

**Ndwedwe Municipality Audit Action Plan 2019/2020**  
**Preparer: Mthembu Chartered Accountants (Pty) Ltd**

Nature of Audit Query	Audit Query	Audit Response	Audit Response Progress (March 2020)	Audit Response Progress (April 2020)	Audit Response Progress (May 2020)	Audit Response Progress (June 2020)	Audit Response Progress (July 2020)
<b>1. Material misstatement</b>	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 on disclosures on property, plant and equipment, consumer debtors, payables from exchange transactions, financial instruments, long service awards and commitments identified by the auditors in the submitted financial statements were subsequently corrected and supporting records provided, resulting in the financial statements receiving an unqualified audit opinion. The issues are listed below.	Responses are listed per issue that was identified below.	Addressed below	Addressed below	Addressed below	Addressed below	Addressed below
	a) Incorrect calculation of Capital and operating commitments	Monthly reconciliations between commitment registers and contract registers will per performed to ensure that all commitments are properly included. CFO will review the reconciliations to ensure that they are done correctly.	Addressed	Addressed	Addressed	Addressed	Addressed
	b) Reconciliation between trade payables age analysis and trade payables per the trial balance	Monthly reconciliations between trade payables age analysis, the general ledger and trial balance will be performed. CFO will review these reconciliations to ensure correctness.	Addressed	Addressed	Addressed	Addressed	Addressed
	c) Disclosures relating to the nature and extent of risks arising from financial instruments.	GRAP Compliance Checklist will be used to ensure that all disclosures are properly done before financial statements are handed over to Auditor General for audit.	Addressed	Addressed	Addressed	Addressed	Addressed
	d) Property, plant and equipment disclosure (additions on the note did not tie back to supporting documents).	GRAP Compliance Checklist will be used to ensure that all disclosures are properly done before financial statements are handed over to Auditor General for audit.	Addressed	Addressed	Addressed	Addressed	Addressed
	e) Reconciliation of the present value of the defined benefit obligation and the fair value of the plan assets to assets and liabilities disclosed in the financial statements	GRAP Compliance Checklist will be used to ensure that all disclosures are properly done before financial statements are handed over to Auditor General for audit.	Addressed	Addressed	Addressed	Addressed	Addressed
	f) Inaccurate earnings used in the valuation defined benefit plan	GRAP Compliance Checklist will be used to ensure that all disclosures are properly done before financial statements are handed over to Auditor General for audit.	Addressed	Addressed	Addressed	Addressed	Addressed
	g) Interest on late payment of Telkom was not classified as fruitless expenditure	A register of wasteful and fruitless expenditure will be developed to ensure that none of them are unaccounted for.	A register of wasteful and fruitless expenditure has been developed.	Addressed	Addressed	Addressed	Addressed
	h) Journals that were not authorised by the CFO	In future all journals will be authorised by the CFO before being captured onto the system.	New procedure which requires all journals to be authorised before being processed has been implemented.	Addressed	Addressed	Addressed	Addressed
<b>2. Material misstatement</b>	Material losses R4.38million (2018-R2.37million) were reported by the municipality on the impairment of the accounts receivable from exchange and non-exchange transactions.	Calculation of impairments to be reviewed prior to the audit by AG.	Addressed	Addressed	Addressed	Addressed	Addressed
<b>3. Uncertainty relating to the future outcome of exceptional litigation</b>	The municipality is in litigation cases relating to rendering fencing services, advertising, relinquish of property and breach of contract. The outcome was not determinable as at 2019 year end.						
