AUDITOR-GENERAL
SOUTH AFRICA

AUDIT REPORT

Msunduzi Municipality

2022-23

Date: 30 November 2023

Report of the auditor-general to KwaZulu-Natal Provincial Legislature and the council on Msunduzi Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Msunduzi Local Municipality set out on pages xx to xx, which comprise the statement of financial position as 30 June 2023, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the financial position of the Msunduzi Local Municipality as at 30 June 2023 and its financial performance and cash flows for the year then ended 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, 2022 (Act No. 5 of 2022) (Dora).

Basis for qualified opinion

Service charges – sale of water

3. Service charges from the sale of water were recognised where services were not provided, resulting in revenue not being measured at the fair value of the consideration received or receivable, as required by the GRAP 9, *Revenue from exchange transactions*. Consequently, service charges from the sale of water disclosed at R824,37 million (2021-22: R863, 85 million) in note 35 to the financial statements were overstated by R241,49 million and there was a resultant impact on consumer debtors.

Consumer debtors

4. Consumer debtors were not accounted for in terms of GRAP 104, *Financial instruments.* Consumer debtors were not raised for services provided amounting to R225, 87 million, due to a poor debtor management process. Consumer debtors were overstated by R101, 98 million as there were no records to support the debt. The provision for impairment of debtors was not calculated in accordance with the standard. Furthermore, there was a difference of R65, 04 million between the amount disclosed for the corresponding figures in the financial statements and the underlying calculation. Analysis of the age, discount rate and collection rate used in calculating the allowance for impairment could not be verified. In addition, I was unable to obtain sufficient appropriate audit evidence for the disclosed age analysis of consumer debtors. I was unable to determine the full impact of these misstatements on consumer

debtors stated at R5, 09 billion (2021-22: R4, 61 billion) in note 7 to the financial statements, as it was impracticable to do so.

Statutory receivables

5. Statutory receivables were not recorded as required by *GRAP 108, Statutory Receivables*. Collection charges that did not meet the definition of statutory receivables were incorrectly recognised resulting in statutory receivables disclosed in note 6 to the financial statements being overstated by an estimated amount of R78,55 million.

6. Additionally, the source data used to compute the allowance for the impairment could not be verified, there were also material differences noted in the prior period underlying records. I was unable to obtain sufficient appropriate audit evidence to determine the full impact of the misstatements as it was impractical to do so. I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to Statutory receivables stated at R1,59 billion (R1,48 billion) in note 6 to the financial statements.

Context for opinion

7. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.

8. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

9. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

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

11. I draw attention to note 79 to the financial statements, which includes indicators of doubt as to the appropriateness of the going concern basis of accounting. These include the inability of the municipality to collect monies due from consumer debtors, inability to pay creditors on time, decreasing reserves, successive deficits and other adverse financial ratios. These conditions, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Material impairment – other debtors

13. As disclosed in note 5 to the financial statements, the municipality recognised a provision for impairment amounting to R108, 93 million (2021-22: R108, 90 million) on receivables from exchange transactions as the recoverability of these amounts was doubtful.

Material losses of electricity and water

14. As disclosed in note 67 to the financial statements, the municipality incurred material electricity losses of R554, 02 million (2021-22: R362, 59 million) which represents 24% (2021-22: 25%) of total electricity purchased. This was mainly due to illegal connections, infrastructure vandalism, metering inaccuracies (due to faulty meters), unmetered energy (meter tampering or bypassing the meter at the customer meter), revenue collection as well as ageing infrastructure that results in increased power dissipation during transmission and distribution on lines, cables and transformers in the system and overloading.

15. As disclosed in note 67 to the financial statements, the municipality incurred material water losses of R192, 49 million (2021-22: R240, 51 million) which represents 29% (2021-22: 30%) of total water purchased. This was mainly due to weakened water infrastructure and more frequent burst pipes.

Restatement of corresponding figures

16. As disclosed in note 72 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Significant uncertainties

17. As disclosed in note 64 to the financial statements, various legal claims were lodged against the municipality. The ultimate outcome of these claims could not be determined and no provision for any liability was made in the financial statements.

