

## CHAPTER 6

### AUDITOR GENERAL AUDIT FINDINGS

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### Introduction

NOTE: As this represents the first draft of this report it must be noted that the Auditor General's Report for 2013/2014 has not yet been received. When this is received this will be made available to the Audit Committee and management for scrutiny, comment and further action. The Audit Action Plan 2013/2014 will also be developed as required following receipt of this document.

These issues will be formally addressed by the Audit Committee (with input from directors) in the subsequent draft of this Annual Report. The data for both the 2012/2013 and the 2013/2014 years are required to be provided.

## COMPONENT A: AUDITOR GENERAL OPINION OF FINANCIAL STATEMENTS 2012/2013

### 6.1 AUDITOR GENERAL REPORTS YEAR 2012/2013

#### Auditor-General Report on Service Delivery: June 2013 (Previous Financial Year)

AUDITOR-GENERAL REPORT SERVICE DELIVERY : JUNE 2013		
	Audit Report Status*:Unqualified report with other matters	
#	Non-Compliance Issues	Remedial Action Taken
1	<p>Paragraph number 22 under pre-determined objectives "<b>Achievement of planned targets</b>" of the audit report.</p> <p>Of the total number of 47 targets planned for the year, 15 of targets were not achieved during the year under review. This represents 32% (&gt;20%) of total planned targets that were not achieved during the year under review. The reason for this was that the reported unrest in Sterkspruit interfered with operations and caused this lack in achievement of planned targets.</p>	<p><b><u>Recommended</u></b></p> <p>Efforts are underway to resolve the Sterkspruit issues. Notwithstanding the challenges it is recommended that additional efforts be made to re-evaluate the affected targets and to ensure that these targets accommodate potential Sterkspruit challenges i.e. proactive action to resolve identified issues that can now be anticipated.</p>
2	<p>Paragraph number 24 under compliance with laws and regulations "<b>Procurement and contract management</b>".</p> <p>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 (PPPFA) and SCM regulation 28(1) (a). The register of bids received on time and the bid results were not published on the website of the municipality as per the requirement of SCM regulation 23(c).</p>	<p><b><u>Recommended</u></b></p> <p>Strict monitoring is to be undertaken in order to ensure that the preference point system is strictly applied.</p> <p>Controls are to be applied to ensure that bid results are published on the municipal website in terms of SCM regulation 23(c).</p> <p><b><u>Action Already Taken</u></b></p> <p>The new Evaluation and Specifications Committee was formed to increase efficiency.</p>

AUDITOR-GENERAL REPORT SERVICE DELIVERY : JUNE 2013		
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#	Non-Compliance Issues	Remedial Action Taken
3	<p>Paragraph number 25 under compliance with laws and regulations “<b>Procurement and contract management</b>”.</p> <p>Contracts were awarded to bidders based on preference points that were not allocated and/or calculated in accordance with the requirements of the PPPFA and its regulations.</p>	<p><b><u>Recommended</u></b> SCM practices are to be strictly controlled and monitored regularly in terms of compliance. No deviations from the requirements of the PPPFA and its regulations are to be tolerated. Regular monthly reporting to take place in terms of this.</p> <p><b><u>Action Already Taken</u></b> The new Evaluation and Specifications Committee was formed to increase efficiency.</p>
4	<p>Paragraph number 26 under compliance with laws and regulations “<b>Procurement and contract management</b>”.</p> <p>Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulations 44.</p>	<p><b><u>Recommended</u></b> SCM practices are to be strictly controlled and monitored regularly in terms of compliance. No deviations from the requirements of the PPPFA, SCM regulations and s112(j) of the MFMA are to be tolerated. Regular monthly reporting to take place in terms of this.</p>
5	<p>Paragraph number 27 under compliance with laws and regulations “<b>Expenditure Management</b>” of the audit report.</p> <p>Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure, as required by section 62(1)(d) of the MFMA.</p>	<p><b><u>Recommended</u></b> Regular monitoring and reporting on expenditure and the manner in which this is authorised it to be evaluated. Zero tolerance policy to be adopted. All staff to receive updated documents and/or training regarding authorisations and procedure. The risk assessment of the SCM system has not yet been completed and must be attended to. The management of suppliers remains a challenge which must be resolved through formal reporting.</p> <p><b><u>Action Already Taken</u></b> Improvements in turnaround relating to SCM processes have already occurred despite the challenges in functioning that are being faced daily. SCM is now assisted by the Sebata system in that staff is now advised of insufficient funds prior to overspending. In addition to the new evaluation and specifications committees that were formed to increase efficiency, a SCM Manager has also been appointed as from 1st of February 2014 (assisting with compliance). Supply Chain Management reports are required to be submitted to the Municipal Manager and Mayor within 10 days of the end of each quarter and within 30 days of the end of each financial year a report on the implementation of SCM Policy is required to be submitted to Council. The risk assessment of the SCM system has not yet been completed. The management of suppliers also remains a challenge which will be resolved through formal reporting.</p>

