



Local government audit outcomes

MFMA
2018-19

Msunduzi Municipality

Poor control environment and slow response by management

**Portfolio Committee on Co-operative Governance
and Traditional Affairs - 3 September 2020**



AUDITOR-GENERAL
SOUTH AFRICA

Our reputation promise/mission

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



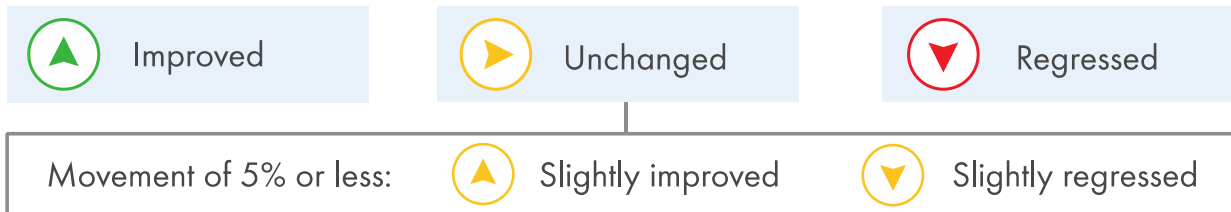
Important to note

Local government in KwaZulu-Natal consists of 54 municipalities, broken down into one Metro, ten district municipalities, 43 local municipalities. One audit was outstanding at the cut-off date.

Audit outcomes are indicated as follows:

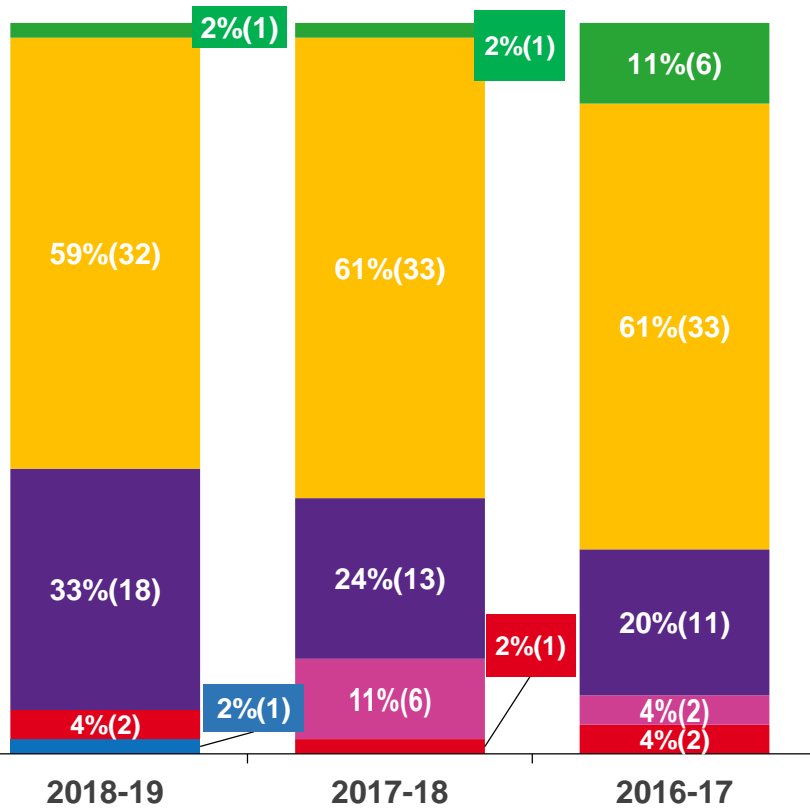


Movement from the previous year is depicted as follows:

