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

Qualified opinion

1. I have audited 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 2022, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information 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 Dr JS Moroka Local Municipality as at 30 June 2022 and its financial performance and cash flows for the year then ended in accordance with the 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*. Depreciation was calculated using useful lives that differed from those in the asset management policy, asset additions were recorded at incorrect amounts and some assets could not be physically verified. As a result, property, plant and equipment was understated by R10,5 million and depreciation and amortisation was overstated by R11,0 million, payables from exchange transactions was overstated by R295 515 and accumulated surplus overstated by R207 981.

4. Furthermore, the municipality did not separately disclose expenditure incurred to repair and maintain items of property, plant and equipment in the notes to the financial statements in the current and comparative year. I have not included the omitted information in this auditor's report, as it was impractical to do so.

5. In addition, I was unable to obtain sufficient appropriate audit evidence for the loss on de-recognition of assets, due to differences between the reported amount and the supporting schedule. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment, stated at R1,9 billion in note 8 to the financial statements.

Receivables from exchange transactions

6. The municipality did not disclose receivables from exchange transactions in accordance with GRAP 104, *Financial instruments.* The municipality did not accurately disclose an age analysis of the financial assets as at the end of the reporting period in the comparative year. This was due to multiple errors in determining disclosure amounts on the ageing for the comparative figures. My opinion on the current year financial statements is modified because of the effect of this matter on the comparability of the receivables from exchange transactions for the current year.

7. Furthermore, during 2021, receivables from exchange transactions were recorded at incorrect amounts. As a result, receivables from exchange transactions was understated by R9,7 million and service charges was understated by R9,7 million.

8. In addition, I was unable to obtain sufficient appropriate audit evidence for the sale of water and the bad debts provision due to a lack of adequate supporting evidence, in the comparative year. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from exchange transactions, stated at R132,2 million in note 5; service charges, stated at R75,5 million in note 15; and bad debts provision, stated at R118,1 million in note 30 to the financial statements. My opinion on the financial statements for the period ended 30 June 2021 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 receivables from exchange transactions, service charges and the bad debts provision for the current period.

Property rates

9. The municipality did not recognise property rates items, as required by GRAP 23, *Revenue from non-exchange transactions*. Properties were identified for which property rates were not billed and recorded in the current year. In addition, property rates were determined by applying incorrect market values. As a result, the property rates was understated by R7,3 million and related receivables from non-exchange transactions understated by R7,3 million. There was a resultant impact on the surplus for the period and the accumulated surplus.

Net cash flows from operating activities

10. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required Standards of GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities stated at R82,4 million (2020-21: R71,4 million) in the financial statements were necessary.

Net cash flows from investing activities

11. The municipality did not correctly prepare and disclose the net cash flows from investing activities as required Standards of GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from investing activities. I was not able to determine the full extent of the errors in the net cash flows from investing activities, as it was impracticable to do so.

Consequently, I was unable to determine whether any adjustments to cash flows from investing activities, stated at R140,3 million (2020-21:R109,8 million) in the financial statements were necessary.

Segment reporting

12. The municipality did not present the segment information in accordance with GRAP 18, *Segment reporting*. The municipality omitted the segment information in the financial statements. I have not included in the omitted information in this auditor's reports, as it was impracticable to do so.

Financial instruments

13. 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.

Risk management

14. The municipality did not disclose risk management, as required by GRAP 104, *Financial instruments*. The municipality omitted the risk management information in 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

15. The municipality did not fully disclose previous period errors in note 37 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 statement items with restated comparatives.

Unauthorised expenditure

16. 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 40 to the financial statements was understated by R29,2 million (2020-21: R29,2 million).

Irregular expenditure

17. 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 of irregular expenditure for the current and the prior year, as it was impractical to do so.

18. 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 R930,6 million (2020-21: R858,6 million) in note 42 to the financial statements.

