

XHARIEP DISTRICT MUNICIPALITY
AUDIT ACTION PLAN:
AUDIT REPORT 30 JUNE 2014

Management Letter Page. no.	Finding	AGSA Recommendations	Classification					Rating			Remedial action	Responsible person	Date
			Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters			
Annexure A: Matters affecting the audit opinion													

34	Commitments - No contracts obtained (EX.54)	Management should: (a) Implement internal controls to ensure that amounts disclosed in the financial statements are supported by valid documents and (b) Investigate the matter and submit the requested documents for audit purposes.	✓					✓		<p>Management will ensure that contracts are in place for all the projects above R200 000.00 (VAT Included) and the contract register will be updated accordingly. Management commenced with the process of evaluating all the contracts from July 2014. However, it must be noted that the contract for the project that affected the audit opinion was never entered into between Naledi/Motheo Local Municipality and the service provider.</p> <p>The Accounting Officer will engage all the parties involved to determine the obligation between the local municipality and the contractor.</p>	<p>Manager: SCM Accounting Officer</p>	<p>On-going 01 May 2015</p>
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35-36	<p>Non Compliance: Financial Statements submitted 31 August 2014 with material misstatements (EX 77) (EX.77)</p>	<p>Management should ensure that the annual financial statements fairly present the state of affairs of the municipality before submission to the auditors for audit purpose.</p>	✓					✓		<p>The Financial Statements of the municipality will be presented to Provincial Treasury, Audit Committee and Internal Auditors for review prior to submission. The interim AFS will be submitted to Audit Committee, Auditor General, and Provincial Treasury on the 30th of January 2015 for review. The CFO will also review the AFS on the 23rd of January prior submission.</p>	<p>Manager: Revenue, Reporting and Compliance Chief Financial Officer</p>	<p>23 January 2015 30 January 2015 15 August 2015</p>
36-37	<p>Audit Committee- Non compliance identified (EX 76) (EX.76)</p>	<p>Management should ensure that the audit committee is properly constituted and performs all functions as required by section 166(2)(b) of the MFMA.</p>			✓			✓		<p>An Audit Committee member was appointed during the month of November 2014. Appointment letter and acceptance letter of newly appointed member has been forwarded to the Internal Audit Unit.</p> <p>Moreover management will ensure that the composition of the Audit Committee comprises of at least four members so that in instances where one member resigns the Audit can still perform its duties as required by section 166 of the MFMA.</p>	<p>Acting Director Corporate Service</p>	<p>30 November 2014</p>

37-40	<p>Unspent conditional Grant- Discrepancies identified (EX.44)</p>	<p>a) Management should ensure that separate bank accounts are opened and maintained as stipulated by the implementation guide for municipalities. b) Management should locate and manage the conditional grants monies that were not spent.</p>			✓			✓		<p>Management will ensure that separate bank accounts are opened for all conditional grants to ensure effective monitoring of grants monies. The grants register will continue being updated on a monthly basis and reviewed by the CFO.</p> <p>Management will engage relevant custodians of the grants to obtain confirmation for write-off.</p>	<p>Manager: Expenditure. Manager: Revenue, Reporting and Compliance Chief Financial Officer</p>	<p>30 June 2015 On-going 1 March 2015</p>
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40-42	<p>Audit Committee not properly constituted for the full period of 2013/14 (EX.12)</p>	<p>The accounting officer must ensure that the membership of the audit committee is restored in line with the MFMA. Proof that the audit committee was appointed should be submitted to audit.</p>			✓			✓		<p>An Audit Committee member was appointed during the month of November 2014. Appointment letter and acceptance letter of newly appointed member has been forwarded to the Internal Audit Unit.</p> <p>Moreover management will ensure that the composition of the Audit Committee comprises of at least four members so that in instances where one member resigns the Audit can still perform its duties as required by section 166 of the MFMA.</p>	<p>Acting Director Corporate Service</p>	<p>30 November 2014</p>
42-47	<p>Property ,Plant and Equipment-Assets could not be verified as no bar-codes were included in the FAR (EX.18)</p>	<p>Management should ensure that all assets are adequately included in the fixed asset register and that can be achieved through regular asset count</p>	✓					✓		<p>Management will ensure that monthly asset counts are conducted as per the approved schedule to ensure that the GRAP compliant FAR is timeously and accurately updated on a monthly basis. The asset register will be updated with the bar codes, condition and location.</p>	<p>Manager: Budget and Asset Chief Financial Officer</p>	<p>On-going 1 March 2015</p>

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47-49	Property ,Plant and Equipment- Auctioned/donated/ written off without council resolution (EX.26)	Management should ensure that : (a) There is a council resolution approving the disposal of assets before any assets are disposed off. (b) Investigate the above finding and if available provide the council resolution for audit purposes.			✓			✓		Management will ensure that all assets will be disposed/auctioned/donated/written off as per the approved assets policy and submitted to council for approval. The GRAP compliant assets register will thereafter be updated accordingly.	Manager: Budget and Asset CFO	31 March 2015
50-55	Correction of error and change in accounting estimate not correctly accounted for (EX.28)	Management should: (a) correctly adjust the affected accounts (b) correctly adjust the notes to the financial statements (Note 36)	✓					✓		Correction of error will be performed during compilation of the Interim Financial Statements which will be also reviewed by the Chief Financial Officer. Management will then also perform proper and regular reconciliation's to ensure the accuracy of accounts as disclosed in the notes to the financial statements.	Manager: Revenue, Reporting and Compliance Chief Financial Officer	30 January 2015 Ongoing

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55-58	Property, plant and equipment: Unresolved differences between the accounting system and the financial statements (EX.6)	The accounting officer should investigate the differences and correct the annual financial statements because the municipality must comply with the MFMA. The corrected financial statements must be submitted to audit.	✓					✓		Management to perform monthly reconciliation between the accounting system and the financial statements.	Manager: Budget and Asset Chief Financial Officer	On-going
58-59	Expenditure: Only one quotation attached to payment batch (EX.36) (EX.36)	Management should ensure: (a) compliance with the District's SCM policy by ensuring that three quotations are attached to the payments vouchers if the award is above R30 000. (b) Correctly adjust the irregular expenditure recorded in the financial statements (Note 23.3)		✓			✓			Management will ensure that preference points system is applied for transactions between R30 000.00 and R200 000.00 (VAT Inc) as required in terms of the Preferential Procurement Regulation. In which the SCM Compliance checklist will be reviewed by Manager: SCM prior to payment being made and filling by the Expenditure Manager and Senior Records Clerk. However, it should be noted that the said expenditure was investigated and reported as irregular. Furthermore all quotations received for a specific tender will be attached to the payment batch.	Manager: SCM Chief Financial Officer	On-going

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59-62	Procurement and Contract Management: Payments R30 000 - R200 000 (EX.16)	Payment batches should be reviewed to ensure that all procurement documentation that is required, has been obtained prior to placing the order.			✓			✓		Management will ensure that the prescripts of the Preferential Procurement Regulation apply fully going forward for transactions between R30 000.00 and R200 000.00 (VAT Inc).. The SCM Manager will review all supporting documentation/checklist to ensure that they are attached prior placing an order.	Manager: SCM	On-going
62-64	Procurement and Contract Management: Deviations identified in contracts (EX.53)	Management should ensure that contracts that entered into comply with the MFMA and their SCM policy requirements.	✓				✓		All services/ contracts which are rendered on a month to month basis to the municipality will be advertised through competitive bidding.	Manager: SCM Chief Financial Officer	30 January 2015	
64-65	Procurement and Contract Management: Deficiencies identified R2 000 - R10 000 (EX.63) (EX.63)	Payment batches should be reviewed to ensure that all required procurement documentations are obtained before order and payments are made.	✓				✓		Management to ensure that verbal or written quotations or deviations are obtained for transactions between R2 000 - R10 000, In which the SCM Manager will review all supporting documentation to ensure that they are attached prior to placing an order and making payment.	Manager: SCM	On-going	

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65-66	Procurement and Contract Management: Deficiencies identified R10 000 - R30 000 (EX.62) (EX.62)	Payment batches should be reviewed to ensure that all required procurement documentations are obtained before order and payments are made.	✓					✓		It is now a practice that a declaration of interest be obtained prior to awarding of any transaction above R 10 000.	Manager: SCM	On-going
66-68	Procurement and Contract Management: Competitive Bidding (EX.65) (EX.65)	Management should ensure that bids comply with the MFMA and SCM policies before awarding it to the suppliers.	✓					✓		(a) Management will ensure that a bid specification committee sits for all the tenders. (b) That bids register will be publicized on the website of the municipality forthwith; and (c) That proper filing is maintained to ensure availability of documents, .e.g. newspaper advert.	Manager: SCM CFO	On-going
68-69	Non Compliance: MFMA S32(4) Reports (EX.74) (EX.74)	Management should investigate this matter and submit reports in accordance to the requirements of the MFMA and corrective measures should be taken against the persons liable for expenditure			✓			✓		Management will ensure that all MFMA Section 32 reports are submitted to the Section 80, Section 32 Committee and subsequently to Council on a monthly basis for consideration, investigation and approval.	Chief Financial Officer	31 March 2015

