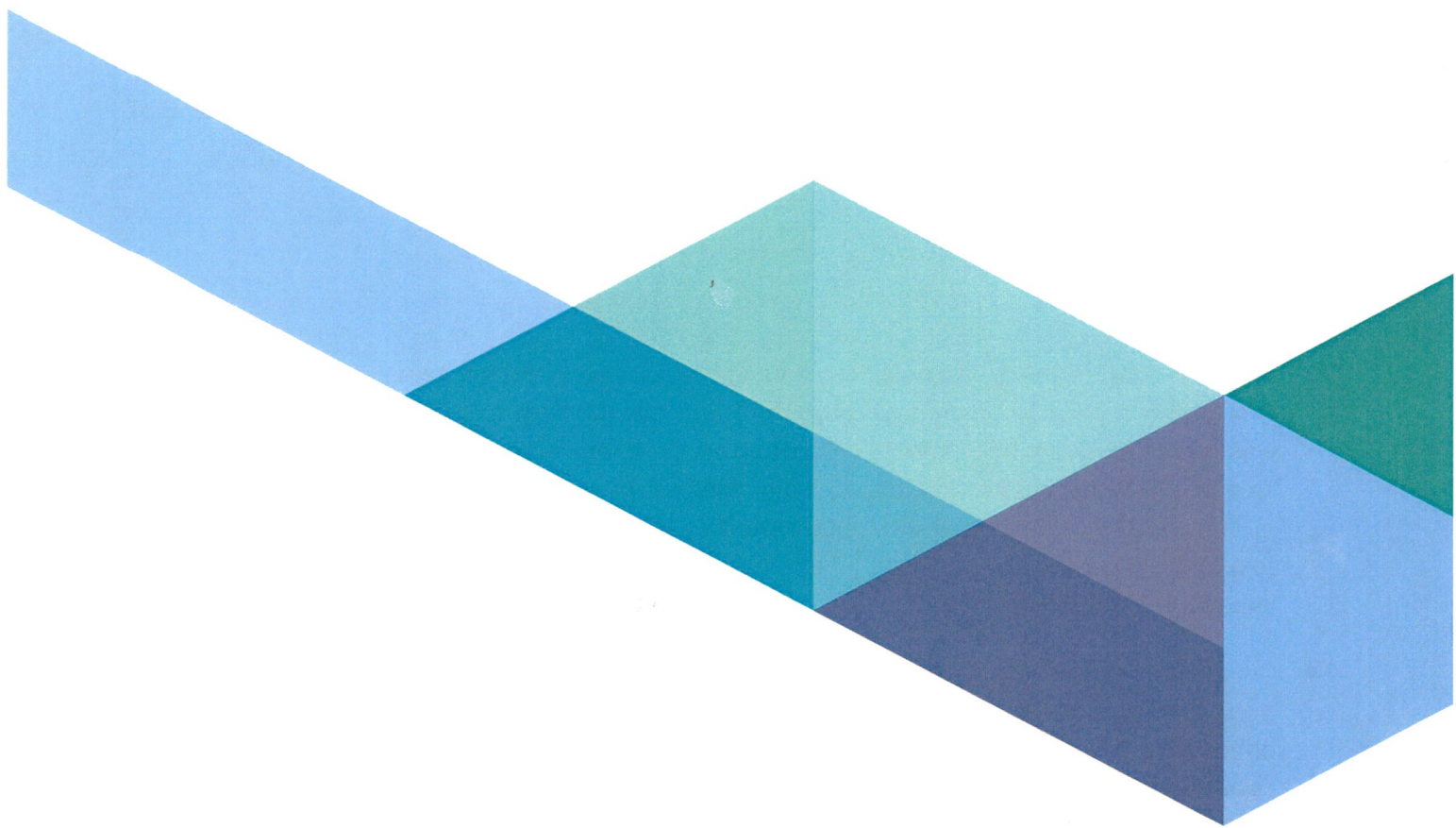


AUDIT REPORT

Msunduzi Local Municipality

2023-24



Report of the auditor-general to the 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 at 30 June 2024, 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 effect 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 2024 and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (Dora).

