

Msunduzi local municipality 2020-21

KZN Business Unit

Briefing to the Portfolio
Committee on Cooperative
Government

02 November 2022



REPUTATION PROMISE



The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

MISSION



To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability.

VISION

Accountability ecosystem

Accountability ecosystem

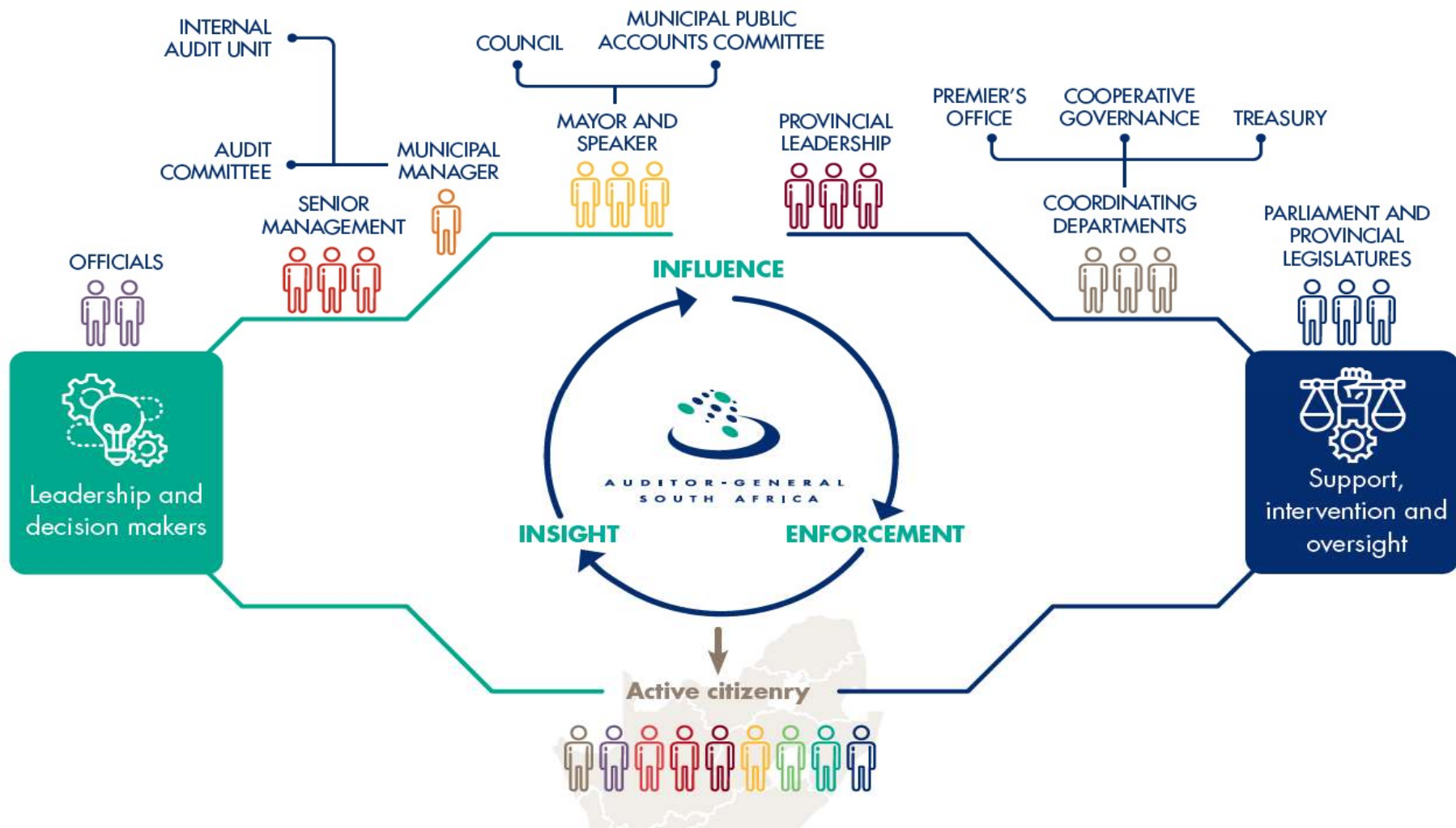


Table of contents



Key message

Status of three main audit areas

Report on the financial statements

Report on predetermined objectives

Report compliance with legislation

Material irregularities

Other reports

Recommendations to improve audit outcomes



Key message



- Annual financial statements
- Predetermined objectives
- Compliance with key legislation
- PAA implementation

