Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Dr JS Moroka Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Dr JS Moroka 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 the financial statements, including a summary of significant accounting policies.

2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Property, plant and equipment

3. The municipality did not recognise all items of property, plant and equipment in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) 17, *Property, plant and equipment*. Asset additions were capitalised at incorrect amounts; assets were recognised at incorrect carrying amounts; depreciation was incorrectly calculated; and some assets were not included in the fixed asset register while some could not be physically verified, in the current and the prior year. As a result, property, plant and equipment was understated by R20,9 million (2019-20: overstated by R3,6 million), the *accumulated* surplus understated by R16,1 million (2019-20: overstated by R3,8 million), depreciation and amortisation was overstated by R4,8 million (2019-20: R803 019) and trade payables overstated by R630 302 for the comparative year. Furthermore, damaged assets were not considered for impairment. I was unable to determine the impact on the net carrying amount of these assets as it was impracticable to do so. This also had an impact on the surplus for the period and on the accumulated surplus.

4. In addition, I was unable to obtain sufficient and appropriate audit evidence for plant and machinery, furniture and fittings, transport assets, office equipment, IT equipment, community, and assets under construction due to a lack of adequate supporting evidence for adjustments made. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment, stated at R1,8 billion (2019-20: R1,8 billion) in note 9 to the financial statements.

Consumer debtors

5. The municipality did not recognise consumer debtors in accordance with GRAP 104, *Financial instruments*. Some consumer debtors and related receipts were not recorded and, in some

instances, consumer debtors were recorded at incorrect amounts. As a result, consumer debtors was understated by R6 million, service charges was understated by R9,1 million and income received in advance was overstated by R3,1 million.

6. In addition, I was unable to obtain sufficient appropriate audit evidence for consumer debtors, the sale of water and the bad debt provision due to a lack of adequate supporting evidence. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to consumer debtors, stated at R187 million in note 6; service charges, stated at R75,5 million in note 16; and bad debts provision, stated at R118,1 million in note 31 to the financial statements. There was a resultant impact on the material losses disclosed in note 45 to the financial statements.

Income received in advance

7. I was unable to obtain sufficient appropriate audit evidence for income received in advance due to a lack of adequate supporting evidence. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to income received in advance, stated at R13,8 million in note 11 to the financial statements.

Bulk purchases

8. The municipality did not disclose all expenses, as required by GRAP 1, *Presentation of financial statements*. Although the municipality is a water service provider and accounted for the sale of water, it did not account for and disclose bulk water purchases in the current and prior year financial statements. I have not included the omitted information in this auditor's report, as it was impracticable to do so. There was a resultant impact on the material losses disclosed in note 45 to the financial statements.

Contracted services

9. During 2020, I was unable to obtain sufficient appropriate audit evidence for contracted services due to a lack of adequate supporting evidence. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contracted services, stated at R89,6 million in note 32 to the financial statements. My 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 contracted services for the current period.

Operational cost

10. During 2020, I was unable to obtain sufficient appropriate audit evidence for operational cost due to a lack of adequate supporting evidence. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to operational cost, stated at R62,4 million in note 33 to the financial statements. My 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 operational cost for the current period.

Commitments

11. The municipality did not have adequate systems to identify and disclose commitments as required by GRAP 17, *Property, plant and equipment*. Commitments were recorded at incorrect

amounts. As a result, commitments was overstated by R3 million. In addition, I was unable to obtain sufficient appropriate audit evidence for commitments due to a lack of adequate supporting evidence for adjustments made. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to commitments, stated at R69,1 million in note 36 to the financial statements.

Irregular expenditure

12. 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 Municipal Finance Management Act 56 of 2003 (MFMA). I was unable to quantify the understatement of irregular expenditure for the current and the prior year, as it was impractical to do so.

13. In addition, I was unable to obtain sufficient appropriate audit evidence for irregular expenditure due to a lack of adequate supporting evidence in the prior year. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure, stated at R858,6 million (2019-20: R809,2 million) in note 44 to the financial statements.

