Report of the Auditor-General to the Mpumalanga Provincial Legislature and the Council on the Victor Khanye Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Victor Khanye Local Municipality set out on pages … to …, which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget to 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 Victor Khanye 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 standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property plant and equipment*. Land belonging to the municipality was not accounted for in the statement of financial position, while land that was disposed of was still accounted for in the statement of financial position. Furthermore, some movable assets were recorded in the statement of financial position; however, these assets could not be physically verified. Consequently, property plant and equipment was understated by R10,9 million. This also had an impact on the deficit and on the accumulated surplus for the period.

4. The municipality did not adequately assess at the reporting date, whether there was an indication that work in progress for the water infrastructure may be impaired. Additionally, impairment on completed property, plant and equipment was not determined by calculating the recoverable service amount in accordance with GRAP 21, *Impairment of non-cash generating assets.* As a result, accumulated depreciation and impairment was understated and the carrying value of the property, plant and equipment was overstated. This also resulted in an understatement of the impairment loss on property, plant and equipment and depreciation and amortisation as stated in the statement of financial performance. I was unable to quantify the full extent of the overstatement of property, plant and equipment stated at R904,6 million (2020-21: R 924,2million) in note 4 of the financial statements, and the understatement of impairment loss on property, plant and equipment stated at R7,8 million

(2020-21: R2,2million) in note 26.1 of the financial statements. This also had an impact on the deficit and on the accumulated surplus for the period.

5. The municipality did not adequately review useful lives of property, plant and equipment at each reporting date in accordance with GRAP 17, *Property, plant and equipment.* Assets with zero useful life were in use and assessed as in good condition as at the reporting date. Additionally, assets were depreciated that were not in line with the assets management accounting policy of the municipality. Consequently, I was unable to determine the full extent of the misstatement of property, plant and equipment, stated at R904,6 million in note 4 to the financial statements, and the depreciation of property, plant and equipment expense stated at R36,4 million in note 27 to the financial statements as it was impracticable to do so. This also had an impact on the deficit and on the accumulated surplus for the period.

Trade and other receivables from exchange transactions

6. The municipality did not calculate the provision for customer service debtors and the provision for other receivables in accordance with GRAP 104, *Financial Instruments*. The municipality applied a general rate for all trade and other receivables from exchange transactions in calculating the impairment provision and did not assess the credit risk for a group or subgroup of trade and other receivables from exchange transactions. Consequently, I was unable to determine the extent of the misstatement of provision for the impairment included in trade and other receivables from exchange transactions, stated at R596,5 million and debt impairment, stated at R 112,6 million in note 8 and note 26.2 of the financial statements, respectively, as it was impracticable to do so. In addition, I was unable to determine the extent of the misstatement financial instruments disclosure and risk management disclosures in note 42 and 43, respectively, as it was impracticable to do so. This also had an impact on the deficit and on the accumulated surplus for the period.

Statutory receivables

7. The municipality did not calculate the provision for statutory receivables in accordance with GRAP 108, *Statutory Receivables*. The municipality applied a general rate for property rates in calculating the impairment provision and did not assess the credit risk for a group or subgroup of statutory receivables. Consequently, I was unable to determine the extent of the misstatement of provision for the impairment included of statutory receivables, stated at R147,4 million and debt impairment, stated at R 112,6 million in note 9 and note 26.2, respectively, as it was impracticable to do so. In addition, I was unable to determine the extent of the misstatement financial instruments disclosure and risk management disclosures in note 42 and 43, respectively, as it was impracticable to do so. This also had an impact on the deficit and on the accumulated surplus for the period.

Bulk purchases

8. I was unable to obtain sufficient appropriate audit evidence for bulk purchase as the municipality did not maintain proper accounting records. I could not confirm the bulk purchase expenses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to bulk purchases stated at R171,1 million in note 29 of the financial statements, trade payables stated at R851,4 million in note 15 to the financial statements, material losses through the distribution of electricity, stated at R53,5 million in note 39.1 to the financial statements as well as financial instruments and risk management in notes 42 and 43 to the financial statements, respectively. This also had an impact on the deficit and on the accumulated surplus for the period.

Irregular expenditure

9. The municipality did not have adequate controls to identify and disclose all irregular expenditure incurred during the year, as required by section 125(2)(d) of the MFMA. This resulted in the understatement of irregular expenditure. I was unable to quantify the full extent of the understatement to irregular expenditure of R357,5 million (2020-21: R261,8 million) as disclosed in note 37.1 to the financial statements as it was impracticable to do so.