Delayed capital projects

18. As disclosed in note 14 to the financial statements, capital projects totalling R174,64 million (2021-22: R422,38 million) are taking a significantly longer period of time to complete than expected due to various reasons as described in the note.

Underspending of the conditional grants

19. As disclosed in the note 21 to the financial statements, the municipality materially underspent the budget by R87, 74 million on the Greater Edendale Development Initiative.

Other matter

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

Unaudited disclosure note

21. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

22. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA standards of GRAP and the requirements of the MFMA and DoRA; and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

23. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the financial statements

24. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

25. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

26. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected development priorities presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

27. I selected the following development priorities presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected development priorities that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Development priorities	Page numbers	Purpose
NKPA2: Basic service delivery	[XX]	To provide quality water and sanitation, uninterrupted, adequate energy supply and regular waste removal for all neighbourhoods, communities and centres of business. To become a city with sufficient and well-maintained road, rail and other physical infrastructure serving all residents, whether they use public or private transport modes. It has layers of diverse transport networks interconnecting at centres and internal urban hubs.
NKPA 3: Local economic development	[XX]	To become a city with a flourishing business environment, with people exercising their entrepreneurship across the full spectrum of commercial, public, scientific, educational, and charitable enterprises.
NKPA 6: Cross cutting	[XX]	To ensure that human settlement initiatives reduce housing backlogs and eliminate spatial separation by racial categories. Telecommunications and information technology is universally accessible and reliable. Social infrastructure focused on educational, health and recreational facilities meets all communities' needs.

28. I evaluated the reported performance information for the selected development priorities against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

29. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated

- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets.

30. I performed the procedures only for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

31. The material findings on the reported performance information for the selected development priorities are as follows:

Basic service delivery

Various indicators

32. I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievements might be more or less than reported and were not reliable for determining whether the targets had been achieved.

Indicator	Target	Reported achievement
137 000 x households provided with access to weekly Refuse Removal by the 30th of June 2023	137 000 x households provided with access to weekly Refuse Removal by the 30th of June 2023	96 701 x households provided with access to weekly Refuse Removal by the 30th of June 2023
Total Water Losses reduced to 28.6% based on the International Water Association Balance in Wards 1 to 38 (in total)	Total Water Losses reduced to 28.6% based on the International Water Association Balance in Wards 1 to 38 (in total) by the 30th of June 2023	Total Water Losses reduced to 29.2% based on the International Water Association Balance in Wards 1 to 38 (in total) by the 30th of June 2023

Various indicators

33. I could not determine if the reported achievement was correct, as the processes established to consistently measure and report achievements were inadequate. Adequate supporting evidence was also not provided for auditing. Consequently, the reported achievement might be more or less than reported and was not reliable for determining whether the target had been achieved.

Indicator	Target	Reported achievement
Km of road markings done	100km of road markings in the Msunduzi Municipality done by the 30th of June 2023	136.4km of road markings in the Msunduzi Municipality done by the 30th of June 2023
Km of storm water draining maintained	20km of storm water draining maintained by the 30th of June 2023	56km of storm water drainage maintained by the 30th of June 2023

Indicator	Target	Reported achievement
Square meters of pedestrian pathways maintained	1000 square meters of pedestrian pathways maintained	850 square meters of pedestrian pathways maintained by the 30th of June 2023
Km of gravel roads upgraded	30 km of gravel roads upgraded	37.5km of gravel roads maintained by the 30th of June 2023
Sweetwaters Bulk Infrastructure and Network Upgrade completed	Sweetwaters Bulk Infrastructure and Network Upgrade completed by the 30th of June 2023	Sweetwaters Bulk Infrastructure and Network Upgrade completed by the 30th of June 2023
Mpumuza/Phayiphini Bulk Infrastructure Installation and Network Upgrade completed	Mpumuza/Phayiphini Bulk Infrastructure Installation and Network Upgrade completed by the 30th of June 2023	1500 metres of cable trench excavated & cable laid respectively and building concrete foundation completed
Mid -Block & T-Joints Services Relocated	Mid -Block & T-Joints Services relocated by the 30th of June 2023	Mid -Block & T-Joints Services relocated by the 30th of June 2023.

