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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Thaba Chweu Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, 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 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 Thaba Chweu Local Municipality as at 30 June 2023 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 5 of 2022 (Dora).

Basis for qualified opinion

Other property, plant and equipment – work in progress

3. The municipality did not appropriately account for and disclose property, plant, and equipment in accordance with GRAP 17, *Property, plant and equipment.* Certain completed projects already in use were not transferred to completed assets. Construction projects that were halted and abandoned were not disclosed in the financial statements. I was unable to determine the full extent of the misstatement as it was impractical to do so.

4. In addition, the municipality did not adequately account for impairment of property, plant, and equipment in accordance with GRAP 21, *Impairment of non-cash generating assets*. Certain infrastructure assets with evidence of physical damage and unusable state service delivery assets were not assessed for impairment. I was unable to determine the full extent of the misstatement as it was impractical to do so. Consequently, I was unable to determine whether any further adjustments were necessary to other property, plant and equipment – work in progress stated at R90,25 million in note 5 to the financial statement.

Segment information

5. The municipality did not disclose all required information as required by GRAP 18, *Segment reporting*. Separate segment information relating to interest income, interest expense, and other disclosure was not disclosed per segment even though it was available and monitored through the year by management. As a result, I was unable to determine the full extent of the non-disclosure in note 50 to the financial statement as it was impractical to do so.

Cash flow statement - Cash payments from operations

6. Cash payments to employees was incorrectly calculated as it included non-cash items, which constitutes a departure from GRAP 2, *Statement of Cash Flows*. Consequently, cash paid to employees was overstated by R13,18 million in the financial statements.

7. Cash payments to suppliers was incorrectly calculated as it did not include some of the supplier payments, which constitutes a departure from GRAP 2, *Statement of Cash Flows*. Consequently, cash paid to suppliers was understated by R26,90 million in the financial statements.

Cash flow statement - Cash flows from investing activities.

8. The net cash flows from investing activities were not correctly casting, which constitutes a departure from GRAP 2, *Statement of Cash Flows*. Consequently, cash flows from investing activities were overstated by R18,55 million in the financial statements.

Statement of comparison of budget and actual amounts

9. Material differences were noted between the actual amounts in the statement of comparison of budget and actual amounts and those reflected on the cash flow statement, which constitutes a departure from GRAP 24, Presentation *of budget information in financial statements*. Consequently, I was unable to determine the full extent of the misstatement in the statement as it was impractical to do so.

Revenue from exchange transactions

10. The municipality did not account for sale of electricity, sale of water, sewerage, and sanitation as well as refuse removal required by GRAP 9, *Revenue from exchange transactions* in the prior year, as the municipality was incorrectly billing property belonging to the council for service charges. Consequently, the corresponding figure for service charges disclosed in note 18 to the financial statements was misstated and I was unable to determine the full extent of the adjustment as it was impracticable to do so. My opinion on the current year's financial statements was modified because of the effect of this matter on the comparability of the service charges for the current period.

presented in the annual performance report. The accounting is responsible for the preparation of the annual performance report.

27. I selected the following key performance area presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected key performance area 1 –basic services and infrastructure development that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Key Performance Area (KPA)	Page numbers	Purpose
KPA 1 – basic services and infrastructure development	[XX]	This focuses on the provision of and access to basic services by the communities living in the municipality. The municipality is mandated to deliver municipal basic services to the community. The services include the provision of sanitation, electricity, roads and storm water, waste management and public facilities

28. I evaluated the reported performance information for the selected key performance area 1 against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

29. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

30. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

31. The material findings on the reported performance information for the selected key performance area are as follows:

KPA 1 – basic services and infrastructure development

32. The measures as reported in the table below were reported to improve the performance against the targets. I could not determine if the measures were correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measure was reliable.