Basis for qualified opinion

Service charges

3. Revenue from exchange transactions was not measured at the fair value of the consideration received or receivable, as required by GRAP 9, *Revenue from exchange transactions*. This was due to incorrect adjustments processed on the financial reporting system related to the sale of electricity and water. Consequently, the sale of electricity was understated by R338,26 million and the sale of water was understated by R178,46 million (2022-23: R241,49 million) respectively, as disclosed in note 37 to the financial statements. There was also a resultant impact on consumer debtors.
4. Service charges – sale of electricity was not accounted for as required by GRAP 9, *Revenue from exchange transactions* in the prior year. This was due to incorrect adjustments processed on the financial reporting system related to the sale of electricity. Consequently, the corresponding figure for sale of electricity disclosed in note 37 to the financial statements was overstated by R242,60 million, while the prior year surplus, accumulated surplus and consumer debtors were overstated by the same amount.

Context for opinion

5. 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.

6. 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.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Material impairment – consumer debtors

9. As disclosed in note 8 to the financial statements, the municipality recognised a provision for impairment amounting to R5,08 billion (2022-23: R4,17 billion) on consumer debtors as the recoverability of these amounts was doubtful.

Material impairment – statutory receivables

10. As disclosed in note 7 to the financial statements, the municipality recognised a provision for impairment amounting to R1,47 billion (2022-23: R1,24 billion) on statutory receivables as the recoverability of these amounts was doubtful.

Material impairment – other debtors

11. As disclosed in note 5 to the financial statements, the municipality recognised a provision for impairment amounting to R108,90 million (2022-23: R108,93 million) on receivables from exchange transactions as the recoverability of these amounts was doubtful.

Material losses

12. As disclosed in note 69 to the financial statements, the municipality incurred material electricity losses of R695,28 million (2022-23: R554,03 million) which represents 19% (2022-23: 24%) of total electricity purchased. This was mainly due to illegal connections, infrastructure vandalism, metering inaccuracies, unmetered energy 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.
13. As disclosed in note 69 to the financial statements, the municipality incurred material water losses of R153,87 million (2022-23: R115,09 million) which represents 22% (2022-23: 29%) of total water purchased. This was mainly due to ageing water infrastructure and more frequent burst pipes.

Significant uncertainties

14. As disclosed in note 83 to the financial statements, various legal claims were lodged against the municipality. The ultimate outcome could not be determined and no provision for any liability that may result was made in the financial statements.

Underspending of the conditional grants

15. As disclosed in note 22 to the financial statements, the municipality materially underspent the budget by R96,64 million on the upgrading of informal settlements.

Delayed Capital Projects

16. As disclosed in note 15 to the financial statements, capital projects totalling R101,21 million (2022-23: R176,43 million) are taking a significantly longer period than expected to complete due to various reasons as described in the note.

Going concern

17. As disclosed in note 81 to the financial statements, the municipality has prepared the financial statements on a going concern basis, although there are adverse financial ratios. There is a financial recovery plan in place.

Other matter

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

Unaudited disclosure notes

19. In terms of section 125(2) (e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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

20. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA; 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.

21. 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

22. 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.

23. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page 16, forms part of our auditor's report.

Report on the audit of the annual performance report

24. 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 national key performance areas (NKPAs) presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

25. I selected the following NKPAs presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected NKPAs that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

National key performance areas	Page numbers	Purpose
Basic service delivery	[XX]	<p>To provide quality water and sanitation, uninterrupted, adequate energy supply and regular waste removal for all neighbourhoods, communities and centres of business.</p> <p>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.</p>
Local economic development	[XX]	<p>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.</p>

26. I evaluated the reported performance information for the selected NKPAs 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.

27. 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.

- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included.
- 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 and is comparable and understandable.
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

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

29. I did not identify any material findings on the reported performance information for the Local economic development NKPA.

30. The material findings on the reported performance information for the Basic service delivery NKPA are as follows:

Basic service delivery

Number of traffic signals repaired

31. The target in the annual performance report differed from what was committed to in the approved revised planning documents. The reported target was 12 major traffic signals repaired by the 30th of June 2024, while the planned target was 100% major traffic signal repairs implemented in various intersections by the 30th of June 2024. This change was made without obtaining the required approval, which undermines transparency and accountability.

% of Community facilities (parks & sports & recreation facilities) maintained

32. The indicator was not clearly defined during the planning process because it is not clear which facilities should be included for this indicator, making it unhelpful for measuring and reporting progress against the planned objectives. Additionally, an achievement of 8,08% was reported against a target of 90% of community facilities (parks & sports & recreation facilities) maintained by the 30th of June 2024. However, the audit evidence showed the actual achievement to be 13%. Consequently, the achievement against the target was higher than reported.

Various indicators

33. Based on the audit evidence, the actual achievements for two indicators did not agree to what was reported. I could not determine the actual achievements, but I estimated them to be materially less. Consequently, the under-achievements on the targets were estimated to be more than reported and the achievements against the targets were lower than reported.

Indicator	Target	Reported achievement
Number of square meters of pedestrian walkways maintained	2000 square meters of pedestrian walkways maintained by the 30th of June 2024	2 950,045m ²
% of sewer blockages resolved	60% of sewer blockages resolved by the 30th of June 2024. (Number of sewer blockages resolved vs number of sewer blockages reported)	70%

Various indicators

34. 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 if the targets had been achieved.

Indicator	Target	Reported achievement
Percentage of water leaks/bursts repaired	85% of mainline water bursts repaired by the 30th of June 2024.	100%
Meters of road marking completed	12 000 meters of road marking lines (edge lines, centre lines, parking bays) completed by the 30th of June 2024.	73 853,5m
100% compliance notices issued for contraventions of waste management bylaw contraventions	100%	50%

Missing indicators

35. The municipality is responsible for "Well serviced city": Msunduzi is a city serviced with quality water and sanitation reticulation, uninterrupted, adequate energy supply, and regular waste removal – for all neighbourhoods, communities, and centres of business in terms of the integrated development plan (IDP). However, indicators to measure performance on this objective were omitted from the approved planning documents. Consequently, the achievement of this objective was not planned or accounted for, which undermines transparency and accountability on the progress towards achievement of the well serviced city.

Mandated responsibility	Reasons provided by the accounting officer for non-inclusion
Refuse removal of non-households	The indicator is monitored on the departmental layer
Electricity connection for non-households	The indicator is monitored on the departmental layer
Maintenance of landfill site and wastewater treatment plants	The indicator is monitored on the departmental layer
Maintenance of electricity infrastructure (other than substations)	The indicator is monitored on the departmental layer
Grass/bushes cutting services	Indicator or activities associated with the indicator will be added to the top layer.

Other matters

36. I draw attention to the matters below.

Achievement of planned targets

37. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.
38. The table that follows provides 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

<i>Targets achieved: 65%</i>		
<i>Budget spent: 42%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
116 000 households with access to weekly refuse removal	116 000	59 183
Kilometres of gravel roads upgraded to all weather surface	5,5km	4,2km
Km of sewer pipelines installed	7,2km	6,72km
Km of gravel roads maintained	35km	31,477km

Material misstatements

39. 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 and local economic development NKPAs. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

40. 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.
41. 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.
42. 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.
43. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements

44. 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 liabilities, non-current liabilities 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.

Expenditure management

45. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
46. Reasonable steps were not taken to prevent irregular expenditure amounting to R14,07 million (2022-23: R59,89 million) as disclosed in note 65 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.

47. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R33,24 million (2022-23: R164,83 million), as disclosed in note 68 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 interest charged on late payments.

Revenue management

48. 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.

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

Other information in the annual report

50. 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 NKPA's presented in the annual performance report that have been specifically reported on in this auditor's report.

51. 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.

52. 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 NKPA's presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

53. 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

54. 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.

55. 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.

56. There was instability in the position of accounting officer during the year, which may have contributed to the slow response by senior management in their implementation of the audit action plan to address material audit findings. As a result, there was no dedicated monitoring and supervision at senior management level on key parts of the plan.

Material irregularities

57. 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

58. The material irregularities identified are as follows:

Municipal resources not used economically

59. The accounting officer did not ensure compliance with section 62(1)(a) 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 resources of the municipality are used effectively, efficiently and economically."

