



## NEWCASTLE MUNICIPALITY

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### MANAGEMENT ACTION PLAN TO AG REPORT OF 2014/2015

#### 1. INTRODUCTION

Section 131. (1) of the Municipal Finance Management Act no. 56 of 2003 states that “A municipality must address any issues raised by the Auditor-General in the audit report.

#### 2. MANAGEMENT RESPONSIBILITIES

Section 62 (1) of the Municipal Finance Management Act no. 56 of 2003 states that “The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:-

- a) that the resources of the municipality are used effectively, efficiently and economically;
- b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- c) that the municipality has and maintains effective, efficient and transparent systems-
  - (i) of financial and risk management and internal control; and
  - (ii) of internal audit operating in accordance with any prescribed norms and standards;
- d) that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented;

Furthermore, Section 78 (1) of the Municipal Finance Management Act no. 56 of 2003 states that “Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of

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responsibility to ensure;

- (a) that the system of financial management and internal control established for the municipality is carried out diligently;
  - (b) that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;
  - (c) that any unauthorised, irregular or fruitless and wasteful expenditure and any other losses are prevented;
  - (d) that all revenue due to the municipality is collected;
  - (e) that the assets and liabilities of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary;
  - (f) that all information required by the accounting officer for compliance with the provisions of this Act is timeously submitted to the accounting officer: and
  - (g) that the provisions of this Act, to the extent applicable to that senior manager or official, including any delegations in terms of section 79, are complied with.
- (2) A senior manager or such official must perform the functions referred to in subsection (1) subject to the directions of the accounting officer of the municipality.

Management is responsible for the development/designing, implementation, maintenance, and monitoring of an effective system of internal controls.

The objectives of the system of internal controls are, *inter alia*, to provide management with reasonable, but not absolute assurance that:

- Risks are properly managed ;
- Assets are safeguarded;
- Financial and operational information is reliable;
- Operations are effective and efficient;
- Laws and regulations are complied with;

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Internal controls are those actions, systems, policies, methods and procedures implemented by management to manage or reduce the likelihood and impact of inherent risk. Internal controls are embedded in the daily activities of the municipality.

Attention must be drawn to management that there are inherent limitations in any system of internal control including human error and circumventions through collusion, therefore the prevention and detection of fraud forms part of management’s responsibilities.

**DASHBOARD EXPLANATION:**

Dashboard	Description	Implications and action required
	Action plans fully implemented.  [Implementation completed]	High risks exposures have been mitigated, and this provides reasonable assurance regarding the achievement of objectives.  Management should regularly monitor the effectiveness of implemented controls.
	Action plans partially implemented.  [Implementation In progress]	High risks exposures not adequately addressed, and this could result in non-achievement of objectives and financial loss.  Management needs to put more emphasis and efforts on monitoring and expediting the implementation of action plans.
	Action plans not implemented.  [Implementation not yet started]	High risks exposures remain without risk mitigating measures which could result in non-achievement of objectives and financial loss.  Management should prioritize implementation of action plans and put more emphasis on monitoring the implementation of action plans

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**SECTION A: DETAILED ACTION PLAN**

Finding No.	Auditing findings	Management Response and Action plan	Target date	Responsible Official
<b>Basis for qualified opinion</b>				
6.	<p><b>Infrastructure assets</b></p> <p>I was unable to obtain sufficient appropriate audit evidence for infrastructure assets due to inadequate underlying records to support this amount. I could not confirm this amount by alternative means. Consequently, I was unable to determine whether any adjustment relating to infrastructure assets stated at R2, 82 billion (2014: R2.96 billion), included in note 4 to the financial statements was necessary.</p>	<p><b>Management response</b></p> <p>Management agrees with the audit finding.</p> <hr/> <p><b>Management action plan</b></p> <p>The scope of the service provider will be extended to include valuation of infrastructure assets, and to clean up the entire asset register. The service provide will work closely with Technical services department in achieving this goal. All relevant departments will be engaged. PSC for this project will be formed</p>	31 December 2015	SED: BTO SED: Technical services