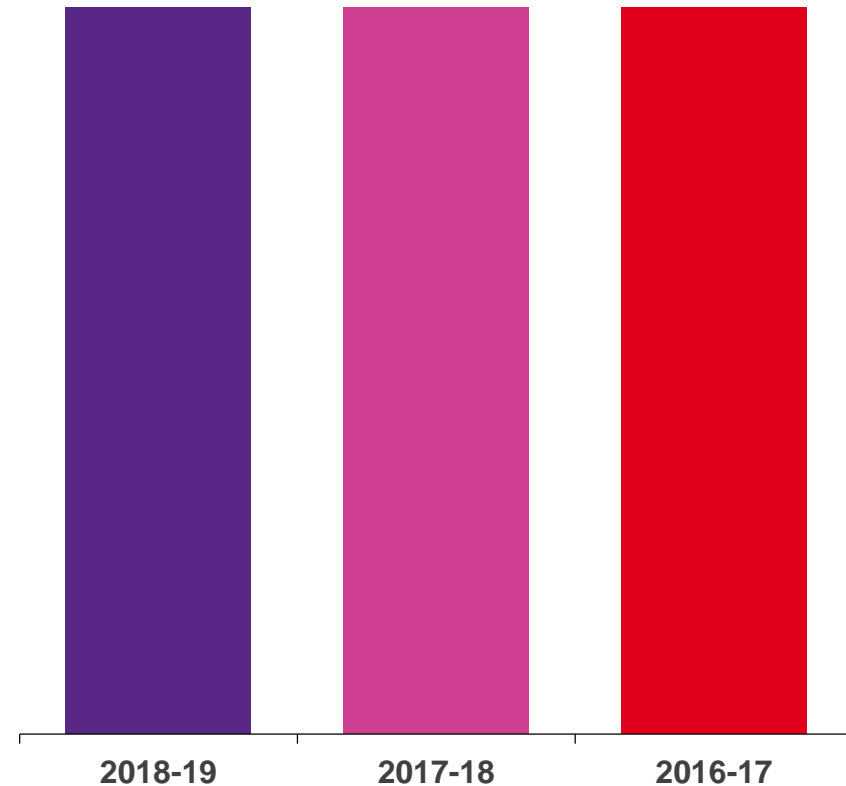


Three year trend on audit outcomes – municipalities

54 municipalities



Msunduzi Municipality



Msunduzi Municipality	Movement	2018-19	2017-18	2016-17
Audit opinion		Qualified	Adverse	Disclaimed
Audit of Predetermined Objectives: Basic services		One material finding	Four material findings	Three material findings



Basis for a qualified audit opinion for 2018-19

Property, plant and equipment

- Capital assets acquired in prior years were incorrectly recognised as operational costs
- Land acquired in prior years were recorded at incorrect amounts

Consumer debtors

- Lack of records and inadequate internal controls for consumer debtors
- Inaccuracies were identified in the calculation of allowance for debtors impairment

Revenue from exchange transactions – interest from consumer debtors and receivables

- Incorrect calculation of interest charged to consumers

Revenue from exchange transactions – service charges









- Lack of records and inadequate internal controls for service charges

Revenue from non-exchange transactions – property rates

- Lack of records and inadequate internal controls for property rates charged



Compliance with legislation - Trend of material findings since 2016-17

Compliance with legislation	Movement	2018/19	2017/18	2016/17
Financial statements (material findings)		One	One	One
Procurement and contract management (material findings)		None	One	Four
Expenditure management (material findings)		Four	Three	Two
Revenue management (material findings)		Three	Three	Two
Asset management (material findings)		One	One	One
Consequence management (material findings)		Seven	Two	One
Strategic planning and performance management (material findings)		One	Two	None
Human resource management (material findings)		One	One	None



Key findings on compliance with legislation

CONSEQUENCE MANAGEMENT

- **Unauthorised expenditure** incurred by the municipality was **not investigated**
- Some of the **irregular and fruitless and wasteful expenditure** was **not investigated**
- Some of the allegations of **financial misconduct** against senior managers were **not always investigated**
- Some of the allegations of **financial misconduct** made against officials of the municipality were **not investigated**
- **Disciplinary proceedings** were **not instituted** by the council when the report of independent investigators confirmed the financial misconduct by a senior manager
- Cases of **financial misconduct** which constitute a crime committed by senior managers and officials were **not always reported to the SAPS**.
- Allegations of **fraud and uttering a forged document** which exceeded R100 000 were not always reported to the SAPS

STRATEGIC PLANNING AND PERFORMANCE MANAGEMENT

- Annual performance objectives and indicators were not included in the municipal entity's multi-year business plan

EXPENDITURE MANAGEMENT

- **Reasonable steps** not taken to prevent:
 - Irregular expenditure (R93,05 million)
 - Fruitless and wasteful expenditure (R3,54 million)
 - Unauthorised expenditure.(R170 million)
- **Money owed** by the municipality was **not always paid** within 30 days

REVENUE MANAGEMENT

- An **adequate management, accounting and information system which accounts for revenue, debtors and receipts of revenue** was not in place.
- An effective system of internal control for **debtors and revenue** was not in place.
- **Revenue due** to the municipality was **not calculated** on a monthly basis.

HUMAN RESOURCE MANAGEMENT

- A senior manager did not sign a **performance agreement** within the prescribed period





Supply chain management non-compliance is the main cause of irregular expenditure

Balance of unresolved irregular expenditure increased to **R511,9 million**

Annual irregular expenditure	2018-19	2017-18	2016-17
Irregular expenditure	R193,9 million	R153,1 million	R151,1 million

- ❑ An increase on irregular expenditure can be attributed to a **weak control environment**, and **no consequence management** for officials whose actions led to **non-compliance with legislation**.
- ❑ Some of irregular expenditure of prior years was **not investigated**. The lack of such investigations coupled with a **failure by the leadership** (council and accounting officer) to establish the required systems to hold responsible officials accountable has **created an environment where officials act with impunity, with no consequences for transgressions**.



The use of consultants for financial reporting did not result in improved quality of financial statements

- ❑ The finance unit's salary cost was R134 million whilst a further R6 million was spent on consultants.
- ❑ The financial reporting consultants costs were as a result of vacancies in the finance unit and a lack of technical accounting knowledge.
- ❑ The financial statements submitted for auditing included material misstatements in the area in which consultants did work. This was due to poor project management, lack of records and documentation as well as lack of monitoring and supervision of consultants by management.



What do the financial statements say? The stark reality

53257
28760
260835

Income statement



Revenue

Total = R5,23 billion

Of their total revenue of **R5,2 billion**, **R505,9 million (10%)** was from the equitable share allocation and **R501,6 million (10%)** from conditional grants.



Expenditure

Total = R5,5 billion

Total revenue from **service charges** was **R2,9 billion (56%)**, but not **all is recoverable** (see balance sheet)

- Salary and wages (including councillors remuneration) is **R1,3 billion (24%)**
- Goods and services are procured, but the suppliers are not paid on time – the **average creditors payment period** was **63 days**
- **R170 million (3,1%)** of expenditure was **unauthorised**
- **R3,54 million (0,1%)** of expenditure was **fruitless and wasteful**



Net result

The municipality incurred a deficit (expenses exceeded revenue) of **R141 million** for the year

Balance sheet



- **Msunduzi** had challenges in collecting old debt. Although the debt-collection period of 56 days was favourable, outstanding old debtors were not paying their accounts timeously. This led to the municipality reflecting a R3,21 billion (88%) impairment loss on the outstanding debt of R3,67 billion as being uncollectable.
- The total **creditors** at year - end was **R935 million**. The **cash available** at year - end was **R305 million**



Shortcoming in maintenance of infrastructure and distribution losses

The municipality incurred **R146,8 million** (2,1%) in repairs and maintenance for 2018-19, while the carrying value of property, plant and equipment was **R7 billion**. The National Treasury norm is 8%.



The maintenance backlog, ageing infrastructure and illegal connections contribute to distribution losses. Msunduzi disclosed water and electricity losses as follows:

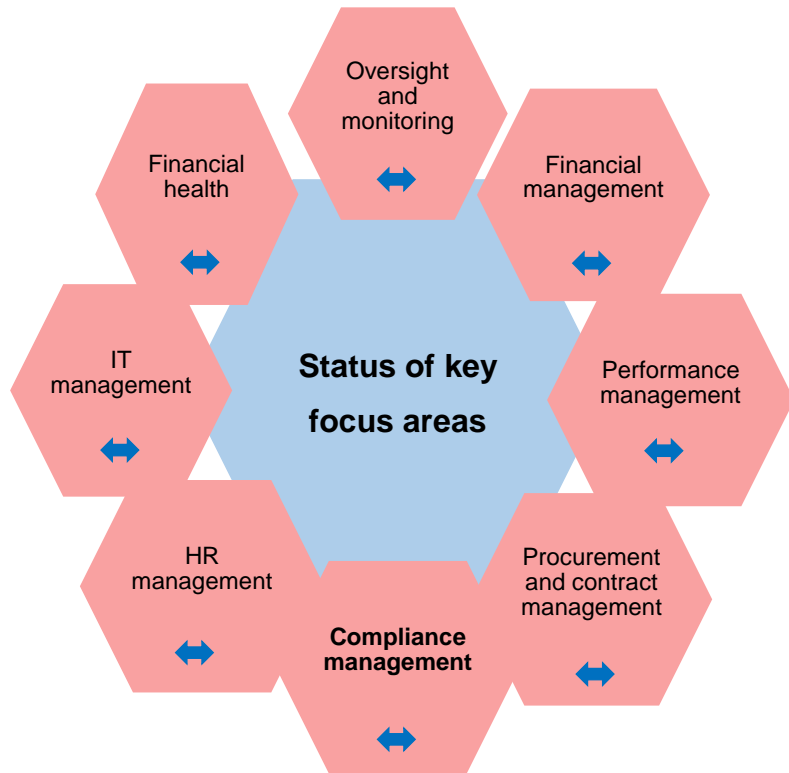
- Water losses: **20,1 million units** (28,17%) (calculated R-value of R157,2 million)
- Electricity losses: **248,6 million units** (13,92%) (calculated R-value of R248,2 million)

These losses are not affordable given the outstanding amounts for bulk services such as water and electricity:

Municipality	Total amounts owed (as at June 2019)	Total amounts in arrears (i.e. 31 days and over)
Electricity (ESKOM)	R209,5 million	R0
Water (Umgeni Water)	R77,1 million	R0



Status of key focus areas – 28 July 2020



Key observations

- The status of records assessment was performed and discussed with the accounting officer on 28 July 2020. This covered the period of 1 July 2019 to 30 June 2020.
- Limited or no progress was noted on all key focus areas assessed as indicated on the graphic.
- The municipality was still in the process of addressing root causes for matters that resulted on the qualified audit opinion in the prior year.
- The financial health of the municipality remains a concern with a poor debt collection rate and inadequate cash and cash equivalents to cover trade and other payables as they fall due.
- Key vacancies remain unfilled including the General Manager: Infrastructure Services and Senior Manager: Revenue Management. The vacancy rate in the internal audit unit is more than 85%.
- The municipality had 25 listed suspensions with some of the suspension cases in excess of 10 months. The municipality is taking long to finalise these cases.

Good	The basics are in place as no concerns were identified.
Concerning	Concerns identified.
Intervention required	Level of concerns identified is an indicator that urgent intervention is required to prevent audit failure.

Improved ↑

Unchanged ↔

Regressed ↓

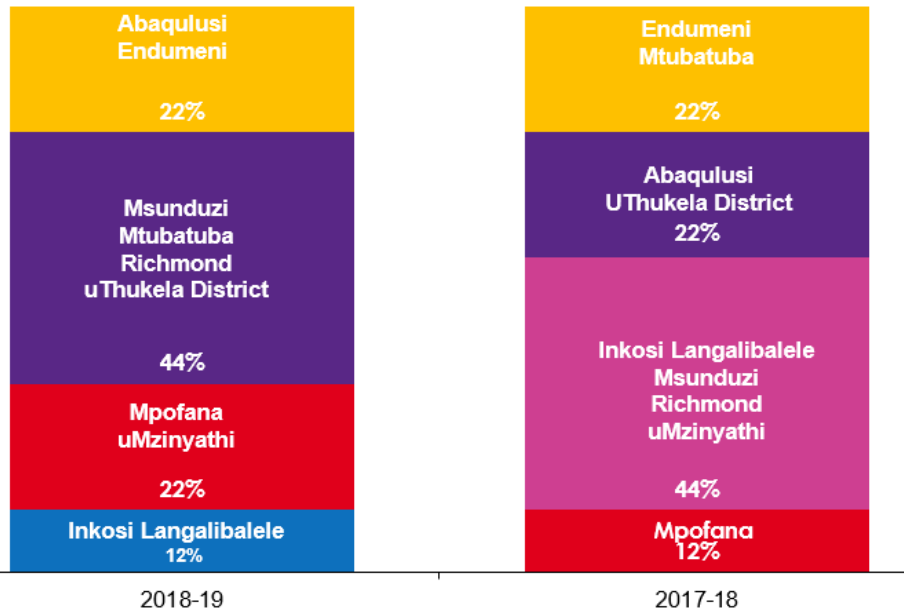


Key root causes that need to be addressed

- ❑ Financial statements and annual performance report were not adequately reviewed before submission for auditing.
- ❑ Management did not ensure that documents supporting the financial statements and performance reports were readily available when requested for audit.
- ❑ Compliance with laws and regulations was not monitored.
- ❑ Management did not ensure that the financial system was configured correctly to support the billing to consumers



Section 139(1)(b) intervention



Movement	
▲	3
▶	3
▼	2
Outstanding audits	1

- Nine municipalities placed under administration
- UThukela District, uMzinyathi District, Mpofana and Inkosi Langalibalele were under administration in 2017-18 and continued to be under administration in 2018-19

- ❑ Msunduzi is one of the municipalities where the provincial Department of Cooperative Governance (CoGTA) intervened in terms of **section 139(1)(b) of the Constitution during April 2019**.
- ❑ Msunduzi was placed under administration due to poor management and governance.
- ❑ The terms of reference included ensuring the implementation of financial systems, policies and procedures, implementing the requirements of the Local Government Disciplinary Regulations for senior managers, implementing of recommendations of findings from investigations, as well as implementing of remedial action plans dealing with findings from Auditor General.
- ❑ The administrator assisted the municipality with the filling of key vacancies, improving the audit outcome and fast-tracking the finalisation of investigations towards implementing consequence management.



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