

COMPONENT B: CASH FLOW MANAGEMENT AND INVESTMENTS

CASH FLOW

Annual Financial Statements for the year ended 30 June 2016

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015
Cash flows from operating activities			
Receipts			
Sale of goods and services		30 795 790	39 797 487
Grants		151 344 962	144 719 894
Interest income		8 107 348	5 105 135
Dividends received		4 860	4 692
Fines, penalties and forfeits		260 000	43 053
		197 166 372	189 670 262
Payments			
Employee costs		(92 387 144)	(76 459 476)
Suppliers		(56 147 571)	(59 312 450)
Finance costs		(927 454)	(3 545 431)
Taxation		-	(2 666 571)
		(149 462 169)	(141 983 928)
Net cash flows from operating activities	37	47 704 203	47 686 334

Cash flows from investing activities

Purchase of property, plant and equipment	10	(60 059 641)	(32 687 954)
Proceeds from sale of property, plant and equipment	10	473 745	-
Net cash flows from investing activities		(59 585 896)	(32 687 954)

Cash flows from financing activities

Repayment of other financial liabilities		(4 328 888)	(414 916)
Finance lease payments		(487 200)	(462 708)
Net cash flows from financing activities		4 816 088	(877 624)

Net increase/ (decrease) in cash and cash equivalents		(16 697 781)	14 120 756
Cash and cash equivalents at the beginning of the year		17 698 953	3 578 197
Cash and cash equivalents at the end of the year		1 001 172	17 698 953

BORROWING AND INVESTMENTS**Other financial liabilities**

Development Bank of South Africa	2 359 763	2 788 679
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The Development Bank of South Africa loan expires on 1st April 2020, and the terms

Stipulates that payments should be made quarterly, interest accrues on the outstanding

balance and the rate is 12,5% per annum and at 14,5% per annum on payments in arrears.

	2 359 763	2 788 679
Total other financial liabilities	2 359 763	2 788 679

COMPONENT C: OTHER FINANCIAL MATTERS

5.7 SUPPLY CHAIN MANAGEMENT

The functions of the SCM unit involve;

1. Managing demand procedures and acquisitions including policies, procedures, database, compliance and adherence to prescribed procurement practices
2. Ensuring tender evaluation and contract prescript are adhered to
3. Managing compliance, risks, performance and reporting in the supply chain management system
4. Coordinating, controlling and applying logistics management practices and procedures in order to administer and manage the receipt, safeguarding and issuing of store items.

The municipality's Supply Chain Management is a unit within the Finance Section. It is comprised of:

- The Chief Financial Officer (Head of SCM Unit)
- SCM Practitioner;
- SCM Officer
- 1 Finance Intern

The SCM regulations stipulate the following:

- a) SCM regulation 6(2) (a) (i) - that the council of a municipality must maintain oversight over the implementation of its SCM policy. For the purpose of such oversight the accounting officer must within 30 days of each financial year submit a report on the implementation of the SCM policy of the municipality to the Council.
- b) SCM regulation 6(2) (3) – the Accounting Officer shall within 10 days after the end of each quarter submit implementation reports on SCM to the Mayor.

INTERNAL SCM PROCEDURES AND PROCESSES

Threshold values

The threshold values have been determined as follows:

- 1) Up to R1, 000 (vat included) – One written price quotation
- 2) R1, 001 - R2, 000 (vat included) – Two written price quotations
- 3) R2, 001 – R30, 000 (vat included) – Three written price quotations
- 4) R30, 001 – R200, 000 (vat included) –Seven days bidding process (RFQ)
- 5) Above R200, 000 (vat included) – Competitive bidding process

SCM Process for acquisitions up to R200 000.00

The SCM process of Masilonyana Local Municipality operates as follows;

- Demand Form – The requesting department completes a demand form which is approved by the Head of Department or any delegated official. The demand form is submitted to SCM practitioner who sources quotations.
- A requisition is raised by the SCM Practitioner and approved by the CFO and the Municipal Manager.
- Purchase Order – Based on the above thresholds, quotations are sourced from potential suppliers. A purchase order is raised for the awarded quotation. The orders are done in triplicate of which one copy is sent to the supplier, one copy for filing and one copy is sent to creditors for processing. The order numbers are sequentially numbered from the system. The purchase orders are approved by the CFO and in his absence by a Senior Official delegated by the CFO.

