

# 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 2014, the consolidated and separate statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information 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 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, 2013 (Act No. 2 of 2013) (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 these 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 and its entity'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 and its entity'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 Msunduzi Municipality and its entity as at 30 June 2014 and their 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.

## **Restatement of corresponding figures**

8. As disclosed in note 68 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during the year ended 30 June 2014 in the financial statements of the Msunduzi Municipality at, and for the year ended, 30 June 2013.

## **Material losses and impairments**

9. As disclosed in note 69 to the financial statements, material losses relating to water and electricity losses of R103,28 million (22,06 million kilolitres) and R140,28 million (197,49 million kilowatts) respectively, were incurred. This was due to slow infrastructure maintenance, a lack of water metres and theft from illegal connections.
10. As disclosed in note 5 to the financial statements, the municipality raised a provision for bad debt impairment amounting to R792,60 million (2012-13: R801,84 million) on consumer debts as the recoverability of these amounts was doubtful.

## **Material underspending of the capital budget and conditional grants**

11. As disclosed in note 20 to the financial statements, the municipality materially underspent conditional grants by R291,31 million, as well as the capital budget by R359,11 million. Consequently, the municipality had not fully achieved all its planned objectives relating to basic service delivery and infrastructure development.

## **Irregular expenditure**

12. As disclosed in note 65 to the financial statements, irregular expenditure amounting to R269,01 million (2013: R34,91 million) was incurred during the year mainly as a result of contracts being awarded to suppliers, which were in contravention of the supply chain management (SCM) regulations.

## **Additional matters**

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

## 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.

## Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements 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 on the reported performance information against predetermined objectives for the selected objective presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters

## Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2014:
- Basic service delivery and infrastructure development on pages x to x
18. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
19. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*.
20. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
21. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objective.

## Additional matter

22. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matter below.

## Achievement of planned targets

23. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year.

## **Compliance with legislation**

24. I performed procedures to obtain evidence that the municipality has complied with key legislation 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**

25. 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, liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, which resulted in the financial statements receiving an unqualified audit opinion.

## **Expenditure management**

26. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

## **Procurement management**

27. Sufficient appropriate audit evidence could not be obtained that goods and services of a transactional value above R200 000 were procured by means of inviting competitive bids, as required by SCM regulation 19(a).

## **Revenue management**

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

## **Internal control**

29. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with legislation included in this report.

## **Leadership**

30. Deficiencies were noted in the communication and consistent implementation of policies and procedures and related internal controls, as well as lack of monitoring, to enable and support understanding and execution of internal control objectives, processes and responsibilities with respect to revenue, expenditure and supply chain management. The monitoring of the implementation of action plans to address internal control deficiencies were not completely effective to prevent the recurrence of audit findings as progress against the plans was not effectively monitored throughout the year.

## Financial management

31. Daily and monthly controls were not operational throughout the period. Management does not prepare regular, accurate and complete financial statements that are supported and evidenced by reliable information as year-end procedures were not carried out in accordance with the applicable financial reporting framework. Adequate review and monitoring over compliance with applicable legislation was not undertaken due to staff not understanding their respective roles and responsibilities.

## OTHER REPORTS

### Investigations

32. Internal audit performed investigations at the request of management at the municipality. As per the forensic report allegations of mismanagement, SCM and MFMA contravention, irregularities in the procurement unit (contracts), theft and fraud, were investigated. Thirty-seven investigations were conducted, 16 of which were completed and six are being proceeded with criminally. Fifteen investigations are still in progress.

Pietermaritzburg

28 November 2014



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S O U T H A F R I C A

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