



AUDITOR - GENERAL
SOUTH AFRICA

The Acting Accounting Officer
Msukaligwa Local Municipality
P O Box 48
Ermelo
2350

31 January 2022

Reference: 02184REG2020-21

Dear Sir

Report of the Auditor-General on the financial statements, annual performance report, compliance with legislation and other legal and regulatory requirements of Msukaligwa Local Municipality for the year ended 30 June 2021

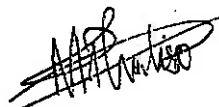
1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act No. 25 of 2004 (PAA) read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Municipal Finance Management Act 56 of 2003 (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and the annual performance report and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements, the annual performance report or our audit report on compliance with legislation. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements, annual performance report and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and

the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. The confidentiality of information obtained in an engagement must be observed at all times. In terms of section 50 of the Public Audit Act (PAA) and the International Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (*including International Independence Standards*), the AGSA, or an audit firm appointed in terms of section 25 of the PAA, may not disclose or make available any information obtained during an audit, other than the final auditor's report, to any third party unless this is to a legislature or internal committee of a legislature or a court in a criminal matter and the disclosure has been approved by the auditee and the Auditor-General.
7. Until the steps described in par. 2 and par. 4 of this document are completed and the annual report is tabled as required by section 127(2) of the MFMA, the audit report is not a final and public document and you are therefore requested to treat it as confidential.
8. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



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Mxolisi Phaliso
Senior Manager: Mpumalanga Business Unit

Enquiries: Zubair Gardee
Telephone: (013) 756 0800
Fax: (013) 756 0879

Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Msukaligwa Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Msukaligwa 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 the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the 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 Msukaligwa Local Municipality as at 30 June 2021, and financial performance and cash flows for the year then ended in accordance with the 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 4 of 2020 (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not recognise all its assets in the financial statements in accordance with GRAP 17, *Property, plant and equipment*. Assets selected from the floor could not be traced to the fixed asset register. Consequently, property, plant and equipment in note 4 to the financial statements was understated by R27,26 million.

Payables from exchange transactions

4. Included in payables from exchange transactions were payables related to year-end accruals, and trade payables, stated at negative R193,74 thousand (2019-20: R48,75 million) and R1,48 billion (2019-20: R1,30 billion) respectively. I was unable to obtain sufficient appropriate audit evidence for these payables from exchange transactions as underlying supporting schedules were not provided. I was unable to confirm the payables by alternative means. The payables from exchange transactions included in the risk management and financial instrument disclosure in note 39 and 40 to the financial statements also included these amounts. Consequently, I was unable to determine whether any further adjustments were necessary to these payables from exchange transactions disclosed in note 14 to the financial statements and the risk management and financial instruments disclosure notes.

Consumer debtors – electricity

5. The municipality did not always record all amounts of receivables in accordance with GRAP 104, *Financial instruments*. Amounts billed for electricity sales were not recorded. This and other immaterial misstatements resulted in consumer debtors being understated by R15, 39 million (2019-20: R15, 39 million). The receivables from exchange transactions included in the risk management and financial instrument disclosure in note 39 and 40 to the financial statements were also understated by the same amount.

VAT receivable

6. I was unable to obtain sufficient appropriate audit evidence for the adjustments made to the VAT receivable comparative figure due to the status of the accounting records. I was unable to confirm the receivable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to VAT receivable, stated at R239,56 million, and the comparative figure, stated at R243,96 million, as disclosed in note 11 to the financial statements.

Service charges – sale of electricity

7. During 2019-20, the municipality did not always bill all consumers and did not always record all amounts due to the municipality, in accordance with GRAP 9, *Revenue from exchange transactions*. This resulted in service charges from the sale of electricity being understated by R18,53 million in note 19 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the service charges –sale of electricity for the current period.

Expenditure - repairs and maintenance

8. During 2019-20, the municipality recorded expenditure for repairs and maintenance in the incorrect financial period, in contravention of GRAP 1, *Presentation of financial statements*. This resulted in repairs and maintenance expenditure being overstated by R10,50 million in note 29 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the repairs and maintenance expenditure for the current period.

Irregular expenditure

9. The municipality did not have adequate systems to identify and disclose all irregular expenditure incurred during the year, as required by section 125(2)(d) of the MFMA. I was unable to quantify the full extent of the understatement to irregular expenditure of R285, 52 million (2019-20: R369, 45 million) as disclosed in note 48 to the financial statements as it was impracticable to do so.

Commitments

10. The municipality did not account for commitments in terms of GRAP 17, *Property, plant and equipment* and the accounting policy adopted. Differences were noted between the commitments disclosed and supporting information. Consequently, I was unable to quantify the full extent of misstatements to total commitments stated at R75,39 million (2019-20: R107,52 million), as disclosed in note 41 to the financial statements as it was impracticable to do so.