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69-71	Procurement and Contract Management: Information not provided for audit purposes (EX.51) (EX.51)	Management should ensure that proper and accurate records are kept.	✓					✓		Effective and efficient system of filing to be implemented by assigning an official within the SCM unit which will be responsible for filing. The Manager SCM will on a weekly basis review all filed SCM documents.	Manager: SCM	On-going
71-72	Prior year error in the Accumulated surplus could not be reconciled to note 36 (Prior year errors) (EX.30)	Management should: (a) investigate this matter and should adjust the financial statements where appropriate	✓					✓		Management to perform proper reconciliation's during compilation of the Interim Financial Statements to ensure accuracy of opening balance accounts as disclosed in the notes to the financial statements.	Manager: Revenue, Reporting and Compliance Chief Financial Officer	30 January 2015
Annexure B: Other important matters												
Journals												
72-73	Narration for journals (EX.57)	Management and those charged with governance should ensure that journals are properly narrated before being approved.	✓					✓		Management to ensure that all journals are processed and approved with proper narrations.	Chief Financial Officer	On-going

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Accruals													
73-74	Trade and other payables- Accruals (EX.50)	. Management should: (a) Review the financial statements against supporting documents to ensure that the correct amount is recorded in the financial statements and (b) Correctly adjust the financial statements	✓						✓		Management will ensure that proper reconciliations of all creditors accounts are performed monthly and reviewed by the CFO.	Manager: Expenditure and Payroll CFO	On-going
Cash and cash equivalents													
75-76	Expenditures :Cheques not crossed (EX.40)	Management should review all cheques submitted for payment to ensure that they have been appropriately crossed to prevent potential financial losses.				✓			✓		Management to engage ABSA bank on the possibilities of obtaining crossed cheques.	Manager: Expenditure and Payroll	31 January 2015
Commitments													
76-78	Employee related cost: Appointments (EX.49)	Management should reconcile the amount paid to the employee to the employment contract to ensure that the correct amount is paid to the employees and to avoid potential financial losses for the District	✓						✓		Management will ensure that the amount on the employee's payroll is as per the employment contract before the payment can be processed.	Manager: Expenditure and Payroll	On-going
Employee Costs													
78-79	Employee related cost- Limitation of scope (EX.34)	Information requested should be provided to the auditors.				✓			✓		Management will ensure that all municipal information is kept safe and submitted to auditors when requested.	Director Corporate Service Chief Financial Officer	On-going
79-82	Employee related cost- Differences in PAYE and UIF (EX.32)	Management should ensure that there are controls in place to ensure that PAYE is calculated correctly.	✓						✓		Management will ensure that PAYE and UIF are properly calculated and reviewed.	Manager: Expenditure and Payroll	On-going

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82-83	Employee related cost-Differences in disclosure notes (EX.35)	Management should investigate the differences noted and correctly adjust the notes to the financial statements(Note 15)	✓						✓	The disclosure was adjusted to agree to the payroll. When compiling IFS and AFS, management will ensure that the payroll data is agreed to the notes.	Manager: Revenue, Reporting and Compliance	28 February 2015 and 15 August 2015
84	Employee related cost - Difference on leave payouts (EX.31)	Management should; (a) Investigate the finding reported and (b) correct the affect accounts	✓						✓	Management will investigate the finding and will engage with VIP to ensure that the payroll system is properly configured in line with the prescripts of the BCEA.	Manager: Expenditure and Payroll	31 March 2015
84-88	Leave, Gratuities and Accruals- Non compliance (EX.69) (EX.69)	Management should ensure: (a) Leave transactions are monitored to ensure that leave accrual is correctly calculated. (b) Compliance with the Municipality HR policy			✓				✓	<ul style="list-style-type: none"> • Conduct leave audit for all employees. • Recoup and reallocate leave days which are wrongly allocated. • Enforce (issue internal memo) the 16 days leave rule for all employees and adhere to leave plans submitted to HR. • To fairly allow employees with more than 48 leave days to commute leave days as per the HR policy and the BCEA. 	Manager: Human Resource Management	27 February 2015