AUDITOR-GENERAL REPORT SERVICE DELIVERY : JUNE 2013		
	Audit Report Status*:Unqualified report with other matters	
#	Non-Compliance Issues	Remedial Action Taken
		<p>Controls are in place to ensure that no unauthorised, irregular, fruitless and wasteful expenditure occurs. While compliance notices are issued where it is felt that non-compliance is occurring, it is required that proactive efforts be made to prevent continued acts of wasteful or fruitless expenditure and non-compliance with SCM regulations. The new Evaluation and Specifications Committee was formed to increase efficiency.</p> <p>Asset Management is occurring as per the required targets and implementation plans. The Immovable Asset Register has been completed and consolidated with the Movable Assets Register and areas of non-compliance identified.</p>
6	<p>Paragraph number 28 under compliance with laws and regulations <b>“Expenditure Management”</b> of the audit report.</p> <p>Reasonable steps were not taken to promptly inform the MEC for local government in the province, in writing of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality, as required by section 32(4) of the MFMA.</p>	<p><b><u>Recommended</u></b></p> <p>Reporting in terms of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality must be undertaken as required in terms of section 32(4) of the MFMA.</p> <p><b><u>Action Already Taken</u></b></p> <p>Controls are in place to ensure that no unauthorised, irregular, fruitless and wasteful expenditure occurs. While compliance notices are issued where it is felt that non-compliance is occurring, it is required that proactive efforts be made to prevent continued acts of wasteful or fruitless expenditure and non-compliance with SCM regulations</p>
7	<p>Paragraph number 29 under compliance with laws and regulations <b>“Budget”</b> of the audit report.</p> <p>After the council approved the adjustment budget, the municipal manager did not make public the approved adjustment budget as required by the Municipal budget and reporting regulation 26(1) / 52(1) (GN 393 of 17 April 2009).</p>	<p><b><u>Recommended</u></b></p> <p>After the council approved the adjustment budget, the municipal manager must make public the approved adjustment budget as required by the Municipal budget and reporting regulation 26(1) / 52(1) (GN 393 of 17 April 2009). Follow up must be conducted to ensure that this occurs as required.</p>
8	<p>Paragraph number 30 under compliance with laws and regulations <b>“Performance Management”</b> of the audit report.</p> <p>The municipality did not have and maintain effective, efficient and <b>transparent systems of financial and risk management</b> and internal controls as required by section 62(1)(c)(i) of the Municipal Finance Management Act.</p>	<p><b><u>Recommended</u></b></p> <p>Transparent systems of financial, risk management and internal controls (as required by section 62(1)(c)(i) of the Municipal Finance Management Act) must be created and monitored strictly in terms of implementation.</p> <p>Regular performance reporting to this extent is to be provided and appropriate and ongoing action to ensure compliance.</p>

AUDITOR-GENERAL REPORT SERVICE DELIVERY : JUNE 2013		
	Audit Report Status*:Unqualified report with other matters	
#	Non-Compliance Issues	Remedial Action Taken
9	<p>Paragraph number 31 under internal control “Leadership” of the audit report.</p> <p>The accounting officer adequately reviewed the financial statements prior to their submission for audit. However, there is still room for some minimal improvement.</p>	<p><b><u>Recommended</u></b></p> <p>Additional and ongoing efforts to be made by the accounting officer in order to continue to improve upon the quality of AFS reporting.</p>
10	<p>Paragraph number 32 under internal control “Leadership” of the audit report.</p> <p>Oversight responsibilities over reporting of performance information, compliance with laws and regulations have improved compared to the previous financial year. This is evident by the number of findings reported in the current year.</p>	<p><b><u>Recommended</u></b></p> <p>Despite the noted improvements for which the municipality must be commended, improvements remain an ongoing objective, especially when recognising that the quality of performance reporting is required to improve together with ensuring that performance reporting occurs strictly in accordance with stated policy.</p>
11	<p>Paragraph number 33 under internal control “Financial and Performance Management” of the audit report.</p> <p>Several instances of non-compliance with laws and regulations were identified which was due to a lack of processes in place at the municipality to ensure compliance with relevant legislation. Such non-compliance could have been prevented had compliance been properly reviewed and monitored.</p>	<p><b><u>Recommended</u></b></p> <p>Processes are to be formally created and agreed to in order to ensure that all compliance issues are addressed. Regular monitoring and reporting to Council in terms of this is required (as a standard item on the agenda). Accountability will then be created – facilitating compliance.</p>
12	<p>Paragraph number 34 under internal control “Governance” of the audit report.</p> <p>The municipality has an effective and adequately qualified internal audit and audit committee. More oversight role over the effectiveness of the internal control environment and performance reporting should however, be promoted as required by section 165 and 166 of the MFMA.</p>	<p><b><u>Recommended</u></b></p> <p>The audit committee to evaluate the effectiveness of internal controls more regularly and this should be linked to the objectives of a risk management plan. Appropriate remedial action is to be undertaken.</p>

### **“Unqualified Report with other matters”**

The financial statements are fairly presented as it reflects the Financial Position, Financial Performance, Cash Flow of SENQU municipality for the year ended 30 June 2013 with all material respect, in accordance with GRAP and the requirements of MFMA and DORA.

## **COMPONENT B: AUDITOR GENERAL OPINION OF FINANCIAL STATEMENTS 2013/2014**

### **6.2. AUDITOR GENERAL REPORT: YEAR 2013/2014**

NOTE: This report is not yet available and will be included in subsequent drafts of this Report. As a result the Audit Committee has not yet had sufficient time to meet and discuss issues in terms of an Audit Action Plan. This will be formally included within the next draft of the Annual Report. Any issues raised will be documented below:

#### **Auditor General’s Opinion for 2013/2014**

To be provided upon receipt.

#### **Comments on the MFMA Section 71 Responsibilities**

It is to be noted that Senqu Municipality is currently meeting all timeframes regarding the s71 reporting to National Treasury. They are further to be commended for having been recognized as having one of the best s71 reporting submissions within the Eastern Cape Province.