

Report of the auditor-general to Gauteng Provincial Legislature and the council on Emfuleni local municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Emfuleni local municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2022, 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, except for the effects of the matter described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for qualified opinion

General expenditure

3. The municipality did not recognise all general expenditure incurred in the current year financial statements. Consequently, general expenditure was understated by R729 870 648 and the total trade payables was understated by R729 870 648 in the financial statements. Furthermore, the misstatement had an impact on the surplus for the period on the financial statements.

Context for the opinion

4. 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.
5. 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.
6. 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

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.
8. I draw attention to note 35 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 along with the other matters as set forth in note 35, 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

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

Restatement of corresponding figures

10. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Material uncertainties

11. 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

12. 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 R4 417 610 273 (2022: R8 671 786 694), which represents 87.9% (2020-21: 95.%) of total trade and other receivables from exchange transactions. The contribution to the allowance for impairment was R964 106 985 (2020-21: R788 546 015).
13. 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 103 787 516 (2020-21: R1 801 935 154), which represents 80.5% (2020-21:72,6%) of total trade and other receivables from non-exchange transactions. The contribution to the allowance for impairment was R391 024 689 (2020-21: R291 550 695).

Distribution losses

14. As disclosed in note 40 to the financial statements, material electricity losses of R598 556 898 (2020-21: R527 403 154) were incurred, which represents 23% (2020-21: 21.87%) of total electricity purchased.
15. As disclosed in note 40 to the financial statements, material water losses of R733 720 550 (2020-21: R592 530 225) were incurred, which represents 63.7% (2020-21: 57%) of total water purchased.

Disclosure on the impact of Covid-19

16. I draw attention to note 44 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

Responsibilities of the accounting officer for the financial statements

17. 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.
18. 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

19. 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.
20. 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

21. 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 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.
22. 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.

23. 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 2022:

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

24. 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.
25. The material findings on the usefulness and reliability of the performance information of the selected key performance area are as follows:

Key Performance Area (KPA) 2- Basic Service and Infrastructure

Indicator BS. 03 Number of new electricity meters replaced in ELM licensed area of supply

26. The achievement of 1285 electricity meters replaced in ELM licensed areas of supply was reported against the target of 2200 in the annual performance report. However, some supporting evidence provided materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement.

Various indicators

27. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicator description	Reported achievement
BS 02 Number of additional dwellings provided with connections to main electricity supply by the municipality.	17
BS 05 Number of electrical substations refurbished/upgraded/new.	5

Various indicators

28. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of 2 of the 28 indicators relating to this programme. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

Indicator description	Planned target	Reported achievement
BS. 15 Percentage achievement to a turnaround time to restore all potable water service interruptions (current norm to comply with is 48 hours).	50%	36%
BS. 20 Percentage achievement to a compliance to turnaround time (48 hours) to restore wastewater service interruptions after reported.	50%	45%

Other matter

29. I draw attention to the matter below.

Achievement of planned targets

30. Refer to the annual performance report on pages ... to ...xx 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 26 to 28 of this report.

Report on the audit of compliance with legislation

Introduction and scope

31. 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.

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

Annual financial statements

33. 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 revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatement resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

34. Money owed by the municipality was not always paid within 30 days as required by section 65 (2)(e) of the MFMA.
35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R2 708 864 475 as disclosed in note 37 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.
36. Reasonable steps were not taken to prevent irregular expenditure amounting to R232 305 800 as disclosed in note 39 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 (SCM) regulation 36.
37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R827 881 210, as disclosed in note 38 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 by suppliers due to late payments.

Procurement and contract management

38. 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.
39. Some of the contracts above R30 million did not include a condition for mandatory subcontracting to advance designated groups, as required by the 2017 Preferential Procurement Regulation 9(1).
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.

Consequence management

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

Other information

44. 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 the auditor's report.
45. 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 thereon.
46. 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 our knowledge obtained in the audit, or otherwise appears to be materially misstated.
47. 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 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

48. 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 the basis for the qualified opinion.
49. The accounting officer did not exercise adequate oversight responsibility regarding financial and performance reporting, compliance with laws and regulations and related internal controls which resulted in instances of non-compliance with the MFMA and SCM regulations.
50. Senior management did not prepare accurate and complete financial and performance reports that are supported by reliable evidence. The financial statements and the annual performance report contained material misstatements which were identified during the audit process. In addition, there were repeat non-compliances with the MFMA and SCM regulations.

Material irregularities

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

Material irregularities identified during the audit

52. The material irregularity identified is as follows:

Failure to pay tax payable (VAT) by the required timeframe

53. The municipality failed to pay the tax payable amounting to R19 295 711,75 for the month of April 2021 by the last business day of the month of May 2021 to the commissioner as required by section 28(1)(b)(iii) of the Value Added Tax Act. As a result of this failure to pay the tax payable by the required timeframe, the commissioner of the South African Revenue Services (SARS) imposed a penalty amounting to R1 929 571 which represents 10% of the tax payable for the month of April 2021. The municipality paid the penalty on 11 June 2021.
54. The non-compliance is likely to result in a material financial loss if not recovered. The amount is disclosed in note 38 as a comparative to the 2021-22 annual financial statements.
55. The accounting officer was notified of the material irregularity on 15 December 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter.
56. The accounting officer has taken the following action to address the material irregularity:
- Filed a request for a remission with SARS on 31 March 2022 to request the Commissioner to remit the imposed penalty.
57. I will follow up on the progress of the filed request for remission with SARS during my next audit.

Material irregularities in progress

58. I identified material irregularities during the audit and notified the accounting officer, 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 responses from the accounting officer. These material irregularities will be included in the next year's auditor's report.

Other reports

59. There were no investigations in the financial period under review.

Johannesburg

2 December 2022



A U D I T O R - G E N E R A L
S O U T H A F R I C A

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 area 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 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 to 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.