Unauthorised expenditure

14. The municipality did not have adequate systems to identify and disclose all unauthorised expenditure incurred during the year, as required by section 125(2) (d) of the MFMA. Not all unauthorised expenditure was identified and disclosed. The unauthorised expenditure disclosed in note 42 to the financial statements was understated by R29,2 million (2019-20: R27,5 million).

Contingencies

15. I was unable to obtain sufficient appropriate audit evidence for contingent liabilities due to a lack of adequate supporting evidence for adjustments made. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contingencies as disclosed in note 37 to the financial statements.

Financial instruments

16. The municipality did not disclose financial instruments, as required by GRAP 104, *Financial instruments.* The municipality has a number of financial instruments but the financial instruments disclosure was omitted from the financial statements. I have not included the omitted information in this auditor's report, as it was impracticable to do so.

Prior period error

17. The municipality did not fully disclose previous period errors in note 38 to the financial statements, as required by GRAP 3, *Accounting policies, estimates and errors*. The nature and amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period, were not disclosed for some of the financial statements items with restated comparatives.

18. In addition, I was unable to obtain sufficient appropriate audit evidence for the correction of errors relating to prior period error adjustments. As described in note 38 to the financial statements, the restatement was made to rectify prior year errors, but these could not be substantiated by supporting audit evidence. I was unable to confirm the corrections and restatements by alternative means. Consequently, I was unable to determine whether any

adjustments were necessary to the restated amounts disclosed in note 38 to the financial statements.

Preparation of the financial statements

19. I was unable to obtain sufficient appropriate audit evidence that the accounting officer fulfilled his responsibility for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP, as there were no written representations provided. I was also unable to obtain written representations from the accounting officer that I had been provided with all relevant information and access as agreed in terms of the audit engagement, and that all transactions had been recorded and were reflected in the financial statements. I could not determine the effect of the lack of such representations on the financial position of the municipality at 30 June 2021 or on the financial performance and cash flows for the year then ended.

Total expenditure

20. Total expenditure was materially misstated by R9,6 million due to the cumulative effect of individually immaterial uncorrected misstatements in the following item:

    - Operational costs, stated at R103 million, was understated by R1,3 million
    - Contracted services, stated at R173,6 million, was overstated by R1,3 million
    - Employee related costs, stated at R203,2 million, was overstated by R2,3 million
    - Depreciation and amortisation, stated at R65,5 million, was overstated by R4,8 million

21. In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm total expenditure by alternative means:

    - Contracted services of R1,9 million, as included in the disclosed balance of R173,6 million
    - Impairment loss of R352 675, as included in the disclosed balance of R420 846

22. Consequently, I was unable to determine whether any further adjustment was necessary to total expenditure.

Other matters

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

Unaudited disclosure note

24. 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.

Withdrawal from the audit engagement

25. Due to the limitation imposed on the scope of the audit by management, I have disclaimed my opinion on the financial statements. However, were it not for the legislated requirement to perform the audit of the municipality, I would have withdrawn from the engagement in terms of the International Standards of Auditing (ISAs).

Responsibilities of the accounting officer for the financial statements

26. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and the Division of Revenue Act 4 of 2020 (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.

27. 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

28. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

29. 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 the other ethical requirements that are relevant to my audit of the in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

Introduction and scope

30. 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 area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

31. 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.

32. 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 (KPA)	Pages in the annual performance report
KPA 5 – basic services delivery and infrastructure development	x – x

33. 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.

