

**REPORT ON CORRECTIVE ACTION
TAKEN OR TO BE TAKEN ON
AUDITOR GENERAL'S FINDINGS ON
2012/13 INTEGRATED ANNUAL
REPORT OF THE CITY**

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OF THE CITY**

1. STRATEGIC PRIORITY

Well governed and managed City

2. PURPOSE

To provide a report on the development and implementation of an action plan to respond to issues raised by the Auditor General on 2012/13 Integrated Annual Report of the City

3. BACKGROUND

2012/2013 FINANCIAL YEAR

- The City received an Unqualified Audit
- The City received a qualified audit conclusion with regards to the assessment of Predetermined Objectives

4 FINANCIAL IMPLICATIONS

None

5 LEGAL AND CONSTITUTIONAL IMPLICATIONS

Report conforms to Annual Report Circular 63 and to Sections 121(3) and (4) of the MFMA which sets out the framework relating to the content of the annual reports for both municipalities and municipal entities.

5 COMMUNICATION IMPLICATIONS

This report will be made available to relevant stakeholders.

ANNEXURE E

ACTION PLAN

Audit Finding	Root Cause	Action required	Responsible Department and Official
<p>As disclosed in note 52 to the consolidated financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during the year ended 30 June 2013.</p> <p>As disclosed in note 10 to the consolidated financial statements, receivables have significantly been impaired. The impairment of receivables amounts to R14 440 605 000 (2012: R13 360 488 000), which represents 75% (2012: 71%) of consumer debtors. The contribution to the provision for debt impairment in the current year was R1 080 117 000 (2012: R2 869 675 000).</p> <p>As disclosed in note 53 to the consolidated financial statements, material losses to the amount of R2 144 771 000 (2012: R1 554 360 000) were incurred as a result of electricity distribution losses. The total technical losses incurred amounted to R754 332 (2012: R709 461). Non-technical losses of electricity incurred amounted to R1 390 439 000 (2012: R844 899 000) and are due to non-metering of electricity and unauthorised consumption.</p> <p>41. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of revenue,</p>	<p>The financial statements and information supporting were not adequately reviewed for completeness and accuracy.</p>	<p>Financial information will be reviewed by Core accounting on a month to month basis through monthly reporting to ensure that information is accounted for correctly. This process involves extracting a TB and extensively reviewing all supporting documents to ensure that financial information is supported by valid evidence.</p> <p>An Interim hard close will be prepared and reviewed extensively. Core Accounting will then follow up on all issues raised by the AG at interim and escalate were necessary. We will further identify risk areas and place stringent timeliness and processes to ensure that all information is recorded correctly and timeously at year end.</p>	<p>CFO: CORE Champion: Ishwar Ramdas</p> <p>All Departments</p>

ANNEXURE E

Audit Finding	Root Cause	Action required	Responsible Department and Official
<p>receivables and property, plant and equipment identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.</p> <p>As disclosed in note 53 to the consolidated financial statements, material losses amounting to R820 600 000 (2012:R769 300 000) were incurred as a result of water distribution losses. The total technical losses incurred amounted to R389 004 152 (2012: R374 806 920). Non-technical losses amounted to R431 600 000 (2012: R443 800 000) and are due to non-metering of water and unauthorised consumption.</p>			
<p>Misstatements identified in related party disclosure note.</p>	<p>Management does not prepare regular accurate and complete financial and performance reports that are supported and evidenced by reliable information</p>	<ul style="list-style-type: none"> • Core Accounting will propose that all intercompany balances and transactions mandatorily be included in specific accounts on SAP for all departments. • Intercompany transactions and balances will be confirmed between counterparties on a monthly basis by senior officials and in a standardized template across the City. • As part of monthly reviews all confirmations will be compared to the General Ledger to ensure that they agree. <p>At year-end the process of related party confirmations will be strictly enforced as per the above points.</p>	<p>Finance Reporting Brian Mgiba</p>
<p>The FMPPI requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and</p>	<p>This was due to the fact that management was not able to apply the requirements of the</p>	<p>Comprehensive review of all Key Performance Indicators for compliance with measurability criteria. Develop and indicator planning framework</p>	<p>GSPCR Nonto Hadebe</p>

