

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND 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 statement of financial position as at 30 June 2013, the consolidated and separate statement 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 financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the 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 Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (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 qualified audit opinion.

Basis for qualified opinion

Revenue – services charges

6. I was unable to obtain sufficient appropriate audit evidence for revenue from service charges as 30% of the meter readings on which this amount was based, were estimated over periods exceeding a year. Management was unable to provide evidence that this estimate was based on reliable historical records. I was therefore unable to confirm the estimated revenue from service charges by alternative means. Consequently, I was unable to determine whether any adjustments relating to revenue service charges stated at R1,97 billion and the related trade

receivable stated at R768,72 million in note 24 and note 5 respectively to the financial statements was necessary.

Qualified opinion

7. In my opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the consolidated and separate financial statements present fairly, in all material respects, the financial position of Msunduzi Municipality and its subsidiary as at 30 June 2013 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

8. I draw attention to the matters below.

Restatement of corresponding figures

9. As disclosed in note 48 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 30 June 2013 in the financial statements of the Msunduzi Municipality at, and for the year ended, 30 June 2012.

Material losses and impairments

10. With reference to note 52 to the financial statements, the municipality incurred material losses relating to water of R92,41 million (15 701 747kl) and electricity of R122,34 million (202 469 552 kWh).

11. As disclosed in note 5 to the financial statements, the municipality raised a provision for bad debts amounting to R801,84 million (2011/12: R584,04 million) on consumer debts as the recoverability of these amounts are doubtful

Material under spending of conditional grants and capital budget

12. As disclosed in note 16 to the financial statements, the municipality materially under spent grants at year end amounting to R170,46 million. In addition, the municipality has under spent its capital budget to the amount of R33,557 million. As a consequence the municipality has not achieved its objectives of basic service delivery and infrastructure development.

Irregular expenditure

13. As disclosed in note 49 to the financial statements, irregular expenditure amounting to R34,91 million was incurred during the year mainly as a result of contracts awarded to suppliers, which were in contravention of the Local Government: Municipal Supply Chain Management Regulations.(GNR 868 of 30 May 2005) (Municipal SCM Regulations).

Additional matter

14. I draw attention to the matter below. :

Unaudited supplementary schedules

15. 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

16. 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

17. 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.

18. 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's 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 objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

19. The material finding is as follows:

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

20. Section 46 of the Local Government: Municipal Systems Act of South Africa, 2000 (Act No.32 of 2000)(MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 29 % of the planned targets not achieved were not reflected in the annual performance report. This was due to the lack of adequate internal policies and procedures over the processes pertaining to the reporting of performance information.

Additional matter

21. 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

22. Of the total number of 342 targets planned for the year, 98 of the targets were not achieved during the year under review. This represents 29 % of total planned targets that were not achieved during the year under review. This was as a result of the municipality not considering relevant systems and requirements during the annual strategic planning process.

Compliance with laws and regulations

23. 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

24. The 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 non-current assets, current assets, expenditure and disclosure items identified by the auditors, were subsequently corrected, but the supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

25. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

26. An effective system of internal control for service charges and unread meters was not in place, as required by section 64(2)(f) of the MFMA.

Internal control

27. I considered internal control relevant to my audit of the 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 basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

28. Senior management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities, resulting in incomplete disclosure of the measures to improve predetermined objectives, estimates of revenue not being reliable and numerous adjustments to the financial statements.

29. The accounting officer did not monitor the implementation of action plans to address internal control deficiencies and prevent repeat findings.

Financial and performance management

30. There were inadequate processes, policies and monitoring controls over financial transactions and the financial reporting process. This has resulted in numerous material misstatements identified by audit that were subsequently corrected.

OTHER REPORTS

Investigations completed

31. An investigation was conducted by internal audit into allegation of theft of money at a municipal office and mismanagement of 39 municipal housing units. Disciplinary action will be taken against the responsible officials of the municipality.

Pietermaritzburg

30 November 2013



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