Various indicators

34. I identified material differences between the actual and reported achievements. Consequently, the achievements might be more or less than reported and were not reliable for determining whether the targets had been achieved.

Indicator	Target	Reported achievement
100% households with access to piped water supply (Application based	100% households with access to piped water supply (Application based) by the 30th of June 2023	100% households with access to piped water supply (Application based) by the 30th of June 2023
214 VIP units cumulatively installed across Wards 1-12	214 VIP units cumulatively installed across Wards 1-12	1780 VIP units cumulatively installed across Wards 1-12 by the 31st of January
Installation of 105 VIP units across Wards 13-39	Installation of 105 VIP units across Wards 13-39	Installation of 105 VIP units across Wards 13-39 by the 30th June 2023
Percentage of households with electricity	75% of households with access to basic level of electricity in the Msunduzi and Eskom areas by the 30th of June 2023 (Number of planned connections vs number of completed connections)	52% of households with access to basic level of electricity in the Msunduzi and Eskom areas by the 30th of June 2023 (400 planned connections vs 208 completed connections)
100km x overhead lines maintained and upgraded	100km x overhead lines maintained and upgraded	149,94km x overhead lines maintained and upgraded by the 30th of June 2023

Local economic development

100% business applications processed within 21 days

35. An achievement of 100% business applications processed within 21 days was reported against a target of 100% Business Licensing Applications processed within 21 days in terms of Business Act for the 22/23 FY by the 30th of June 2023. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially less than reported. Consequently, it is likely that the target was not achieved.

Various indicators

36. I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided for auditing. Consequently, the reported achievements might be more or less than reported and were not reliable for determining whether the targets had been achieved.

Indicator	Target	Reported achievement
80 Cooperatives and SMMEs supported and visited	80 x SMMEs and Cooperatives supported and visited by the 30th of June 2023	92 x SMMEs and Cooperatives supported and visited by the 30th of June 2023
60 Cooperatives and SMMEs assisted and mentored	60 Cooperatives and SMMEs assisted and mentored by the 30th of June 2023	130 Cooperatives and SMMEs assisted and mentored by the 30th of June 2023
4 x Skills Development and Support workshop facilitated for Informal Economy	4 x Skills Development and Training workshops facilitated for Informal Economy by the 30th of June 2023	4 x Skills Development and Training workshops facilitated for Informal Economy by the 30th of June 2023
20 x Business opportunities created for registered	20 x Business opportunities created for registered local businesses by the 30th of June 2023	20 x Business opportunities created for registered local businesses by the 30th of June 2023
(80 days) Average number of days taken to process development applications for approval	(80 days) Average number of days taken to process development applications for approval in terms of SPLUMA	(80 days) Average number of days taken to process development applications for approval in terms of SPLUMA by the 30th of June 2023

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Cross cutting

100% hand-over of completed housing units

37. An achievement of 100% hand-over of completed housing units to approved beneficiaries completed by the 30th of June 2023 was reported against a target of 100% hand-over of completed housing units to approved beneficiaries by the 30th of June 2023. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining whether the target had been achieved.

Other matters

38. I draw attention to the matters below.

Achievement of planned targets

39. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or under-achievements and measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

40. The municipality plays a key role in delivering services to South Africans. The tables that follow provide information on the achievement of planned targets and list the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages [xx to xx].

Basic service delivery

Targets achieved: 57% *Budget spent: Management cannot provide budget spent per development priority (percentage of spending per development priority)*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Percentage of households with electricity	75% of households with access to basic level of electricity	52% of households with access to basic level of electricity
2 x reservoirs constructed	2 x reservoirs constructed by 30th June 2023	1 x reservoirs constructed by 30th June 2023
Km of sanitation pipes replaced	20.1km (cumulatively) of sanitation pipes installed in various wards by the 30th of June 2023	14.642km (cumulatively) of sanitation pipes installed in various wards by the 30th June 2023
9.6km (practical completion) of new sewer pipeline installed in ward 16	9,6km (practical completion) of new sewer pipeline installed in ward 16 by the 31st of January 2023	9,542km (practical completion) of new sewer pipeline installed in ward 16 by the 31st of January 2023.
1.4km of new sewer pipeline installed in wards 18 cumulatively	2,5km of new sewer pipeline (practical completion) installed in ward 18 by the 31st of August 2022	2,242 km of new sewer pipeline installed in ward 18 by the 30th May 2023

