

CONSOLIDATED AUDIT RESPONSE PLAN OF iLembe DISTRICT MUNICIPALITY AND ITS ENTITY: 2012/13

No	Nature of Audit Query	Audit Query (Exactly As Worded In The Auditor-General's Report)	Response from Municipality	Responsible Official	Target Date to Resolve Query
1.	<p>Irregular Expenditure- of R16.33 million, mainly consists of:</p> <p>1.1 R13.25 million for service providers and contractors inherited by the district with no evidence of SCM processes being followed nor contracts in place,</p> <p>1.2 R3.08 million picked by the auditor general where a contractor was disqualified due to their CIDB certificate being inactive at Bid Evaluation and adjudication stage, evidence was not kept</p>	<p>As disclosed in note 35.3 to the consolidated financial statements, irregular expenditure of R16,33 million was incurred during the year, mainly as a result of contracts awarded to suppliers in contravention of the Municipal Supply Chain Management Regulations (MSCMR).</p>	<p>1.1 Where there are no contracts in place, panels of service providers are established and used, Regulation 32 of the SCM policy is applied where applicable and other necessary/relevant SCM processes are applied to prevent irregular expenditure from re-occurring. Furthermore MANCO took a resolution that any manager or senior official that authorises irregular expenditure to be incurred will be liable for the payment thereof.</p> <p>1.2 Where bidders CIDB or tax clearance certificates are either suspended or inactive, the BEC Chairperson and/or relevant SCM official must print evidence for inclusion on the BEC and BAC agenda and for record purposes.</p>	<p>SCM Manager and IDM management</p> <p>BEC chairperson and Manager SCM</p>	<p>1.1 31 March 2014.</p> <p>1.2 31 January 2014.</p>

	in file to provide AG during the audit hence the expenditure on that specific contract was classified as irregular				
2.	<p>Material misstatements in the AFS.</p> <p>2.1 Material losses R617 089</p> <p>2.2 Accumulated Surplus –R12 969 8298,</p>	<p>The consolidated 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 the losses and correction of prior period error disclosure identified by the auditors were subsequently corrected, resulting in the consolidated financial statements receiving an unqualified audit opinion.</p>	<p>2.1 The amount relates to misappropriation of funds by some staff members within the revenue unit of the finance department. Disciplinary Action against these staff members are under way and it is the municipality's intention to recover this money from the relevant officials.</p> <p>2.2 Fixed Assets register is being updated monthly. Full infrastructure asset verification will be done by 31 March 2014 and variances resolved before year end.</p> <p>2.3 An Asset Management Steering Committee has been established to deal timeously with asset management issues.</p>	<p>2.1 Director: Corporate Services</p> <p>2.2 and 2.3 Manager: Assets and Logistics, Managers WSP, Manager PMU and Manager Expenditure</p>	<p>2.1 30 June 2014</p> <p>2.2. 31 March 2014</p> <p>2.3. 31 July 2014</p>
3.	The debt impairment is broken down as follows:	As disclosed in note 3 to the consolidated financial statements, the municipality incurred material losses to the amount of R18,74 million as a result of the provision for doubtful		Manager : Revenue	