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

KPA 5 – basic service delivery and infrastructure development

Various indicators

35. The reported achievements were not consistent with the planned indicators and targets for the following indicators:

Performance indicator	Planned target	Reported achievement
Number of pipeline constructed from Mthombo to WWT including upgrading of pump station	1 pipeline constructed and completed from Mthombo to WWT including completion of the pump station by June 2021	Not Achieved 50%
Number of wastewater treatment plant upgraded (phase 1)	1 wastewater treatment plant upgraded (phase 1) by 30 June 2021	Not Achieved 45%
Number of oxidation pond and palisade fencing upgraded (phase 1)	1 oxidation pond and palisade fencing upgraded (phase 1) by 30 June 2021	Not Achieved 30%

Various indicators

36. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the following indicators 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 adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

Performance indicator	Planned target	Reported achievement
Number of pumps at water treatment works and sub-station maintained or repaired by June 2020	52 pumps at water treatment works and substation maintained or repaired by 30 June 2021	Not achieved 11
Number of pumps including panels of wastewater treatment works maintained or repaired by June 2020	24 pumps including panels of wastewater treatment works maintained or repaired by 30 June 2021	Not achieved 5

Various indicators

37. The achievements were reported against the targets in the annual performance report. However, the supporting evidence provided did not agree with the reported achievement for the indicators listed below:

Performance indicator	Target	Reported achievement	Audited values
Number of quarterly reports on the % of households with access to basic levels (water, sanitation, electricity and roads) submitted to council per quarter	4 quarterly reports by June 2021	Achieved Communities are supplied with water on a drought-relief programme as daw	2
Number of pipeline constructed from Mthombo to WWT including upgrading of pump station	1 pipeline constructed and completed from Mthombo to WWT including completion of the upgraded pump station by June 2021	Not achieved 50%	40%

Other matter

38. I draw attention to the matter below.

Achievement of planned targets

39. 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 35 to 37 of this report.

Report on the audit of compliance with legislation

Introduction and scope

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

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

Expenditure management

42. The municipality did not take reasonable steps 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 majority of the disclosed irregular expenditure was caused by the bid adjudication committee that was not composed in accordance with supply chain management (SCM) regulation 29(2).

43. The municipality did not take reasonable steps to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred, as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending of the vote.

Annual financial statement

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 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 disclaimer audit opinion.

Asset management

45. The municipality did not have in place an effective system of internal control for assets, as required by section 63(2) (c) of the MFMA.

Revenue management

46. The municipality did not have in place an effective system of internal control for debtors and revenue, as required by section 64(2)(f) of the MFMA.

Consequence management

47. 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.

48. 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)(b) of the MFMA.

49. 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 grant

50. The performance of programmes funded by the expanded public works programme was not evaluated within two months after the end of the financial year, as required by section 12(5) of Dora.

51. The performance of programmes funded by the municipal infrastructure grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of Dora.

Procurement and contract management

52. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, in contravention of SCM regulation 19(a). The accounting officer approved deviations even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1)(a).

53. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) (i) and the 2017 Preferential Procurement Regulations.

54. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.

Other information

55. 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.

56. 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.

57. 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.

58. 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

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 disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

60. Management did not exercise oversight responsibility for financial and performance reporting and compliance, as well as related internal controls. Management did not establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities. Management did not develop and monitor the implementation of action plans to address internal control deficiencies.

61. Management did not implement proper record-keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Management did not implement controls over daily and monthly processing and reconciling transactions. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. Management did not review and monitor compliance with applicable legislation.

62. The internal audit unit did not fully execute the internal audit plan. The audit committee was not operating for part of the financial year, which affected its ability to provide management with guidance on rectifying internal control deficiencies. Therefore, the internal audit unit and the audit committee were not fully effective during the year under review.

Material irregularities

63. 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

64. 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

65. 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.

66. An independent consultant investigated allegations of possible corrupt practices at the municipality at the request of the member of the executive council (MEC) of the Department of Cooperative Governance and Traditional Affairs in terms section 106(1) (B) of the Municipal Systems Act 32 of 2000. The investigation concluded on 3 May 2020 and the report was tabled in council on 6 October 2020.

Auditor-General

Mbombela

1 March 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence