

**Nkonkobe Municipality**

**Audit Action Plan**

**2012/2013 financial year**

No	Department	Item	Finding	Risk Level	Root cause	Remedial Actions/Corrective Measures.	Responsible person (Entity)
1	Internal Control Deficiency	Bulk purchase of electricity	Bulk electricity purchases for the current year has been understated by R 347 625.24 and the vat debtor overstate by the same amount.	High	1. Lack of capacity a)Limited supervision, lack of understanding the procedure manual. B) Shortage of staff.	1. <b>Incorrect recording of monthly expenditure</b> : a)Training to be given to expenditure staff. B)Signed document as proof of supervision has been done. C)monthly reviews.	CFO
2	Internal Control Deficiency	Mid Year Budget and Performance Assessments of the Municipality did not take into account the performance of the Entity.	The midyear budget and Performance assessment reports of the municipality did not take into account the performance of the entity as required by Section 72(1) Municipal Finance Management Act No. 56 of 2003.  Lack of monitoring and review compliance with relevant laws.  Lack of communication between the municipality and the entity on whether the entity submits its own performance assessments separately from the Parent Municipality or the reports to be incorporated to the midyear budget of the municipality.	High	a)Poor/Lack of communication between the municipality and the entity on whether the entity submits its own performance assessments separately from the Parent Municipality b)Lack of monitoring	a)Draft a report protocol procedure/guidelines (SLA) entity, to monitor the entity's performance. B) CEO of the entity must report to the MM, TIMEOUSLY. C)MM should table a report, that will go to the Council.	CFO
3	Internal Control Deficiency	Control Environment: Internal audit unit incapacitated (COF21)	It was identified through inspection of the Audit Committee report that the internal audit unit was not capacitated in order to effectively fulfil its responsibilities for the full period (year) under review due to a shortage of staff and skills.  The Internal Audit unit was unable to fulfil its Council Approved Annual Internal Audit Plan such as: • Annual reviews on management of budget allocation- NEDA • Departmental Management report • IT Management review( follow up on AG findings) • Review compliance to MFMA and SCM policy • Review reconciliation traffic fines • Note  (It is noted that a service provider (Sizwe Ntsaluba Gobodo) was appointed for co-sourced functioning which commenced in March 2012 in order to assist the Internal Audit Unit and to develop and implement a skills transfer plan to capacitate the Internal Audit Unit.)	High	Inadequate human resources planning  Non Compliance with applicable laws and regulations is expressed as the municipality is in contravention of the applicable laws and regulations. The internal audit unit's efforts to effectively provide an independent, objective assurance and consulting services, which is designed to add value and improve the municipality's operations, will be hampered. Opportunities for improving management control, service delivery, and the organisation's image may be diminished	internal audit has since conducted a risk assessment on NEDA to refine the Audit Annual Plan , an Internal Auditor whom will be responsible for NEDA AUDITS has be appointed on contract.Staff members of internal audit unit are affiliated members of the IIA and are currently in the IAT learnership programme for continuous development.	Coperate Services & Human Resources

4	Internal Control Deficiency	Electricity Consumption (Audit report matter) (COF 11)	During the testing of electricity consumption, we tested a sample of meter readings and noted that the KVA consumers are billed using old tariffs for July and August 2011 and not the new tariffs as approved during the council meeting on 3 June 2011.  Revenue is understated and this misstatement may cause the audit opinion to be modified for electricity consumption.	High	a) delay on loading of tariffs	a)proper monitoring. B)Management must ensure that the revenue procedure manual is adjusted to include procedures that will identify and address review problems on a monthly basis. C)Management need to review the full population to identify the full extent of the error in the population before any adjustments to the financial statements can be made.	CFO
	Internal Control Deficiency	Predetermined objectives: No evidence of assigning responsibility to MM (COF21)	Per inspection of the MM's performance agreement, employment contract and delegation framework it was noted that there is no evidence of the executive committee assigning responsibility to the municipal manager for performance management.	High	Ommission: Non compliance with MSA 39(b)	a)The council should ensure that they assign responsibilities to the municipal manager (develop, manageand monitor the institutional PMS), this should be included in the MM's performance agreement/employment contract as one of his KPA's.	Council
5	Internal Control Deficiency	Budget overspending	For the financial year ending June 2012 the municipality budget to be incurred R140 357 954 compare to the actual expenditure in the Financial Statements amounting to R167 016 463.The overspending of R26 658 509 result in a failure to comply with s15 of the MFMA.	High	a)Management should monitor budget closely.	a)Management should monitor expenditure closely in the last quarter of the financial year to ensure that the budget is not overspent. B) Budget should be GRAAP compliant	CFO
6	Internal Control Deficiency	COMPLIANCE: Performance Management: Responsibilities of the Accounting Officer not included	The responsibilities of the accounting officer as defined in the provisions of the MFMA were not included on the performance agreements.	High	a)Lack of review and monitoring of compliance with the relevant laws and regulation.	a)Management should ensure that compliance with applicable laws and regulations is monitored and constantly reviewed, so as to ensure compliance by the municipality to the relevant laws and regulations.	Coperate Services
7	Internal Control Deficiency	COMPLIANCE:INTERNAL AUDIT: Performance Measurements not audited	The municipality's internal audit did not audit the results of the performance measurements and also submitted only the first quarter to the audit committee; the other 3 quarters were not prepared and submitted to the audit committee.	High	a)Lack of review and constant monitoring of compliance with applicable laws and regulation, by Internal Audit Manager.	a) Internal Audit must develop & submit reports timeously to the Audit Committee. b)MM should monitor the submission.	Coperate Services
8	Internal Control Deficiency	Audit of predetermined objectives - targets not measurable	Lack of municipal measurements	High	This was caused by management failing to put specific and measurable targets in place as well as reviewing the planning documents.	a)Management should ensure that the performance information planning process relating to the objectives, indicators and targets are unambiguous (SMART) : Simple, Measurable, Achievable, Realistic, Timeously.	Coperate Services
9	Internal Control Deficiency	Consolidated AFS: Errors in the municipality figures disclosed (Audit report matter)	The effect of these errors is that the following line items in the statement of financial position and the statement of financial performance are materially misstated as follows: Trade and other receivables from exchange transactions are understated by R780 614. Accumulated surplus is understated by R780 614. Revenue from service charges is understated by R780 614.	High	a) Non Reviewal of Financial Statements by Audit Committee.	Strengthen the capacity of the Audit Committee, by providing them with proper and relavent training.	CFO
10	Revenue	Electricity Consumption	KVA consumers are billed using old tariffs for July and August 2011 and not the new tarrifs as approved during the council meeting on 3 June 2011	High	Lack of control measures and monitoring tools which were not in place.	1) Establish time frames for circulating council resolutions (7 days after every council meeting), to all sectional heads to ensure implementation thereof. 2) Finance section should ensure that new tarrifs are loaded on the system within 7 days after year end. 3) Finance section should correct billing for July and August 2011 (pass correcting journal entries).	Revenue Manager and Chief Financial Officer

11	Revenue	(COF20)receipts not fully deposited recorded as a reconciling item	An amount of R15305.24 was included as a reconciling item. These receipts had not been deposited in the bank statements during year under review. Note	High	Management did not exercise care in authorising the bank reconciliation  This loss should be recorded in the financial records and the loss should be disclosed as a fruitless and wasteful expenditure.	Management would like to draw the auditor's attention to the fact that, when we remove the 15 305.24 from reconciling items, the bank reconciliation will not balance. Bank reconciliation, reconciles the cash book to the actual bank balance. The amount of 15 305.24 in question, was receipted (thus appears on the cash book), but was never deposited into the bank, it therefore remains a reconciling item, for the Cash book to agree to the bank balance.	CFO
12	Revenue	VAT (Audit report matter)	During the testing of repairs and maintenance, we noted that a payment was made to Rapid Centre Construction to the value of R475, 580.55 which shows that no input vat was claimed for this payment.	High	The impact of this transaction results in PPE being overstated with R58, 404.63 and vat receivable being understated with R58, 404.63	1. To configuration of VAT indicators on our system.2. Programming and training of staff on venus to be conducted.3. Allocation of vat to the correct vote done.4. Adjustments on journal to be done	CFO
13	Revenue	VAT(COF 27)	During the testing off passenger motor vehicle additions, we noted that a Nissan Tiida Sedan 1.6 Visia 4 Door Manual Transmission has been bought during the year. This passenger motor vehicle satisfies the definition of motor vehicle in section 1 of the VAT Act. During the testing performed we noted that this motor vehicle has been recorded excluding VAT which is in contravention with section 17 (2) (c) of the VAT Act.  VAT receivables have been overstated by R 19 723.06 and fixed assets have been understated by R 19 723.06. The extrapolated error is R103 144.28.	High	Management have not exercised oversight responsibility regarding financial and performance reporting and compliance and related internal controls. This is evident from the non-compliance to VAT Act.	1. To configuration of VAT indicators on our system.2. Programming and training of staff on venus to be conducted.3. Allocation of vat to the correct vote done.4. Adjustments on journal to be done	CFO
16	Revenue	Revenue: Valuation role not accessible on website (Administrative) (COF 3)	The municipality is in contravention of the Municipal Property rates Act. This contravention does not allow for residents to be able to view their property valuations online and limits the municipality's ability to assist the community and negatively impacts on the municipality's reputation	High	Management have not exercised oversight responsibility regarding financial and performance reporting and compliance and related internal controls. This is evident from the non-compliance to the Municipal Property Rates Act.	Management acknowledges that the valuation roll was not placed on the municipal website. The reason for this is that the municipal website is still under construction.	CFO
17	Revenue	Service charges	During the testing of refuse charges, we compared the amount of refuse that was charged on a sample of transactions to the relevant category as per the valuation roll and the tariff structure.  We noted that the owner of 1 Barrack Street was charged for refuse as a business but on the valuation roll the property is registered as residential property which is used to calculate rates and taxes.  Per discussion with the client, this property was originally an residential property but was revamped into an doctor surgery and thus qualifies as an business and thus the refuse charged was correct, however, the rates and taxes are wrong as the rates for an residential property was used for the billing of rates and taxes.	High	Incorrect Billing of customers	1. Pro rated billing for correct accounts and correct accountability for interest	Finance Department and Corporate services.