<p>3.1 Pensioners accounts R37 million</p> <p>3.2 Consumers with no critical account holder information R26 million</p> <p>3.3 Deceased consumer debt R8 million</p> <p>3.4 Companies no longer trading R1 million</p> <p>3.5 The balance of R229 thousand is other write-offs e.g. Rand for rand, task team write-offs etc</p>	<p>debts.</p> <p>As disclosed in note 3 to the consolidated financial statements, the municipality incurred material losses of R71,84 million as a result of the write-off of irrecoverable trade receivables from exchange transactions.</p>	<p>3.1 Vigorously conduct indigent registration campaigns to identify possible indigent pensioners so they can be classified as such and ensure that the debt does not grow.</p> <p>3.2. Meter readers to leave notices for the consumers that do not have critical records on municipality's consumer database urging them to come forward to update their data failing which the supply of water will be disconnected to ensure that the debt book does not grow.</p> <p>3.3 Regularly cleanse consumer database to identify deceased consumers and disconnect water supply immediately in cases where no one comes forward to open a new account on a new consumer details</p> <p>3.4 Regularly cleanse consumer database to identify companies no longer trading and disconnect water supply immediately in cases where no one comes forward to open a new account on a new consumer details</p> <p>3.5 Implement intelligent meter system and water flow limiters to ensure that restricted consumers do</p>		<p>3.1 to 3.4 31 March 2014</p> <p>3.5 On-going, project started in October 2013.</p>
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			not use more than 6kl of water supply hence increasing their debt.		
4.	<p>Material Water Losses.</p> <p>Water losses of R31 398 879.21 (11 926 006*2.63) 52% are broken down as follows:</p> <p>4.1 Illegal connections and other 32%</p> <p>4.2 Main leaks 48%</p> <p>4.3 Service connection leaks 20%</p> <p>Reservoir overflows <1%</p>	<p>As disclosed in note 36.8 to the consolidated financial statements, the municipality incurred material water distribution losses of 11,93 million kilolitres amounting to R31,40 million as a result of illegal connections, ageing infrastructure, overflows and service leaks.</p>	<p>4.1.1 Intelligent meter project is currently under way which will also look at consumer information to update consumer database.</p> <p>4.1.2 Completeness of revenue review exercise is also under way which compares the District's consumer database with that of the locals to identify consumers that should be billed that are not billed but have access to water and sanitation.</p> <p>4.2 to 4.4 Maintenance of infrastructure assets and introducing water flow limiters to minimise leaks.</p>	<p>4.1 Manager Revenue</p> <p>4.2 to 4.4 Deputy Director: Operations and maintenance.</p>	<p>4.1.1 On-going; Project started in October 2013.</p> <p>4.1.2 For 2013/14 financial year is 28 February 2014 and for 2014/15 financial year is 31 March 2014.</p> <p>4.2 to 4.4 On-going, the target date to replace all meters district wise is 30 June 2017.</p>
5.	<p>5.1 Significant uncertainties regarding implementation of wage</p>	<p>With reference to note 45 to the financial statements, the municipality is party to unresolved litigation with labour unions regarding implementation of wage agreement. The ultimate outcome of the</p>	<p>5.1.1 Placement of staff that were transferred from Mandeni and Kwadukuza</p> <p>5.1.2 Implementation of Job evaluation results</p>	<p>5.1 Manager HR and Director Corporate</p>	<p>5.1 30 June 2014</p>

	agreement. 5.2. Vat Output contingent liability for the municipal entity	matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements. With reference to note 39.2 to the consolidated financial statements, the municipal entity made representations to the tax authority on output value-added tax (VAT) payable on grants received from its parent municipality. There has been no ruling on whether or not the transfer of grants between the parent municipality and its municipal entity is a taxable transaction. If the ruling is against the municipal entity, a VAT output of R10,04 million will be payable.	5.2 Follow up with SARS ruling on the matter	Services Acting CEO, Enterprise Ilembe	30 June 2014
6.	Restatement of corresponding figures	As disclosed in note 32 to the consolidated financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an errors discovered during 30 June 2013 in the consolidated financial statements at, and for the year ended, 30 June 2012.	Monthly AFS and supporting schedules are prepared and reviewed to ensure that errors are picked up timeously and corrected.	Manager: Budget and Compliance	Monthly – 31 July 2014
7.	Transfer of projects to special purpose vehicles	As disclosed in note 44 to the consolidated financial statements, the municipal entity is currently negotiating with the funding organisations of the constructed projects to transfer certain projects into special purposes vehicles. Although the municipal entity registered three companies to manage these functions, the transfer had not taken place. Also, the companies have not traded to date.	Follow up with COGTA on the feedback on the model to transfer projects.	Acting CEO	30 June 2014

8.	Achievement of targets	Of the total number of 292 targets planned for the year, 123 were not achieved during the year under review. This represents 42% of the total planned targets that were not achieved during the year under review. This was mainly due to a delay in implementing water and sanitation projects and the approval of funding for local economic development projects.	Monthly performance reports are prepared and reviewed to monitor actual performance against target and corrective measures will be taken timeously.	Heads of department and Municipal Manager	Monthly – 31 July 2014
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CONSUMER DEBTOR ARREARS

Consumer debtors continue to be the most important strategic issue that needs attention. As at 30 June 2013 consumer debtors amounted to **R146 717 363** after total write-offs of R71 841 200. The provision for bad debts at the same date amounted to **R75 694 159**. A total of **R4 996 295** is owed by National and provincial government.

A number of strategies have been put in place to address this issue. The followings actions over and above the implementation of the credit control and debt collection and indigent policies are and will being implemented to ensure that outstanding monies due are collected where possible:

1. A debt collection strategy has been developed by the Management Committee
2. Intelligent meter project has commenced in October 2013.
3. Indigent identification outreach programmes will commence early February 2014.

The following counsellor and official were in arrears with their municipal services account for over 90 days:

1. Counsellor EL Dube – R1 372
2. Mr SA Ntshangase – R2 992