

Auditor-General of South Africa

Msunduzi Municipality and its
municipal entity

Audit report 2019-20

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

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 and its municipal entity (the group) set out on pages x to x, which comprise the consolidated and separate statement of financial position as at 30 June 2020, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matter 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 group as at 30 June 2020, 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, 2019 (Act No. 16 of 2019) (Dora).

Basis for qualified opinion

General expenses – External security services

3. I was unable to obtain sufficient appropriate audit evidence for external security services included in general expenses, due to inadequate internal controls for verification of receipt of these services before the expenditure was recorded in the accounting records. I was unable to confirm external security services included in general expenses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to external security expenditure included in general expenses and stated at R78,11 million in note 44 to the consolidated and separate financial statements.

Context for the opinion

4. 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.

5. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional accountants (including International Independence Standards)* (IESBA code) as well as other 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 code.
6. 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

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.
8. I draw attention to note 79 to the consolidated and separate financial statements, which indicates how Covid-19 affected the municipality to date, the inability of the municipality to collect monies due from consumer debtors, inability to pay creditors on time, decreasing reserves and other adverse financial ratios. These conditions, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern.

Emphasis of matters

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

Restatement of corresponding figures

10. As disclosed in note 69 to the consolidated and separate financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors in the financial statements of the group at, and for the year ended, 30 June 2020.

Material impairment

11. As disclosed in note 45 to the consolidated and separate financial statements, material losses of R567,92 million (2019: 520,41 million) was incurred as a result of impairment of consumer debtors.

Material losses – electricity and water

12. As disclosed in note 77 to the consolidated and separate financial statements, material electricity losses of 308,98 kilowatt hours amounting to R178,49 million (2019: 248,60 kilowatts hours amounting to R248,22 million) was incurred, which represents 18% (2019: 14%) of total electricity purchased. Losses were as a result of illegal connections, infrastructure vandalism, ageing infrastructure and overloading.

13. As disclosed in note 77 to the consolidated and separate financial statements, material water losses of 22,12 kilolitres amounting to R209,11 million (2019: 20,12 kilolitres amounting to R157,21 million) was incurred, which represents 30% (2019: 28%) of total water purchased. Losses were as a result of illegal connections and ageing infrastructure.

Other matters

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

Unaudited disclosure note

15. In terms of section 125(2)(e) of the MFMA, the group 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 group financial statements and, accordingly, I do not express an opinion on them.

Unaudited supplementary schedules

16. The supplementary information set out on pages x to x 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

17. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the SA Standards on 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.

18. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the group'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 group 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

19. 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 consolidated and separate financial statements.
20. 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

21. In accordance with the Public Audit Act, 2004 (Act. No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected development priority presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
22. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures also do 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.
23. 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 "basic service delivery" development priority presented in pages x to x of the municipality's annual performance report for the year ended 30 June 2020.

24. 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.
25. I did not identify any material findings on the usefulness and reliability of the reported performance information for the "basic service delivery" development priority.

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. The annual performance report on pages x to x sets out information on the achievement of planned targets for the year.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information for the "basic service delivery" development priority. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

29. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
30. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

31. 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 expenditure, current assets and disclosure items 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.

Expenditure management

32. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
33. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R564,66 million, as disclosed in note 76 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the approved budget.
34. Reasonable steps were not taken to prevent irregular expenditure amounting to R40,90 million as disclosed in note 73 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 local government municipal supply chain management regulations.
35. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R5,38 million, as disclosed in note 75 to the annual financial statements, as required by 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.

Consequence management

36. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
37. Appropriate action was not taken against officials of the municipality where investigations proved financial misconduct, as required by section 171(4)(b) of the MFMA and municipal regulation 6(8) on financial misconduct procedures and criminal proceedings.

Other information

38. 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 consolidated and separate 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.
39. 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 on it.

40. 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 consolidated and separate 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.
41. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if 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

42. I considered internal control relevant to my audit of the consolidated and separate 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 and the findings on compliance with legislation included in this report.
43. Leadership did not implement effective preventative controls and diligent oversight over the review and validation of documents to ensure that recorded amounts were supported by credible information. Policies and procedures were also not fully adhered to over compliance with legislation. In addition, management did not implement adequate records management over vital source documentation to support recorded amounts.

Material irregularities

44. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities in progress

45. I identified material irregularities during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, the responses of the accounting officer were not yet due. These material irregularities will be included in the next year's auditor's report.

Other reports

46. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the group'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 group financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

47. At the request of the accounting officer and senior management, the internal audit unit performed numerous investigations on allegations received from the whistleblower hotline. These investigations related to allegations of fraud, corruption, theft, recruitment, mismanagement and supply chain management irregularities. During the 2019-20 financial year, 51 investigations were conducted. Of the 51 investigations conducted, 40 were concluded and reported to council. Eleven cases relating to fraud, corruption, misconduct and theft were still in progress at the date of this report.

48. The KwaZulu-Natal Department of Co-operative Governance and Traditional Affairs investigated several allegations of financial misconduct, fraud and corruption. These investigations were completed and reports tabled in council. The implementation of recommendations was in progress at the date of this report.

Auditor-General

Pietermaritzburg

15 April 2021



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 priority 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 relating to events or conditions that may cast significant doubt on the ability of the Msunduzi Municipality and its municipal entity 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 my 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 determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
 - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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, the actions taken to eliminate threats or the safeguards applied.