18	Revenue	Consumer deposits: Credit Control & Debt Collection Policy was not complied with (COMPLIANCE) (COF 5)	<p>The electricity account of Shweme &amp; Shweme was not paid in full prior to the reconnection being implemented.</p> <p>Inspected the duplicate receipt and agreed the amount received (R 912) to the approved 2011/2012 tariff schedule/listing.</p> <p>Inspected the consumers' general ledger account and noted that the outstanding balance of the customer of R 4, 711.73 (at 28/10/2011) was not settled in full prior to the reconnection.</p> <p>No supporting documentation was provided to indicate that an alternative arrangement was made with the Municipality per the terms of the Credit Control &amp; Debt Collection Policy.</p>	High	Lack of communication between Finance and Engineering department.	<p>1) Clear documented procedures must be followed on disconnection and reconnections.</p> <p>2) A senior person at finance department should oversee the process, and always verify and sign all list of proposed disconnections and reconnections sent to engineering.</p> <p>3) Engineering department should submit to Finance department all list of disconnections and re-connections.</p> <p>4) Disciplinary measures should be taken against officials reconnecting without proper authorisation.</p>	Finance department and Engineering
21	SCM	Procurement: Listing criteria on supplier database not complied with	<p>Certified copies of identification documents relating to directors were not received or attached to declaration forms.</p> <p>Due to the fact the identification were not received when awards were given to the supplier it will result in non compliance in terms of sec 17(1) of the SCM regulation.</p>	High	Lack of monitoring	Monitoring of supplier database forms	SCM Manager
24	Compliance	(COF19)The balance of unspent grants not held in separate bank account	<p>The investment call account under which funds not immediately required are invested does not agree with the balance of unspent grants. The call account, as per the bank confirmation, disclosed an amount of R10 096 while the balance of unspent grants as per the financial statement was reported at an amount of R170 634.</p> <p>The municipality did not ensure that all portions of unspent grants are held in a separate bank account in line with the requirements of the Municipal Finance management Act.</p> <p>Although this is a trivial amount, it will be reported as an administrative finding as this is a requirement of the act.</p>	High	Management did not exercise oversight responsibility over the cash management and investments as well as the financial performance of the municipality.	The municipality does not maintain separate bank accounts or investment accounts for conditional grants. The unspent portion of grants disclosed on the AFS form part of the closing balance as reflected in the main bank account.	Strategic Manager & CFO
25	Compliance	Audit committee invitation	<p>The charter of the audit and performance committee of the municipality determines that</p> <p>Representatives from the Auditor-General and, where applicable, representatives from the external auditors shall be invited to audit committee meetings.</p> <p>During the year numerous audit committee were held without extending an invitation to the audit committee meeting to the Auditor General in a timeous manner.</p> <p>The impact is that the Auditor General Representative is not in a position to attend the audit committee meetings. This undermines the communication between the Auditor General and the municipality. It also compromises the adherence to ISA 240 which required the Auditor general to meet with those charge with Governance in the municipality.</p>	High	Poor communication between The AG & Municipality.	Management will ensure that an invitation is send to the AG for every meeting.	Strategic Manager & CFO



29	Expenditure	Councillor's remuneration per AFS does not reconcile with remuneration per payroll - COF22	<p>The amount recalculated for Councillors' remuneration does not agree to the AFS</p> <p>Recalculated Councillors' Remuneration Councillors' Remuneration as per AFS Difference  10 575 090.14 11 021 995                      446 904.86</p> <p>Depending on the assessment of the management response received, the above matter could be included in the management report as an 'other important matter'.</p>	High	The financial statements do not reflect the correct amount of councillor's remuneration.	<p>Management agrees with the finding and passed the following journal:</p> <p>1030101015405 SALARIES  483,654.37  1020101050650 COUNCILLOR MONTHLY ALLOWANCES                      483,654.37</p> <p>The employee cost lead was updated as follows:</p> <p>Salaries  Councillor monthly allowances</p>	CFO
32	Performance Information	Usefulness of Information	<p>The targets sets not consistent and presentation on the usefulness of information was impaired. Reliability of information: Validity, accuracy and completeness- Reported indicators and targets were not supported by sufficient appropriate evidence.</p>	High	performance indicators not audited, indicators and objectives not aligned and time bound	a task team is appointed composing of Senior Managers and Internal audit to refine the objectives before the IDP is approved. Internal audit performs an audit of performance information on a quartely basis.	Senior manager : Strategic Planning

