



water affairs

Department:
Water Affairs
REPUBLIC OF SOUTH AFRICA

MINISTRY OF WATER AND
ENVIRONMENTAL AFFAIRS

2010 -12- 07

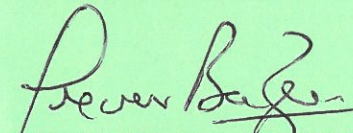
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MINISTER OF WATER AND ENVIRONMENTAL AFFAIRS


NATIONAL COUNCIL OF PROVINCES: QUESTION 508 FOR WRITTEN REPLY

A draft reply to the above-mentioned question asked by Mr O de Beer (COPE-WC); is attached for your consideration.


ACTING DIRECTOR-GENERAL

DATE: 7/12/2010

DRAFT REPLY APPROVED/AMENDED


MRS B E E MOLEWA, MP
MINISTER OF WATER AND ENVIRONMENTAL AFFAIRS

DATE: 2010/12/14

NATIONAL COUNCIL OF PROVINCES

FOR WRITTEN REPLY

QUESTION NO 508

DATE OF PUBLICATION IN INTERNAL QUESTION PAPER: 26 NOVEMBER 2010
(INTERNAL QUESTION PAPER NO. 36)

508. Mr O de Beer (COPE-WC) to ask the Minister of Water and Environmental Affairs:

Whether, with reference to her department's 2009-10 Annual Report, she has undertaken to ensure that the systems of internal control were (a) effective, (b) compliant with the prescribed policies and procedures and (c) operational to withstand any breakdown in the functioning of controls; if not, why not; if so, what are the relevant details? CW616E

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REPLY:

- (a) Yes, the Department has noted all issues relating to internal controls and has developed a financial improvement action plan to deal with the gaps. (See attached)
- (b) Prescribed policies and procedures are in place and being reviewed from time to time. However due to inherent limitations, accounting and internal control system cannot provide management with conclusive evidence that objectives are reached. Such limitations include the following:
- Most internal controls tend to be directed at routine transactions rather than non-routine transactions.
 - The potential for human error due to carelessness, distraction, mistakes of judgment and the misunderstanding of instructions.
 - The possibility of circumvention of internal controls through collusion of a member of management or an employee with parties inside or outside the entity.
 - The possibility that a person responsible for exercising an internal control could abuse that responsibility, for example, a member of management overriding an internal control.
 - The possibility that procedures may become inadequate due to changes in conditions and compliance with procedures may deteriorate.
- (c) Refer to (b) above

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DEPARTMENT OF WATER AFFAIRS

WATER TRADING ENTITY

Consolidated Progress Report on Audit Action Plan 2009/2010 as at 30 September 2010

No.	Finding	Action	Indicator	Progress	Responsible person	Due date
PROPERTY, PLANT, EQUIPMENT						
1	Misstatement of assets in the financial statements	Monthly reconciliations are being performed to general ledger. Bi annual verification of assets.	Asset register balancing to the general ledger	Registers are updated outside the system and waiting for migration of infrastructure assets to be finalised.	Director Asset Management	15 April 2011
2	Infrastructure assets are revalued after every 10 years	The Sakhile team will to prepare a report that states that fair vales of the assets are not materially different as at each balance sheet date	Compliant assets register	A report has been received giving assurance, however it suggests that a cost effective model needs to be developed in order to do revaluation with sufficient regularity	Director Asset Management	15 April 2011
REVENUE & ACCOUNTS RECEIVABLE						
3	Unexplained differences between the confirmed balances and the balance as per debtors aged analysis	Reconciliations are being updated and adjustments are followed on the system	Reconciling items must be adequately explained and supported	Reconciliations are being updated and 30% have been updated to date.	Director Revenue Management Cluster Managers	Closed
4	Closed water user accounts are still billed for water consumption	Re establish all closed accounts and block them for billing.	Complete and accurate revenue	All closed accounts were identified	Director Revenue Management	15 April 2011
5	Revenue recorded in the incorrect accounting period	Year –end adjustments to be processed to accrue revenue to the relevant period.	Correctly recorded revenue transactions	Year end journals processed.	Regions Director Revenue Management	Closed

DEPARTMENT OF WATER AFFAIRS

WATER TRADING ENTITY

Consolidated Progress Report on Audit Action Plan 2009/2010 as at 30 September 2010