60. The contract for the Copesville reservoir was awarded to the contractor on 3 February 2020 at a total contract value of R54,51 million (excl. contingencies and escalations). The project was set to commence on 11 May 2020 and finish on 25 November 2021 (18 months). However, due to delays caused by poor planning and project management, the project period was extended by 22 months. This resulted in additional costs incurred by the municipality while there was no change in the scope of work carried out. Total payments made to the contractor as of September 2023 amounted to R84,35 million and R10,10 million was paid to the consultant. The project was not complete (95%) at this date.

61. The non-compliance has resulted in a material financial loss of R8,42 million. Based on the information submitted, there are indicators that further losses may have been incurred by the Msunduzi Municipality as there are amounts that have been paid exceeding the original award value to the contractor and the project is not yet complete. The full extent of the financial losses still needs to be determined by the accounting officer as part of addressing the material irregularity.

62. The accounting officer was notified of the material irregularity on 31 January 2024 and invited to make a written submission on the actions taken, or to be taken, to address the matter.

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

- The project management office (PMO) unit is now headed by a formally appointed senior manager from 1 November 2023.

- The PMO unit is now informing and updating business units of the balances of business plans and the need to submit new business plans timeously to avoid the issue of poor planning and expenditure because of this.
- The PMO unit has allocated a project manager to each department to oversee expenditure and progress. These PMO project managers engage with their relevant allocated departments on a weekly or bi-weekly basis.
- A new structure has been approved whereby all grant funded projects will be moved and implemented under the PMO unit. This came into effect from 1 July 2024.
- The matter was referred to the Special Investigating Unit (SIU) and the matter was placed before the case assessment committee which resulted in the SIU not taking the matter further and recommending an internal investigation be instituted.
- The project was completed on 30 September 2024.
- The terms of reference to appoint an investigating officer to identify the cause of the material irregularity and the responsible official is currently being drafted.

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

Payment of scarce skills allowance without proper identification of employees eligible for the allowance

65. The accounting officer did not ensure compliance with section 65(2)(a) of the MFMA which states that: "The accounting officer must for the purpose 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, authorization, withdrawal and payment of funds."
66. The accounting officer has been paying scarce skills allowance to certain employees without any supporting evidence to prove that the employees receiving the allowance were eligible for the allowance. There is still no approved policy specifically addressing who is eligible for the scarce skills allowance and the allowance continued to be paid without re-applications by employees and approval thereof.
67. The municipal council took a resolution to stop scarce skills allowance payments until corrective steps were taken, however, these were reinstated during the 2023-24 financial year without prior approval. Proposed steps taken in terms of facilitating recovery and approval processes of scarce skills allowances have not been undertaken by the accounting officer. Furthermore, the accounting officer did not facilitate the approval of the policy and the related scarce skills allowances.
68. The non-compliance has resulted in a likely material financial loss of R5,99 million in the financial year ended 30 June 2024 and is likely to result in further material financial losses for the Msunduzi Municipality. Based on the information submitted, further losses are expected to be incurred by the municipality as the scarce skills allowances are still being paid. The full extent of the financial losses still needs to be determined by the accounting officer as part of addressing the material irregularity.

69. The accounting officer was notified of the material irregularity on 28 November 2024 and invited to make a written submission on the actions taken, or to be taken, to address the matter.

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

- A standard operating procedure was developed and has been approved by the Compensation Management Committee to objectively inform the adjudication and approval of scarce skills allowances going forward and the standard operating procedure was noted by council on 8 October 2024.
- The accounting officer requested the forensic investigation unit on 3 December 2024 to conduct an investigation to identify the person responsible for the reinstatement of the scarce skills allowance.
- A report was tabled to council on the condonation of the expenditure amounting to R5,99 million as a result of the reinstatement of the payment of the scarce skills allowance during the 2023-24 financial year for the period of 5 months (February 2024-June 2024).
- Allowances were stopped except for the brief period of 5 months following approval of the temporary reinstatement after council approval of scarce skills allowance stoppage. Currently, there is a process in place for payments of the scarce skills allowance as outlined in the standard operating procedure.

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

Status of previously reported material irregularities

Failure to recover revenue from the sale of timber

72. 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. This 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.