<b>4. Under-achievement of a number of targets</b>	The annual performance report identified <b>under-achievement</b> of a number of targets.	Head of departments will draw up a catch up plan for targets not achieved has been drawn up and this will be monitored throughout the year. Also, assurance will be made that performance targets are adjusted to reflect the January budget adjustments. This will ensure that reported performance reports from which the AG audits are up to date.	Done by 31 March, approved by Council.	Addressed	Addressed	Second adjustment budget was done on 15 June, revised targets are going to Council by 30 June 2020.	Addressed
<b>5. Asset Management</b>	Funds were invested in Ithala (SOC) Limited, in contravention of municipal investment regulation 6.	1) Cash and Investment Management Policy will be developed. 2) Funds will be invested with registered financial institutions.	The funds have since been disinvested from Ithala and the Cash and Investment Management Policy has been developed.	Addressed	Addressed	Addressed	Addressed

<b>6. Expenditure Management</b>	Reasonable steps were not taken to prevent irregular expenditure amounting to R31,63 million as required by section 62(1)(d) of the MFMA	MPAC has commenced with the process of investigating irregular, fruitless and wasteful expenditure.	The municipality has developed Variation Order Policy. Secondly, assurance is made to ensure that when scoring of bids is done the same criteria that was published in the advert is used to prevent come backs after appointment of service providers. Thirdly, deviation form has been put in place to ensure that all deviations are approved by the OA and CFO confirms the availability of the budget before expenditure is incurred.	Addressed	Addressed	Addressed	
<b>7. Procurement and contract management</b>	Some of the goods over R200 000 were procured without competitive bids as per the requirements of SCM regulation 19(a). Accounting Officer approved these even when it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1)	Procurement plan and deviation forms will be developed and monitored to ensure that deviations are done properly in future.	The procurement plan was put in place and it is monitored and the deviation form has been put in place to ensure that all deviations are approved by the OA and CFO confirms the availability of the budget before expenditure is incurred.				
<b>8. Procurement and contract management</b>	Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).	More training on local production and content required by the 2017 preferential procurement regulation 8(2) will be conducted.	The training that was going to be conducted by the National Treasury was affected by Lockdown. It is anticipated that the training will only happen in the next financial year.	It is anticipated that the training will only happen in the next financial year.	It is anticipated that the training will only happen in the next financial year.	It is anticipated that the training will only happen in the next financial year.	Expected in the current financial year
<b>9. Procurement and contract management</b>	Some of the commodities designated for local production and content were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation 8(2).	SCM officials and bid committee members were recently trained on local production during the month of September 2019 by the National Treasury; and more training will be done by the Provincial Treasury. Going forward the requirements of the regulation will be implemented.	The training that was going to be conducted by the National Treasury was affected by Lockdown. It is anticipated that the training will only happen in the next financial year.	It is anticipated that the training will only happen in the next financial year.	It is anticipated that the training will only happen in the next financial year.	It is anticipated that the training will only happen in the next financial year.	Expected in the current financial year
<b>10. Irregular Expenditure</b>	Some of the irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by Section 32(2) (b) of the MFMA.	MPAC has commenced with the process of investigating irregular, fruitless and wasteful expenditure.	Developed Cost Containment Policy which details how goods and services must be procured. We have also developed a procedure of how transgressions to this policy will be dealt with and that partly addresses consequence management. The plan is to use KZN Provincial Treasury Fraud hotline.	Addressed	Addressed	Addressed	Addressed
<b>11. Duplicate payments</b>	The municipality engaged the services of an attorney to conduct an investigation into alleged irregularities in the prior years on duplicate payments to suppliers. The investigation was still in progress at the date of the Audit Report						
<b>12. Audit committee</b>	Audit committee did not meet regularly throughout the year as required by MFMA and the audit charter. Consequently, the committee did not perform its role as required by the charter that they must comment on the matters reported by internal audit unit in a timely manner.	The audit committee will develop a calendar for meetings.	The audit committee met four times. The chairperson has resigned subsequently but the council is in the process of appointing a new chairperson.				
<b>13. Assurance Structures-CFO</b>	CFO and Accountant did not perform detailed review of financial statements against GRAP Checklist	GRAP Compliance Checklist will be used to ensure that all disclosures are properly done before financial statements are handed over to Auditor General for audit. CFO will be responsible for this review.	Addressed	Addressed	Addressed	Addressed	Addressed
<b>14. Assurance Structures-Accounting Officer</b>	Accounting Officer did not ensure that all SCM processes are followed when deviations were authorised.	AO will ensure proper deviations procedures are followed in the future	Addressed	Addressed	Addressed	Addressed	Addressed
<b>15. Assurance Structures-Mayor</b>	Mayor did not ensure that proper governance structures are in place, in particular the audit committee	The Municipality is in the process of finalising appointments for new members of the audit committee	Addressed	Addressed	Addressed	Addressed	Addressed

<b>16. Assurance Structures-Internal Audit</b>	The delay in the timing of the work performed against the internal audit plan and delays in reporting to the relevant governance structures due to the audit committee not having required number of members prevented control deficiencies that were identified from being addressed effectively.	The risk register on which the internal audit for 2020-2021 will be based on has been finalised. Delays will be averted going forward.						
			Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
<b>17. Assurance Structures-Municipal Council</b>	The council has failed to play oversight in ensuring a proper governance structure (audit committee) becomes functional. Also, irregular expenditure balance had increased from the prior year which requires the oversight of municipal leadership.	The Municipality is in the process of finalising appointments for new members of the audit committee. The council instructed management to resolve this issue expeditiously.						
			Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
<b>18. Assurance Structures-</b>	The time to review the processes for value for money, reasons why there were breaches of the irregular expenditure and processes to submit for investigations or write-offs were not dealt with adequately resulting in the irregular expenditure balance on annual financial statements not showing any movement in the last two years.	An independent review has been performed by independent consultant to ensure that efforts are made to reduce irregular expenditure. Budgeting has been strengthened and availability of budget is checked before any payment is made.						
<b>19. SCM number of days of advertisement and unfair disqualification</b>	a) One contractor was evaluated for functionality even though it was indicated in the BEC report that they did not submit all the required documents and thus should have been treated as non-responsive and disqualified b) Some bids were evaluated based on an incorrect minimum qualifying score for functionality as it was different from the minimum qualifying score in the invitation to bid document c) Some bids were incorrectly excluded from the preferential point system evaluation as they met the required number of points to proceed to stage 2 evaluations as indicated in the bid document.	Stricter evaluation will be applied in the future.	a) SCM Manager and CFO will double check all shortlisted to ensure that no non-responsive bids progress to succeeding stages. B) SCM and CFO will ensure the correct conversion of points to percentage is done so that all qualifying bids progress to other stages. This will also address point C of the AG's Comments.	Addressed	Addressed	Addressed	Addressed	Addressed
<b>20. Credit collection</b>	The municipality credit collection is still very poor relative to the prior year as the debtors collection period is above the public sector average collection period, furthermore, the percentage provision is very high as it is more than 50% of the debtors book. There is a downward trend on the surplus as well as cash on hand.	Debt collectors will be appointed and refuse removal by-law to assist with billing.		Addressed	Addressed	Addressed	Addressed	Addressed
			Appointed.					
<b>21. Irregular expenditure</b>	100% of irregular expenditure incurred in the 2019 financial year was as a result of the contravention of SCM regulation. The root causes of the lack effective prevention and detection are a proper understanding of the legislation around local content and the use of emergency as defined within the legislation.	SCM officials and bid committee members were recently trained on local production during the month of September 2019 by the National Treasury; and more training will be done by the Provincial Treasury. Going forward the requirements of the regulation will be implemented.	The training that was going to be conducted by the National Treasury was affected by Lockdown. It is anticipated that the training will only happen in the next financial year.	It is anticipated that the training will only happen in the next financial year.	It is anticipated that the training will only happen in the next financial year.	It is anticipated that the training will only happen in the next financial year.	It is anticipated that the training will only happen in the next financial year.	Expected in the current financial year
<b>22. Persons or close relatives within the service of the state or having close relatives who in the service of the state</b>	A list of 5 persons representing companies that were awarded tenders were identified to be in the service of state.	SCM Manager commented that the awarded persons had not declared their service of the state on the MBD4 forms.	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
<b>23. Non-publishing of some competitive bids registers on the Municipality's website.</b>	Some competitive bids registers were not published on the Municipality's website.	SCM Manager commented that assurance will be made that all competitive bids are published on the Municipality's website; and a checklist will be developed to avoid non-compliance	Use of checklist implemented	Addressed	Addressed	Addressed	Addressed	Addressed

<b>24. Number of days of publishing a tender</b>	The number of days of one of the bids was less than 30 days, thereby resulting in non-compliance with SCM regulations.	SCM Manager will ensure that before the advert goes out for publishing an independent person will double count the number of days.	Double counting of number of days have been implemented.	Addressed	Addressed	Addressed	Addressed