No.	Finding	Action	Indicator	Progress	Responsible person	Due date
PURCHASES & PAYABLES						
8	Non compliance with the Supply chain management (SCM) policy: 3 quotations not obtained from suppliers	Mechanisms to detect irregular expenditure to be put in place	No irregular expenditure relating to supply chain management processes	Circulars have been issued in order to prevent irregular expenditure	Director SCM	Monthly
9	The most economic supplier was not selected for procurement	The chief buyers in all the offices were requested to monitor for compliance.	Procurement processes complied with.	Closed	Director SCM	Closed
10	The goods receipt slip signed and stamped for undelivered goods	Goods receipt for undelivered goods was reversed.	Reversal of good receipt voucher for undelivered item.	Closed	Director SCM	Closed
11	Payments not made within 30 days from receipt of invoices from suppliers	Record all the invoices received in the invoice register book to reflect the date of receipt.	Documented proof that the invoices were received and payment made within 30 days.	Closed	Director Financial Accounting	Monthly
12	Account balances incorrectly allocated to Other payables in the annual financial statements	Reclassify balances to other receivables	Fairly stated accounts receivable balances	The unallocated receipts suspense account is cleared on a monthly basis. The balance has been reduced to 24m as at the end of September	Director Revenue Management	Monthly
13	Unrecorded liabilities at year end	Implement a system to ensure completeness of liabilities	Complete and accurate liabilities	Procedures have been implemented to do analysis of all sundry payments against payments	Director Financial Accounting	15 April

DEPARTMENT OF WATER AFFAIRS

WATER TRADING ENTITY

Consolidated Progress Report on Audit Action Plan 2009/2010 as at 30 September 2010

No.	Finding	Action	Indicator	Progress	Responsible person	Due date
EMPLOYEE COSTS						
14	No proof of approval for overtime paid to employees	Ensure that approval is granted by the delegated official before commencing with overtime	No irregular expenditure	The procedures for payment of allowances have been reviewed in order to include other compensating controls	Director Financial Accounting	Closed
15	Overtime paid exceeds 30% of basic salary	Consult NT as to the cause of the calculation error	Accurately paid overtime	The code used by the Persal has been corrected by the NT	Director Financial Accounting	Closed
AUDIT OF PREDETERMINED OBJECTIVES						
16	Lack of documented and approved system of performance information reporting	Develop a framework for performance reporting	Approved framework for collating performance information	The DG approved the framework on the 31/03/2010.	COO	Closed
SUSPENSE ACCOUNTS						
20	Suspense accounts not cleared at year end	Suspense accounts to be cleared and monitored on a monthly basis	Compliance with TR17	Compliance certificates are being completed on a monthly basis and reports are forwarded to the Accounting Officer regarding uncleared items	CFO	Monthly

**DEPARTMENT OF WATER AFFAIRS
MAIN EXCHEQUER ACCOUNT – VOTE 34**

Financial Improvement Action Plan on matters identified by the Auditor-General for the 2009/10 Financial Year

No	Reported Matter	Finding	Actions to be taken	Progress to date	Champion	Responsible person	Dependencies	Time frame
AUDITOR-GENERAL'S REPORT: REPORT ON FINANCIAL STATEMENTS								
QUALIFICATION								
1.	ASSETS	<p>Immovable assets AG was unable to verify the existence and completeness of immovable tangible capital assets as the final asset register was not provided in time</p> <p>Movable assets Closing balance and additions of movable tangible capital assets as disclosed in the AFS do not agree to the balance in the asset register.</p>	<ol style="list-style-type: none"> 1. Perform asset verification and determination of existence of all immovable assets 2. Monthly meetings with WTE asset management team is initiated from the CD's office 3. Meeting with the relevant stakeholders who were performing the refinement process on the immovable assets <p>Monthly performance of asset reconciliations between Asset Register and Trial Balance and ensuring sign-off by relevant Chief Directors</p>	<p>Meeting with National Transfer to confirm assets transferred to municipalities.</p> <p>Meeting with relevant stakeholders e.g. Hydrological team to determine asset base</p> <p>Monthly reconciliation and submission of reconciled Asset Register until July 2010 was done. Only 6 out of 11 regions have submitted</p>	<p>Chief Director : Supply Chain and Asset Management</p> <p>Chief Director : Asset and Supply Management</p>	<p>Director : Asset Management</p> <p>Director : Asset Management</p>	<p>Water Trading and National Transfers Regional Bulk Infrastructure unit</p> <p>Regions</p>	<p>31 March 2011</p> <p>31 March 2011</p>
EMPHASIS OF MATTER								
2.	IRREGULAR EXPENDITURE	<ul style="list-style-type: none"> • Proper procurement processes had not been followed • The Accounting Officer did not implement and enforce controls to prevent the occurrence of irregular expenditure. 	<ol style="list-style-type: none"> 1. A circular to articulate the processes to be followed once irregular expenditure is discovered was issued to all officials of the department. 2. A reporting tool to report the irregular expenditure was distributed to all SCM practitioners at the regions 		<p>Chief Director: Supply Chain and Asset Management</p>	<p>Director: Asset management</p>	<p>Regions</p>	<p>Ongoing</p>
AUDITOR-GENERAL' REPORT: REPORT ON LEGAL AND REGULARITY REQUIREMENTS								
3.	PERFORMANCE INFORMATION	The Department's strategic plan is not consistent with the MTE estimates as required by Treasury Regulation 5.2.2 (a).	Compile a matrix to compare the Strategic plan with the MTEE and ensure that the necessary alignment is implemented.		<p>CD: Operation Manager</p>			

