

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON MSUNDUZI MUNICIPALITY

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

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 statements of financial position as at 30 June 2012, the consolidated and separate statements of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the consolidated financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (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.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the consolidated and separate financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Msunduzi Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in

accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Irregular expenditure

8. As disclosed in note 49 to the financial statements, irregular expenditure amounting to R27,483 million was incurred during the year, mainly as a result of contracts awarded to suppliers in contravention of the Local Government: Municipal Supply Chain Management Regulations (GNR 868 of 30 May 2005) (Municipal SCM Regulations).

Restatement of corresponding figures

9. As disclosed in note 48 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of the Msunduzi Municipality at, and for the year ended, 30 June 2011.

Material losses/ Impairments

10. As disclosed in note 52 to the financial statements, the municipality incurred significant electricity losses of R119, 064 million (2011: R82, 413 million) and water losses of R75, 117 million (2011: R75, 459 million) during the year.
11. As disclosed in note 5 to the financial statements, the municipality raised a provision for bad debts amounting to R584, 043 million (2011: R525, 990 million) on consumer debts as the recoverability of these amounts are doubtful.

Material underspending of the budget

12. As disclosed in note 58 to the financial statements, the municipality has materially underspent its capital budget to the amount of R234, 852 million (53%) [2011: R235, 361 million, (68%)]. As a consequence, the municipality has not achieved its objectives of basic service delivery and infrastructure development.

Additional matter

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

Unaudited supplementary schedules

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected objective is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

18. The material findings are as follows:

Usefulness of information

Consistency

19. The Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. The reported targets as included in the service delivery budget implementation plan (SDBIP) or annual performance report submitted for auditing are not consistent with the targets as per the approved integrated development plan. The planned targets specified in the annual performance report were not all included in the integrated development plan. This was due to a lack of understanding by business units and inadequate training to enable application of the principles of the Municipal Planning and Performance Management Regulations, 2001.

Measurability

20. The Municipal Planning and Performance Management Regulations, 2001 require that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 38% of the indicators/measures relevant to the selected objective, basic service delivery and infrastructure development, were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to a lack of understanding by business units relating to the defining of key performance indicators and inadequate training to enable application of the principles of the Municipal Planning and Performance Management Regulations.
21. The Municipal Planning and Performance Management Regulations, 2001 require that performance targets should be specific in clearly identifying the nature and required level of performance, measurability, and the time period or deadline for delivery. The following findings relate to the planned and reported targets for the selected objective, basic service delivery and infrastructure development:
 - All of the selected planned and reported performance targets were not specific in clearly identifying the nature and the required level of performance;
 - 26% were not measurable in identifying the required performance;

- 38% were not time bound in specifying the time period or deadline for delivery.

Reliability of information

Validity and accuracy

22. The Municipal Planning and Performance Management Regulations, 2001 requires that processes and systems which produce the indicator should be verifiable. A total of 42% of the actual reported performance relevant to the selected objective, basic service delivery and infrastructure development, was not valid and accurate or differed materially when compared to evidence provided. This was due to a lack of monitoring, review and standard operating procedures for the recording of actual achievements.

Additional matter

23. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

24. Of the total number of planned targets for the selected objective, only 119 (36,5%) were achieved during the year under review.
25. This was mainly because indicators and targets were not suitably developed during the strategic planning process. The municipality did not consider relevant systems and evidential requirements during the annual strategic planning process, while the capital budget relevant to the objective basic service delivery and infrastructure development was also underspent.

Material adjustments to the annual performance report

26. Material audit adjustments in the annual performance report were identified during the audit, some of which were corrected by management. Those that were not corrected are included in paragraphs 18 to 21 of this report.

Compliance with laws and regulations

27. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements

28. The consolidated and separate 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 current assets, current liabilities, revenue, expenditure and irregular expenditure identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

29. The municipality did not timeously adopt and implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the MSA and the Municipal Planning and Performance Management Regulations 7 and 8.

Procurement and contract management

30. The performance of contractors or service providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
31. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA.
32. Awards were made to service providers who are persons in the service of other state institutions, in contravention of SCM regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Human resource management and compensation

33. The acting senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review, as required by sections 57(1)(b) and 57(2)(a) of the MSA.
34. The municipal manager did not provide a job description for each post on the staff establishment as required by section 66(1)(b) of the MSA.

Expenditure management

35. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
36. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

37. A credit control and debt collection policy was not implemented as required by section 96(b) of the MSA.

Internal control

38. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with laws and

regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

39. The accounting officer did not exercise adequate oversight responsibility regarding performance reporting, compliance with laws and regulations and related internal controls. The monitoring of the implementation of action plans to address internal control deficiencies was not adequate to prevent some of the findings that are recurring. An information system governance framework that supports and enables the business, delivers value and improves performance has not been established and implemented.

Financial and performance management

40. Proper records were not kept to ensure that useful and reliable information is available to support financial and performance reporting. Adequate review and monitoring of compliance with applicable laws and regulations were not undertaken.

OTHER REPORTS

Investigations

41. As per the forensic report allegations of mismanagement, non-compliance with the SCM regulations and the MFMA, lack of overtime approval, irregularities in the procurement unit (contracts), theft and fraud, including those relating to the management of the market were investigated. Thirty-seven investigations were completed, of which 26 are being proceeded with criminally. Thirteen investigations are still in progress.

Pietermaritzburg

30 November 2012



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence