REPORT OF THE AUDITOR-GENERAL OF SOUTH AFRICA

FOR THE YEAR ENDED 30 JUNE 2022

Mpofana Local Municipality

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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 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 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 2022, 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, 2021 (Act No. 9 of 2021) (Dora).

Basis for qualified opinion

Receivables from non-exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence that receivables from non-exchange transactions had been properly accounted for, due to the status of accounting records. I was unable to confirm receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the receivables from non-exchange transactions stated at R115,70 million (2020-21: R109,57 million) and the allowance for impairment of receivables from non-exchange transactions stated at R57,31 million (2020-21: R55,69 million) as disclosed in note 5 to the financial statements.

Receivables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions exchange transactions had been properly accounted for, due to the status of accounting records. I was unable to confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the receivables from exchange transactions stated at R31,66 million (2020-21: R26,30 million) and the allowance for impairment of receivables from exchange transactions stated at R16,81million (2020-21: R13,24 million) as disclosed in note 7 to the financial statements.

Payables from exchange transactions – debtor payments received in advance

5. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for debtors payments received in advance, 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 R7,21 million (2020-21: R6,40 million) in note 16 to the financial statements.

Revenue – interest earned on exchange and non-exchange transactions

6. 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.

VAT receivable

7. I was unable to obtain sufficient appropriate audit evidence that the municipality correctly accounted for the VAT receivable due to the status accounting records. I could not confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the VAT receivable stated at R28,50 million (2020-21: R18,17 million) in note 6 to the financial statements.

Context for the opinion

8. 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.

9. 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.

10. 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

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

12. I draw attention to note 45 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 45, these events or conditions, along with the other matters as set forth in note 45, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matter

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

Material losses – electricity

14. As disclosed in note 52 to the financial statements, material electricity losses of R39,40 million (2020-21: R29, 40 million) was incurred, which represent 41,72%(2020-21: 43,05%) of total electricity purchased. The electricity losses were mainly due to transmission and distribution losses and illegal connections.

Other matter paragraphs

15. The following other matter paragraphs will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

Unaudited disclosure note

16. 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

17. 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

18. 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.

19. 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

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, 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.

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 *basic service delivery and infrastructure* key performance area presented on pages xx - xx of the municipality's annual performance report for the year ended 30 June 2022.

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

Other matter

27. I draw attention to the matter below.

Achievement of planned targets

28. The annual performance report on pages xx to xx includes information on the over and under achievement of planned targets for the year.

Report on the audit of compliance with legislation

Introduction and scope

29. 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.

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

Annual financial statements

31. 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, current assets, current liabilities, cash flow statement 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.

Consequence management

32. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

Expenditure management

33. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R62,37 million as disclosed in note 47 to the annual financial statements, as required by section 62(1) (d) of the MFMA. The majority of the unauthorised expenditure was due to actual expenditure exceeding the approved operating expenditure budget.

34. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R14,51 million, as disclosed in note 48 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 incurred on late payments to suppliers.

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

Revenue management

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

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

Procurement and contract management

38. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of Municipal Supply Chain Management Regulation 43.

Other information

39. 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.

40. 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.

41. 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.

42. 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

43. 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.

44. 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, consequence management and procurement and contract management.

Material irregularities

45. 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 the material irregularities reported in the previous year's auditor's report.

Material irregularities identified during the audit

46. The material irregularities identified are as follows:

Eskom debt not paid within 30 days

47. The municipality failed to ensure that the payments due to Eskom were made within 30 days of the invoice date and thus incurred interest on the outstanding amounts due amounting to R17, 66 million for the period 1 April 2019 to 31 March 2020. This amounted to a non-compliance with section 65(2)(e) of the MFMA.

48. The accounting officer was notified of the material irregularity on 3 February 2022 and invited to make a written submission on the actions taken or to be taken to address the matter.

49. The following actions have been provided by the accounting officer to resolve the material irregularity:

    - A 15 year payment will be finalised with Eskom whereby the historical debt will be ring fenced and interest accrued will be waived provided the s payment plan is honoured by the municipality.
    - To embark on a data cleansing exercise and update their debtor system accordingly to ensure that electricity consumers are correctly billed and to implement their debt collection policy.
    - To undertake a section 78 total agency assessment and thereafter enter into a total agency base agreement with Eskom.

- To explore the levying of a flat rate charge in certain municipal areas pending the outcome and finalisation of the total agency base assessment process with Eskom.

50. I will follow up on the progress made by the accounting officer in the next audit.

Auditor-General

Pietermaritzburg

30 November 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.