**DEPARTMENT OF WATER AFFAIRS AND FORESTRY
MAIN ACCOUNT – VOTE 34**

Financial Improvement Action Plan for weaknesses identified by the Auditor-General for the 2009/10 Financial Year

No	Reported Matter	Finding	Actions to be taken	Progress to date	Champion	Responsible person	Dependencies	Time frame
4.	INTERNAL CONTROL	<p>1. Financial Management:</p> <ul style="list-style-type: none"> The Annual Financial Statements (AFS) and other information included in the Annual Report were not reviewed for completeness and accuracy prior to submission for auditing. <p>2. Governance:</p> <ul style="list-style-type: none"> Transactions are not reviewed by competent officials prior and subsequent to capturing into the financial system. 	<ul style="list-style-type: none"> Prepare a report on challenges experienced with the preparation of the AFS. Prepare an Action Plan for the preparation of Interim Financial Statements (IFS), including a process of pre-auditing inputs. Prepare an Action Plan for the preparation of the AFS including a process of pre-auditing inputs Determine needs for training Persistent training of HO and Regional staff in all aspects of SCM, including the management of risks. 	<p>Report compiled by G Louw</p>	<p>D:FA DFA DFA DFA</p>	<p>Mr. G Louw Mr. W du Plessis Mr. W du Plessis</p>		<p>30 Sept 2010 15 Sept 2010 31 Jan 2011 15 Oct 2010</p>
MANAGEMENT REPORTS								
ASSET MANAGEMENT								
5.	Bar-coding	Not all assets were bar-coded as prescribed	Asset verification will be conducted on a regular basis	Rectification of discrepancies identified is in place	Chief Director : Asset and Supply Management	Director : Asset Management	Regions	31 March 2011
6.	Misclassification of assets	Assets worth more than R5 000 were classified as current assets instead of capital assets and vice versa	Monthly performance of asset reconciliations between Asset Register and Trial Balance and passing of journals timeously where necessary to correct misclassifications.	Monthly TB meetings already commenced with the relevant stakeholders	Director : Financial Accounting	Director : Asset Management	Regions	31 March 2011
7.	Maintenance of Asset Register	Not all additions and disposals of assets were recorded in the asset register	Monthly performance of asset reconciliations between Asset Register and Trial Balance and ensuring sign-off by relevant Chief Directors. Monthly reporting of disposals and existence of disposal committees	Monthly reconciliation and submission of reconciled Asset Register until July, only 6 regions have submitted out of a total of 11	Chief Director : Asset and Supply Management	Director : Asset Management	Regions	31 March 2011

**DEPARTMENT OF WATER AFFAIRS AND FORESTRY
MAIN ACCOUNT – VOTE 34**

Financial Improvement Action Plan for weaknesses identified by the Auditor-General for the 200910 Financial Year

