

# NEWCASTLE MUNICIPALITY

Type of Opinion : Qualified with other matters  
 Type of Opinion Previous Year : Qualified with other matters  
 Adequacy of Audit Responses :

Nature of Audit Query	Audit Query	Response from Municipality
<p><b>Property, Plant and Equipment</b></p>	<p>I was unable to obtain sufficient appropriate audit evidence for infrastructure assets and work in progress due to inadequate underlying records to support these amounts. I could not confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustment relating to infrastructure assets and work in progress stated at R1 488, 35 million and R597, 91 million respectively, included in note 4 in the financial statements was necessary.</p>	<p>Each Capital project will have a separate file which will be updated with supporting documents for expenditure incurred every month. AG will be engaged and requested to grant permission for an independent valuer to be appointed to determine the values of the WIP for which supporting documents are outstanding.</p> <ul style="list-style-type: none"> <li>• For each project listed on the work in progress register establish whether projects are stand alone or linked to another project or vote</li> <li>• Engage consulting engineers responsible for projects and obtain payment certificates for payments made against projects listed on the work in progress register</li> <li>• Each project must have its own file. The file will have all the supporting documents in respect of activities that took place since inception (invoice, journals, orders, requisitions, payment certificates, completion certificates, etc)</li> <li>• WIP register to be reviewed for accuracy and reasonability of entries processed and negative balances investigated</li> <li>• Sakhile to be more involved in the accounting entries processed to assets. He needs to be aware and understand all the journals that are processed to assets, and he possibly needs to co-sign.</li> </ul> <p>AG will be engaged with the view of granting permission to get an independent valuer to certify the values of the work done in the absence of supporting documents</p> <ul style="list-style-type: none"> <li>• Engage consulting engineers responsible for projects and obtain completion certificates and project costing for all completed projects capitalised in 2013 and 2014</li> </ul>
<p><b>Leave Provision</b></p>	<p>The municipality did not have adequate systems in place to maintain records of leave transactions taken during the year, as a result, I could not</p>	<p>Newcastle Municipality agrees that leave balances submitted was incorrect due to not having an adequate system in place to maintain records of leave transactions taken. The following measures have been embarked with to rectify leave balances of employees :-</p>

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	confirm the leave pay provision amounting to R33, 06 million included in the payables from exchange transactions balance of R300, 60 million. Consequently, I was unable to determine whether any adjustment relating to the leave pay provision was necessary.	<ul style="list-style-type: none"> <li>• Currently in the process of recalculating all employees leave balances as from 2008.</li> <li>• Ensuring that leave transactions correspond with leave forms on personnel files.</li> <li>• Internal Audit unit to conduct a “spot check” on accuracy of leave balances.</li> <li>• Leave balances will be submitted for importing purposes on the new Sage system as procured by the municipality in order for leave to be updated regularly and accurately.</li> <li>• Measures with regard to controlling processing of leave and proper record keeping be implemented.</li> </ul>
<b>Restatement of corresponding figures</b>	As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 2014 in the financial statements of the Newcastle municipality at, and for the year ended 30 June 2013.	<p>Monthly reconciliations are being performed from 01 January 2014 and reviewed before the finalization of the Section 71 reports.</p> <p>The general ledger accounts are assigned to each directorate and it is their responsibility to ensure that the reconciliations are being performed and reviewed on a monthly basis.</p> <p>The accuracy and completeness of general journals must be reviewed, all journal vouchers must be supported with detailed calculations signed by the preparer, reviewer and capturer. Once the journals have been processed on the financial system it must be verified by the preparer that it has been captured accurately.</p>
<b>Material Losses And Impairment</b>	As disclosed in note 53 to the financial statements, material losses in electricity of 45,49 million kilowatts amounting to R20,3 million were incurred as a result of transmission losses and illegal connections.	
<b>Material Losses And Impairment</b>	As disclosed in note 12 to the financial statements, the municipality provided for impairment of Value Added Tax of approximately R25,6	<p>An amount of 9 million rand has been received after year end and we are hopeful to receive another 6 million by March 2015.</p> <p>Monthly reconciliations in respect of vat is being prepared and the recoverability of refunds is being closely monitored.</p> <p>The consultant who raised these refunds is directly liaising with SARS in respect of the documentation required in order to receive the outstanding amounts.</p>

