

# Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Govan Mbeki Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Govan Mbeki 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 the notes to 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 my report, the financial statements present fairly, in all material respects, the financial position of the Govan Mbeki 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

#### Service charge revenue

3. The municipality did not account for service charge revenue as required by GRAP 9, *Revenue from exchange transactions*. Differences were noted between rates per the statements and approved tariffs of service charge revenue. Consequently, water, electricity and refuse service charges were understated by R161,93 million and receivables from exchange transaction by the same amount.
4. Furthermore, I was unable to obtain sufficient appropriate audit evidence that service charge revenue for pre-paid electricity to the value of R99,04 million had been properly accounted for. I could not obtain the required evidence by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the figure of the electricity service charges, stated at R476,37 million in note 25 to the financial statements. This also had an impact on the surplus for the period and on the accumulated surplus.
5. During 2020, I was unable to obtain sufficient appropriate audit evidence that service charge revenue had been properly accounted for. I could not obtain the required evidence by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the corresponding figure of the service charges, stated at R1,26 billion in note 25 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 for the current period.

### Consumer debtors

6. The municipality did not account for consumer debtors as required by GRAP 104, *Financial instruments*, as differences were identified between the closing balances and the debtor statements for these consumer debtors. Consequently, consumer debtors were understated by R237,82 million and service charges by the same amount. This also had an impact on the impairment allowances. I was unable to determine the full extent of this as it was impracticable to do so.
7. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as consumer debtors, as the municipality did not implement sufficient controls to ensure supporting records were available. I could not confirm consumer debtors by alternative means. I was unable to determine whether any further adjustments were required to the consumer debtors, stated at R197,85 million (2019-20: R178,43 million) in note 15 to the financial statements.

### Property rates

8. The municipality did not recognise property rates as required by GRAP 23, *Revenue from non-exchange transactions*. The properties market value as per the valuation roll did not agree to the statements and the approved rates. I was unable to determine the full extent of the understatement of property rates stated at R354,09 million in note 31 to the financial statements and the related receivables from non-exchange transactions stated at R53,93 million in note 13 to the financial statements, as it was impracticable to do so. There was a resultant impact on the surplus for the period and on the accumulated surplus.

### Receivables from non-exchange transactions

9. During 2020, I was unable to obtain sufficient appropriate audit evidence that receivables from non-exchange transactions, as disclosed in note 13 to the financial statements, had been properly accounted for. I could not obtain the required evidence by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the corresponding figure of receivables from non-exchange transactions, stated at R53,93 million in note 13 to the financial statements.

### Other receivables

10. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as other receivables as the municipality did not implement sufficient controls to ensure supporting records were available. I could not confirm other receivables by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to other receivables, stated at R42,19 million in note 11, as well as the other receivables included in risk management in note 50 to the financial statements stated at the same amount.

### Trade payables

11. During 2020, the municipality did not recognise all payables from exchange transactions in accordance with GRAP 104, *Financial instruments*. Consequently, trade payables were

overstated by R175,74 million. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as trade payables. I could not confirm trade payables by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade payables, stated at R2,43 billion in note 22 to the financial statements.

### **Current liabilities**

12. During 2020, I was unable to obtain sufficient appropriate audit evidence regarding the payables from exchange transactions and consumer deposits, which had a cumulative effect on total payables from exchange transactions and consumer deposits:
  - Consumer deposits of R26,66 million, as included in the disclosed balance of the same amount
  - Retentions of R4,20 million, as included in the disclosed balance of R21,04 million
13. I was unable to confirm payables from exchange transactions and consumer deposits by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the corresponding figure of consumer deposits stated at R26,66 million in note 24 and retentions stated at R21,04 million in note 22 to the financial statements.

### **Non-current and current assets**

14. During 2020, I was unable to obtain sufficient appropriate audit evidence regarding the long-term receivables and other receivables, which had a cumulative effect on total long-terms and other receivables:
  - Long-term receivables of R12,88 million as included in the disclosed balance of the same amount
  - Other receivables of R25,75 million as included in the disclosed balance of the same amount
15. I was unable to confirm long-term receivables and other receivables by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the corresponding figures of long-term receivables stated at R12,88 million in note 10 and other receivables stated at R25,89 million in note 11 to the financial statements.

### **Electricity bulk purchases**

16. I was unable to obtain sufficient appropriate audit evidence for the electricity bulk purchases, as the municipality did not have adequate systems to record these purchases. I was unable to confirm these electricity bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to electricity bulk purchases stated at R713,04 million as disclosed in note 40 to the financial statements.

### **Distribution losses**

17. I was unable to obtain sufficient appropriate audit evidence for the electricity distribution losses. Supporting documents for inputs into the electricity losses calculation were not provided. I was unable to confirm these electricity distribution losses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to

distribution losses in the current and prior year as disclosed in note 40 to the financial statements.

### **Irregular expenditure**

18. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of irregular expenditure in the prior year. This was due to the municipality not conducting an investigation to determine the full extent of the irregular expenditure incurred in the previous year. Consequently, I was unable to determine whether any adjustment was necessary to the corresponding figure of irregular expenditure disclosed at R79,61 million (2019-20: R880,05 million) in note 54 to the financial statements.

### **Context for the opinion**

19. 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.
20. 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.
21. 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**

22. I draw attention to the following matter. My opinion is not modified in respect of this matter.
23. As disclosed in note 51, the financial statements indicate that the municipality incurred a net loss of R608,88 million during the year ended 30 June 2021 and, as of that date, the municipality's total liabilities exceeded its total assets by R195,13 million. As stated in note 51, these events or conditions, along with other matters set forth in note 51, 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**

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

### **Material losses water**

25. As disclosed in note 40 to the financial statements, material water losses of 11 108 036 kilolitres (2019-20: 10 333 627 kilolitres) were incurred, which represented 33% (2019-20: 28%) of the total water purchased. Technical losses were 3 350 675 kilolitres (2019-20: 4 117 018 kilolitres) and were due to communal water points in informal settlements and water supplied to farms. Non-technical losses were 7 751 961 kilolitres (2019-20: 6 216 609 kilolitres) and were due to wastage as a result of deteriorating water infrastructure.

## **Other matter**

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

## **Unaudited disclosure notes**

27. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with this legislation. 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**

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

29. 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**

30. 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.

31. 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**

32. 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 material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

33. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. 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.

34. 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 priority presented in the annual performance report of the municipality for the year ended 30 June 2021:

Priority	Pages in the annual performance report
KPA 2 – sustainable physical infrastructure and improve customer care services	x – x

35. 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.

36. The material findings in respect of the usefulness and reliability of the selected priority are as follows:

### Key performance area 2 – sustainable physical infrastructure and improve customer care services

#### *Various indicators*

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

No.	Indicator description	Audited values	Reported achievement
1	Number of boreholes installed in GMM farm areas by 30 September 2020	15	31
2	Percentage completion of refurbishment and upgrading of Emzimoni WWTW and sewer pump stations by 30 June 2021	0%	10%
3	Percentage completion of construction of WWTW in Charl Cilliers by 31 March 2021	62%	80%
4	Percentage % completion of upgrading of Embalenhle sewer pump stations and bulk sewer lines by 30 June 2021	8%	33%

*Number of indigent households provided with access to basic services 30 June 2021*

38. The achievement of 11 547 indigent households provided with access to basic services was reported against the target of 15 000 in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement.

*Percentage of proclaimed erven receiving a weekly refuse removal services quarterly by 30 June 2021*

39. I was unable to obtain sufficient appropriate audit evidence for the achievement of 100% collection of refuse from proclaimed erven, reported against target of 100% collection of refuse from proclaimed erven in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

### **Other matter**

40. I draw attention to the matter below.

### **Achievement of planned targets**

41. Refer to the annual performance report on pages ... to ... 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 paragraphs 37 to 39 of this report.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

42. 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.

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

### **Annual financial statements**

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

### **Procurement and contract management**

45. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were



approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

46. The performance of the contractors or providers was not monitored on a monthly basis as required by section 116(2) of the MFMA.
47. 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 findings were reported in the prior year.

### **Expenditure management**

48. Reasonable steps were not taken to prevent irregular expenditure amounting to R79,61 million disclosed in note 54 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with contract management processes.
49. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R815,59 million as disclosed in note 52 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 approved budget.

### **Revenue management**

50. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA.
51. I was unable to obtain sufficient appropriate audit evidence that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.
52. An effective system of internal control for revenue and debtors was not in place, as required by section 64(2)(f) of the MFMA.

### **Strategic planning and performance management**

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

<b>Other information</b>
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54. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the executive mayor's report, the audit committee's report and the accounting officer's report. The other information does not include the financial statements, the auditor's report and the selected priority presented in the annual performance report that has been specifically reported in the auditor's report.



55. 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.
56. 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 priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
57. 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.
58. When I do receive and read the other 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**

59. 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.
60. Management did not implement adequate record keeping controls to ensure there are no significant delays in providing the required information and to ensure that all expected information is available.
61. The controls over the daily, weekly and monthly processing and reconciling activities were not adequately monitored. As a result, misstatements in the financial statements and annual performance report, and non-compliance with laws and regulations were detected.
62. Management did not implement adequate controls to ensure that the annual financial statements and annual performance report submitted for auditing are free of material misstatements.
63. Management did not implement adequate monitoring controls to ensure that compliance with applicable laws and regulations is monitored, the non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

### **Material irregularities**

64. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

## Material irregularities in progress

65. I identified material irregularities during the audit and notified the accounting officer of these, as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the responses from the accounting officer. These material irregularities will be included in the next year's auditor's report.

*Auditor - General*

Mbombela

23 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 development priority 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 Govan Mbeki 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 the 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.