Due date	PROGRESS TO DATE	POE for internal audit review	
30-Jun-13	1. GRAP training on updated grap standard attended.2. ongoing training on venus and charts of accounts (GRAP).3. Trainign conducted by internal audit on Monthly econciliation.4. procedure manual updated for monthly reviews by section managers and HOD.	1. Attendance register for trainings attended .2. Signed report for training conducted by internal audit .	
30-Jun-13	1. Strategic risk assessment for the entity conducted and presented to the board.2. recruitment process to unfold for the appointment of a CEO. 3. SLA has been be reviewed and signed with clear delegations to the entity	1. Strategic risk assessment report.2. Appointment letter of the CEO.3. Signed SLA	
30-Jun-13	internal audit has since conducted a risk assessment on NEDA to refine the Audit Annual Plan , an Internal Auditor whom will be responsible for NEDA AUDITS has be appointed on contract.Staff members of internal audit unit are affiliated members of the IIA and are currently in the IAT learnership programme for continous development.	1. SCM and strategic risk report signed.2. minutes of the board on discussion of risk.3.Appointment letter for the IA Neda.4. Attendance regiaster for IAT programme and results kept on employee files in HRM	

30-Jun-13	1. application for the correct tariff charge and license for distribution submitted to NERSA on the 15/03/2013. 2. Billing dates and cut-off for correct interests move to the 27th of each month	1. Acknowledgement from NERSA. 2. Billing report
End January	Draft Performance Agreement done and submitted to PAC for review	1. minutes of the Performance Audit Committee
30-Jun-13	1. Monitoring through monthly reports. 2. Training conducted on GRAP	1. Attendance register for trainings attended. 2. Signed monthly report for monthly spending patterns
30-Jun-13	Draft Performance Agreement done and submitted to PAC for review	1. minutes of the Performance Audit Committee
30-Jun-13	Audit for PMS done on a quarterly basis and reported to the Municipal Manager and PAC	1. minutes of the Performance Audit Committee
30-Jun-13	IDP reviewed by internal audit before approval by the council in the third quarter	1. Audit file for AoPI. 2. Management meeting minutes. 3. Minutes of the Performance Audit Committee
30-Jun-13	Not Address in our WSP, to propose for training budget. Will be addressed in the next financial year	none
30-Jun-13	Website updated and compliant with Sec 75 of MFMA	inspection done by the Internal audit unit

30-Jun-13	1.Adjustments were done during the preparation of AFS.2. Monthly reviews of Bank reconciliation done and follow ups on reconciling items filed and recorded.	Audit of Revenue where bank reconciliation was also reviewed .
30-Jun-13	1. configuration of VAT indicators done on our system.2. Programming and traing of staff on venus.3. allocation of vat to the correct vote done.4. adjustments on journal done	Audit of Revenue where bank reconciliation was also reviewed .
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30-Jun-13	Website updated and compliant with Sec 75 of MFMA	inspection done by the Internal audit unit
Ongoing	1. application for the corrcet tarrif charge and license for distributin submitted to NERSA on the 15 /03/2013.2. Billing dates and cutt of for correct interests move to the 27th of each month	still to audit



30-Jun-13	1. Procedure manual updated .2. Improved record keeping and filling.3. Monthly reports on connections and disconnections	1.audit on revenue conducted by internal audit. There is improvement bu the filling of records is the challenge.2. system discription for Credit control procedure submitted
Ongoing	1. Internal audit recommendation implemented	1 Internal audit follow up report shows vast improvement but there is lack of Supplier perfomance monitoring
28/02/2013	DONE	1. Conformation sent for review to the Municipal Manager and to internal audit
28/02/2013	1. Audit Committee charter reviewed.2. Calendar of AC meeting will be send to AG in the next financial year	1. minutes for the review of AC charte and council minutes for its apporval

UPDATED		
	addressed as a journal in the preparation of AFS	1. Joournal reviewed by the CFO and verified by the internal audit
28-Feb-13	IDP reviewed by internal audit before approval by the council in the third quarter	1. Audit file for AoPI.2.Management meeting minutes.3. Minutes of the Performance Audit Committee

