

Report of the auditor-general to Mpumalanga Provincial Legislature and the council of eMalahleni Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the eMalahleni 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 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 eMalahleni Local Municipality as at 30 June 2021, and 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

Consumer debtors

3. The municipality did not properly account for consumer debtors in terms of GRAP 104, *Financial instruments*. The method of grouping consumer debtors in calculating the impairment provision was contrary to the standard. I was unable to quantify the full extent of the misstatements to the allowance for impairment stated at R3,14 billion (2019-20: R2,90 billion) and consumer debtors stated at R2,63 billion (2019-20: R2,18 billion) in note 13 to the financial statements as it was impracticable to do so. Furthermore, I was unable to determine the impact on the debt impairment expenditure stated at R678,23 million (2019-20: R406,32 million) in the statement of financial performance as well as in note 40 to the financial statements as it was impracticable to do so.

Service charges

4. Included in service charges revenue, is revenue related to the sale of water as well as sewerage and sanitation charges disclosed in note 22 to the financial statements. The municipality did not account for these service charges in accordance with the requirements of GRAP 9, *Revenue from exchange transactions*. Service charges were not always recorded at the correct amounts. This resulted in revenue from the sale of water being understated by R1,10 billion and sewerage and sanitation charges being understated by R62,94 million. The related consumer debtors in note 13 to the financial statements were understated by the same amounts. This also had an impact on the surplus for the period and on the accumulated surplus.
5. I was also unable to obtain sufficient appropriate audit evidence for service charges due to the status of accounting records. I was unable to confirm these service charges by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to revenue from the sale of water stated at R430,11 million, sewerage and sanitation charges stated at R139,23 million, and revenue from the sale of electricity for the prior year stated at R825,70 million in note 22 to the financial statements.

Revenue from exchange transactions

6. The municipality did not account for revenue from exchange transactions in accordance with the requirements of GRAP 9, *Revenue from exchange transactions*. Sundry income was recorded in the incorrect period, which resulted in an understatement of R14,21 million on revenue from exchange transactions in the statement of financial performance. This also had an impact on the surplus for the period and on the accumulated surplus.
7. I was also unable to obtain sufficient appropriate audit evidence for revenue from exchange transactions due to the status of accounting records related to sundry income. I was unable to confirm this income by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to revenue from exchange transactions stated at R2,09 billion in the statement of financial performance.
8. In addition to the individually material uncorrected misstatements, revenue from exchange transactions was understated by R66,88 million due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:
 - Sale of electricity stated at R931,55 million in note 22 to the financial statements was understated by R27,40 million and the related consumer debtors in note 13 to the financial statements were understated by the same amount.
 - Refuse removal stated at R122,43 million in note 22 to the financial statements was understated by R11,28 million and the related consumer debtors in note 13 to the financial statements were understated by the same amount.
 - Interest revenue stated at R364,51 million in note 30 to the financial statement was understated by R28,20 million and the related consumer debtors in note 13 to the financial statements were understated by the same amount.

Net cash flows from operating activities

9. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities. I was unable to determine the full extent of the errors in the net cash flows from operating activities stated at R348,09 million (2019-20: R210,75 million) in the cash flow statement, as it was impracticable to do so.

Net cash flows from investing activities

10. During 2020, the municipality did not correctly prepare and disclose the net cash flows from investing activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from investing activities. I was unable to determine the full extent of the errors in the net cash flows from investing activities stated at negative R154,86 million in the cash flow statement for the prior year as it was impracticable to do so. My audit opinion on the financial statements for the period ended 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 net cash flows from investing activities for the current period.

Irregular expenditure

11. The municipality did not have adequate systems to identify and disclose all irregular expenditure incurred during the year, as required by section 125(2)(d) of the MFMA. I was unable to quantify the understatement as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure stated at R618,42 million (2019-20: R454,85 million), disclosed in note 60 to the financial statements as well as the adjustments made to irregular expenditure in the prior period errors disclosure in note 54 to the financial statements.

Prior year adjustments

12. I was unable to obtain sufficient appropriate audit evidence for the correction of prior period errors relating to consumer debtors disclosed in note 55 to the financial statements. Restatements were made to rectify prior year errors of consumer debtors, 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 corrections of consumer debtors stated at R1,14 billion in note 55 to the financial statements.

Context for the opinion

13. 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.

14. 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.
15. 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

16. I draw attention to the matter below. My opinion is not modified in respect of this matter.
17. Note 57 to the financial statements indicates that the municipality incurred a deficit of R671,04 million during the year ended 30 June 2021 and that, as of that date, the municipality's current liabilities exceeded its current assets by R3,03 billion (2019-20: 2,45 billion). As stated in note 57, these events or conditions, along with other matters as set forth in note 57, 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

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

Material losses – electricity

19. As disclosed in note 41 to the financial statements, material electricity losses of R390,21 million (2019-20: R 287,22 million) were incurred, which represents 29% (2019-20: 27%) of total electricity units purchased. These losses arose from ageing and deteriorating infrastructure as well as illegal connections.

Fruitless and wasteful expenditure

20. As disclosed in note 59 to the financial statements, fruitless and wasteful expenditure incurred in prior years amounting to R323,92 million was approved for write-off by council.

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 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.
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 2021:

Key performance area	Pages in the annual performance report
Key performance area 1 – Infrastructure and basic service delivery	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. I did not raise material findings on the usefulness and reliability of the reported performance information for the selected key performance area.

Other matter

32. I draw attention to the matter below.

Achievement of planned targets

33. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year.

Report on the audit of compliance with legislation

Introduction and scope

34. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

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

Annual financial statements

36. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

37. The annual financial statements were not submitted to the auditor-general for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

Expenditure management

38. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R444,73 million, as disclosed in note 58 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The unauthorised expenditure was caused by overspending in relation to the approved budget.

39. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The disclosed irregular expenditure was caused by non-compliance with supply chain management (SCM) regulations.

Procurement and contract management

40. 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). Similar non-compliance was also reported in the prior year.

41. The invitation to tender for 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 regulation 8(2). Similar non-compliance was also reported in the prior year.

Revenue management

42. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.

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

Other information

44. 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.

45. 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.

46. 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.
47. 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

48. 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.
49. Leadership did not exercise adequate oversight of operations by taking appropriate action to ensure that internal control deficiencies were addressed on a timely basis.
50. Senior management did not implement adequate recording, reviewing and reporting processes and controls to ensure credible, complete and accurate financial reporting.
51. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored by senior management. This resulted in the compliance matters reported above as well as unauthorised and irregular expenditure.

Material irregularities

52. 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

Anglo Operations PLC not paid within 30 days or agreed timeframe

53. The municipality failed to ensure that the payments due to Anglo Operations PLC and its subsidiaries 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 R8,59 million in the 2019-20 financial year, which was disclosed as fruitless and wasteful expenditure in note 59 to the annual financial statements. The non-compliance was likely to result in a material financial loss had the interest expense been paid.

54. The accounting officer was notified of this material irregularity on 21 July 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 engaged with the supplier who waived the interest charged on outstanding debt, thus preventing the financial loss from materialising. An investigation into the matter found no official liable.
55. The material irregularity is resolved.

Material irregularities in progress

56. 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.

Other reports

57. 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.
58. Two investigations by the Directorate for Priority Crime Investigation were ongoing at the time of the audit. These investigations relate to the possible misappropriation of the municipality's assets and had not been concluded at the date of this auditor's report.

Auditor - General

Mbombela

7 February 2022



A U D I T O R - G E N E R A L
S O U T H A F R I C A

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 eMalahleni 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.