Cross cutting

Targets achieved: 66% *Budget spent: Management cannot provide budget spent per development priority (percentage of spending per development priority)*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
150 x new houses to be completed for UMgungundlovu Rectification Project	150 x new houses to be completed in the 22/23 FY for uMgungundlovu rectification project by the 30th of June 2023	17 x new houses to be completed in the 22/23 FY for uMgungundlovu rectification project by the 30th of June 2023
75 x new houses to be completed for Edendale Unit S Phase 8 Ext	75 x new houses to be completed in the 22/23 FY for Edendale unit S phase 8 Ext by the 30th of June 2023	61 x new houses completed in the 22/23 FY Edendale Unit S phase 8 Ext by the 30th of June 2023.
80 x new houses to be completed for Wirewall rectification	80 x new houses to be completed in the 22/23 FY for Wrewall rectification by the 30th of June 2023	0 x new houses completed in 22/23 FY for Wirewall rectification by the 30th of June 2023
140x new houses to be completed for Site 11 Housing project - Woodlands	140 x new houses to be completed in the 22/23 FY for Site 11 housing project - Woodlands by the 30th of June 2023	17 x new houses completed in the 22/23 FY for Site 11 housing project - Woodlands by the 30th of June 2023
140x new houses to be completed for Thamboville Housing project - Glenwood	140 x new houses to be completed in the 22/23 FY for Thamboville housing project - Glenwood by the 30th of June 2023	34 x new houses completed in the 22/23 FY for Thamboville housing project - Glenwood by the 30th of June 2023

Material misstatements

41. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery, local economic development and cross cutting. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

42. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

43. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

44. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

45. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements

46. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current assets, current liabilities, non-current assets, expenditure, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, but the uncorrected material misstatements and supporting records that could not be provided, resulted in the financial statements receiving a qualified audit opinion.

Revenue management

47. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.

48. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

49. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

50. Accounts for municipal tax and charges for municipal services were not prepared on monthly basis, as required by section 64(2)(c) of the MFMA.

Expenditure management

51. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

52. Reasonable steps were not taken to prevent irregular expenditure amounting to R59,89 million as disclosed in note 62 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with supply chain management regulations.

53. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R153,18 million, as disclosed in note 66 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by cancelled tenders.

Procurement and contract management

54. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by supply chain management (SCM) regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.

Human resource management

55. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the Municipal Systems Act (MSA).

Strategic planning and performance management

56. Measurable performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).

57. The performance management system and related controls were inadequate as it did not describe how the performance monitoring, measurement, review and reporting processes should be conducted and organised, as required by municipal planning and performance management regulation 7(1).

Other information in the annual report

58. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported on in this auditor's report.

59. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

60. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

61. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I

am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

62. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

63. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.

64. Management did not implement adequate processes around the management of financial information and performance information. This resulted in some misstatements being corrected whilst others could not be addressed. Management sees themselves as belonging to separate divisions of the municipality as opposed to working in unison for one organisation.

65. Management did not ensure that systems of internal control were adequately implemented and monitored to ensure compliance with key legislation relating to annual financial statements, revenue management, expenditure management, procurement and contract management, human resource management, strategic planning and performance management.

Material irregularities

66. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor's report.

Material irregularities identified during the audit

67. The material irregularities identified are as follows:

Loss of prepaid electricity revenue

68. The accounting officer failed to comply with section 78(1)(a) of the MFMA which states that each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the system of financial management and internal control established for the municipality is carried out diligently.

69. Prepaid electricity consumers who are on prepaid meters did not purchase electricity during the year and management did not interrupt or stop this practice because the prescribed internal audit process was not conducted to timeously identify tampered and bypassed meters. The non-compliance has resulted in a likely financial loss for the Msunduzi Municipality.

70. The accounting officer was notified of the material irregularity on 1 February 2023 and invited to make a written submission on the actions taken, or to be taken, to address the matter.

