

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 XX to XX, which comprise the statement of financial position as at 30 June 2022, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and 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 Govan Mbeki Local Municipality as at 30 June 2022, and its 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 in accordance with the Standards of Generally Recognised Accounting Practice (Standards of 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

Other receivables

3. I was unable to obtain sufficient, appropriate audit evidence for other receivables - prepaid. The municipality did not have adequate systems in place to maintain records of its other receivables - prepaid as supporting documents could not be provided. I was unable to confirm the other receivables by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to other receivables stated at R48,75 million (2020-21: R42,19 million) in note 10 to the financial statements.

Receivable from exchange transactions

4. The municipality did not account for consumer debtors as required by GRAP 104, *Financial Instruments*, as differences were identified in the prior year between the closing balances and the debtor statements for these consumer debtors. Consequently, consumer debtors were understated in the current and prior year 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.
5. Furthermore, 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 R272,85 96 million (2020-21:R197,85 million) in note 12 to the financial statements.

Service charges

6. I was unable to obtain sufficient, appropriate audit evidence for the sale of electricity. The municipality did not have adequate systems in place to maintain records of its prepaid electricity sales, as supporting documents could not be provided. I was unable to confirm the sale of electricity by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the revenue from the sale of electricity stated at R532,38 million (2020-21: R476,38 million) in note 25 to the financial statements. Additionally, there was a consequential impact on the surplus for the period and on the accumulated surplus.
7. During 2021, the municipality did not account for the service charge revenue as required by GRAP 9, *Revenue from exchange transactions*. Differences were noted between rates per the statements and approved tariffs of the 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. My audit opinion on the financial statements for the period ended 2021 was modified accordingly. My opinion on the current year financial statement was also modified because of the possible effect of this matter on the comparability of the service charge revenue for the current period.

Property rates

8. During 2021, 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 R351,69 million in note 31 to the financial statements and the related receivables from non-exchange transactions stated at R63,43 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. My audit opinion on the financial statements for the period ended 2021 was modified accordingly. My opinion on the current year financial statement was also modified because of the possible effect of this matter on the comparability of the property rates revenue for the current period.

Debt impairment

9. The municipality did not account for debt impairment in accordance with the requirements of GRAP 104, *Financial Instruments*. Debt impairment was not always recorded at the correct amounts and allocated appropriately. This resulted in an overstatement of R37,85 million to debt impairment, and allowance for impairment in receivable from exchange transactions in note 15 to the financial statements were also overstated by the same amount. This also had an impact on the surplus for the period, the accumulated surplus, cash generated from operations reported in the statement of cash flows, as well as risk management as disclosed in note 51 to the financial statements.

Furthermore, the municipality did not present bad debts written off on the face of the statement of financial performance in accordance with the requirements of GRAP 1, *Presentation of*

financial statements. Bad debts written off have been included under debt impairment instead of being shown separately, as it is relevant to the understanding of the municipality's financial performance. This resulted in an overstatement of debt impairment by R173,88 million and understatement bad debts written off by the same amount.

Bulk purchases

10. During 2021, 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 the electricity bulk purchases stated at R713,04 million as disclosed in note 40 to the financial statements. My audit opinion on the financial statements for the period ended 2021 was modified accordingly. My opinion on the current year financial statement was also modified because of the possible effect of this matter on the comparability of the electricity bulk purchases for the current period.

Irregular expenditure

11. 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. I was unable to confirm irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the irregular expenditure amount disclosed at R180,73 million (2020-21: R79,61 million) in note 55 to the financial statements.

Distribution losses

12. During 2021, 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. My audit opinion on the financial statements for the period ended 2021 was modified accordingly. My opinion on the current year financial statement was also modified because of the possible effect of this matter on the comparability of the distribution losses for the current period.

Related parties

13. The municipality did not disclose related parties in accordance with the requirements of GRAP 20, *Related Party Disclosures*. Suppliers that do not meet the related parties definition were recognised in note 49 to the financial statements for both prior and current year. Consequently related parties disclosure note was misstated by R8,7million (2020-21: R18,43 million).

Context for the opinion

14. 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.
15. 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.
16. 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

17. I draw attention to the matter below. My opinion is not modified in respect of this matter.
18. As disclosed in note 52, the financial statements indicate that the municipality incurred a net loss of R697,35 million during the year ended 30 June 2022 and, as of that date, the municipality's total liabilities exceeded its total assets by R758,18 million. These events or conditions, along with other matters set forth in note 52, 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

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

Material losses - Electricity

20. As disclosed in note 40 to the financial statements, material electricity losses of 358 311 683 units (2020-21: 350 072 518 units) were incurred, which represented 63% (2020-21: 61%) of the total electricity purchased. Technical losses were estimated at 57 236 039 units (2020-21: 57 083 425 units). Non-technical losses were 301 075 644 units (2020-21: 292 989 093 units) and were mainly due to illegal connections.

Other matter

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

Unaudited disclosure notes

22. 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

23. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act (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.
24. 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

25. 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.
26. 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

27. 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.

28. 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.
29. 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 2022:

Key performance area	Pages in the annual performance report
Key performance area 2 – Sustainable physical infrastructure and improve customer care services	x – x

30. 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.
31. The material findings on the usefulness and reliability of the performance information of the selected key performance area are as follows:

KPA 2 – Sustainable physical infrastructure and improve customer care services

Various indicators

32. The achievements below were reported in the annual performance report for the listed indicators. However, some supporting evidence provided materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements.

No	Indicator description	Reported achievement
1	Percentage (%) of land development applications (land use management and spatial planning) finalised within 3 month by 30 June 2022	70.50%
2	Percentage (%) of building plans finalised within 30 days for residential submissions and 60 days for business submissions by 30 June 2022	61%

Number of indigent households provided with access to basic services 30 June 2022

33. The achievement of 15 515 indigent households provided with access to basic services was reported against target 15 000 indigent households in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement.

Percentage of proclaimed erven/stands receiving weekly refuse removal services, quarterly by 30 June 2022

34. I was unable to obtain sufficient appropriate audit evidence for the achievement of 100% of proclaimed erven stands receiving weekly refuse removal services reported against target 100% of proclaimed erven stands 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

35. I draw attention to the matter below.

Achievement of planned targets

36. 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 reliability of the reported performance information in paragraphs 33 to 35 of this report.

Report on the audit of compliance with legislation

Introduction and scope

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

Annual financial statements

39. 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 current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material

misstatements and or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

40. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management (SCM) Regulation 17(1)(a) and (c).
41. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2).
42. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.

Expenditure Management

43. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
44. Steps were not taken to prevent irregular expenditure amounting to R 60 283 109 as disclosed in note 5 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 the procurement processes.
45. Steps were not taken to prevent fruitless and wasteful expenditure amounting to R 157 005 779, as disclosed in note 54 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest that has been charged to the long outstanding creditors.
46. Steps were not taken to prevent unauthorised expenditure amounting to R786 277 355, as disclosed in note 53 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

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

Asset Management

48. Investments were made that were affected by fluctuations in the value of the Rand against any foreign currency, in contravention of municipal investment regulation 7.

Consequence Management

49. 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.
50. 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.
51. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Conditional grants

52. Performance in respect of programmes funded by the regional bulk infrastructure grant (RBIG) was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 9 of 2021).
53. Performance in respect of programmes funded by the water services infrastructure grant (WSIG) was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 9 of 2021).
54. Performance in respect of programmes funded by the Local Government Financial Management Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 9 of 2021).
55. Performance in respect of programmes funded by the expanded public works programme (EPWP) integrated grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 9 of 2021).
56. Performance in respect of programmes funded by the integrated national electrification programme (INEP) grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 9 of 2021).

<h2>Other information</h2>

57. 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 development priorities presented in the annual performance report that have been specifically reported in the auditor's report.
58. 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 thereon.

59. 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.
60. 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.
61. I have nothing to report in this regard.

