

Auditor-General of South Africa

**Msunduzi Municipality and its
municipal entity**

Audit report 2018-19

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and council on Msunduzi Municipality

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of the Msunduzi Municipality set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Msunduzi Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not appropriately account for property, plant and equipment in accordance with SA Standard of GRAP 17, *Property, plant and equipment*. Items of property, plant and equipment acquired in the prior year were incorrectly recognised as operational costs. Additionally, items of land were recorded at incorrect amounts. I was unable to determine the full extent of the misstatement as it was impractical to do so. Consequently, property, plant and equipment stated at R7 billion (2018: R6,97 billion) included in note 15 to the consolidated and separate financial statements was misstated by an undeterminable amount. This also has an impact on the accumulated surplus.

Consumer debtors

4. I was unable to obtain sufficient appropriate audit evidence that consumer debtors had been properly accounted for as the municipality did not have adequate internal controls to maintain records of consumer debtors. Additionally, material mathematical inaccuracies were identified in the calculation of allowance for impairment. I was unable to confirm the consumer debtors by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consumer debtors stated at R454,84 million (2018: R424,77 million) included in note 8 to the consolidated and separate financial statements. This also has an impact on the debt impairment and the related allowance for impairment.

Revenue from exchange transactions – interest from consumer debtors and receivables

5. The municipality did not account for interest from consumer debtors and receivables in accordance with SA Standard of GRAP 9, *Revenue from exchange transactions*. The municipality did not correctly calculate interest charged to consumers and receivables. I was unable to determine the full extent of the misstatement as it was impractical to do so. Consequently, interest from consumer debtors and receivables stated at R218,93 million (2018: R201,96 million) included in note 29 to the consolidated and separate financial statements was misstated by an undeterminable amount.

Revenue from exchange transactions – service charges

6. I was unable to obtain sufficient appropriate audit evidence that revenue from service charges had been properly accounted for as the municipality did not have adequate internal controls to maintain records for service charges. I was unable to confirm the revenue from service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to revenue from service charges stated at R2,94 billion in the consolidated and separate financial statements. This also has an impact on material electricity and water losses included in note 71 to the financial statements.

Revenue from non-exchange transactions – property rates

7. I was unable to obtain sufficient appropriate audit evidence that revenue from property rates had been properly accounted for as the municipality did not have adequate internal controls to maintain records for property rates. I was unable to confirm the revenue from property rates by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to revenue from property rates stated at R930,98 million in the consolidated and separate financial statements.

Context for the opinion

8. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.
9. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and parts 1 and 3 of the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
10. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.
12. As disclosed in note 74 to the consolidated and separate financial statements, a deficit was incurred in the current year and past two years as well as adverse financial ratios. As stated in note 74, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

14. As disclosed in note 65 to the consolidated and separate financial statements, the corresponding figures for 30 June 2018 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Material losses – electricity

15. As disclosed in note 71 to the consolidated and separate financial statements, material electricity losses of 248,60 kilowatt hours amounting to R248,22 million (2017-2018: 272,73 kilowatts hours amounting to R256,90 million) were incurred, which represents 14% (2017-2018: 15%) of total electricity purchased. Losses were incurred as a result of illegal connections, infrastructure vandalism, ageing infrastructure, overloading and poor standard of equipment installed.

Material losses – water

16. As disclosed in note 71 to the consolidated and separate financial statements, material water losses of 20,12 kilolitres amounting to R157,21 million (2017-2018: 20,07 kilolitres amounting to R138,72 million) were incurred, which represents 28% (2017-2018: 29%) of total water purchased. Losses were incurred as a result of illegal connections and ageing infrastructure.

Other matters

17. I draw attention to the matters below.

Unaudited disclosure note

18. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the consolidated and separate financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Unaudited supplementary schedules

19. The supplementary information set out on pages XX to XX does not form part of the consolidated and separate financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the consolidated and separate financial statements

20. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
21. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the Msunduzi Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

22. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
23. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

24. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for the selected development priority presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
25. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

26. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the development priority B – basic service delivery presented in the annual performance report of the municipality for the year ended 30 June 2019.
27. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
28. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

Development priority B – basic service delivery

Various indicators

29. The systems and processes that enable reliable reporting of achievement against the indicator were not adequately designed so that data will be collected consistently by implementing adequate controls measures for tracking how achievements can be collected and reported in a manner that is verifiable.