71. The following are the actions taken and planned to address the material irregularity:

- The investigation into the matter is still in progress.
- The auditing of meters is in progress in line with the allocated budget, faulty and tampered services are being discovered and attended to and rectified in line with the credit control policy on an ongoing basis.
- Monitoring of the disconnected customers is being conducted on a monthly basis.
- The electrical unit is in the process of procuring a system for the monitoring of prepaid and credit meters by June 2023.
- The check metering system is being implemented in line with the allocated budget to ease financial recovery in future.

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

Failure to implement credit control and debt collection policy - consumer debtors

73. The municipality failed to comply with section 62(1) (f) (iii) of the MFMA which states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and implements a credit control and debt collection policy referred to in section 96(b) of the MSA.

74. The municipality failed to take reasonable steps to implement the credit control and debt collection policy of the municipality as the municipality did not disconnect nor restrict services or make arrangements for the recovery of the debt owed to the municipality with consumer debtors.

75. This has resulted in a significant amount of consumer debtors being included in the debtors' book of the municipality with the amounts due not being recovered. Accordingly, the municipality wrote-off some of the consumer debtors as bad debts as disclosed in note 42 of the 2020-21 annual financial statements. The municipality continues to provide unrestricted services to these consumers.

76. The non-compliance has resulted in a material financial loss for the Msunduzi Municipality in the form of the bad debts written-off. The municipality is likely to incur further losses as

services continue to be provided to debtors with long outstanding balances without reasonable steps being taken to implement the credit control and debt collection policy of the municipality.

77. The accounting officer was notified of the material irregularity on 10 November 2022 and invited to make a written submission on the actions taken, or to be taken, to address the matter.

78. The following are the actions taken and planned to resolve the material irregularity:

    a. The accounting officer instructed an audit to be performed on the entire population of deceased debtors' write-offs to identify those that should not have been written off or where the debt collection policy was not complied with. Those will then be isolated and after that exercise is complete, internal audit will further identify the personnel that is responsible for the material irregularity that has been suffered by the municipality.

    b. The action plan for collection of arrear debt had been developed and is in-progress on an ongoing basis.

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

Status of previously reported material irregularities

Salary payments to a manager that never reported for duty

80. The accounting officer failed to comply with section 65(2)(a) of the MFMA which states that the accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds.

81. Salary payments were made by the municipality from 1 December 2016 to 31 July 2019 to an employee who had never reported for duty since their appointment date. The municipality received no services in return for the payments made. This is evident of a non-compliance with section 65(2) (a) of the MFMA. The non-compliance is likely to result in a material financial loss for the Msunduzi Municipality.

82. The accounting officer was notified of the material irregularity on 15 April 2021 and invited to make a written submission on the actions taken, or to be taken, to address the matter.

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

    - The accounting officer strengthened the internal control environment through the implementation of monthly salary reconciliations and reviews.

    - The accounting officer also instituted civil proceedings against the ex-employee.

84. The accounting officer has implemented the actions and appropriate actions have been taken to address the material irregularity.

Poor management of the New England landfill site

85. The municipality did not take reasonable measures at the New England landfill site to prevent pollution or degradation of the environment from occurring, continuing or recurring as required by section 28(1) of the National Environmental Management Act 107 of 1998 (NEMA), read with section 16(1)(c) and (d) of the National Environmental Management Waste Act 59 of 2008 (NEMWA), as well as section 19(1) of the National Water Act 36 of 1998) (NWA).

86. 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:

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

87. This state of affairs has been ongoing for several years as noted in compliance notices by the Department of Economic Development, Tourism and Environmental Affairs dating back to 2015 and February 2020, as well as the court ruling of 17 June 2021. A subsequent waste management licence (WML) audit report issued July 2021 by engineers contracted by the municipality, and the site visit observations by the AGSA on 28 March 2022, confirmed continued non-compliance with the requirements and little or no progress on the action plan drafted in response to the court ruling or the WML requirements. There was further no gas or water quality monitoring since 2017.

88. Inadequately disposed or untreated waste may cause serious health problems for populations surrounding the area of disposal or safety risks for those exposed to it. It contaminates the soil, .surface- and groundwater supplies due to untreated leachate and storm water run-off. Uncontrolled burning and improper landfilling also contributes significantly to air pollution. Greenhouse gasses are generated from the decomposition of organic waste landfills, with untreated leachate or storm water run-off polluting the surrounding soil and water resources (i.e. groundwater, stream or extended water networks).

89. Continued untreated leachate seeping and unmanaged storm water run-off into the adjacent environment and streams are contaminating the soil, ground water, streams and extended water course which may affect the communities in the surrounding environment and along the extended water course. Uncontrolled fires may endanger the lives of the surrounding community, schools and motorist on the N3 highway, posing serious safety and health risks due to air pollution. Health and safety risks for all workers and public accessing and using the site, including waste pickers inhabiting the site may be affected. This non-compliance is likely to cause substantial harm to the communities as it has combined adverse impact on the health, safety and livelihoods of the general public exposed to these environmental risks.

90. The accounting officer was notified of the material irregularity on 14 April 2022 and invited to make a written submission on the actions taken, or to be taken, to address the matter.

91. The following are the actions taken and planned to resolve the material irregularity:

- An internal waste management licence audit report dated 21 September 2022 was prepared on the management of the landfill site to assess progress and identify deficiencies.

- An approved action plan with implementation time frames is in place to address the issues detailed in the compliance notices. The National Department of Water and Sanitation and the National Department of Forestry, Fisheries and the Environment has been consulted with regard to this action plan. Based on the site visit conducted in October 2023, the majority of planned corrective actions have been achieved.

92. The accounting officer has implemented the actions and appropriate actions have been taken to address the material irregularity.

Revenue not billed at the landfill site

93. 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. Vehicles entering the site were not weighed and there was no record of tonnage deposited. The non-compliance with section 64(2) (e) (i) of the MFMA is likely to result in a material financial loss for the Msunduzi Municipality.

94. The accounting officer was notified of the material irregularity on 1 April 2021 and I included recommendations in the audit report of 2020-21 on the steps that the accounting officer should take to address the MI because the accounting officer had not taken appropriate action in response to being notified of the material irregularity. The accounting officer was required to implement these recommendations by 29 April 2022. However, these were not adequately implemented.

95. On 17 August 2022, I issued a notification to the accounting officer advising him of the following remedial action that should be implemented by 17 November 2022:

    a. The non-compliance must 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. Where applicable, the financial loss must be quantified;

    b. Disciplinary or, when appropriate, criminal proceedings must 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; and

c. Any person(s) liable for the losses must be identified and appropriate action must commence to recover the financial loss.

96. The accounting officer has implemented the remedial actions and appropriate actions have been taken to address the material irregularity.

Failure to recover revenue from the sale of timber

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

98. The accounting officer was notified of the material irregularity on 3 May 2021 and invited to make a written submission on the actions taken, or to be taken, to address the matter.

99. The following are the actions taken and planned to resolve the material irregularity:

- A case was registered with South African Police Services (SAPS).
- Summons were issued by the High Court (4/04/2023), and they were served to the former service provider by the Sheriff. The matter is currently in court.
- The municipality appointed a new service provider to provide management services for the Msunduzi plantation. The contract is for a period of 3 years, commencing on 15 August 2023 until 15 August 2026.

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

Other reports

101. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted which had, or could have, an impact on the matters reported in the financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the consolidated and separate financial statements or my findings on the reported performance information or compliance with legislation.

102. At the request of the accounting officer and senior management, the internal audit unit performed investigations into allegations of fraud, corruption, theft, recruitment, mismanagement and supply chain management irregularities, covering the period 1 August 2020 to 30 June 2023. Fifty-one investigations were conducted of which 40 were concluded and reported to council. Eleven investigations were still in progress at the date of this report. Twenty-five of these investigations resulted in disciplinary action against certain officials of the municipality. These proceedings were in progress at the date of this report.

Auditor-General.

Pietermaritzburg

30 November 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Not for publishing purposes

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit 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
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 44, 46(2)(e), 46(2)(f)

Legislation	Sections or regulations
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b) Parent municipality with ME: Sections 93B(a), 93B(b) Parent municipality with shared control of ME: Sections 93C(a)(iv), 93C(a)(v)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)