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88	Journals - No delegation policy (EX 78) (EX.78)	Management should develop a delegation policy that indicates the authorization powers among the municipality officials.			✓				✓		The municipality will develop internal processes which will entail authorization powers.	Chief Financial Officer	31 March 2015
89-90	Consultants: No transfer of skills (EX 79) (EX.79)	The requirements as stipulated in the supply chain management guide for accounting officers of municipalities and municipal entities should be adhere to.			✓				✓		Management will ensure that a clause on skill transfer is included in the contracts where deemed necessary.	Manager: SCM Chief Financial Officer	On-going
Intangible Assets													
90-91	Inventory: No requisition forms in use and proof could not be obtained that quarterly inventory count were performed (EX.1)	Management should ensure that: (a) Stock counts are performed on a quarterly basis and the inventory register adjusted is reviewed and adjusted accordingly (b) Requisition forms are utilized for issuing of inventory items as per policy.				✓			✓		(a) Management will ensure that all stock counts performed are signed and authorized by the relevant delegated officials. (b) The municipality will develop and implement a requisition template.	Manager: Budget and Assets	On-going
Leases													
91-92	Finance lease assets not included in the asset register and in the PPE value disclosed in the AFS (EX.29)	Management should: (a) correctly adjust the affected accounts (b) correctly adjust the notes to the financial statements	✓						✓		The AFS were correctly adjusted together with the notes to the AFS. Going forward management will ensure that the disclosed figure agrees with the municipal accounting records.	Manager: Revenue, Reporting and Compliance Chief Financial Officer	30 January 2015

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Movable Assets													
93-94	Property, Plant and Equipment-Assets could not be verified (EX.15)	Management should ensure that only existing assets are recorded in the asset register. Proper and regular control should be implemented to avoid misappropriation of assets.	✓						✓		Management will ensure that asset counts are performed monthly to ensure that all assets are verified for existence and the assets verification sheets be reviewed.	Manager: Budget and Assets	On-going
95	Depreciation-useful lives of assets not adhered to the Fixed Asset Policy (EX.66)	Management should align their accounting policy with the municipality's asset policy.	✓						✓		Management will ensure the useful lives of assets are align with the municipal asset policy and treasury regulations	Manager: Budget and Assets	31 March 2015
95-97	Property, Plant and Equipment-Assets physically verified but not included on the Asset Register (EX.2)	Management should: (a) Trace the supporting documents relating to assets and correctly include them in the asset register (b) Correctly adjust the financial statements	✓						✓		Management will ensure that asset counts are performed monthly to ensure that all assets are verified for completeness and the assets verification sheets be reviewed.	Manager: Budget and Assets	On-going
98	Property, Plant and Equipment-Asset on asset list but not on register and could not be physically verified (EX.3)	Management should implement the following : (a) Proper controls over the safeguarding of it's assets to avoid potential financial losses and (b) Investigate and explain the above finding reported.	✓						✓		Management will ensure that asset counts are performed monthly to ensure that all assets are verified for existence and the assets verification sheets be reviewed.	Manager: Budget and Assets	On-going
98-120	Fixed Assets-shortcomings identified on fixed asset register (EX.5)	Management should investigate the finding and correctly adjust the fixed assets register to ensure it included the following: (a) the funding source (b) bar-codes and (c) location and condition of the asset.				✓			✓		Management will ensure through monthly assets verification process the location, condition, funding source and bar-codes are included on the FAR.	Manager: Budget and Assets	1 March 2015

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Operating Expenditure													
121-122	Travel and Subsistence: S&T forms not signed by officials (EX.24) (EX.24)	Management should review and confirm that all claim forms submitted are signed by the relevant officials before the payment is approved.			✓				✓		Management will ensure that all S&T claims are approved prior payment.	Manager: Expenditure and Payroll	On-going
122-123	Expenditure: Revenue credited in the expenditure vote (EX.37) (EX.37)	Management should ensure: (a) implement adequate controls over the processing of information into the respective general ledger accounts and (b) correctly adjust the affected expenditure and revenue accounts	✓						✓		The matter will be corrected according to the correct accounting principles. No further offsetting of transactions will be done.	Manager: Revenue, Reporting and Compliance	On-going
123-124	Expenditure: Payments made later than 30 days after receipt of invoice (EX.38) (EX.38)	Management should ensure that payments are made within 30 days after receipt of invoice.			✓				✓		Management will ensure that all payments are paid with 30 days after receipt of invoice provided there are no cash flow constraints	Manager: Expenditure and Payroll	On-going
124-125	Expenditure: International Traveling payment made not in budget (EX.23)	Management should ensure that expenditure incurred is budgeted for and is aligned to the functional areas of the District			✓				✓		The budget will be properly monitored going forward. Such expenditure going forward will be tested and treated as unforeseen expenditure and further disclosed.	Manager: Budget and Assets	On-going
125-127	Journals - Incorrect journals processed (EX 68)	Management should process the correcting journals	✓			✓			✓		Management will ensure that all journals will be properly reviewed for correctness prior to processing	Chief Financial Officer	On-going
127-128	Procurement and Contract Management: Municipality did not maintain a gift register (EX.72)	Management should ensure that controls are developed that would ensure that the municipality complies with policies.	✓						✓		Management will develop a gift register forthwith.	Manager: SCM	31 January 2015