Audit outcomes

- Unqualified audit opinion on the financial statements
- Material findings on the usefulness and reliability
- Widespread non-compliance
 - Material misstatements in submitted financial statements
 - High levels of UIFW
 - Consequence management
 - Strategic planning
 - Revenue management
- Going concern matters (poor credit control and debt collection practices resulting in constrained cash flows)
- Material irregularities
- Underspending of capital budget
- Accountability failures






- Access to
 - ☐ Water
 - ☐ Electricity
 - ☐ Housing
 - ☐ Roads
- Good governance
- Accountability
- Timely corrective actions & consequence management



Status of three main audit areas






Financial statements >

 Movement	2020-21	2019-20
Audit opinion	 Unqualified	Qualified
Material misstatements identified in submitted financial statements	 Yes	Yes



Performance report >

 Movement	2020-21	2019-20
Material findings in the audit report	 Yes	No
Material misstatements corrected	 Yes	Yes



Overall non-compliance >

 Movement	2020-21	2019-20
Material findings in the audit report	 Yes	Yes

Report on the financial statements – Going concern and emphasis of matter

Unqualified with findings

The audit report included **a material uncertainty relating to going concern**. This stemmed from poor financial management practices which include the inability of the municipality to implement its debt control policy to collect monies due from consumer debtors, inability to pay creditors on time and declining reserves. These conditions, indicate that the municipality is in a vulnerable financial position which may cast significant doubt on the municipality's ability to continue as a going concern.

Poor debt collection practices: Deceased debtors are included in the gross debtors balance at year-end. In addition to not paying the municipality, their services were not disconnected and no payment arrangements had been made with the municipality to recover amounts from the beneficiaries. As a result these amounts owed to the municipality have prescribed and have been written off resulting in financial losses. In addition, vetting of indigent applications were not adequate as the indigent status was incorrectly granted to some of the consumers who worked for the state or their spouses worked for the state. Reasonable steps are not being taken by the municipality to collect monies due from outstanding consumers. This results in substantial impairments and debt write-offs at year-end which also places significant strain on the municipalities cash flow as creditors are not paid timeously.

Significant losses on electricity and water: Audit findings revealed that prepaid electricity consumers did not purchase electricity in the current year. Management did not perform compulsory audits as required by the credit control and debt collection policy. Illegal connections of electricity, ageing infrastructure and vandalism to municipal infrastructure assets contributes to electricity and water losses that are above the acceptable norms. The losses incurred by the municipality could be channelled to other service delivery initiatives or could be used to maintain and upgrade the ageing infrastructure.

Restatement of corresponding figures: The financial statements were adjusted for the 2019-20 comparatives due to errors that were discovered in the current year. These adjustments contributed to the municipality obtaining a unqualified opinion on financial statements.

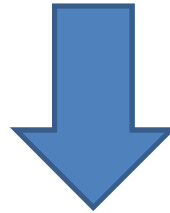


Report on predetermined objectives

Material findings were identified on development priority B – basic service delivery

The following indicators were not well-defined and as a result the reliability of the supporting documentation for these indicators could not be tested:

- Number of Households with access to free basic refuse collection service (Msunduzi Households vs Households provided with free basic refuse removal) by 30 June 2021
- 1 x Weekly Refuse Removal provided per month for Msunduzi Households as per Refuse Collection Schedule by 30 June 2021



Inability to audit the reliability of the achievements reported in the annual performance report for the above indicators and therefore unable to confirm if service delivery was achieved for refuse collections and removals

- Material misstatements were identified in the annual performance report submitted for auditing. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.



Compliance with key legislation



Material non-compliance findings reported in audit report

Non-compliance areas reported

Movement

2020-21

2019-20



Yes

Yes

Focus area	Movement	2020-21	2019-20
Quality of financial statements		Yes	Yes
Prevention of unauthorised, irregular and fruitless and wasteful (UIFW) and expenditure management controls		Yes	Yes
Revenue management		Yes	No
Consequence management		Yes	Yes
Strategic planning		Yes	No



Compliance findings

Focus area	Audit report finding
Financial statements	The financial statements submitted for auditing were not prepared in all material respects in accordance with the MFMA. Material misstatements of non-current assets, current assets, current liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
Expenditure management	<p>Reasonable steps were not taken to prevent unauthorised expenditure amounting to R920,57 million, as disclosed in note 76 to the annual financial statements majority of which was caused by overspending of the approved budget</p> <p>Reasonable steps were not taken to prevent irregular expenditure amounting to R50,66 million as disclosed in note 73 to the annual financial statements.</p> <p>Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R6,27 million, as disclosed in note 75 to the annual financial statements, majority of which was caused by payment of site re-establishment costs to a service provider.</p> <p>Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, authorisation and payment of funds.</p>



Compliance findings

Focus area	Audit report finding
Revenue management	<p>An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.</p> <p>An adequate management, accounting and information system which accounts for revenue, debtors and receipt of revenue was not in place, as required by section 64(2)(e) of the MFMA.</p>
Consequence management	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 regulations on financial misconduct procedures and criminal proceedings 6(8).
Strategic planning and performance management	The performance management system and related controls were inadequate as it did not describe how the performance measurement, review and reporting processes should be conducted, organised and managed, as required by municipal planning and performance management regulation 7(1).