Commitments

10. The municipality did not disclose all commitments on active contracts as commitments of the municipality, in accordance with GRAP 17, *Property plant and equipment*. Commitments arising from some of the ongoing contracts of the municipality were not included in the commitments register. Additionally, the commitments register included cancelled contracts and payments made on confirmed orders. As a result, commitments disclosed in note 35 to the financial statements were understated by R26,6 million.

Prior period errors and reclassifications

11. The municipality did not correctly make adjustments for prior period errors relating to irregular expenditure, accumulated surplus and debt write off in accordance with GRAP 3, *Accounting policies, estimates and errors*. I was unable to quantify the full extent of the following misstatements as it was impracticable to do so:

    - Understatement of total restatements to irregular expenditure, stated at R73,5 million in note 38.4 to the financial statements.
    - Overstatement of restatements to debt write off, stated at R113,4 million in note 38.3 to the financial statements resulting in understatement of gross customer service debtors and misstatement of provision for customer service debtors, as stated in note 8 to the financial statements; as well as the understatement of gross property rates debtors and misstatement of provision for impairment property rates debtors, as stated in note 9 to the financial statements.
    - Misstatement of total restatement to accumulated surplus, stated at R113,4 million in notes 38.3 to the financial statements.

Context for the opinion

12. 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.

13. 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.

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

Emphasis of matters

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

Material losses – Water

16. As disclosed in note 30 to the financial statements, material water losses of R 51,1 million (2020-21: R 38,8 million) was incurred, which represents 69% (2020-21: 59%) of the total water purchased for the year.

Other matter

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

Unaudited disclosure note

18. 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

19. The accounting officer (AO) 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.

20. 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

21. 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.

22. 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

23. 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.

24. 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.

25. 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
KPA 1 – Basic service delivery and infrastructure development	x – x

26. 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.

27. The material findings on the usefulness and reliability of the performance information of the selected KPA 1 – Basic service delivery and infrastructure development are as follows:

KPA 1 Basic service delivery and infrastructure development

Various Indicators

28. 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:

Performance indicator description	Planned Indicator	Reported achievement
Number of formal businesses with access to waste collection utilising mass containers as per the approved schedule per week	16	20
Number of formal streets with street cleaning services per week as per schedule	22	19,25
Number of formal household areas with refuse collection services per week as per approved schedule (including repeated areas) (GKPI)	25	25
Number of spots cleared of illegal dumping per quarter as per schedule (including repeated areas)	30	36,5

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. 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 paragraph 28 of this report.

Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA1- Basic service delivery 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

32. 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.

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

Annual financial statements

34. 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, expenditure 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.

Procurement and contract management

35. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by supply chain management (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). Similar non-compliance was also reported in the prior year.

36. Some of the contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).

37. 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.

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

39. Some of the invitations to tender for the procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 Preferential Procurement Policy Framework Act (PPPFA) Regulation 8(2). Similar non-compliance was also reported in the prior year.

40. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with Construction Industry Development Board (CIDB) Regulations 17 and 25(7A).

Expenditure management

41. 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.

42. Steps were not taken to prevent unauthorised expenditure amounting to R51,9 million as disclosed in note 37.2 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

43. Steps were not taken to prevent fruitless and wasteful expenditure amounting to R43 million, as disclosed in note 36 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 charged due to over accounts.

44. Steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval and authorisation of funds, as required by section 65(2)(a) of the MFMA.

Revenue management

45. An effective system of internal control for debtors was in place, as required by section 64(2)(f) of the MFMA.

Consequence Management

46. Irregular 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) and (b) of the MFMA.

Assets Management

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

48. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2) (a) of the MFMA.

49. Capital assets were sold that were needed to provide the minimum level of basic municipal service, in contravention of section 14(1) of the MFMA.

50. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services and considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2)(a) and 14(2)(b) of the MFMA.

Strategic planning and performance management

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

Human Resource Management

52. 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.

Other information

53. 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.

54. My opinion on the financial statements and material 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.

55. 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.

56. 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

57. 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 annual performance report and the findings on compliance with legislation included in this report.

58. Leadership did not adequately develop and monitor the implementation of action plans to address internal control deficiencies, identified and communicated in the prior year. This is evident by repeat findings identified in the current year.

59. Controls over compliance with laws and regulations, daily and monthly processing and reconciling of transactions were not adequately monitored by the accounting officer. This resulted in material misstatement in the financial statements and annual performance report submitted for audit as well as instances of material non-compliance

60. The municipality did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Material irregularities (MIs)

61. 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

62. I identified a material irregularity during the audit and notified the accounting officer, 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. This material irregularity will be included in the next year's auditor's report.

Auditor - General

Mbombela

21 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 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 municipal manager, which constitutes 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 Victor Khanye 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 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.

4. I also provided the accounting officer with a statement that I have complied with 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.