

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Nkomazi Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Nkomazi Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with 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 09 of 2021 (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.

Emphasis of matters

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

Material impairments receivables from non-exchange transactions

7. As disclosed in note 11 to the financial statements, material impairment of R119,7 million (2020-21: R117,5 million) was incurred as a result of the allowance for impairment on receivables from non-exchange transactions.

Material losses – electricity

8. As disclosed in note 57 to the financial statements, material electricity losses of R14,4 million (2020-21: R21 million) were incurred, which represents 16% (2020-21: 25%) of total electricity purchased

Material debt impairment

9. As disclosed in note 36 to the financial statements, material impairments of R19,9 million was incurred as a result of a write-off of irrecoverable trade debtors.

Restatement of corresponding figures

10. As disclosed in notes 47 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Fruitless and wasteful expenditure

11. As disclosed in note 53 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R375 816

Other matters

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

Unaudited disclosure notes

13. 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.

Unaudited supplementary appendixes

14. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these appendixes and, accordingly, I do not express an opinion on them.

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 the selected key performance area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
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 key performance area presented in the municipality's annual performance report for the year ended 30 June 2022:

Key performance area	Pages in the annual performance report
KPA1– Basic service delivery	x – x

22. I performed procedures to determine whether the reported performance information 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. The material findings on the usefulness and reliability of the performance information of the selected key performance area are as follows:

KPA1: Basic service delivery

Number of existing households with access to refuse removal services

24. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information, evidence and method of collection to enable consistent measurement and reliable reporting of the actual achievement for the indicator. This was due to a lack of measurement definitions and processes for compiling the listing of the reported achievement. I was unable to test whether the indicator was well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievement of 83 742 reported against target 83 742 existing households with access to refuse removal services at 30 June 2022 in the annual performance report.

Other matters

25. I draw attention to the matters below.

Achievement of planned targets

26. 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 paragraph 24 of this report.

Adjustment of material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 1: basic service delivery. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 24 of this report.

Report on the audit of compliance with legislation

Introduction and scope

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

Annual financial statements, performance reports and annual reports

30. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of disclosures and of the statement of comparison of budget and actual amounts identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

31. Reasonable steps were not taken to prevent unauthorised expenditure of R227,2 million disclosed in note 52 to the financial statements, in contravention of section 62(1) (d) of the MFMA. The unauthorised expenditure was caused by overspending the municipality's budget.
32. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1) (d) of the MFMA. The value of R103 million, as disclosed in note 54, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by contract extensions that were not justifiable.
33. Payments were made from the municipality's bank account without the approval of the properly authorised official, as required by section 11(1) of the MFMA.

Strategic planning and performance management

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

Consequence Management

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

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

Human Resource Management

38. 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.

Procurement and contract management

39. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1)(a) and (c).

Other information

40. 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 that are presented in the annual performance report that have been specifically reported in this auditor's report.
41. 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.
42. 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 area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
43. 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
44. I have nothing to report in this regard.

Internal control deficiencies

45. I considered internal controls 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 findings on the annual performance report and the findings on compliance with legislation included in this report.
46. Insufficient implementation of controls to ensure the preparation of regular, accurate and complete financial and performance reports, that are supported and evidenced by reliable information.

47. Insufficient oversight, monitoring and review of the implementation of internal controls during the year resulted in material misstatements in the financial statements and the annual performance report.
48. The non-compliance with legislation identified could have been prevented had compliance been properly monitored and reviewed. Monitoring and corrective controls in place to prevent noncompliance with applicable legislation are not adequate.

Other reports

49. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
50. At the time of my report, the Directorate for Priority Crime Investigation (Hawks) was investigating allegations of procurement fraud on covid-19 expenditure incurred by the municipality. The investigation was in progress.
51. At the time of my report, the section 106(b) investigation into allegations of covid-19 expenditure and the appointment and remuneration of employees in terms of the local government Municipal Systems Act of 2000, was in progress.

Auditor General

Mbombela

10 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 area and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer 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 Nkomazi Local Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease operating as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and 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.

