

# Report of the auditor-general to the Gauteng Provincial Legislature and the council on Emfuleni Local Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Emfuleni Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2021, the 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, the financial statements present fairly, in all material respects, the financial position of the Emfuleni Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 4 of 2020 (Dora).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Material uncertainty relating to going concern

6. I draw attention to note 34 to the financial statements, which indicates how the structural economic challenges and resultant financial distress have affected the municipality to date, resulting in certain material uncertainties related to the future financial position, performance and cash flows of the municipality. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.
7. My opinion is not modified in respect of this matter.

## **Emphasis of matters**

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

### **Restatement of corresponding figures**

9. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2021.

### **Material uncertainties**

10. With reference to note 31 to the financial statements, the municipality is the defendant in various lawsuits. The outcome of these matters could not be determined and/or reliably measured; therefore, no provision for any liabilities that may result was made in the financial statements.

### **Material impairments**

11. As disclosed in note 3 to the financial statements, the trade and other receivables from exchange transactions balance has been significantly impaired. The allowance for impairment amounts to R8 671 786 694 (2019-20: R7 771 812 575), which represents 95% (2019-20: 97.6%) of total trade and other receivables from exchange transactions. The contribution to the allowance for impairment was R900 708 603 (2019-20: R1 624 695 853).

12. As disclosed in note 4 to the financial statements, the trade and other receivables from non-exchange transactions balance has been significantly impaired. The allowance for impairment amounts to R1 801 935 154 (2019-20: R1 727 969 580), which represents 72.3% (2019-20: 86,8%) of total trade and other receivables from non-exchange transactions. The contribution to the allowance for impairment was R298 663 648 (2019-20: R504 740 438).

### **Distribution losses**

13. As disclosed in note 36 to the financial statements, material electricity losses of R527 403 154 (2019-20: R376 989 451) were incurred, which represents 21.87% (2019-20: 21.19%) of total electricity purchased.

14. As disclosed in note 36 to the financial statements, material water losses of R592 530 225 (2019-20: R601 859 513) were incurred, which represents 57% (2019-20: 56.9%) of total water purchased.

### **Disclosure on the impact of Covid-19**

15. I draw attention to note 46 in the financial statements, which deals with the impact and possible effects of Covid-19 on the municipality's current, future performance and cash flows.

### **Other matter**

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

## Unaudited disclosure notes

17. 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

18. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.
19. 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.

## Auditor-general's responsibilities for the audit of the financial statements

20. 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.
21. 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

### Introduction and scope

22. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected key performance area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
23. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in

the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

24. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the municipality's annual performance report for the year ended 30 June 2021:

Key performance area	Pages in the annual performance report
KPA 2: Basic services and infrastructure	x – x

25. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
26. The material findings on the usefulness and reliability of the performance information of the selected key performance area are as follows:

**Key performance area 2: Basic service and infrastructure**

27. The planned key performance area of basic service and infrastructure as per the approved integrated development plan (IDP) was not consistent with the reported key performance area public works, utilities and special projects and community services as per the annual performance report.

**Percentage achievement to a turnaround time to restore all potable water service interruptions (current norm to comply with is 48 hours)**

28. The achievement of 56% was reported against the target of 50% in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement.

**Reduced bulk water purchases to R95 million by quarter 4**

29. The source information for measuring the planned indicator was not clearly defined and related systems and processes were not adequate to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. As a result, limitations were placed on the scope of my work, and I was unable to audit the reliability of the achievement of R100 739 664,87 reported against the target of R95 000 000 in the annual performance report.

## **Other matter**

30. I draw attention to the matter below.

### **Achievement of planned targets**

31. Refer to the annual performance report on pages ----to--- for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 25 to 27 of this report.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

32. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

33. The material findings on compliance with specific matters in key legislation are as follows:

### **Annual financial statements**

34. 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 non-current assets, current assets, and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified opinion.

### **Strategic and performance management**

35. A performance management system was not adopted, as required by municipal planning and performance management regulation 8.

### **Expenditure management**

36. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R1 152 484 854 as disclosed in note 35 to the financial statements, in contravention of by section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on the public works budget vote.

37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R191 417 664, as disclosed in note 39 to the annual financial statements, in contravention of by section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties on long-outstanding accounts.

38. Reasonable steps were not taken to prevent irregular expenditure of R80 089 622 as disclosed in note 40 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The

majority of the irregular expenditure was caused by non-compliance with supply chain management (SCM) regulation 36.

### **Procurement and contract management**

39. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by 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.
40. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
41. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2) (c) of the MFMA. Similar non-compliance was also reported in the prior year.

### **Consequence management**

42. Unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
43. Irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
44. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### **Other information**

45. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected key performance area presented in the annual performance report that has been specifically reported in this auditor's report.
46. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
47. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
48. When I do receive and read the other information, if I conclude that there is a material misstatement therein, we are 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 have to retract the auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

### **Internal control deficiencies**

49. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in findings on the annual performance report and the findings on compliance with legislation included in this report.
50. The accounting officer did not exercise adequate oversight of financial and performance reporting, compliance with legislation and related internal controls, which resulted in instances of non-compliance with the MFMA and SCM regulations.
51. Action plans were not adequately reviewed by management to ensure that control deficiencies relating to the prior year were adequately addressed, resulting in material misstatements in the financial statements and instances of non-compliance with legislation being identified.
52. Senior management did not adequately monitor and review internal controls over financial, supply chain and consequence management, which resulted in various instances of unauthorised, irregular and fruitless and wasteful expenditure being incurred.

### **Material irregularities**

53. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

#### **Material irregularity in progress**

54. I identified a material irregularity during the audit and notified the accounting officer of this, as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the response from the accounting officer. This material irregularity will be included in the next year's auditor's report.

## Other reports

55. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. 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.
56. A total of two investigations into allegations relating to procurement irregularities were ongoing at year-end. These investigations have been ongoing since the prior year.

*Auditor-General*

Johannesburg

28 February 2022



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure – Auditor-general’s responsibility for the audit**

1. 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 key performance areas and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. 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 by the accounting officer
  - conclude on the appropriateness of the accounting officer’s 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 Emfuleni Local 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**

3. 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.
4. 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 have a bearing on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.