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Finding No.	Auditing findings	Management Response and Action plan	Target date	Responsible Official
		Management will perform the irrevocability test on all supporting documents for each project under infrastructure project.	15 February 2016	Director: Budget and Financial Reforms
		The results of the recoverability test will be communicated with AG to obtain permission to review assets without adequate supporting documents.	28 February 2016	Director: Budget and Financial Reforms

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Finding No.	Auditing findings	Management Response and Action plan	Target date	Responsible Official
		Valuation of assets without adequate supporting documents will be performed and FAR updated accordingly	30 June 2016	Director: Budget and Financial Reforms
<b>Emphasis of matters</b>				
8.	<p><b>Significant uncertainties</b></p> <p>With reference to note 42 to the financial statements, the municipality is the defendant in a number of civil lawsuits. The municipality is opposing the claims as it believes the claims to be invalid. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result had been made in the financial statements.</p>	<p><b>Management response</b></p> <p>As stated correctly in the audit report, the municipality has taken a bold decision to defend the civil claims as we strongly believe that the claims are invalid, therefore it becomes difficult to pre-empt the outcome of these cases and to work out any possible liability in case if the verdicts go in favour of the applicants, even if the verdicts go in favour of the applicants, the Municipality may still explore other options available until all available options are exhausted.</p>		

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Finding No.	Auditing findings	Management Response and Action plan	Target date	Responsible Official
		<p><b>Management action plan</b></p> <p>Legal services unit and BTO will work together on this matter towards ensuring compliance with financial reporting prescripts, and then apply the same principle going forward</p>	28/02/2016	Head Legal Services and SED:BTO
9.	<p><b>Restatement of corresponding figures</b></p> <p>As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered on infrastructure assets during 30 June 2015 in the financial statements of the Newcastle Municipality at, and for the year ended, 30 June 2014.</p>	<p><b>Management response</b></p> <p>Management agrees with the audit finding. This was mainly attributable to the revaluation of Uthukela Water, which necessitated correction of prior year error in order to achieve comparability and fair presentation.</p>		

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Finding No.	Auditing findings	Management Response and Action plan	Target date	Responsible Official
		<p><b>Management action plan</b></p> <p>Management will extend the scope of the service provider to include clean up the asset register and to perform correct and reliable valuations for all infrastructure projects. The service provide will work closely with technical services department in order to achieve this goal.</p>	30 June 2016	Director: Budget and Financial Reporting & SED: Technical Services
10.	<p><b>Material impairments and losses</b></p> <p>As disclosed in note 14 to the financial statements, the municipality provided for debt impairments of R400,96 million (2014: R472,69 million), arising from the annual review of consumer debtors.</p>	<p><b>Management response</b></p> <p>Management agrees with the finding.</p>		

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		<p><b>Management action plan</b></p> <p>Together with our Debt Management Service provider we have started community awareness programmes as an attempt to educate the community about the importance of paying their municipal accounts. We did a campaign in November and will continue in the new year. We are also in the process of writing an item to council to write off bad debts which are deemed irrecoverable as per a report from TransUnion. Various other collection procedures are in place which will attempt at decreasing the amount of debtors. Risk profiling of the debtors book which enables us to identify debtors that can pay</p>	Ongoing	Director: Revenue, Valuations and Debt Management

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		and those that are unable to pay and is also used as one of the basis of calculating the debt impairment provision.		
11.	<p><b>Material impairments and losses</b></p> <p>As disclosed in note 56 to the financial statements, water losses of R32, 32 million (2014: R25, 34 million) were incurred as a result of distribution losses.</p>	<p><b>Management response</b> There are several reasons for such losses such as old infrastructure.</p> <p><b>Management action plan</b> A water conservation and water demand management programme is currently being implemented. Firstly to monitor the extent of the losses and to</p>	30 June 2016	Director: Water

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		<p>reduce water losses by regulating pressure as well as performing repairs on the network as well as leaks after the meter.</p> <p>Three programmes are being implemented in this regard.</p> <ol style="list-style-type: none"> <li>1. Osizweni Water Conservation and Demand Management programme</li> <li>2. Madadeni Water Conservation and demand management</li> <li>3. A/Concrete Pipe Replacement</li> </ol>		