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	million as recoverability is considered doubtful due to it being disputed by the South African Revenue Services.	
<b>Material Losses And Impairment</b>	As disclosed in note 13 to the financial statements, the municipality provided for impairment of consumer debtors of approximately R15,5 million, due to poor collection practices.	<p>We are currently in the process of establishing a credit control unit within the revenue department. The closing date for these applications was 16 January 2015. The applicants should be interviewed in February and the unit should be up and running in March 2015. This unit will be responsible for collecting debt from 0 – 60 days thereafter it will be the responsibility of the service provider. The unit will be responsible for:</p> <ul style="list-style-type: none"> <li>- Making telephone calls on a daily basis to customers who have arrear accounts</li> <li>- Making arrangements for payments</li> <li>- Indigents</li> <li>- Door to door visits ensuring that consumers are aware of their arrear status and verifying the indigent status</li> </ul> <p>We believe that the municipality being actively involved in the recovery of debt will make a difference in improving the debt collection by great lengths.</p> <p>We want to also establish a culture of the community paying their current municipal accounts by having roadshows etc. The community must be aware of the importance of them paying their municipal accounts to improve service delivery.</p> <p>A bid is in the process of being finalized in respect of the provision for debt management services. As mentioned above the service provide will be responsible for collecting debt that is older than 60 days. The bid should be finalized by 4 February 2015.</p>
<b>Significant Uncertainties</b>	With reference to note 42 to the financial statements the municipality is a defendant in various supplier and staff lawsuits. The municipality is defending these claims as it believes that the claims are invalid. The ultimate outcomes of these matters cannot presently be determined and no	

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	<p>provision for any liability that may result has been made in the financial statements.</p>	
<p><b>ANNUAL FINANCIAL STATEMENTS</b></p>	<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 four items identified by the auditors were subsequently corrected. However, supporting documents for the provision for leave and property, plant and equipment that could not be provided resulted in the annual financial statements receiving a qualified opinion.</p>	<p>The annual financial statements will be prepared timeously to enable them to be reviewed by internal audit unit for review, executive committee, audit committee and any other independent structure that can provide assurance before they are sent to the AG. Interim financial statements will be prepared to detect any material misstatements timeously.</p>
<p><b>Procurement And Contract Management</b></p>	<p>Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by supply chain management (SCM) regulation 19{a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).</p>	<p>Facilitation of the SCM Regulations to SCM officials on when it is necessary to utilise the urgent/ emergency delegation and also to train the user departments with regards to the SCM policy and procedures in order for them to understand on how SCM works. Ensuring the strict utilisation/ procurement of goods and services through the Procurement Plan. Educate the user departments on how to differentiate between the urgent/ emergency and poor planned projects. This will be done via BTO Departmental Roadshows.</p> <p>Any deviations from normal procurement processes need to be pre-approved by accounting officer.</p>

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<b>Procurement And Contract Management</b>	Contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act, 2000 (Act No.5 of 2000).	<p>When the bidder who does not have highest points is selected, reasons for that decision will be stated in the BEC minutes and report. Furthermore, the evidence supporting the reasons will be filed accordingly. BEC checklist will also be developed in order to make sure that BEC processes are standardised and the recommendations by BEC are in line with Preferential Procurement Policy Framework Act.</p> <p>Training of Bid Committees will be conducted before the end of February 2015</p>
<b>Procurement And Contract Management</b>	Awards were made to providers who are in the service of other state institutions or whose directors/principal shareholders are in service of the state institutions, in contravention of section 112U) of the MFMA and SCM regulations 44.	A service provider who will assist with the verification of information of the directors/members of companies, will be procured. In order to fast track the appointment of this service provider, section 32 of SCMR will be used. Also KZN Treasury and KZN CoGta will be gained to assist in addressing this finding as it is common to most municipalities
<b>Procurement And Contract Management</b>	Awards were made to providers who are in the service of the municipality in contravention of section 112U) of the MFMA and SCM regulation 44. Furthermore, the provider failed to declare that he/she was in the service of the municipality, as required by SCM regulation 13(c).	Before an award of a bid is made, the names and ID numbers for the directors/members of the companies will be forwarded to Human Resource for confirmation that they are not employees of the Municipality. This will be one of the criteria that need to be checked on the BEC checklist, before the bid is recommended by BEC.

