Auditor-General of South Africa

Mpofana Local Municiplaity

Audit Report for the year ended 30 June 2021

Report of the auditor-general to KwaZulu-Natal Provincial Legislature and the Council on the Mpofana Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Mpofana Local Municipality set out on pages xx to xx, 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, except for the effects and possible effects of the matters 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 Mpofana Local Municipality as at 30 June 2021, 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 Standard of GRAP),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, 2020 (Act No. 4 of 2020) (Dora).

Basis for qualified opinion

Receivables from non-exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for the disclosure of receivables from non-exchange transactions and the ageing of receivables from non-exchange transactions as the system of recording the receivables from non-exchange transactions could not be reconciled to the financial statements. I could not confirm the ageing by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the receivables from non-exchange transactions stated at R112,71 million (2019-20: R89,60 million) and the allowance for impairment of receivables from non-exchange transactions stated at R90,12 million (2019-20: R54,58 million) as disclosed in note 4 to the financial statements.

Receivables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for the disclosure of receivables from exchange transactions and the ageing of receivables from exchange transactions as the system of recording the receivables from exchange transactions could not be reconciled to the financial statements. I could not confirm the ageing by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the receivables from exchange transactions stated at R84,73 million (2019-20: R98,69 million) and the allowance for impairment of receivables from exchange transactions stated at R43,75 million (2019-20: R61,64 million) as disclosed in note 6 to the financial statements.

Payables from exchange transactions – salary suspense

5. The municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*. As the municipality did not have adequate systems of internal control for the recording and reconciling of payables to the financial statements, I was unable to determine the full extent of the understatement of the salary suspense balance stated at R811 668 (2019-20: R456 016) in note 16 to the financial statements, as it was impracticable to do so.

Payables from exchange transactions – debtor payments received in advance

6. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for debtors payments received in advance included within payables from exchange transactions due to the status of accounting records. I was unable to confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to debtors payments received in advance stated at R5,76 million (2019-20: R5,12 million) in note 16 to the financial statements.

Leave accrual

7. I was unable to obtain sufficient appropriate audit evidence that the municipality correctly accounted for the provision for leave pay as the system of internal control supporting leave transactions was not effective. I could not confirm the provision for leave pay by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the provision for leave pay stated at R5,71 million (2019-20: R5,19 million) in note 16 to the financial statements.

Service charges

8. The municipality did not completely record all revenue relating to service charges in accordance with GRAP 9 Revenue from exchange transactions, due to a breakdown in controls. Consequently, revenue from service charges stated at R51,40 million (2019-20: R58,23 million) in note 21 to the financial statements and receivables from exchange transactions in note 6 to the financial statements was understated by R2,19 million (2019-20: R3,72 million). Additionally, there was an impact on the surplus for the period.

Revenue – interest earned on exchange and non-exchange transactions

9. The municipality did not account for interest on receivables from exchange and non-exchange transactions in arrears, as required by section 64(2) (g) of the MFMA. As the municipality did not have a system of internal control in place for the recording of the interest, I was unable to determine the full extent of the understatement of interest earned on exchange and non – exchange transactions for the current and previous year, as it was impracticable to do so.

Context for the opinion

10. 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.

11. 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.

12. 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 financial sustainability

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

14. I draw attention to note 44 to the financial statements, which indicates that unspent conditional grants are not fully cash backed and current liabilities exceed the current assets. As stated in note 44, these events or conditions, along with the other matters as set forth in note 44, 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

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

Material losses – electricity

16. As disclosed in note 50 to the financial statements, material electricity losses of R29, 40 million (2019-20: R28,06 million) was incurred, which represent 43,05%(2019-20: 35,51%) of total electricity purchased. The electricity losses were mainly due to transmission and distribution losses and illegal connections.

Restatement of corresponding figures

17. As disclosed in note 42 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.

Other matters

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

Unaudited disclosure notes

19. 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.

Unaudited supplementary schedules

20. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited theses schedules and, according, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

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

22. In preparing the financial statements, the accounting officer is responsible for assessing the Mpofana Local 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

23. 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.

24. 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

25. In accordance with the Public Audit Act, 2004 (Act No. 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.

26. 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.

27. 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 *basic service delivery* key performance area presented on pages xx - xx of the municipality's annual performance report for the year ended 30 June 2021.

28. 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.

29. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected key performance area.

Other matters

30. I draw attention to the matters below.

Achievement of planned targets

31. The annual performance report on pages xx to xx includes information on the achievement of planned targets for the year.

Adjustment of material misstatements

32. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of the *basic service delivery* key performance area. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

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

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

Annual financial statements

35. 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, non-current and current assets, current liabilities and disclosures identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion

Expenditure management

36. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R51,94 million as disclosed in note 46 to the annual financial statements ,as required by section 62(1)(d) of the MFMA. The majority of the unathorised expenditure was due to actual expenditure exceeding the approved operating expenditure budget.

37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R635 760, as disclosed in note 47 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 penalties incurred on the late filing of statuory tax returns.

38. Reasonable steps were not taken to prevent irregular expenditure amounting to R35,89 million as disclosed in note 48 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was due to non-compliance with supply chain management regulations.

Revenue management

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

40. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Strategic planning and performance management

41. No key performance performance indicators were set in respect of the provision of basic solid waste removal services, as required by section 43(2) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) and municipal planning and performance management regulation 10(a).

Procurement and contract management

42. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by Municipal Supply Chain Management Regulation 19(a).

43. Construction contracts were awarded to contractors that were not registered with the CIDB or did not qualify for the contract in accordance with section 18(1) of the Construction Industry Development Board Act, 2000(Act No. 38 of 2000) (CIDB) and CIDB Regulations 17 and 25(7A).

44. Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the Preferential Procurement Regulation 8(2) of 2017.

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 have been specifically reported in the 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. 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

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 the basis for the qualified opinion and the findings on compliance with legislation included in this report.

50. Senior management did not respond in a timely manner to address the risk of credible and reliable financial reporting and compliance with key leglistlation relating to revenue, expenditure management, strategic planning and performance management and procurement and contract management.

Other reports

51. I draw attention to the following engagement conducted that 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.

52. An independent consultant investigated an allegation of possible financial misconduct at the request of the KwaZulu-Natal Department of Cooperative Governance and Traditional Affairs, which covered the period 01 February 2011 to 30 June 2018. The investigation was concluded on 01 November 2018 and the municipality is still addressing the recommendations of the report.

Auditor-General

Pietermaritzburg

31 January 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 the 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 Mpofana 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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.