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128-129	Procurement and Contract Management: Deviations not disclosed in the AFS (EX.60)	Management agrees with the finding: However, such expenditure has been reported as irregular and shall be correctly disclosed separately from the irregular expenditure in the AFS.	✓						✓		Management will ensure that all irregular expenditure is disclosed properly in the AFS	Manager: SCM Chief Financial Officer	15 August 2015
129-130	Accounts Payable: Opening balance limitation (EX.14)	Management should review the financial statements against supporting documents that the correct amount is recorded in the financial statements.	✓			✓			✓		Management will review the opening balance and adjust it accordingly upon compiling the 2014/2015 AFS.	Chief Financial Officer	30 January 2015
Receivables													
130-132	Trade and other receivables- No loan agreement in place and provision for repayments (EX.61)	Management should ensure that debt owed to the municipality is deducted from employee's pay-outs. If the amounts are not recovered from employees, the outstanding debts should be submitted to the council for write off.				✓			✓		Management will seek legal advice on the matter and implement the recommendations thereof	Chief Financial Officer	31 March 2015
132-133	Trade and other receivables- Discrepancies identified with regard to receivables (EX.67)	Management should ensure that: a) Reconciliation are performed timeously b) Supporting documentation are kept in a safe place and provided for audit purposes	✓						✓		(a) Management will ensure that reconciliations are compiled, reviewed and approved monthly (b) Management will ensure that the record keeping system is effective.	Manager: Revenue, Reporting and Compliance	On-going
134-135	Revenue- Accrued Interest earned on investment not recognized as per GRAP requirement (EX.48)	Management should design and implement controls to ensure that accrued income is recognized as per GRAP requirements further the revenue amount recognized in the AFS should be correctly adjusted.	✓						✓		Management will ensure that all financial transactions are in line with the GRAP requirements and National Treasury guidelines.	Manager: Revenue, Reporting and Compliance	On-going

Share Capital and Share Premium													
136-137	Employee related cost : Non compliance (EX.71)	Management should ensure that compliance with the relevant laws and regulations.			✓				✓		Management will appoint an evaluation panel which will monitor the performance of Section 56 Managers, such results of the evaluation will further be kept safely and made readily available for audit purpose.	Acting Director Corporate Service	28 February 2015
											A letter will be submitted to the MEC notifying his office of the Acting of the Director Corporate Service.	Municipal Manager	31 January 2015
											All vacant post will be filled within the stipulated time frames.	Acting Director Corporate Service	30 June 2015
											Going forward all vetting documentation will be kept safely and made readily available for audit purposes.	Manager: Human Resource Management	On-going
											Performance agreement of Senior Management will be reviewed during the adjustment period to include a clause that monitors repeated findings.	Manager: Performance Management System	28 February 2015

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Taxes													
137-138	VAT - Output VAT on disposal of assets not paid over to SARS.(EX.21)	Management should: (a) Implement controls that will ensure that VAT output is accurately levied and declared to SARS and (b) Correctly levy the VAT output on the disposal of the assets	✓						✓		(a)Management will ensure that it complies with all the relevant tax related requirements (b) Management will ensure that it complies with all the relevant tax related requirements	Manager: Revenue, Reporting and Compliance	On-going
139-140	VAT - Non-Compliance with the VAT-Act. (EX.17)	Management should ensure that only invoices with adequate information as detailed in the VAT Act and VAT guide for vendors 404 is paid for.			✓				✓		The expenditure manager to develop a VAT checklist. Management will further ensure that it complies to the VAT act and VAT guide for Municipalities(409).	Manager: Expenditure and Payroll	23 January 2014 On-going