The SCM processes are monitored monthly by use of irregular expenditure registers and deviations registers.

SCM Process for acquisition above R200 000.00

Bid Documents

The bids documents are as prescribed by the National Treasury include the General Conditions of Contract.

Bid Committee Structures

The following committees have been established:

- i) The bid specification committee
- ii) The bid evaluation committee
- iii) The adjudication committee

The Accounting Officer appoints members for each committee.

According to the SCM policy the composition of the above committees should be as follows:

- i) Bid Specification committee – must be composed of
 - a) One or more officials of the municipality, preferably from user departments requiring the goods or services.
 - b) SCM practitioners
 - c) And when appropriate, include external technical specialists.

- ii) Bid evaluation committee – must as far as possible be composed of
 - a) Officials from departments requiring the goods and services
 - b) At least one SCM practitioner of the municipality

- iii) Bid adjudication committee – must consist of
 - a) at least four senior managers of the municipality (including the CFO)
 - b) At least one SCM practitioner who is an official of the municipality
 - c) A technical expert in the relevant field who is an official of the municipality

Compliance – The bid committees meet the requirements of the SCM policy and SCM regulations.

MUNICIPAL SERVICE CHARGES ASSESSMENT AND OUTSTANDING DEBTORS

Outstanding Debtors as at 30 June 2016

As at 30 June 2016, Masilonyana Local Municipality had outstanding debtors of R412 675 891. The table below shows debtors per source for the two financial years, i.e. 2014/2015 and 2015/2016 financial years:

Debtors by source	2014/2015 Gross Amount	2015/2016 Gross Amount
Property Rates	R 49 379 579	R 59 660 970
Electricity	R129 681 946	R 111 555 345
Water	R 70 053 595	R 95 072 200
Sewerage	R 72 657 808	R 78 607 806
Refuse	R 37 768 293	R 43 685 393
Other	R 1 412 553	R 57 868 805
Total	R 360 953 774	R446 450 519

N.B. The information disclosed above is populated from note 7 of the Annual Financial Statement 2015/2016

2014/2015 AUDIT ACTION PLAN

Functional Area	FINDING	ROOT CAUSE	REMEDIAL ACTION	COMPLETION DATE	RESPONSIBLE DEPARTMENT	PROGRESS AS AT REPORTING DATE
PAYABLES	Payables: Unidentified deposits register and other supporting documents not received (EX.154)	Lack of internal controls for proper record keeping ensuring that all supporting documentation requested are submitted.	Maintain proper record keeping of supporting documentation.	Ongoing	Finance	Partially complete.
				Monthly	Finance	None
				30/06/2016		
	Payables: Invoices before year end not accrued (EX.162)	Lack of management oversight with regard to recording of transactions in the accounting records.	Daily capturing of supplier invoices upon receipt. Request year-end customer statements, and perform year-end reconciliation. Complete and accurate list of invoices paid after	31/07/2016		
	Payables: Trade creditors reconciliations not perform (EX.34)	Lack of proper preparation of regular, accurate and complete financial statements that are supported and evidenced by reliable information (e.g. the preparator of monthly creditors' reconciliations).	Daily capturing of supplier invoices upon receipt. Monthly reconciliation of data on Pastel vs ABSA BI Online. Supplier database to be updated to ensure correct contact information is used for requesting monthly statements.	Monthly Monthly Quarterly	Finance	Partially complete.