Internal control deficiencies

62. 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.
63. Management did not implement adequate recordkeeping controls to ensure there are no significant delays in providing the required information and to ensure that all expected information is available.
64. 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
65. Management did not implement adequate controls to ensure that the annual financial statements and annual performance report submitted for audit are free of material misstatements.
66. 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 (MIs)

67. 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 identified during the audit
68. The material irregularities identified are as follows:

Full and proper records not kept

69. Reasonable steps were not taken in the 2019-20 financial year to ensure that full and proper records were kept of service charges, receivables from exchange and non-exchange transactions, electricity distribution losses and trade payables, as required by section 62(1)(b) of the MFMA. The non-compliance contributed to a disclaimed audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosures in the financial statements. The lack of full and proper records is likely to result in substantial harm to the municipality as it contributed to the material uncertainty regarding its ability to continue operations. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery mandate.
70. I notified the accounting officer (AO) of the material irregularity on 13 July 2021 and invited the AO to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer responded on 10 August 2021 with the actions taken to resolve the material irregularity. My assessment is that the actions taken are not appropriate to resolve the material irregularity. I notified the AO of the following recommendations, which should be implemented by 15 December 2022:
- The non-compliance with section 62(1)(b) of the MFMA should be investigated to determine the reasons and circumstances that led to the non-compliance for the purpose of taking appropriate corrective actions and to address control weaknesses.
 - Based on the reasons and circumstance, appropriate action should be taken to develop and commence with the implementation of the action plan to address poor record keeping so that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards, as required by 62(1)(b) of the MFMA. The plan should include anticipated timeframes and address the following key area as a minimum:
 1. Payment vouchers, creditor statements and creditor reconciliations for purchases. The expenditure incurred should be supported by sufficient evidence that goods and services paid for were received.
 2. I further recommend that the AO should take appropriate action to commence with the implementation of the action plan of the strategies below, to address the financial problems of the municipality, as required by section 135(1) and 135(3)(a) of the MFMA, by 30 November 2022:
 - a) Increase the collection of revenue;
 - b) Efficiently manage the available resources of the municipality;
 - c) Repair and maintain infrastructure assets; and
 - d) Negotiate reasonable payment arrangements with suppliers.
71. The above timeframes for the implementation of the recommendations will run concurrently.

Eskom not paid within 30 days of receiving the invoice or relevant statement

72. The municipality failed to ensure that the payments due to Eskom was made within 30 days of receiving the relevant invoice or statement, in contravention of section 65(2)(e) of the MFMA. The municipality incurred interest as a result of the late payments of R160,55 million in the 2019-20 financial year, which was disclosed as fruitless and wasteful expenditure in note 45 of

the 2019-20 annual financial statements. The non-compliance was likely to result in a material financial loss when the interest expense is paid.

73. The accounting officer was notified of this material irregularity on 8 April 2021 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer responded on 5 May 2021 with the actions taken to resolve the material irregularity. My assessment is that the actions taken are appropriate to resolve the material irregularity.

74. I will follow up on the implementation of actions during my next audit.

Rand Water not paid within 30 days of receiving the invoice or relevant statement

75. The municipality failed to ensure that the payments due to the Rand Water were made within 30 days of receiving the relevant invoice or statement, in contravention of section 65(2)(e) of the MFMA. The municipality incurred interest as a result of the late payments of R12,78 million in the 2019-20 financial year, which was disclosed as fruitless and wasteful expenditure in note 45 of the 2019-20 annual financial statements. The non-compliance was likely to result in a material financial loss when the interest expense is paid.

76. The accounting officer was notified of this material irregularity on 8 April 2021 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer responded on 5 May 2021 with the actions taken to resolve the material irregularity. My assessment is that the actions taken are appropriate to resolve the material irregularity.

77. I will follow up on the implementation of actions during my next audit.

Auditor-General

Mbombela

20 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 key performance areas and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

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 controls 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 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

I communicated 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 identified during my audit.

I also provided the accounting officer with a statement that I have complied with all relevant ethical requirements regarding independence, and communicated 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.