditure was not always paid within 30 days;
- Expenditure was not always made within the approved budget;
- Expenditure did not occur within the prescribed SCM prescriptions and instances of waste less and fruitless expenditure and irregular expenditure were in evidence; and
- Management oversight was required to be enhanced; and
- Compliance with all internal controls required attention.

After examination of the issues highlighted during **2010/2011** it is noted that a number of areas requiring attention during **2009/2010** were not highlighted. By implication this would seem to indicate that these issues had been adequately addressed.

The following issues remain a cause for concern during 2010/2011 and appropriate action is required. These are detailed as follows:

- Electricity losses remain a challenge;
- There continue to be cases of unauthorized expenditure due to the failure of management to institute effective internal controls;
- Fruitless and wasteful expenditure and irregular expenditure while reduced, continues to be an issue;
- Alignment of the SDBIP and Budget to the IDP remains a challenge;
- The quality and manner in which performance targets are worded (in all performance documentation) continues to require attention. Performance targets are required to be written specifically and not simply presented as percentages;
- Baseline data is still required for many service delivery areas;
- The presentation, consistency of data and auditing of all performance information is required to be addressed and appropriate standards met; and
- Attention is required to be paid to ensuring compliance with basic timeframes that are legislated.

GENERAL AREAS OF CONCERN

More specific comments in response to the Auditor General's Report are detailed in the main-body of this report, **with specific reference to the numbering that appears within the Auditor-General's Report** (detailing the appropriate action that has or will be taken). It is therefore imperative that these reports are read together.

It is noted that Senqu Municipality was awarded an unqualified audit opinion with emphasis of matter by the Auditor-General. The matters raised and the resultant action taken and/or planned by the municipality are reflected as follows:

EMPHASIS OF MATTER

Restatement of corresponding figures

8. As reported, certain figures within the AFS were re-stated as a direct result of Directive 4 no longer being applicable. While this is acknowledged it is understood and accepted that this will no longer be an issue and corrections will no longer be required moving forward.

Material Losses

9. Electricity losses amounting to R3 million and R4,1 million respectively will result in concerted efforts being made to reduce losses. A formal implementation plan with heightened controls and monitoring will be developed and implemented accordingly.

Unauthorized Expenditure

10. Plans will be put into place in order to reduce and eliminate unauthorized expenditure. This will involve a specific procedures to be followed and strict guidelines to be implemented on the manner in which expenditure is authorized (through SCM policy and procedure). Disciplinary action is to be taken in all instances where adherence to the policy and procedures does not occur and all related staff will be work shopped/kept informed of the latest developments and updates within these areas.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Presentation of information

14. While it is acknowledged that challenges were experienced in the alignment of the annual performance report to the SDBIP and Budget, it must also be acknowledged and understood that during the IDP review a number of discrepancies were identified between the information contained within the 2009/2010 IDP and the 2010/2011 IDP. The SDBIP's (Service Delivery Budget and Implementation Plans) and performance scorecards for both of these periods were in turn developed from these IDP's and discrepancies have in turn been carried forward as a result. For these reasons it is fair to conclude that the development and population of performance targets and alignment of the SDBIP to the IDP/Budget and SDBIP reporting remains an intense challenge and this has in turn impacted on the quality of the annual performance report and its alignment to the SDBIP and IDP.

We dispute the allegations that there were no satisfactory audit procedures that could be performed to obtain the required assurance as to the validity, accuracy and completeness of the reported performance against predetermined objectives. While challenges do exist, audit procedures have been created. Quarterly SDBIP reporting was conducted and this reflected actual performance as against the planned performance targets.

Progress has been achieved in that: an Integrated Planning & Compliance Manager has been appointed; an Internal Auditor has been appointed; the Internal Audit Unit is functional; and an Internal Audit Plan was developed and approved by the Audit Committee. The role and function of this unit is to facilitate compliance in the manner in which reporting is conducted and the manner in which policies and procedures are conducted. Efforts are continuously made to evaluate performance and functioning within departments and to advise them of important dates and on the type of reporting / information required from departments. This unit focuses on the facilitation of compliance issues.