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<b>Procurement And Contract Management</b>	Awards were made to bidders other than those recommended by the bid evaluation committee without adequate ratification by the accounting officer, as required by SCM regulation 29{5}{b).	Reasons for not awarding to bidders who are recommended by the BEC would be indicated in the BAC minutes and all supporting documents will be filed accordingly. BAC checklist will be developed indicating the steps to be followed when a different decision is taken from that one made by BEC. The checklist will be in line with the SCMR and other guidelines for evaluation of the bids.  Training of Bid Committees will be conducted before the end of February 2015
<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.	Adherence to the Asset Management policy will be strictly monitored. Asset champions will be appointed in every department to ensure adherence to the policy at the level of departments. The Asset Manager will be responsible to ensure that this process is place and working by 28 February 2015.
<b>Expenditure Management</b>	Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.	Internal controls as reflected throughout this document will ensure that the irregular expenditure will be minimised.

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<p><b>Expenditure Management</b></p>	<p>Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.</p>	<p>The financial system programmers will be instructed to introduce a module that will allow on invoices to be first captured by the department of finance onto the system before they are distributed to departments. Finance will then be able to monitor and follow up with departments to ensure that all outstanding invoices are paid within the 30 day period. This control will eliminate the current situation of invoices being sent to the departments first without the knowledge of the creditors office hence delays in payment occurs.</p>
<p><b>Consequence Management</b></p>	<p>Appropriate action was not taken against officials and role players in the SCM system where investigations proved failure to comply with the SCM system, as required by SCM regulation 38(1)(b).</p>	
<p><b>Leadership</b></p>	<p>Management did not exercise adequate oversight over financial reporting and compliance with laws and regulations, as well as internal control. In this regard, management did not ensure that the municipality was able to prepare credible financial reports that are supported and evidenced by</p>	

	<p>reliable information and that all procurements of goods and services are done in accordance with SCM regulations.</p>	
<p><b>Financial and Performance Management</b></p>	<p>Daily and monthly controls were not operational throughout the period. Management did not prepare regular, accurate and complete financial statements that are supported and evidenced by reliable information as year-end procedures were not carried out in accordance with the applicable financial reporting framework. Adequate review and monitoring over compliance with legislation was not undertaken due to staff not understanding their respective roles and responsibilities.</p>	<p>Reconciliations were being performed on a monthly basis from 01 January 2014 therefore there were only efficient controls in place for half of the financial year. The monthly preparation and reviewing of reconciliations is ongoing and the various Director are responsible of ensuring that they being done timeously.</p>
	<p>The risk assessment process did not adequately</p>	<p>In terms of the risk assessment that was conducted by the Municipality, the risks relating to accuracy and completeness of financial reporting was in actual fact covered during the risk</p>



**Governance**

address the accuracy and completeness of financial reporting resulting in material misstatements and non-compliance with legislation.

assessment, and it is contained in the Municipal risk register. Below is an extract of the top 10 risk register which confirms that the risk referred to above was indeed covered by the risk assessment:-

<b>Risk No.</b>	<b>Identified Risk</b>	<b>Root Cause</b>	<b>Possible Consequences</b>	<b>Inherent Risk Rating</b>
NM-R2	Failure to maintain clean governance	Ineffective governance structures and systems; Non-compliance with relevant legislations;	Fraud and corruption; Qualified audit opinion by AG; Intervention by provincial government.	Maximum (Very High)
NM-R9	Lack of integrity and accuracy of financial information	Inadequate month-end closure discipline procedures (Reconciliations).	Materially misstated financial statements resulting in ill-informed decisions. Audit queries; Exposure to risk of fraud and corruption.	Maximum (Very High)

In light of the above, it is evident that the risk assessment process did address the accuracy and completeness of financial reporting, as well as compliance with legislations in terms of risk identification, and there was no specific audit finding which was raised by Auditor-General during their audit when they audited risk management process.

Apart from the risk assessment process, management conceded the fact that there is still some room for improvement when it comes to the adequacy and effectiveness which includes reconciliations, the following is an action plan to address the accuracy and completeness of our financial reporting and compliance monitoring by finance department towards ensuring that our financial statements are not materially misstated:-

<p><b>Governance</b></p>	<p>Internal audit and the audit committee did not adequately review the financial statements, as evident by the errors that arose during the auditing process.</p>	<p>Internal audit requires that the annual financial statements be provided to them at the very latest by the first week in August in order for the department to be able to carry out the relevant procedures to ensure the accuracy thereof.</p>
<p><b>Investigations</b></p>	<p>The department of Cooperative Governance and Traditional Affairs conducted investigations regarding procurement irregularities which relates to cellphone contracts and public viewing screens entered into in the year under review. The investigations were finalised in July 2014. Irregularities were discovered and disciplinary action was recommended against the relevant officials.</p>	

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