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12.	<p><b>Material impairments and losses</b></p> <p>As disclosed in note 57 to the financial statements, electricity losses of R 21,46 million (2014: R20,25 million) were incurred as a result of distribution losses.</p>	<p><b>Management response</b></p> <p>Management agrees with the finding.</p> <hr/> <p><b>Management action plan</b></p> <p>The municipality is in the process of installing energy loggers which will feed information to the scada system. This information will be used to compare billed energy with supplied energy. This will assist in the interventions by electricians to investigate areas</p>	30 June 2016	Director: Electrical

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		with high loss areas.		
<b>Predetermined objectives</b>				
24.	<p><b>Adjustment of material misstatements</b></p> <p>I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of the technical services; electrical and mechanical services; and community services objectives. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance</p>	<p><b>Management response</b></p> <p>From the PMS perspective, going forward, it is now necessary for the accuracy of calculations on which an actual is reported to be verified. This will included the development of an assessment checklist to</p>		

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	information.	<p>include all supporting information relating to an Actual reported, aswell as completeness of information. Departments will also be required to quality assure at the level of SED prior to submission to the PMS office for assessment.</p> <p><b>Management action plan</b></p> <p>Development and implementation of an assessment checklist for the verification of performance information</p>	01 January 2016	Manager : M & E
27.	<b>Annual financial statements</b>	<b>Management response</b>		

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Finding No.	Auditing findings	Management Response and Action plan	Target date	Responsible Official
	<p>The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.</p>	<p>Management agrees with the audit finding. This was mainly due to inadequate staff experience to prepare financial statements internally as well as the limited time to allow the service provider to perform valuation of infrastructure assets</p> <hr/> <p><b>Management action plan</b></p> <p>All documentation supporting the acquisition of assets has been filed and the backup copies has been scanned and saved in the municipal server. Management has appointed the service provide to revalue all assets where supporting documentation could not be located and update the asset register with the new values.</p>	<p>31 March 2016</p>	<p>Director: Budget and Financial Reporting</p>

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Finding No.	Auditing findings	Management Response and Action plan	Target date	Responsible Official
		Management will extend the scope of the service provider to include clean up the asset register and to perform correct and reliable valuations for all infrastructure projects.	30 June 2016	Director: Budget and Financial Reporting
		A check list to comply with section 122, 123, 124 and 125 of the MFMA for preparation of financial statements will be developed and Key personnel involved in the AFS preparation will be sent to GRAP and Caseware trainings	31 March 2016	Director: Budget and Financial Reporting
28.	<p><b>Strategic planning and performance management</b></p> <p>The annual performance objectives and indicators for the municipal entity were not established by agreement with the uThukela Water (Pty) (Ltd) and included in the municipal entity's multi-year business plan, as required by section 93C(a) (iv) of the Municipal Systems Act</p>	<p><b>Management response</b></p> <p>A Framework for the Monitoring of the Municipal Entity was approved in June 2015, together with a SDBIP. This is being implemented in the</p>		

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Finding No.	Auditing findings	Management Response and Action plan	Target date	Responsible Official
	of South Africa, 2000 (Act No. 32 of 2000).	2015/16 financial year  <b>Management action plan</b>  Monitoring of Entity through the SDBIP as approved	01 January 2016	Manager : M & E and SED : Technical Services
		1.meeting with UTW & WSA to agree on framework objectives  2.Submission and approval of Performance targets and revised KPi Exco as approved by Board	1.30/12/2015  2.28/02/2015	Director : Water and Sanitation

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Finding No.	Auditing findings	Management Response and Action plan	Target date	Responsible Official
		3.Submission of updated BP for approval by portfolio and Exco  4.Submission of revised 3 year UTW budget and business plan	3.31/03/2015	
29.	<b>Asset management</b>  An effective system of internal control for assets was not in place, as required by section 63(2) (c) of the MFMA.	<b>Management response</b> Management agrees with the audit finding  <b>Management action plan</b>  The asset management policy of the municipality will be review in line with S63(2)(c) of MFMA and all the relevant GRAP Standards	31 March 2016	Director: Budget and Financial Reporting