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Audit Finding	Root Cause	Action required	Responsible Department and Official
use. A total of 25% of the indicators and targets relating to Sustainable Services cluster of the municipality were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.	FMPPI due to capacity constraints	to improve quality of indicators	
The FMPPI requires that performance targets be measurable. With regards to PIKITUP Johannesburg SOC Ltd the required performance could not be measured for a total of 27% of targets relevant to upgrading of landfill sites, extension of landfill airspace and regular domestic waste collection.	This was due to management not implementing all required FMPPI prescripts.	Comprehensive review of all SDBIP targets for compliance with measurability criteria	GSPCR Nonto Hadebe
Finding 29 – 36: Achievement of planned targets	Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls	Strengthen quarterly performance assessments and ensure leadership is informed of accurate performance levels. Increase performance verification efforts	GSPCR Nonto Hadebe
Misstatements identified in related party disclosure note.	Management does not prepare regular accurate and complete financial and performance reports that are supported and evidenced by reliable information	<ul style="list-style-type: none"> • Core Accounting will propose that all intercompany balances and transactions mandatorily be included in specific accounts on SAP for all departments. • Intercompany transactions and balances will be confirmed between counterparties on a monthly basis by senior officials and in a standardized template across the City. • As part of monthly reviews all confirmations will be compared to the General Ledger to ensure that they agree. <p>At year-end the process of related party confirmations will be strictly enforced as per the</p>	Finance Reporting Brian Mgiba

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<p>Section 46 of the Municipal Systems Act (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 44% of the planned targets not achieved by the municipality were not reflected in the annual performance report. This was due to the fact that management was not able to apply the requirements of the FMPPi due to capacity constraints</p>	<p>Management did not review and monitor compliance with applicable laws and regulations governing predetermined objectives.</p>	<p>above points. Improve quality of performance information and Implement evidence engine room to improve collection and management of evidence</p>	<p>GSPCR Nontokoze Hadebe</p>
<p>An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2) (a) of the MFMA.</p>	<p>Lack of review of the fixed asset register by management to ensure that only items that meet definition of investment property are classified as such.</p>	<ul style="list-style-type: none"> Management reviewed the Capitalization sheet before capitalization is done on SAP, this is to ensure that the asset classes are correct as per supporting documents attached to Cap sheet 	<p>Assets: Control Given Mukondeleli</p>
<p>Section 25(2) of the MSA determines that an integrated development plan adopted by a municipal council may be amended in terms of section 34 and remains in force until an integrated development plan is adopted by the next elected council. Therefore, if the integrated development plan is changed during the year this process has to take place in accordance with the process as prescribed per section 34 of the MSA.</p>	<p>Management did not review and monitor compliance with applicable laws and regulations governing predetermined objectives</p>	<p>Controls must be put in place to ensure that all the approved changes to indicators or targets as per the mid-year deviation report are reported upon in the quarterly reports and annual performance report after the changes have been approved.</p>	<p>GSPCR Nonto Hadebe</p>
<p>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 National Treasury's Municipal Supply Chain Management regulation (SCM regulation) 13(c).</p>	<p>Manual or automated controls are not designed to ensure that the transactions have occurred are authorized complete and accurately processed throughout the reporting period.</p>	<p>Verification process of principal members of service providers business against the City's employee database has been extended to include transactions below R30 000, as most transgressions happened within this threshold</p>	<p>SCM: Administration and Procurement Ntsokolo Selebe</p>

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<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. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).</p>	<p>Automated controls are not designed or implemented to ensure that transactions which have a potential to be in contravention of Manual or Supply Chain Management Regulation (SCM) 44 are identified before transactions could occur. The controls should be able to identify instances where false declarations are made and where declarations are not submitted as part of the bidding process.</p>	<p>Verification process of principal members of service providers business against the City's employee database has been extended to include transactions below R30 000, as most transgressions happened within this threshold</p>	<p>SCM: Administration and Procurement Ntsokolo Selebe</p>
<p>Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c)..</p>	<p>Manual or automated controls are not designed to ensure that goods are only procured from a supplier once there is a demonstration that full compliance with Supply Chain Management Regulation (SCM) 12(1) (b) and (c) has been met.</p>	<p>No payment to be made if no evidence of 3 quotations exists. An automated document management system to be implemented and all documents processed by SCM and user departments to be backed up electronically.(14/15 FY)</p>	<p>SCM: Sourcing and Facilities Jan Keefe</p>
<p>Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).</p>	<p>Leadership did not develop and monitor the implementation of action plans to address internal control deficiencies. This internal control deficiency was also noted in the prior year therefore there was inadequate monitoring of prior year action plans.</p>	<p>All documents relating to procurement against the panels will be stored by SCM as opposed to the user departments A checklist for all documents on file will be kept</p>	<p>SCM: Sourcing and Facilities Jan Keefe</p>

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