Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Dr Pixley Ka Isaka Seme Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Dr Pixley Ka Isaka Seme Local Municipality set out on pages … to …, 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 the 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 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 Dr Pixley Ka Isaka Seme 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 Standards of 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

Receivables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions, interest charged on trade and other receivables and debt impairment, due to the underlying supporting schedules not agreeing to the reported amounts in the current and previous year and lack of adequate supporting evidence in the current year. I was unable to confirm the balances by alternative means. The financial instruments disclosure in the financial statements also included these items.

4. In addition, the municipality did not recognise debt impairment in accordance with GRAP 104, *Financial instruments.* The debt impairment balance was not correctly computed. As a result, receivables from exchange transactions were overstated by R135 million (2020: R93,8 million) and debt impairment understated by R135 million (2020: R93,8 million). There was a resultant impact on the deficit for the year and on accumulated surplus.

5. Furthermore, the municipality did account for interest charged on trade and other receivables in accordance with GRAP 104, *Financial instruments,* in the prior year. The interest charged on trade and other receivables was computed using an incorrect rate. As a result, the corresponding figure for interest charged on trade and other receivables is understated by R5,9 million and the corresponding figure for receivables from exchange transactions is understated by the same amount. There was a resultant impact on the corresponding figure for the deficit for the year and on accumulated surplus. My opinion on the current year financial statements was modified

because of the effect of this matter on the comparability of the interest charged on trade and other receivables for the current period.

6. Consequently, I was unable to determine whether any adjustments were necessary to receivables from exchange transactions stated at R53,4 million (2019-20: R63,3 million) in notes 4 and 44; interest charged on trade and other receivables stated at R36,2 million (2019-20: R59,1 million) in note 23; and debt impairment stated at R108,6 million (2019-20: R146,2 million) in note 32 to the financial statements. Since the receivables from exchange transactions balance were included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether cash flows from operating activities were accurate and complete.

Receivables from non-exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions and property rates, due to the underlying supporting schedules not agreeing to the reported amounts in the current and previous year and lack of adequate supporting evidence in the current year. I was unable to confirm the balances by alternative means. The financial instruments disclosure in the financial statements also included receivables from non-exchange transactions.

8. In addition, the municipality did not recognise property rates in accordance with GRAP 23, *Revenue from non-exchange transactions.* Some property rates transactions were not recorded and, in some instances, property rates transactions were recorded at incorrect amounts. As a result, receivables from non-exchange transactions were overstated by R12,7 million (2020: understated by R78,4 million) and property rates overstated by R12,7 million (2020: understated by R78,4 million). There was a resultant impact on the deficit for the year and on accumulated surplus.

9. Consequently, I was unable to determine whether any adjustments were necessary to receivables from non-exchange transactions stated at R25 million (2019-20: R20,9 million) in notes 6 and 44, and property rates stated at R54 million (2019-20: R69,6 million) in note 24 to the financial statements. Since the receivables from non-exchange transactions balance were included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether cash flows from operating activities were accurate and complete.

Service charges

10. I was unable to obtain sufficient appropriate audit evidence for service charges, due to the underlying supporting schedules not agreeing to the reported amount. I was unable to confirm the balance by alternative means.

11. In addition, the municipality did not recognise service charges in accordance with GRAP 9, *Revenue from exchange transactions.* Some service charges transactions were not recorded and, in some instances, service charges transactions were recorded at incorrect amounts. As a result, the sale of electricity was overstated by R2,9 million (2020: understated by R13,2 million); the sale of water was understated by R4,7 million (2020: R1,9 million); the sewerage and sanitation charges were overstated by R496 256 (2020: understated by R18,9 million); and the solid waste figure for the corresponding year was understated by R599 430. There was a

resultant impact on receivables from exchange transactions, the deficit for the year and on the .accumulated surplus.

12. Consequently, I was unable to determine whether any adjustments were necessary to service charges stated at R120,5 million (2019-20: R128,5 million) in note 19 to the financial statements. Since the service charges balance was included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether cash flows from operating activities were accurate and complete.

Employee related costs

13. Employee-related costs were materially misstated by R4,4 million (2020: R5,1 million) due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

    - Overtime payments, stated at R6,7 million (2020: R5,8 million), was understated by R210 757 (2020: R168 525).
    - Basic for the comparative year, stated at R51 million, was overstated by R631 032.

14. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm employee-related costs due to the underlying supporting schedules not agreeing to the reported amount. I was unable to confirm the balances by alternative means.