Notwithstanding these appointments and the units responsibility it is acknowledged that improvement overall is required and this is to a large extent necessitated by the need for management to treat these issues as a matter of priority, rather than an issue of compliance.

Greater controls will be instituted within the new financial year.

Usefulness of information

15. An element of weakness does exist in the degree of consistency between the objectives, indicators and targets between the planning and reporting documents. Special attention and auditing of these issues will take place with all future development of documents; and

Greater attention will be paid to the manner in which targets and measures are defined in all planning documents so as to ensure that these are developed according to accepted SMART principles (i.e. these will be written to ensure that they meet the criteria of being: Specific, Measureable, Achievable, Realistic and Time-bound).

Reported Indicators are not consistent when compared with planned indicators (Consistency)

16. Discrepancies between the 2009/2010 and 2010/2011 IDP's have impacted and contributed towards the issue of consistency between the SDBIP and IDP. With the development of the new 5 year IDP and improved measurements and targets, efforts to ensure consistency when developing the new SDBIP's will be greatly enhanced.

Planned and reported indicators are not verifiable (Measurability)

17. Indicators for the new financial year will be written according to the SMART principles and percentages will only be used in instances where these are quantifiable and appropriate to the targets being measured. Baseline data will be captured wherever this is possible. In instances where this cannot be currently captured, steps will be put into place to ensure that this data is recorded and will receive priority.

Reliability of information

- 18-19. In order to address the deficiencies raised regarding the validity, accuracy and completeness of the performance information reported, performance outputs will be clearly stated in the annual performance report. The manner in which targets are defined will be written according to the SMART principles and appropriate controls to measure actual performance will facilitate reporting of performance outputs.

COMPLIANCE WITH LAWS AND REGULATIONS

Strategic and Performance Management

20. The Accounting Officer is to be held accountable for the submission of the municipalities performance assessment during the first half of the financial year (to the Mayor, National Treasury and Provincial Treasury as per s72 (1)(b) of the MFMA). Managers are to be held accountable within all departments regarding performance reporting and failure to meet required timeframes will be strictly addressed. The role of the Accounting Officer in respect of the performance report is merely one of "coordinator" and to report on accounting issues.

Budget

21. Strict adherence to the Supply Chain Management Policy and approved budget will occur and no over-expenditure will be condoned. Regular reporting is to be provided (monthly) and reconciliations conducted monthly.

Annual financial statements, performance and annual report

22. The annual financial statements are to be prepared with strict adherence to the requirements of s122 of the MFMA.
23. The 2010/2011 Annual Report is to be tabled timeously to the Council by the Mayor (within seven months after the end of the financial year) as per s127(2) of the MFMA.
24. The Mayor has provided the required written account detailing the reason for the late tabling / submission of the 2009/2010 Annual Report as per s127(3) of the MFMA.
25. The Annual Report will in future include the s46 report and will detail the performance of the municipality and of each external service provider (as per requirements of s46 of the MSA).

Audit Committees

26. The Performance Audit Committee will review the municipality's performance management system annually and make recommendations to Council in this regard as per the Municipal Planning and Performance Management Regulation 14.

Procurement and contract management

27. All aspects of the SCM Regulations (policy and procedure) with specific reference to s22 (1) and s22 (2) will be strictly adhered to (minimum periods for advertisements).
28. Tighter controls will be applied in order to ensure and ascertain that awards **are not made** to providers who are in the service of other state institutions or those that have directors/principle shareholders who are in the service of other state institutions. All service providers will be required to sign declarations to this effect.

Expenditure management

29. Systems and controls will be developed and SCM training conducted in order to ensure that no unauthorized, irregular or fruitless and wasteful expenditure occurs as per s62 (1) (d) of the MFMA.

Revenue Management

30. Revenue received will be reconciled weekly as per s64(2)(h) of the MFMA.

Asset management

31. Council will be required to approve the disposal of assets register (as per the Municipal Assets Transfer Regulation). Management and staff will receive formal training on their responsibilities regarding the management of departmental assets and the recording and reporting of any change to asset numbers and structure. Asset management and reporting is to be strictly controlled and monitored.