	Payables (Leave accrual): Prior year misstatements (EX.19)	The cause of the above is due to proper monitoring controls not being in place to ensure that this was correctly rectified.	Support will be received from payday to address system related issues. Maintain proper record keeping of supporting documentation.	31/03/2016	Finance	Partially complete
	Payables: Third party payments on salary deductions not made timeously (EX.36)	The municipality experienced serious cash flow problems.	Ensure that payments are paid before the 7th of each month. In cases where this is not possible, signed arrangement must be made and documented.	Monthly	Finance	Partially complete
COMPLIANCE	Compliance (Budget) - Information could not be submitted to confirm that laws and regulations were complied with (EX.177)	The above has resulted due to management failure to provide the above information.	This finding was resolved and all the necessary documentation was submitted before the final audit report was issued.	Achieved	Finance	Achieved
	Compliance: Tabling and adoption of oversight report of the annual report for 2012-13 and 2013-14 by council (EX.24)	The management of the Municipality did not timeously address the changes in the draft annual report to ensure it is submitted to Council.	The two reports were tabled before the council on 25 January 2016.	1/25/2016	Finance	Report to be tabled to council

		Lack of management oversight over disclosures in the financial statements to ensure it is accurate and correct.	The formal procedure has been developed. Will be tabled before the council in March 2016.	3/31/2016	Finance	draft report developed
Subsequent events: No formal documented processes to identify subsequent events (EX.22)		Management did not ensure that the asset register contains sufficient descriptions to pinpoint the location of assets.	We are currently updating the asset register so that it includes all the necessary information for physical verification purposes.	30-Apr-16	Finance	A list of damaged and lost assets is currently being compiled and will be tabled before the council for the approval of the derecognition of those assets in the fixed asset register.
IMMOV ABLES PPE: Assets that could not be physically verified (EX.103)		The cause of the above is that management did not priorities matters raised in the previous year audit to ensure that they are corrected.	We have requested support from provincial treasury to give guidance on the methodology to be used when assessing the residual value, useful life as well as impairment of the assets.	31-Mar-16	Finance	A formal communique has been sent and we are still awaiting response.
PPE: Prior year error - Costs of components of boreholes not structured (EX.82)		Management did not ensure that boreholes were fully componentised as required.	We have requested support from provincial treasury to give guidance on the methodology to be used when assessing the residual value, useful life as well	31-Mar-16	Finance	A formal communique has been sent and we are still awaiting

			as impairment of the assets.			response.
	PPE: Internal control deficiency identified on asset maintenance plans (EX.10)	Lack of oversight by management over property, plant and equipment.	We are currently drafting maintenance plans for all categories of assets.	29-Feb-16	Finance	A draft fleet policy has been developed and a draft maintenance plan is still in progress.
	PPE: Prior year misstatement - Assets not componentised (EX.51)	Management did not ensure that boreholes were fully componentised as required .	We have requested support from provincial treasury to give guidance on the methodology to be used when assessing the residual value, useful life as well as impairment of the assets.	31-Mar-16	Finance	A formal communique has been sent and we are still awaiting response.
INVENTORY	Inventory: Internal control deficiencies identified relating to the stock count (EX.160)	The cause of the above is due to controls not being in place relating to the processes that needs to be followed for an inventory count.	The inventory procedure manual has been developed. Two officials who will now perform the duties of the store clerk have been identified and are now working at stores. Daily inventory recording sheets have been developed and implemented for recording of inventory, received issued and obsolete.	31-Mar-16	Finance	Inventory procured, issued and obsolete is manually updated daily. The system is currently being updated so that the inventory at hand is in line with the physical inventory in

stores.						
Inventory procured, issued and obsolete is manually updated daily. The system is currently being updated so that the inventory at hand is in line with the physical inventory in stores.	Finance	31-Mar-16	<p>The inventory procedure manual has been developed.</p> <p>Two officials who will now perform the duties of the store clerk have been identified and are now working at stores. Daily inventory recording sheets have been developed and implemented for recording of inventory, received issued and obsolete.</p>	<p>The cause of the above is that management did not apply GRAP 12 for inventory to ensure that the disclosure of inventory is accurate and complete</p>	Inventory: Disclosed inventory is not complete (EX.166)	MOVAB LE ASSET S
Because of the controls that are now in place consumables on hand at the end of financial period will be classified as inventory as required by GRAP 12.	Finance	31-Mar-16	<p>We are currently updating the asset register so that it includes all the necessary information for physical verification purposes.</p>	<p>Management did not take steps to ensure that controls over the accuracy and correctness of the assets register.</p>	PPE: Assets not traced to the asset register (EX.111)	
A list of damaged and lost assets is currently being compiled and	Finance	31-Mar-16				