No	Reported Matter	Finding	Actions to be taken	Progress to date	Champion	Responsible person	Dependencies	Time frame
8.	Physical verification	During the physical verification it was found that some assets were not recorded in the asset register.	Conduct Asset Verification and formulation of Verification Procedure	Verification Procedure being formerly drafted and Verification to be conducted in January 2010	Chief Director : Asset and Supply Management	Director : Asset Management	Regions	February 2011
9.	Reconciliation of Asset register	The asset register has not been reconciled to the balance in the Annual Financial Statements	Monthly performance of asset reconciliations between Asset Register and Trial Balance and ensuring sign-off by relevant Chief Directors.	Monthly reconciliation and submission of reconciled Asset Register	Chief Director : Asset and Supply Management	Director : Asset Management	Regions	31 March 2011
FINANCIAL STATEMENTS								
10.	Accruals	Under and overstated disclosure of Accruals	<ul style="list-style-type: none"> Follow-up Circular to keep track of orders and payments to ensure correct disclosure of accruals Implementation of monthly returns of accruals by regions 		CD FM	Willie du Plessis		30 Sept 2010
	Commitments	Under and overstated disclosure of Commitments	<ul style="list-style-type: none"> 		CD: SC & Asset Man.			
11.	Incorrect Classification of expenditure	Misclassification of expenditure on goods and services as capital expenditure	<ul style="list-style-type: none"> Offer training on SCOA item mapping to address misallocation of item codes. 		CD: SC&AM and CD: FM		Other Directorates and regions	31 March 2011
SUPPLY CHAIN MANAGEMENT								
13.	Source documents	Source documents could not be provided	<ul style="list-style-type: none"> Tighten control over safeguarding of documents Improve on filing system related to bids documents Update the database 	Clean up of the old information on the database	Director: Supply Chain Management	Deputy Director: Acquisition	HR – Registry	Ongoing
14.	Suppliers not on Database	Supplier names were found which do not appear on the approved data base of suppliers	<ul style="list-style-type: none"> 		Director: Supply Chain management	Deputy Director: Demand Management		Ongoing
GOODS AND SERVICES								
17.	Leases	Lease payments incorrectly classified (Interest & Capital)	<ul style="list-style-type: none"> Conduct training to all officials at regions for the classification of interest and Capital. Distribute the circular for regions on the monthly reporting tool 	Training at Head Office conducted. Regions to be trained on the 16 th and 17 th September 2010 JB Bongers	Chief Director : Asset and Supply Management	Director : Asset Management	Transport section and Regions	31 March 2010
18.	Cell phones	Cell phone policy – non compliance	<ul style="list-style-type: none"> Issue circular to ensure forms are correctly completed and correct allocations are used 	D:FA	CD: FM			15 Oct 2010
19.	Transport and Subsistence (T&S)	T&S expenditure incorrectly classified						

**DEPARTMENT OF WATER AFFAIRS AND FORESTRY
MAIN ACCOUNT – VOTE 34**

Financial Improvement Action Plan for weaknesses identified by the Auditor-General for the 200910 Financial Year

No	Reported Matter	Finding	Actions to be taken	Progress to date	Champion	Responsible person	Dependencies	Time frame
20.	Payments	Payments to suppliers not made within 30 days after receipt of invoices	Issue finance circular to ensure compliance	D:FA	CD, SC & Asset Man. and CD FM			15 Oct 2010
REVENUE								
21.	Banking of money	Money not banked in terms of statutory and departmental policy requirements	Issue finance circular to ensure compliance	D:FA	CD FM			15 Oct 2010
22.	Telephone accounts	Control over private telephone calls insufficient.	Issue circular to ensure compliance		JB Bongers			
COMPENSATION OF EMPLOYEES								
23.	Job Evaluation	Job Evaluation not performed on all posts	1. Determine number of jobs to be evaluated 2. Evaluate outstanding jobs 3. Monitor and evaluate new jobs		Dir: OD	DD: OD		31 Oct 2010
24.	Job descriptions	Job descriptions not signed and not on Personnel Files		Job descriptions signed and on personnel files 98%		D:OD		30 Nov 2010
25.	Overtime	Overtime exceeds 30% of basic salary			CD: HR			30 Sept 2010
26.	Leave	1. Missing leave supporting documents (sick, study, family responsibility, etc) 2. Leave not captured on PERSAL		Leave clean-up process on track. Regions are being addressed on this matter		D:HRT and I		31 Dec 2010
27.	Acting allowance	No letters of appointment to act in an acting capacity		All Acting Personnel have letters of appointment to act		D:HRT and I		31 Oct 2010