Strict adherence to the Asset Management Policy will be monitored and managed.

INTERNAL CONTROL

Leadership

33. The Accounting Officer will be required to strictly monitor and report on the implementation of action plans to address internal controls to ensure that assets are effectively managed and losses are effectively controlled.

Financial and performance management

34. Controls over the daily and monthly processing and the reconciliation of transactions will be strictly implemented and monitored by the Accounting Officer. Efforts to better align the IDP, Budget and SDBIP will be undertaken and this will positively influence performance reporting. Training/workshops will be presented on the practical application of the Performance Management Framework and this will ensure that appropriate staff are capacitated to apply the different aspects of individual and institutional performance management reporting and assessment.

Governance

35. The Audit Committee will be effectively trained in as far as their roles and responsibilities are concerned. A certain amount of progress did occur (i.e. an Integrated Planning & Compliance Manager was appointed; an Internal Auditor was appointed; the Internal Audit Unit was functional; and an Internal Audit Plan was developed and approved by the Audit Committee. Notwithstanding it is acknowledged that greater oversight on the accuracy and correctness of the performance reports was required and this will be corrected in the new financial year and treated as an area of priority.

REPORT OF THE AUDIT COMMITTEE TO THE EXECUTIVE COMMITTEE AND COUNCIL OF THE SENQU MUNICIPALITY

We are pleased to present our report for the financial year ended 30 June 2011

Audit Committee Members and Attendance

The Audit Committee was established during 2004 and consists of the following members:

Name of Member	Number of Meetings attended for the financial year ended 30 June 2011
Mr. D Du Plessis(Chairperson)	4
Mr. G De Jager	4
Mr. .J. Hattingh	4

Audit Committee Responsibility

The Audit Committee reports that it has adopted appropriate formal terms of reference via the Audit Committee Charter, which have been approved by the Municipal Manager.

Evaluation of Annual Financial Statements

These financial statements are prepared in accordance with the basis of accounting determined by the National Treasury as set out in the accounting policy and in a manner required by the MFMA.

The Audit Committee has:

- Reviewed and discussed the audited annual financial statements to be included in the annual report with the Auditor-General and Council;
- Reviewed the Auditor-General report and management's response thereto;
- Reviewed the selection of accounting policies and practices;
- Reviewed the effectiveness of the internal control systems;
- Reviewed the effectiveness of internal audit;
- Reviewed the risk areas of the Municipality's operations to be covered in the scope of internal and external audits;
- Reviewed the adequacy, reliability and accuracy of financial information provided to management and other users of such information;
- Reviewed the accounting and auditing concerns identified as a result of internal and external audits;
- Reviewed the Municipality's compliance with legal and regulatory provisions;
- The activities of the internal audit function, including its annual work programme, co-ordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations.

The Audit Committee concurs, accepts the Auditor General conclusions on the annual financial statements, and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General.

Performance Measurement

The Audit Committee notes an improvement in the method of reporting the performance of the Municipality.

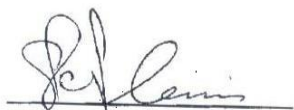
Risk Management

Whilst progress has been made in respect of the establishment of the risk management structure and framework, a risk management function and process has also been established and implemented for the year under review. The Risk Committee is acknowledged to be the Audit Committee in which risk management reports have been tabled. Facilitation of the strategic and operational risk assessments has been conducted. Notwithstanding, it is acknowledge that there are

still areas where improvement in risk management is required and it is suggested that Department conduct their own risk assessments and put in place the appropriate controls within which to mitigate risk .

Conclusion

The Committee recognizes the unqualified audit opinion received by Senqu Municipality and wishes to place on record their acknowledgement of this and the role that the Budget and Treasury Department played in these regard. Overall improvements were noted and it is appreciated that areas raised by the Auditor General under "emphasis of matter" will be addressed moving forward. The Audit Action plan represents a comprehensive list of all details that are required to be attended to within the new financial year. Ensuring that Senqu Municipality moves forward in the strategized manner in order to optimize financial efficiency and controls.



Mr. D Du Plessis
Chairperson of the Audit Committee