No.	Performance measure	Performance Target	Actual achievement reported
1	Number of zones refuse collected	Refuse collection in all 5 zones of the Msunduzi Municipality by 30 June 2019	Nil
2	Number of skip bins repaired (various sizes) and/or replaced by 30 June 2019	24 skip bins repaired (various sizes) and or replaced by 30 June 2019	Nil

Other matters

30. I draw attention to the matters below.

Achievement of planned targets

31. The annual performance report on pages ... to ... includes information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 29 of this report.

Adjustment of material misstatements

32. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of the basic service delivery development priority. As management subsequently corrected only some of

the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

33. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

34. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements

35. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, but the uncorrected material misstatements resulted in the financial statements receiving a qualified opinion.

Expenditure management

40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

41. Reasonable steps were not taken to prevent irregular expenditure amounting to R93,05 million as disclosed in note 67 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with Municipal Supply Chain Management Regulations GNR 868 OF 30 May 2005 (MSCMR).

42. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R3,54 million, as disclosed in note 69 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by salaries paid to suspended employees with cases that were not finalised on time.

43. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R170 million, as disclosed in note 70 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the approved budget.

Revenue management

44. An adequate management, accounting and information system which accounts for revenue, debtors and receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.

45. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

46. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Asset management

47. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

48. Unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.

49. Some of the irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

50. Some of the allegations of financial misconduct against senior managers were not always investigated, as required by the disciplinary regulations for senior managers 5(3) and section 171(4) of the MFMA.

51. Some of the allegations of financial misconduct made against officials of the municipality were not investigated by the disciplinary board, relevant treasury or an independent investigator or team of investigators appointed by council, as required by municipal regulations on financial misconduct procedures and criminal proceedings 5(4).

52. Disciplinary proceedings were not instituted by the council when the report of independent investigators confirmed the financial misconduct by a senior manager, as required by disciplinary regulations for senior managers 5(6) and municipal regulations on financial misconduct procedures and criminal proceedings 6(8).

53. Cases of financial misconduct which constitute a crime committed by senior managers and officials were not always reported to the South African Police Service, as required by municipal disciplinary regulations for senior managers 8(4) and municipal regulations on financial misconduct procedures and criminal proceedings 10(1).

54. Allegations of fraud and uttering a forged document which exceeded R100 000 were not always reported to the South African Police Service, as required by section 34(1) of the Prevention and Combating of Corrupt Activities Act (Act No. 12 of 2004).

Strategic and performance management

55. Annual performance objectives and indicators were not included in the municipal entity's multi-year business plan, as required by section 93B(a) of the Municipal Systems Act (Act No. 32 of 2000) (MSA).

Human resource management

56. A senior manager did not sign a performance agreement within the prescribed period, as required by section 57(2)(a) of the MSA.

Other information

60. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that have been specifically reported on in this auditor's report.

61. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
62. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
63. The other information I obtained prior to the date of this auditor's report is in the governance section, municipal entity's section and report on grants. The mayor's foreword, overview by the city manager and the audit committee report are expected to be made available to us after 31 January 2020.
64. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact.
65. When I do receive and read the audit committee report and I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

66. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
67. Leadership did not implement effective controls to ensure accurate financial reporting nor did they exercise adequate oversight of compliance with applicable legislation, which resulted in a qualification on the financial statements as well as non-compliance with key legislation.
68. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. In this regard, management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Other reports

69. I draw attention to the following engagements conducted that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
70. At the request of the accounting officer and senior management, the internal audit unit performed numerous investigations into allegations made on the whistle-blower hotline. These investigations related to allegations of fraud, corruption, theft, recruitment, mismanagement and supply chain management irregularities. During the 2018-19 financial year, 61 investigations were conducted. Of the 61 investigations conducted, 18 were concluded and reported to council. Forty-three cases relating to recruitment, corruption, misconduct and theft were still in progress at the date of this report.

Auditor-General

Pietermaritzburg

31 January 2020



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also–
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Msunduzi Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease operating as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.