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		Reconciliations between GL and FAR will be performed and reviewed on a monthly bases.	Ongoing	Director: Budget and Financial Reporting
		Asset champions in each department will be trained on asset management to work closely with the asset management unit.	31 March 2016	Director: Budget and Financial Reporting
		The system configuration will be reviewed to correctly account for VAT and retentions.	31 January 2016	Director: Budget and Financial Reporting
		Internal audit will conduct an audit of the assets as per the Internal Audit Plan as approved by the Audit Committee	30 June 2016	Chief Audit Executive
30.	<b>Expenditure management</b> Reasonable steps were not taken to prevent irregular expenditure,	<b>Management response</b> Internal controls will be assessed on an on-going basis in order to ensure that the work	Ongoing	

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	as required by section 62(1) (d) of the MFMA.	<p>appropriately and they assist in preventing irregular expenditure.</p> <p><b>Management action plan</b>                      Irregular expenditure will be reported accordingly to the accounting officer in order for the accounting officer to comply with section 32(4) of MFMA.</p> <p>“MFMA 68” does not talk to UIF but section 32 of MFMA.</p> <p>Measures in place are checklist which are implemented to ensure compliance with Regulation and the Act. Then these measures covers section 62(1) of MFMA</p>	30 April 2016	Director: SCM

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32.	<p><b>Leadership</b></p> <p>Oversight over financial reporting and compliance with legislation, was inadequate, as the positions of the accounting officer and chief financial officer were vacant for a greater part of the year. Leadership did not act swiftly enough to fill these key vacancies to support management in the fulfilment their functions.</p>	<p><b>Management response</b></p> <p>Management agree with the finding. We were waiting for Cogta to give us advise regarding the positions and we only received their input in October 2015.</p> <hr/> <p><b>Management action plan</b></p> <p>The Municipality is in process of filling these position and these positions have been advertised and the closing date is 13/01/2016.</p>	30 April 2016	SED: Corporate services.

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33.	<p><b>Financial management</b></p> <p>The importance of routine daily and monthly processes, and stringent records management was not understood by officials. Management did also not devote sufficient time and effort to address significant internal control deficiencies on asset and supply chain management.</p>	<p><b>Management response</b> Management agrees with finding.</p> <hr/> <p><b>Management action plan</b></p> <p>Management will ensure timely scanning of all payment vouchers, journals and tender documents to address the challenges of records management. Additional staff members will be recruited to deal with the volume of the amount of work that need to be performed.</p>	Ongoing	<p>Director: Budget and Financial Reforms &amp;</p> <p>Director: SCM</p>
34.	<p><b>Governance</b></p> <p>The importance of risk assessment and the responses thereto was not sufficiently understood by leadership and management. The slow response by management to address the concerns of internal audit and the audit committee compromised the quality of financial and</p>	<p><b>Management response</b></p> <p>The audit finding is noted, however, management will improve its monitoring mechanisms by closely</p>		

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	compliance reporting.	<p>monitoring the implementation of internal audit action plans and audit committee resolution through its audit steering committee and MANCO, and ensure that internal audit queries are addressed timeously, as well as the audit committee resolutions.</p>		
		<p><b>Management action plan</b></p> <p>Management shall monitor implementation of action plans to address internal audit queries and audit committee resolutions on a monthly basis through its audit steering committee. Internal audit reports including follow-up audit reports, and the audit committee resolution register shall be standing items of the audit steering committee monthly meetings whereby all departments affected by the reports shall be invited for the purpose of ensuring that internal queries and audit committee resolutions are addressed</p>	<p>Monthly with effect from February 2016</p>	<p>CRO</p>

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		timeously.		
		<p><b>Management action plan</b></p> <p>Management to provide status on action plans to implement findings raised by internal audit.</p>	Monthly with effect from February 2016	All SEDs