

Report of the auditor-general to Mpumalanga Provincial Legislature and council on the Thaba Chweu Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Thaba Chweu Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2021, 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, the financial statements present fairly, in all material respects, the financial position of the Thaba Chweu Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with the South African 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 4 of 2020 (Dora)

Basis for opinion

3. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. I draw attention to note 57 to the financial statements, which indicates that the municipality incurred net loss of R305 039 011 during the year ended 30 June 2021 and, as of that date, the municipality's current liabilities increased by 16% (R151 325 401) and cash flow generated from operating activities increased by R75 396 565. As indicated in note 57, these events or conditions, along with other matters as set forth in note 57, indicated that a material

uncertainty existed that may cast significant doubt on the municipality's ability to continue as a going concern

Emphasis of matters

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

Restatement of corresponding figures

9. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Material losses - electricity

10. As disclosed in note 36 to the financial statements, material electricity losses of 53 748 680 units (2019-2020: 53 240 271 units) were incurred, which represents 35% (2019-2020: 36%) of total electricity purchased.

Material losses – water

11. As disclosed in note 36 to the financial statements, material water losses of 5 599 532 units (2019-2020: 6 434 724 units) were incurred, which represents 64% (2019-2020: 66%) of total water purchased.

Events after reporting period

12. I draw attention to note 48 in the financial statements, which deals with subsequent events and the write off of fruitless and wasteful expenditure per council resolution C4/2021. My opinion is not modified in respect of this matter

Other matter

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

Unaudited disclosure notes

14. 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

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP and the requirements of the MFMA and Dora and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

16. 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

17. 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.
18. 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

19. 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 objective presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
20. 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.
21. 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 objectives presented in the municipality's annual performance report for the year ended 30 June 2021:

Objectives	Pages in the annual performance report
KPA 1 – basic services and infrastructure development	x – x

22. 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.
23. I did not identify any material findings on the usefulness and reliability of the reported performance information for this objective:

KPA 1 – basic services and infrastructure development

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

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

Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic services and infrastructure development. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

27. 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.
28. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, performance reports and annual reports

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current assets, revenue and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

30. Reasonable steps were not taken to prevent irregular expenditure amounting to R110 219 362 as disclosed in note 49 as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by the appointment of service providers from a panel of suppliers without documented and fair systems for appointing from the panel.
31. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R130 702 206, as disclosed in note 47 to the annual financial statements in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by actual expenditure exceeding budgeted amounts.

Strategic planning and performance management

32. Amendments to the IDP were made without consultation with the district municipality, as required by municipal planning and performance management regulation 3(6)(a).
33. The performance of Thaba Chweu Local Economic Development Agency (THALEDA) was not monitored and reviewed as part of the annual budget process, as required by section 93B(b) of the MSA.

Consequence management

34. Irregular expenditure incurred by the municipality were not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
35. Allegations of financial misconduct laid against officials of the municipality were not investigated, as required by section 171(4)(a) of the MFMA.

Procurement and contract management

36. Some of the contracts were awarded to bidders who had not submitted 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).
37. 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.
38. Some of the contracts and quotations were awarded to bidders based on preference points that were not allocated and/or calculated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act and its regulations.
39. Some of the contracts and quotations were awarded to bidders based on functionality criteria that were not stipulated and/or differed from those stipulated in the original invitation for bidding and quotations, in contravention of 2017 preferential procurement regulation 5(1) and 5(3). Similar non-compliance was also reported in the prior year.
40. Sufficient appropriate audit evidence could not be obtained that tenders that failed to achieve the minimum qualifying score for functionality were disqualified as unacceptable, in accordance with 2017 preferential procurement regulation 5(6).

41. Sufficient appropriate evidence could not be obtained that tenders that failed to achieve the minimum qualifying score for functionality were not evaluated further, in accordance with 2017 preferential procurement regulation 5(7).
42. Some of the invitations 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).
43. Some of the commodities designated for local content and production were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5). Similar non-compliance was also reported in the prior year.
44. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
45. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

Other information

46. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, the audit committee's report. The other information does not include the financial statements, the auditor's report and the selected objective presented in the annual performance report that have been specifically reported in this auditor's report.
47. 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.
48. 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 objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
49. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

50. 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 identified on compliance with legislation included in this report.
51. The accounting officer did not exercise adequate oversight responsibility regarding financial and performance reporting as well as compliance with legislation.
52. 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.
53. Management did not prepare regular, accurate and complete financial and performance reports that are supported by reliable information.
54. Although the internal audit unit and the audit committee operated during the current period as per their legislated mandate, recommendations made to management on the improvement of internal controls to ensure reliable reporting on both financial and performance information as well as compliance with legislation were not always implemented.

Material irregularities

55. 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 identified during the audit

56. The material irregularities identified are as follows:

Eskom not paid within 30 days of receipt of invoice or statement

57. The municipality failed to ensure that the payments due to Eskom were made within 30 days of receiving the relevant invoice or statements in contravention of section 65(2)(e) of the MFMA. The municipality incurred interest as a result of non-payment of R38 125 196 in the 2019-20 financial year. The non-compliance is likely to result in a material financial loss for the Thaba Chweu Local Municipality due to the municipality still owing money to Eskom and continuously not making payments within 30 days. The fruitless and wasteful expenditure has been disclosed in note 41 of the 2019-20 annual financial statements.
58. The accounting officer was notified of this material irregularity on 22 April 2021 and was invited to make a written submission on the actions taken and that will be taken to address the matter.

59. The accounting officer reported the fruitless and wasteful expenditure for 2019-20 to Municipal Public Accounts Committee (MPAC) for investigations on 19 August 2021. Investigations were conducted by the MPAC and, based on the outcomes of the investigation conducted by the MPAC, it was confirmed that there was no official liable for the irregularity. The report on investigations was tabled to the council on 21 October 2021 and the council approved the write-off of the fruitless and wasteful expenditure for 2019-20 per council resolution C4/2021.
60. The accounting officer will continue to ensure full implementation of the debt control and credit policy, prepaid meter audits and replacement of faulty meters, and utilisation of the equitable share toward prevention of further losses. The accounting officer will ensure that there is a review of indigent customers to ensure that only customers who qualify are included to prevent further losses from being incurred by the municipality.
61. I will follow up on the implementation of the planned actions during my next audit.

Material irregularities in progress

62. I identified a material irregularity during the audit and notified the accounting officer of this, 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.

AUDITOR - GENERAL

Mbombela

09 February 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 objective 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 Thaba Chweu 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
 - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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 confirm to the accounting officer 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.