Prior year adjustments and prior period errors

11. The municipality did not correctly make adjustments to commitments related to the prior year, in accordance with GRAP 3, *Accounting policies, estimates and errors*. The adjustments made in the prior year adjustments note did not agree with supporting documents. Consequently, I was unable to quantify the full extent of the misstatement to commitments disclosed in note 54 to the financial statements as it was impracticable to do so.
12. In addition, I was unable to obtain sufficient appropriate audit evidence for the adjustments disclosed to VAT receivable and trade payables, which were stated at R243,96 million and R1,43 billion respectively in note 54 to the financial statements. These adjustments also impacted on the disclosures related to error 4 under the prior period error disclosure in note 55 to the financial statements. I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior year adjustments as well as the prior period error note in the financial statements.

Context for the opinion

13. 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 this auditor's report.
14. 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.
15. 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

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

17. Note 44 to the financial statements indicates that the municipality incurred a net loss of R64,41 million during the year ended 30 June 2021 and, as of that date, the municipality's current liabilities exceeded its current assets by R1,15 billion. As stated in note 44, these events or conditions, along with other matters set forth in note 42, 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

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

Material impairments – trade debtors

19. As disclosed in note 10 to the financial statements, material impairment of consumer debtors of R624,90 million (2019-20: R651,65 million), was incurred as a result of an impairment provision for doubtful debts.

Material losses – electricity

20. As disclosed in note 52 to the financial statements, material electricity losses of R144,55 million (2019-20: R58,28 million) was incurred, which represents 55% (2019-20: 45%) of total electricity purchased. Technical losses were due to losses inherent in any network. Non-technical losses were due to theft, faults and billing errors.

Material losses – water

21. As disclosed in note 52 to the financial statements, material water losses of R13,59 million (2019-20: R15,00 million) was incurred, which represents 68% (2019-20: 29%) of total water purchased. Technical losses were due to losses inherent in any network. Non-technical losses were due to insufficient working resources and old infrastructure.

Other matter

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

Unaudited disclosure notes

23. 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

24. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.
25. 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

26. 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.
27. 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

28. 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 development priorities presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
29. 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/méasures included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to 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.

30. 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 development priority presented in the municipality's annual performance report for the year ended 30 June 2020:

Development priority	Pages in the annual performance report
KPA 2 – basic services and infrastructure development	x – x

31. 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.

32. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

KPA 2 – basic service delivery and infrastructure development

Various indicators

33. Adequate systems and processes were not established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. As a result, I was unable to obtain sufficient appropriate audit evidence for the achievements reported in the annual performance report for the indicators listed below. I was unable to confirm the verifiability of the indicator and the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

Indicator description	Planned target	Reported achievement
Percentage of blocked sewer mainlines system opened/repared within 24hrs of being reported	95%	98,65%
Percentage of damaged/burst water pipes repaired within 24hrs of being reported	95%	98,65%

Other matter

34. I draw attention to the matter below.

Achievement of planned targets

35. Refer to the annual performance report on pages xx 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 paragraph 33 of this report.

Report on the audit of compliance with legislation

Introduction and scope

36. 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.
37. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

38. 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 disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, 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

39. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred, as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management (SCM) regulations.
40. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred, as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending the approved budget.

Strategic planning and performance management

41. The performance management system and related controls were not maintained as they did not describe how the performance measurement and reporting processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Asset management

42. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Procurement and contract management

43. Some contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the preferential procurement regulations.
44. Some invitations to tender for procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was also reported in the prior year.
45. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA. Similar non-compliance was also reported in the prior year.

Conditional grants

46. Performance in respect of programmes funded by the regional bulk infrastructure grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of Dora.
47. Funds received from the regional bulk infrastructure grant were transferred to the Gert Sibande District Municipality without a payment schedule being entered into, as required by section 17(3) of Dora.
48. Funds received from the regional bulk infrastructure grant were transferred to the Gert Sibande District Municipality without approval of the transfer in the budget of the department or by the National Treasury, as required by section 17(3)(a)(l) and (ii)(bb) of Dora.

Other information

49. 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 development priority presented in the annual performance report that has been specifically reported in the auditor's report.
50. 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.

51. 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 development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
52. 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

53. 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 adverse opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
54. The accounting officer did not exercise effective oversight responsibility of financial and performance reporting, compliance and related internal controls.
55. Management did not implement adequate controls over daily and monthly processing and reconciling of transactions.
56. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
57. Management at the appropriate level did not ensure that compliance with applicable laws and regulations was adequately reviewed and monitored throughout the year.

AUDITOR- GENERAL

Mbombela

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 selected development priorities 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 Msukaligwa 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 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.