<b>25. Project on hold</b>	Auditing of performance information on project BuyBack centre structure it was noted that the project was cancelled due to land disputes however costs had been incurred totalling R708 607.48 for the design reports and Environmental Impact Assessment which could have been prevented had internal processes were followed to identify the disputes.	Community Safety and Social Services Manager commented that the dispute could not have been foreseen as Ndwedwe Town Layout did not identify the site to be outside the municipal land. A dispute ensued after EAI had been conducted, where Mavela Tribal Court claimed the land which includes even the land on which the Municipality offices are built. The matter was taken to court between the Municipality and Ingonyama Trust. The court proposed an out of court resolution	The matter is still on arbitration	The matter is still on arbitration	The matter is still on arbitration	The matter is still on arbitration	The matter is still on arbitration
<b>26. Journals not authorised</b>	14 Journal entries were found to have been processed on the system without being authorised by the CFO	The CFO commented that assurance will be made by management that all journals are authorised before being processed.	Addressed	Addressed	Addressed	Addressed	Addressed
<b>27. AOPO- Inaccuracies in APR</b>	Technical Services Director commented that Annual Performance Report for the 5 projects will be corrected or amended.	Annual Performance Report for the 5 projects were corrected. Going forward, technical director is going to review APRs for all ongoing projects to ensure proper reporting.	Addressed	Addressed	Addressed	Addressed	Addressed
<b>28. IT Governance</b>	A) IT Strategic Plan was not approved. B) IT Framework document was not approved. C) ICT committee was formed but were found not to be effective as they held no meeting in the 2018-2019 financial year. D) Inadequate IT security policy E) Program Change Management: Poor processes and controls and poor access controls on live production environment. F) User Access Management: Poor controls and policy not approved.	ICT Manager responded that the Strategic Plan and IT Framework were approved and resolution was going to be submitted to the auditors. The issue of ICT committee was going to be followed up in the current financial year and ICT committees will be restructured to improve effectiveness. Regarding User Access Management, the following will be implemented: (i) User Access Management Policy will be reviewed and submitted for approval (ii) New User forms will be approved by the relevant HOD and IT Officer before being added onto the system (iii) The design of the New User forms will be modified to include the date and the user right (iv) The IT division will design a User Modification Right form and User Termination form (v) Timelines will be set to review user right by comparing rights on the system with job responsibilities. (vi) Timelines will be set to independently review the activities of IT manager to ensure no abuse of power and privileges. (vii) IT division will implement controls to ensure that patching of User laptops is performed on time.	A) IT Strategic Plan adopted. B) IT Framework document adopted. C) ICT Steering Committee Policy adopted. D) IT Security Policy adopted E) Program Change Management has been to MANCO and Steering Committee (approval delayed by Covid 19) F) User Access Management Policy adopted.	Addressed	Addressed	Addressed	Addressed
<b>29. Backup and Continuity</b>	Backup Policy and Disaster Recovery policies were not approved by the relevant structures of the Municipality	ICT Manager responded that the policies need to be re-submitted to council for approval.	ICT Data Backup and Recovery Plan adopted.	Addressed	Addressed	Addressed	Addressed
<b>30. Records Management</b>	The Municipality keeps important documents in boxes, some these dated back to 2005, creating a potential for disaster should an unforeseen catastrophic event such as fire occur.	Admin Manager noted the finding and explained that a contract has been entered into with Metrofile to improve archiving of documents. In addition: (i) OA will ensure that the Registry Personnel take full custody of all municipal records whether stored offsite, finance strong room, individual offices and in central registry to be able to keep track of document retention period. (ii) OA will enforce implementation of Approved Records Management Policy and File plan	Metrofile has taken all the documents for archiving.	Addressed	Addressed	Addressed	Addressed
<b>31. Road infrastructure</b>	The municipality did not develop a proper Road Asset Management System. Furthermore, the municipality did not adopt the Standard for Infrastructure Procurement and Delivery Management (SIPDM)	Technical Services Director responded that these policies are being developed and managed by Illemb District Municipality and Ndwedwe Municipality received reports as and when they need them.	Addressed	Addressed	Addressed	Addressed	Addressed