    - Bonus of R106 229 (2020: R307 645), as included in the disclosed balance of R4,5 million (2020: R4,2 million)
    - Acting allowance of R389 463 for the current year, not disclosed in the financial statements
    - Medical aid of R943 397 (2020: R397 933), as included in the disclosed balance of R5 million (2020: R4,6 million)
    - Cellular and telephone allowances of R132 601 for the current year, as included in the disclosed balance of R0
    - Leave gratuity of R1,7 million for the current year, as included in the disclosed balance of R2,4 million
    - Overtime payments of R878 175 (2020: R877 759), as included in the disclosed balance of R6,7 million (2020: R5,8 million)
    - Basic of R2,7 million for the comparative year, as included in the balance of R51,6 million
    - Pension fund and group life of R339 820 for the comparative year, as included in the disclosed balance of R11,1 million.

15. Consequently, I was unable to determine whether any adjustment was necessary to employee-related costs.

Prior-year adjustments

16. I was unable to obtain sufficient appropriate audit evidence for the correction of errors relating to prior period error adjustments. As described in note 45 to the financial statements, the restatements were made to rectify prior year errors, but these could not be substantiated by supporting audit evidence. I was unable to confirm the corrections and restatements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the restated amounts for receivables from exchange transactions stated at R63,3 million; receivables from exchange transactions stated at R20,9 million; service charges stated

at R128,5 million; property rates stated at R69,6 million; and debt impairment stated at R146,2 million in note 45 to the financial statements.

Context for the opinion

17. 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.

18. 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.

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

Emphasis of matter

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

Irregular expenditure

21. As disclosed in note 40 to the financial statements, the municipality incurred irregular expenditure of R8,1 million, as it did not follow a proper tender process.

Impairment of non-current assets

22. As disclosed in the statement of financial performance, material losses of R15,3 million were incurred as a result of impairment of non-current assets.

Loss on disposal of assets and liabilities

23. As disclosed in the statement of financial performance, material losses of R23 million were incurred as a result of disposal of assets.

Material losses – water

24. As disclosed in note 33 to the financial statements, the municipality incurred material water losses of R14,1 million (2019-20: R8,5 million), which represent 60% (2019-20: 58%) of total water purified.

Other matter

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

Unaudited disclosure note

26. 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

27. 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.

28. 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

29. 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.

30. 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

31. 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.

32. 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.

33. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the municipality's annual performance report for the year ended 30 June 2021:

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

34. 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.

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

KPA 2 – Basic service delivery

Number of boreholes (hand pumps) in Daggakraal ward 10 (rural areas) drilled and equipped

36. The achievement of 10 drilling and equipping of boreholes (hand pumps) was reported against the target of 10 drilling and equipping of boreholes (hand pumps) in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement.

Other matters

37. I draw attention to the matters below.

Achievement of planned targets

38. Refer to the annual performance report on pages … to … for information on the achievement of planned targets for the year targets. This information should be considered in the context of the material finding on the reliability of the reported performance information in paragraph 32 of this report.

Adjustment of material misstatements

39. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic service delivery. As management subsequently corrected only some of the misstatements, I raised

material findings on the 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

40. 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.

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

Annual financial statements

42. 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 a disclosure item identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

43. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

44. 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.

Revenue management

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

Other information

46. 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 those selected key performance areas presented in the annual performance report that have been specifically reported in this auditor's report.

47. 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.

48. 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.

49. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

50. 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.

51. The leadership did not adequately monitor financial reporting, reporting on performance information and compliance with laws and regulations, resulting in material misstatements and non-compliance only identified during the audit process.

52. The internal audit unit was not adequately resourced and did not fully execute their internal audit plan. Consequently, the audit committee did not receive all internal audit reports as per the approved plan. This affected the ability of the committee to provide management with guidance on rectifying internal control deficiencies. Therefore, the internal audit unit and the audit committee were not fully effective during the year under review.

Other reports

53. I draw attention to the following engagements conducted by various parties which 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.

54. An independent consultant investigated allegations of possible corrupt practices at the municipality at the request of the member of the executive council for Cooperative Governance and Traditional Affairs in terms of section 106(1)(B) of the Municipal Systems Act 32 of 2000. The investigation was concluded and the report tabled in council on 6 October 2020.

Auditor-General

Mbombela

26 February 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 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 Dr Pixley Ka Isaka Seme 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 with them all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.