Indicator description	Target.	Measures to improve performance
Completion of phase 1 of the refurbishment and upgrading of the sewer substation at Mashishing Ext. 8	Phase 1 of the refurbishment and upgrading of the sewer substation at Mashishing Ext. 8 completed by 30 June 2022	Provision of armed security on construction sites
Number of km of road refurbished at Moremela Morothong-Kanana Street (Tshirelang)	0,7km of the road +1 culvert refurbished at Moremela Morothong- Kanana Street (Tshirelang) by 30 June 2023	Provision of armed security on construction sites
Number of km of street refurbished at Voortrekker Street at Mashishing / Lydenburg	0,93 (2 lanes) of the street refurbished at Voortrekker Street Mashishing/Lydenburg by 30 June 2023	Follow process to deal with the poor performance contractor and provision of armed security on site
Number of households connected to grid at Graskop (hostel)	150 households connected to grid at Graskop (hostel) by 30 June 2023	Construction of the line took longer than planned. A special aluminium cable is being sourced by the contractor. Once installed, testing and commissioning of the medium voltage line will take place
Number of households connected to grid at Mashishing EXT 108	80 households connected to grid at Mashishing EXT 108 by 30 June 2023	Timeous sitting of bid committees (BEC and BAC) to ensure appointments on time and provision of armed security on construction sites
Number of households connected to grid at Phola Park	220 households connected to grid at Phola Park by 30 June 2023	Timeous sitting of bid committees (BEC and BAC) to ensure appointments on time and provision of armed security on construction sites
Number of households connected to grid at Nkanini (Phase 3)	190 households connected to grid at Nkanini (Phase 3) by30 June 2023	Timeous sitting of bid committees (BEC and BAC) to ensure appointments on time and provision

Indicator description	Target.	Measures to improve performance
		of armed security on construction sites
Number of households connected to grid at Riverside (Phase 1)	220 households connected to grid at Riverside (Phase 1) by 30 June 2023	Timeous sitting of bid committees (BEC and BAC) to ensure appointments on time and provision of armed security on construction sites
Number of traffic fines reports compiled	Not achieved. 9 traffic reports were compiled	The municipality should have an inhouse system to consolidate and submit traffic fines

Other matters

33. I draw attention to the matters below.

Achievement of planned targets

34. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

Material misstatements

35. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for key performance area 1: basic services and infrastructure development. Management did not correct some of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

36. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

37. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

38. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently

detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

39. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Expenditure management

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

41. Reasonable steps were not taken to prevent irregular expenditure of R80,28 million, disclosed in note 47 to the annual financial statements, as required by section 62(1) (d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with the MFMA and supply chain management (SCM) Regulations.

42. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R81,65 million, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1) (d) of the MFMA.

43. Reasonable steps were not taken to prevent unauthorised expenditure of R168,89 million, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1) (d) of the MFMA.

Consequence management

44. Some unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.

45. Some irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

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

Asset management

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

Annual financial statements, performance reports and annual reports

48. 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 identified by the auditors in the submitted financial statements were not adequately corrected which resulted in the financial statements receiving a qualified audit opinion.

Strategic planning and performance management

49. Annual performance indicators of the municipal entity (THALEDA) were not included in the service level agreement or multi-year business plan, as required by the Municipal Systems Act (MSA) S93B (a).

50. THALEDA's performance was not monitored and reviewed as part of the annual budget process, as required by section 93B (b) of the MSA.

Procurement and contract management

51. Some goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

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

53. Contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA

54. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of the code of conduct for staff members issued in terms of the MSA.

Other information in the annual report

55. The accounting officer is responsible for the other information included in the annual report. The other information referred to 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 on in this auditor's report.

56. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

57. My responsibility is to read this other information and, in doing so, consider whether it 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. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

59. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

60. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.

61. Management did not implement adequate recording, review and reporting processes and controls to ensure credible, complete and accurate financial and performance reporting.

62. Management did not apply adequate monitoring controls to ensure compliance with the applicable laws and regulations.

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 and on the status of material irregularities as previously reported in the auditor's report.