Total expenditure

19. During 2021, total expenditure was materially misstated by R9,6 million due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

    - Operational costs stated at R107,1 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 R64,5 million was overstated by R4,8 million

20. 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 R472 041

21. Consequently, I was unable to determine whether any further adjustment was necessary to total expenditure. My opinion on the financial statements for the period ended 30 June 2021 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.

Context for the opinion

22. 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.

23. 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.

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

Other matter

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

Unaudited disclosure note

26. 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

27. 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 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.

28. 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

29. 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.

30. 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

31. 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.

32. 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.

33. 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 areas presented in the municipality's annual performance report for the year ended 30 June 2022:

Key performance area (KPA)	Pages in the annual performance report
KPA 5 – basic service delivery and infrastructure development	x – x

34. 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.

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

KPA 5 – basic service delivery and infrastructure development

Number of households with access to minimum level basic waste removal service by June 2022 (once per week)

36. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined nature and required level of performance and method of calculation and deadline for delivery to be used when measuring the actual achievement for target 14 793 households with access to a minimum level of basic waste removal by June 2022 (Once per week). This was due to a lack of sufficient measurement definitions and processes. I was unable to test whether the target for this indicator was clearly defined by alternative means.

Number of km of surface roads marked by June 2020

37. The planned target of 10 km (surface roads marked by June 2020) for this indicator was not specific in clearly identifying the nature of performance and did not specify the correct period of delivery.

Various indicators

38. A comparison between the performance of the year under review and previous year was not included in the annual performance report.

Performance indicator	Planned target	Reported achievement
Number of sample collected for analysis as per SANS241 2015	600 samples collected for analysis as per SANS241 2015 June 2022	644 samples collected for analysis as per SANS241 2015 Achieved
Number of water service development plan reviewed by June 2022	Water service development plan reviewed by June 2022	0 water service development plan reviewed Not achieved

% of progress with construction of Mbongo water reticulation (borehole sitting, drilling, equipping and storage tank) by 30 June 2022	100% completion progress with construction of Mbongo water reticulation (borehole sitting, drilling, equipping and storage tank) by 30 June 2022	95% progress with construction of Mbongo water reticulation (borehole sitting, drilling, equipping and storage tank) Not achieved
% of progress with construction of Setateng water reticulation (borehole sitting, drilling, equipping and storage tank) by June 2022	100% completion progress with construction of Setateng water reticulation (borehole sitting, drilling, equipping and storage tank) by June 2022	95% progress with construction of Setateng water reticulation (borehole sitting, drilling, equipping and storage tank) Not achieved
Number of completed design reports on the construction of Maphotla water reticulation (borehole sitting, drilling, equipping and storage tank) by 30 June 2022	1 completed design report on the construction of Maphotla water reticulation (borehole sitting, drilling, equipping and storage tank) by 30 June 2022	1 completed design report on the construction of Maphotla water reticulation (borehole sitting, drilling, equipping and storage tank) Achieved
52 number of pumps at water treatment works and sub-station maintained or repaired by June 2022	52 pumps at water treatment works and substation maintained or repaired by June 2022	11 pumps at water treatment works and sub-station maintained or repaired Not achieved
24 pumps, including panels of wastewater treatment works, maintained or repaired by June 2022	24 pumps, including panels of wastewater treatment works maintained or repaired by June 2022	0 pumps, including panels of wastewater treatment works, maintained or repaired Not achieved
Percentage of requests for repairs of high-mast lights attended (as and when) by June 2022	70% requests for repairs of high-mast lights attended to (as and when) by June 2022	37% requests for repairs of high-mast lights attended to (as and when) Not achieved
Number of km of surface roads marked by June 2020	10 km on roads markings done by June 2022	26 km of surface roads marked Achieved
Number of km of Ga Maria Bus and Taxi Route upgraded by June 2022 (from gravel to paving blocks including storm water)	1,4 km of Ga Maria Bus and Taxi Route upgraded by June 2022 (from gravel to paving blocks including storm water)	1,4 km Ga Maria Bus and Taxi Route upgraded (from gravel to paving blocks, including storm water) Achieved
Number of km of Digwale Bus and Taxi Route upgraded by June 2022 (from gravel to paving blocks, including stormwater)	0.5 km of Digwale Bus and Taxi Route upgraded by June 2022 (from gravel to paving blocks, including stormwater)	0,5 km Digwale Bus and Taxi Route upgraded (from gravel to paving blocks, including stormwater) Achieved
Number of km of Maqhawe Bus and Taxi Route upgraded by June 2022 (from gravel to paving blocks)	0.5 km of Maqhawe Bus and Taxi Route upgraded by June 2022 (from gravel to paving blocks)	0,5 km Maqhawe Bus and Taxi Route upgraded (from gravel to paving blocks) Achieved

% of progress with the upgrading of Seabe stormwater drainage by 30 June 2022 (21 entrance slabs and water channel	100 % completion progress with the upgrading of Seabe stormwater drainage by 30 June 2022 (21 entrance slabs and water channel	100 % completion progress with the upgrading of Seabe stormwater drainage 21 entrance slabs Achieved
Number of CWB Toilets completed by 30 June 2022	Construction of 70 units of CWB toilets 30 June 2022	70 units of CWB toilets constructed Achieved
Number of CWB toilets completed by 30 June 2022	Construction of 70 units of CWB toilets 30 June 2022	70 units of CWB toilets constructed Achieved
% of progress with the construction of sewer reticulation at Libangeni phase 2 by 30 June 2022	100 % completion progress with the construction of sewer reticulation at Libangeni phase 2 by 30 June 2022	44 % progress with the construction of sewer reticulation at Libangeni phase 2 Not achieved
Number of completed design reports on the construction of Ga-Phahla sewer reticulation by June 2022	1 completed design reports on the construction of Ga-Phahla sewer reticulation by June 2022	1 completed design reports on the construction of Ga-Phahla sewer reticulation Achieved
% of progress with the upgrading of Siyabuswa wastewater treatment plant phase 2 by 30 June 2022	100 % completion progress with the upgrading of Siyabuswa wastewater treatment plant phase 2 by 30 June 2022	95% progress with the upgrading of Siyabuswa wastewater treatment plant phase 2 Not achieved
% of progress with the upgrading of Libangeni Oxidation pond and palisade fence phase 2 by 30 June 2022	100 % completion progress with the upgrading of Libangeni Oxidation pond and palisade fence phase 2 by 30 June 2022	98% progress with the upgrading of Libangeni Oxidation pond and palisade fence phase 2 Not achieved
% of progress with the construction of pipe line from Mthombo to WWT, including upgrading of pump station Phase 2 by June 2022	100 % completion progress with the construction of pipe line from Mthombo to WWT, including upgrading of pump station Phase 2 by June 2022	95% progress with the construction of pipe line from Mthombo to WWT, including upgrading of pump station Phase 2 Not achieved
Number of households with access to minimum level basic waste removal service by June 2022 (once per week)	14 793 households with access to a minimum level of basic waste removal by June 2022 (once per week)	0 households with access to a minimum level of basic waste removal Not achieved
Number of external compliance audit of landfill sites conducted by June 2022	1	1 external compliance audit of landfill sites conducted Achieved

Other matter

39. I draw attention to the matters below.

Achievement of planned targets

40. 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 36 to 38 of this report.

Adjustment of material misstatements

41. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of 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

42. 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.

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

Annual financial statements

44. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

45. 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 majority of the disclosed irregular expenditure was caused by awards made to service providers who did not submit the declaration of interest. Irregular expenditure amounting to R42,7 million was incurred on the upgrading of bulk water pipeline from Mthombo balancing to Mthombo Weir to supplement water supplies to Weltevreden Water Treatment Plant.