73. 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.

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

- A case was registered with South African Police Services (SAPS), PMB CAS282/11/2022.
- 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 three (3) years, commencing on the 15 August 2023 until 15 August 2026.

- Attorneys lodged an application to compel discovery in terms of Rule 35(7) on 5 December 2023 and such application was granted by the court.
- The defendant was served with a court order on 1 February 2024, compelling them to file their discovery affidavit; however, the defendant failed to file their discovery affidavit.
- The investigation was still in progress at year end and the responsible official has not been identified to date.

75. I will follow-up on the implementation of the planned actions during my next audit.

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

76. 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 Municipal Systems Act 32 of 2000.

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

78. 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.

79. 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.

80. 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.

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

- The current panel of debt collectors was adjudicated, and service providers appointed to assist with debt collection in November 2024.
- Modules relevant to the subject matter have been re-implemented on the accounting system. The tender was awarded, and the priority list was done on 23 February 2024.
- Additional capacity has been sourced for the debtor's management department and additional capacity has been sourced to perform disconnections/restrictions.
- The issuance of summons and obtaining default judgments are on-going.

- Restrictions/disconnections have been implemented for defaulting consumers. Daily electricity disconnections and water restrictions are conducted for debtors with arrears.
- Sale in execution of properties with arrear debt.
- Name changes of deceased accounts to living spouse/joint owner.
- Internal audit has completed the audit of the entire population of all deceased debtor write-offs and the action plan for collection of arrear debt has been developed and is in-progress on an ongoing basis.
- A service provider has been appointed to conduct an investigation to identify the personnel that is responsible for the material irregularity. The investigation is currently in-progress.

82. I will follow-up on the implementation of the planned actions during my next audit.

Loss of prepaid electricity revenue

83. 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.
84. 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.
85. 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.
86. The following are the actions taken and planned to address the material irregularity:
- The draft forensic report was presented to the audit committee on 29 October 2024.
 - Monitoring and auditing of the condition of meters: 69 data concentration units (DCUs) have been installed to date to monitor the domestic and small power users. The remainder of 67 DCUs will be installed within the next financial year.
 - The municipality has applied to the National Treasury to participate in the RT29 contract which covers smart metering system for both electricity and water. The application process is still in progress.
 - The electricity department has identified the critical vacant positions in the line with the allocated budget and has taken reasonable steps to fill them. Sixty percent of the posts have been filled. Human Resources Unit is working at filling all 42 posts.
 - The procedure to do away with the bypassing of meters during standby operation was developed and implemented in the 2023-24 financial year.

- The operations and maintenance section are currently devising a strategy to operate the load reduction remotely.
- The verification of accounts and the splitting of MV circuits for ease of isolation commenced in July 2024 and is still in progress.
- The municipality has applied to the National Treasury to participate in the RT29 contract which covers smart metering system for both electricity and water. The application process is still in progress.

87. I will follow-up on the implementation of the planned actions during my next audit.

Other reports

88. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

89. The municipality's investigative unit performed investigations relating to allegations of financial misconduct, fraud, corruption, theft, recruitment mismanagement and supply chain management irregularities covering the period 2021 to 2024. Some of these investigations were in progress as at 30 June 2024. The accounting officer is currently assessing the outcomes and recommendations for those cases that have been finalised.

Auditor-General.

Pietermaritzburg

12 February 2025



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

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 NKPA's 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	<p>Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii),</p> <p>Sections: 32(2)(b), 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f),</p> <p>Sections: 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a),</p> <p>Sections: 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)</p>
MFMA: Municipal budget and reporting regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
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	<p>Regulations: 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e),</p> <p>Regulations: 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i),</p> <p>Regulations: 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)</p>
Construction Industry Development Board Act 38 of 2000	Regulations: 17, 25(7A)
Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
Municipal Property Rates Act 6 of 2004	Section: 3(1)
Municipal Systems Act 32 of 2000	<p>Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2),</p> <p>Sections: 54A(1)(a), 56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)</p> <p>Parent municipality with ME: Sections: 93B(a), 93B(b)</p>

Legislation	Sections or regulations
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 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: Municipal Staff Regulations	Regulations: 7(1),31
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(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), 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)