Status of previously reported material irregularities

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

64. The municipality failed to ensure that the payments due to Eskom were made within 30 days of receiving the relevant invoice or statement, in contravention of section 65(2)(e) of the MFMA. The non-compliance is likely to result in a material financial loss when the interest expense is paid. The municipality continues to incur interest on the Eskom invoices as a result of late payments. In the 2022-23 financial year, interest charges of R80,2 million formed part of the disclosed amount in note 46 for fruitless and wasteful expenditure.

65. The accounting officer was notified of the 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. The following actions have been taken to resolve the material irregularity:

    a. The accounting officer reported the fruitless and wasteful expenditure for 2019-20 to the municipal public accounts committee (MPAC) for investigation on 19 August 2021. At the date of this audit report, the investigation was still in progress.

    b. The accounting officer appointed a service provider to assist with the full implementation of the debt control and credit policy, prepaid meter audits and replacement of faulty meters. Some actions were implemented and others are still in progress at the date of this audit report.

    c. The accounting officer used the equitable share to help prevent further losses. In the current year more than 40% of the equitable share was used to pay the Eskom debt.

d. The accounting officer held a review of indigent customers to ensure that only customers who qualify are included, to prevent the municipality incurring further losses. The process is continuous as the applications are done annually. In the 2022-23 year applicants included in the indigent register met the qualifying criteria.

e. In September 2023, the accounting officer applied for debt relief in terms of MFMA Circular 124 for Eskom debt, which requires implementation of the budget funding plan to maintain the Eskom account. The application was approved by National Treasury on the 23 November 2023.

f. In May 2023, the accounting officer undertook an electricity cost of supply study. At the date of this report, the study was in progress and had not been concluded.

66. I will follow up on the matter during my next audit.

Overpayment made on refurbishment of morothong-kanana street at moremela.

67. The municipality did not comply with MFMA section 65(2)(a), which states that the accounting officer of a municipality is responsible for the management of the expenditure of the municipality, and must take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds

68. On project TCM/T09/2019-2020, the municipality overpaid the supplier contracted for the refurbishment of Morothong-Kakana Street at Moremela. Some quantities paid for by the municipality were more than the quantities received and some payments were made for work that was not done by the contractor. The non-compliance is likely to result in a material financial loss for the municipality if the money is not recovered.

69. The accounting officer was notified of the material irregularity on 24 November 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter.

70. The following action have been taken to resolve the material irregularity:

a. In March 2023 the acting accounting officer appointed an attorney contracted by the municipality to recover the losses. As at the date of this audit report, this action is still in progress.

b. During September 2023 the acting accounting officer initiated the internal disciplinary processes against the responsible officials. As at the date of this audit report, this action is still in progress.

71. I will follow up on the implementation of the action during the next audit.

Auditor General
Mbombela

30 November 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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 development priorities and on the municipality's compliance with selected requirements in key legislation.

Financial statements

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
- conclude on the appropriateness of the 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 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

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.

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 bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003 (MFMA) and regulations issued in terms of the act	Section 1 – paragraph (a), (b) & (d) of the definition: irregular expenditure Section 1 – definition: service delivery and budget implementation plan Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a), Sections 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii), Sections 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), Sections 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), Sections 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), Sections 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), Sections 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulation 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), 17(1)(b), Regulations 17(1) (c). 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), Regulations 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a) and (b), 29(5)(a)(ii), 29(5)(b)(ii), Regulations 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Sections 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations, 2004	Regulations 17, 25(7A)

Legislation	Sections or regulations
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), Regulations 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 27(1), 29(1)(b)(ii), 29(2)(a), Sections 29(2)(c), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, Sections 43(2), 56(a), 57(2)(a), 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), Sections 67(1)(d),74(1), 93J(1), 96(b) Parent municipality with ME: Sections 93B(a), 93B(b) Parent municipality with shared control of ME: Sections 93C(a)(iv), 93C(a)(v)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(5)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)