46. Reasonable steps were not taken 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 on the vote.

47. Money owed by the municipality was not always paid within 30, as required by section 65(2)(e) of the MFMA.

Revenue management

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

49. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Human resource management

50. The municipal manager and senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

51. 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.

Consequence management

52. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.

53. Irregular expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA

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

Strategic planning and performance management

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

Procurement and contract management

56. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.

57. 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 Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.

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

59. 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.

60. Some of the tenders that failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable tender in accordance with 2017 preferential procurement regulation 5(6).

61. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA.

62. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA.

63. Awards were made to providers whose directors were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM regulation 44.

Other information

64. 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.

65. 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.

66. 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.

67. 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

68. 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.

Leadership

69. Management did not exercise oversight responsibility regarding 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.

Financial and performance management

70. 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.

71. 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.

Governance

72. The internal audit unit did not fully execute their internal audit plan. The audit committee was not in operation for part of the financial year and this affected the ability of the committee to provide guidance on rectifying internal control deficiencies to management. Therefore, the internal audit unit and the audit committee were not fully effective during the year under review.

Material irregularities

73. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

Material irregularities in progress

74. 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 response from the accounting officer. This material irregularity will be included in the next year's auditor's report.

Status of previously reported material irregularities

Overpayment of supplier on the construction of Katjibane bus and taxi route

75. The municipality overpaid the supplier contracted for the construction of Katjibane Bus and Taxi Route, in contravention of section 65(2)(a) of the MFMA. Some of the works paid for could not be verified on site, while the rates used to claim for some of the items were higher than the rates on the bill of quantities. The re-measurement of some of the items claimed by the supplier indicated the items were over-claimed. The non-compliance is likely to result in a material financial loss for the municipality if the money is not recovered.

76. The accounting officer was notified of the material irregularity on 8 December 2021 and invited to make a written submission on the actions taken and those that will be taken to address the matter. The accounting officer instructed the internal audit unit on 20 April 2022 to investigate the matter, identify the person(s) responsible and make recommendations to the Municipal Public Accounts Committee (MPAC) for final processing and submission to council in line with section 32 of the MFMA. The investigation was planned to be finalised by 31 July 2022. The investigation report was actually received from the accounting officer on 18 July 2022.

77. I am in the process of evaluating the outcome of the investigation conducted.

Unfairly disqualified bidder – upgrading of roads and storm water in the Mdutjana village cluster

78. The municipality issued an advert for upgrading of roads and stormwater in the Mdutjana village cluster: Ga-Phaahla, Meetsemadiba, Mabusabesala, Ga-Morwa, Matshiding and Mabuyeni Ga-Morwe bus and taxi route. The bid specification specified a bidder needed a minimum of 24 points to qualify for the 80/20 price and B-BBEE scoring system and proof must be attached to qualify for the points claimed.

79. The bid adjudication committee awarded one of the disqualified bidders a total of 22 points instead of 25 points. As a result, the bidder was unfairly disqualified despite meeting the minimum points required for pre-qualification and functionality. The unfair disqualification contravened paragraph 5(7) of the Preferential Procurement Regulation (PPR) of 2017.

80. The award was made on 29 October 2018 to a supplier who bided for R11 499 264.92 while the unfairly disqualified bidder had submitted a bid proposal of R9 193 121.59. The non-compliance is likely to result in a material financial loss for the municipality if the money is not recovered.

81. The accounting officer was notified of the material irregularity on 27 January 2022 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer instructed the internal audit unit to investigate the matter, identify the person(s) responsible and make recommendations to the Municipal Public Accounts Committee (MPAC) for final processing and submission to council in line with section 32 of the MFMA. The investigation was planned to be finalised by 31 July 2022. The investigation report was actually received from the accounting officer on 18 July 2022.

82. I am in the process of evaluating the outcome of the investigation conducted.

Auditor-General

Mbombela

12 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

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 Dr JS Moroka 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

1. 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.

2. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other

matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.