Material irregularities (MIs) – municipal manager notified of 3 MIs as at audit report date

Revenue not billed at landfill site

- Revenue earned from the municipal operated landfill site for waste deposits was not recognised as the weighbridge digitiser was not working for a period of six months in the 2019-2020 financial year which resulted in non-compliance with section 64(2)(e)(i) of the MFMA and is likely to result in a material financial loss for the municipality.
- The accounting officer has not taken appropriate action in response to being notified of the material irregularity.
- I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 29 April 2022:
- The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of chapter 15 of the MFMA.
- The financial loss should be quantified. Disciplinary or, when appropriate, criminal proceedings should commence against any official who has allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial misconduct procedures and Criminal Proceedings.
- Any person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss.

I will follow up on the implementation of the recommendations after the due date.



Material irregularities (MIs) – municipal manager notified of 3 MIs as at audit report date

Failure to recover revenue from the sale of timber

The municipality failed to collect revenue from a service provider for the disposal of timber which resulted in non-compliance with section 64(2)(a) of the MFMA and is likely to result in a material financial loss.

The following actions have been taken to resolve the material irregularity:

- An independent expert has been appointed to conduct a verification of the plantation.

- A new organogram has been compiled and approved for the forestry business unit.

- A tender notice was issued on 19 August 2021 for the appointment of a suitable service provider for total management of the municipal forestry plantation.

- The Head: Legal services was issued with an instruction by the accounting officer on 10 May 2021 to institute the recovery of the financial loss.

I will follow-up on the implementation of the actions being taken during my next audit.

Salary payments made to a manager who never reported for duty

Salary payments were made by the municipality from 1 December 2016 to 31 July 2019 to an employee who never reported for duty since their appointment date which results in a non-compliance with section 65(2)(a) of the MFMA and is likely to result in a material financial loss for the municipality.

The following actions have been taken by the accounting officer to resolve the material irregularity:

- A forensic investigation was conducted by the municipality's internal audit unit and a report was tabled in council.

- The Head: Legal services was issued with an instruction by the accounting officer on 24 March 2021 to institute the recovery of the financial loss.

I will follow up on the implementation of the actions being taken during my next audit



Material irregularities (MIs) – municipal manager notified of 1 MI after the audit report date

Poor management of the New England Landfil site

The New England landfill site is not operated in terms of the minimum requirements and its waste management license of 2017. This is evidenced by:

- a) poor access control and inadequate separation of waste disposed at the site,
- b) lack of compacting and cover to limit gas emission impacting on air quality;
- c) spontaneous combustions and other fires resulting in accidents, other safety risks and air pollution and
- d) lack of / poor leachate and storm water management to prevent continued contamination of the soil and water resources.

The Municipal Manager has submitted his response to the MI notification detailing actions that have been/will be taken to resolve the material irregularity.

I am in the process of assessing whether actions that have been/will be taken to resolve the material irregularity are appropriate.



Other reports - investigations

The following investigation arose during the 2020-21 financial year:

- The internal audit unit performed investigations into allegations of fraud, corruption, theft, recruitment, mismanagement and supply chain management irregularities.
- Thirty-six investigations were conducted of which seventeen were concluded and reported to council.
- Nineteen investigations were still in progress at the date of this report. Some of these investigations resulted in disciplinary action against certain officials of the municipality.



How to improve audit outcomes

- As the municipality is at the forefront of service delivery it is critical for them to have sound systems of internal controls and effective governance structures in order to achieve their goals.
- The understanding and application of preventative controls need to be entrenched in day-to day activities by management through appropriate reviews, monitoring, corrective action and credible reporting by officials.
- The municipal manager must also promote a culture of accountability and consequences must be enforced for officials who fail to comply with applicable legislation and strict corrective action taken against transgressors.
- As financial sustainability remains under stress, the municipality must demonstrate prudent financial management of funds, in order to contribute to the achievement of service delivery initiatives.
- Where consultants are utilized, it is vital that quality underlying data are submitted together with effective project management and monitoring of the consultants area of work



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