

# 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 2022, the statement of financial performance, statement of changes in net assets, and 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 report, the financial statements present fairly, in all material respects, the financial position of the Msukaligwa Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with Generally Recognised Accounting Practice (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

#### Payables from exchange transactions

3. The municipality did not have adequate systems to maintain records of accounts payable for goods and services received but not yet paid for in line with GRAP 104, Financial instruments. This resulted in employee related payables and accruals being overstated by R10,3 million. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as trade payables and unallocated deposit. I could not confirm the payables from exchange transaction by alternative means. The payables from exchange transactions included in the risk management and financial instrument disclosure in note 40 and 41 to the financial statements also included these amounts. Consequently, I was unable to determine whether any further adjustments were necessary to payables from exchange transaction stated at R1,57 billion (2021: R1,36 billion) disclosed in note 14 to the financial statements as well as risk management and financial instruments disclosure.

#### VAT Receivable

4. I was unable to obtain sufficient appropriate audit evidence for the adjustments made to the VAT receivable 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 adjustment were necessary to VAT receivable, stated at R115,46 million (2020-21: R97,37 million), as disclosed in note 11 to the financial statements.

## Irregular Expenditure

5. The municipality did not include all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments made in contravention of the supply chain management (SCM) requirements, which resulted in irregular expenditure being understated by R19,42 million. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure included in the notes to the financial statements as sufficient appropriate audit evidence was not provided. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure stated at R359,98 million (2020-21: R285,53 million) in the financial statements

## Consumer Debtors – electricity

6. During 2020, 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. The receivables from exchange transactions included the risk management and financial instrument disclosure in note 40 and 41 to the financial statements were also understated by the same amount. My audit opinion on the financial statements for the period ended 2020 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the receivables for the current period.

## Context for the opinion

7. 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.
8. 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.
9. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Emphasis of matters

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

## Material losses - Inventory

11. As presented in the statement of financial performance, material inventory losses of R16,2 million (2020-21: R0,1 million) which was due to the write down of inventory due to theft of inventories from the stores.

### Material losses – electricity

12. As disclosed in note 53 to the financial statements, material electricity losses of R192,9 million (2020-2021: R144,6 million) was incurred, which represents 60% (2020-2021: 55%) of total electricity purchased. Losses were due to dissipation when electricity flows through the conductors, illegal connections, meter tampering as well unmetered properties.

### Material losses – water

13. As disclosed in note 53 to the financial statements, material water losses of R53,3 million (2020-2021: R13,6 million) was incurred, which represents 76% (2020-2021: 68%) of total water purchased. Losses were as a results of an old infrastructure, resulting in the section experiencing water leaks and continuous pipe breakages. The availability of working material in time is an issue, resulting in prolonged reaction times for the sections with breakages. Furthermore insufficient staff, components and working vehicles which affect the reaction time.

### Fruitless and wasteful expenditure

14. As disclosed in note 48 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R73,2 million which is as a result of interest and penalties charged by suppliers for non-payments of debt due to them.

### Material loss on disposal of assets

15. As disclosed in note 36 to the financial statements, the municipality incurred a material loss on disposal of assets of R18,04 million, this was due to disposal of property, plant and equipment.

### Other matter

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

### Unaudited disclosure notes

17. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

### Responsibilities of the accounting officer for the financial statements

18. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of Generally Recognised Accounting Practice and the requirements of the Municipal Finance Management Act, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
19. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate

governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

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

20. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
21. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

### **Report on the audit of the annual performance report**

#### **Introduction and scope**

22. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
23. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
24. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the municipality's annual performance report for the year ended 30 June 2022:

<b>Development Priority</b>	<b>Pages in the annual performance report</b>
Key Performance Area 2 – Basic Services and Infrastructure Development	x – x

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

### Key Performance Area 2 – Basic Services and Infrastructure Development

Indicator: Number of bulk electricity meters installed by 30 June 2022

27. The source information and evidence for achieving the planned indicator was not clearly defined.

#### Various indicators

28. Measures taken to improve performance did not agree with the evidence provided for the following indicators:

Indicator description	Planned target	Reported achievement
Number of main sub-stations maintained by 30 June 2022	3	2
12000m2 of roads resurfaced by 30 June 2022	12 000m2	10 222,44m2
Number of jobs opportunities created through EPWP by 30 June 202	547	331
Number of bulk electricity meters installed by 30 June 2022	4	0
Number of new households with access to sanitation service by 30 June 2022	99	96

29. The evidence and method of calculation for measuring the planned indicator was not clearly defined and related systems and processes were not adequate to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. As a result, limitations were placed on the scope of my work and I was unable to audit the reliability of the achievements of the following indicators reported against the targets in the annual performance report:

Indicator description	Planned target	Reported achievement
Percentage of blocked sewer mainlines system opened/ repaired within 24hrs after being reported	95%	98%
Percentage of damaged/burst water pipes repaired within 24hrs after being reported	95%	99.9%

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

Indicator description	Reported achievement
Number of electricity meters installed by 30 June 2022	525
Number of storm water inlets maintained 30 June 2022	100
Number of jobs opportunities created through EPWP by 30 June 2022	331

## Other matters

31. I draw attention to the matters below.

### Achievement of planned targets

32. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and management's explanations provided for the under/over achievement of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 27 to 30 of this report.

### Adjustment of material misstatements

33. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 2: Basic services and infrastructure development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## Report on the audit of compliance with legislation

### Introduction and scope

34. 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.

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

### Annual financial statements

36. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, liabilities and 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.

### Consequence management

37. 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.
38. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### Expenditure management

39. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
40. An adequate management, accounting and information system was not in place which accounted for creditors as required by section 65(2)(b).
41. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R136,9 million, as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the budget.
42. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by the non-compliance with SCM regulations.

### Human resources management

43. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

### Procurement and contract management

44. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and 2017 Preferential Procurement Regulations 11.
45. Some of the contracts were awarded to bidders based on functionality criteria that differed from those stipulated in the original invitation for bidding, in contravention of 2017 Preferential Procurement Regulation 5(1) & 5(3).
46. Invitations 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 2017 Preferential Procurement Regulation 8(2). Similar non-compliance was also reported in the prior year.
47. 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.

48. 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.

### Strategic planning and performance management

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

### Other information

50. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
51. 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.
52. 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 areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
53. 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

54. 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, the findings on the annual performance report and the findings on compliance with legislation included in this report.
55. The accounting officer did not exercise effective oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

56. The municipality did not implement effective human resource management to ensure that adequate and sufficiently skilled resources were in place and that their performance was monitored.
57. Management did not implement adequate controls over daily and monthly processing and reconciling of transactions.
58. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
59. 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

10 December 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 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.