



AUDITOR-GENERAL
SOUTH AFRICA

Mrs CA Nkuna
Bushbuckridge Local Municipality
Private Bag X9308
Bushbuckridge
1280

Date 28 January 2022

Reference: 60053REG20-21

Dear Madam

Report of the Auditor-General on the financial statements, annual performance report, compliance with legislation and other legal and regulatory requirements of Bushbuckridge Local Municipality for the year ended 30 June 2021

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act No. 25 of 2004 (PAA) read in conjunction with section 188 of the Constitution of the Republic of South Africa section 126(3) of the Municipal Finance Management Act 56 of 2003 (MFMA).
2. In terms of section [121(3) (municipality) of the MFMA] you are required to include the audit report in the municipal's annual report to be tabled.
3. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements, annual performance report and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
4. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
5. The confidentiality of information obtained in an engagement must be observed at all times. In terms of section 50 of the PAA and the International Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (*including International Independence Standards*), the AGSA, or an audit firm appointed in terms of section 25 of the PAA, may not disclose or make available any information obtained during an audit, other than the final auditor's report, to any third party unless this is to a legislature

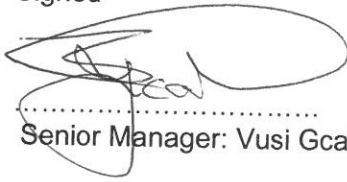
or internal committee of a legislature or a court in a criminal matter and the disclosure has been approved by the auditee and the Auditor-General.

6. Until the steps described in paragraphs 2 and 4 of this document are completed and the annual report is tabled as required by section 127(2) of the MFMA municipality the audit report is not a final and public document and you are therefore requested to treat it as confidential.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

A handwritten signature in black ink, appearing to be 'Vusi Gcaba', written over a dotted line.

Senior Manager: Vusi Gcaba Mpumalanga business unit

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Bushbuckridge Local Municipality set out on pages xx to xx, 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 Bushbuckridge Local Municipality as at 30 June 2021, 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 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.

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 48 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 impairments – receivables from exchange transactions and receivables from non-exchange transactions

8. As disclosed in note 7 to the financial statements, material impairment of receivables from non-exchange transactions of R541,47 million (2019-20: R433,86 million), was incurred as a result of impairment provision for doubtful debts.
9. As disclosed in note 9 to the financial statements, the material impairment of receivables from exchange transactions of R486,40 million (2019-20: R371,93 million), was incurred as a result of impairment provision for doubtful debts.

Contingent liabilities

10. With reference to note 40 to the financial statements, the municipality is disputing water balances owing to leaks and illegal connections to the bulk infrastructure of R173,69 million (2019-20: R259,77 million) owing to Rand Water. The case has been referred for arbitration by the National Treasury. The ultimate outcome of the matter could not be determined and no provision for any liability that may result was made in the financial statements.

Events after the reporting date

11. With reference to note 43 to the financial statements, a fire damaged the building at Dwaarsloop. The insurance is still assessing the cost of the damage.

Other matter

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

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.

Responsibilities of the accounting officer for the financial statements

14. 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.

15. 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

16. 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.
17. 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

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

Development priority	Pages in the annual
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	performance report
Infrastructure development and basic service delivery	x – x

21. 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.

22. The material findings on the usefulness and reliability of the performance information of the selected development priority are as follows:

Key performance area 2 – Infrastructure development and basic service delivery

Various indicators

23. The source information, evidence and method of calculation for achieving the planned indicator was not clearly defined for the following indicators:

Key performance indicator
Percentage completion of development of water master plan
Percentage completion of the upgrade of intermediate booster pump station

Various indicators

24. The reported achievement was not consistent with the planned target for the following indicators:

Key performance indicator	Annual planned target	Reported achievement
% completion of water reticulations projects at Boikhutso (Kutung) water reticulations	100% completion of water reticulation project at Boikhutso (Kutung) water reticulation project (2179 HH)	100% completion of water reticulation project at Boikhutso (Kutung) done
% refurbishment of sanitation infrastructure	35% completion of refurbishment of sanitation infrastructure project	100% completed

Various indicators

25. The achievements reported in the annual performance report for the indicators listed below materially differed from the supporting evidence provided.

Key performance indicator	Annual planned	Reported	Audited value
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	target	achievement	
Percentage completion of water reticulation project at Saselani/Authorstone Phase 2A	100% 1 533 HH	100% 1 533 HH	100% 2 251 HH
% completion development of water master plan	100%	80%	49%
% refurbishment of Mkhuhlu WWTW	30%	25%	41%
Percentage completion of 300 VIP toilets project	100% 300 HH	100% 300 HH	100% 1 389 HH
% completion of the upgrade of intermediate booster pump station	100%	60%	29%

% completion of water reticulation project in Tintswalo

26. The achievement of 1 069 HH was reported against the target of 1 069 HH in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement.

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year and management's explanations provided for the under/over achievement of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 23 to 26 of this report.

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of the infrastructure development and basic service delivery development priority. 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

30. 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.

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

Annual financial statements

32. 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, liabilities, 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

33. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of R211,54 million, as disclosed in note 46, 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 non-compliance with supply chain management (SCM) regulations.

Revenue management

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

Asset management

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

Procurement and contract management

36. Some goods and services with 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).
37. Some 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.
38. Some tenders that failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable tender in accordance with the 2017 preferential procurement regulation 5(6).
39. Some commodities designated for local content and production were procured from suppliers who did not submit a declaration on local production and content, as required by the 2017 preferential procurement regulation 8(5).
40. Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production were procured from suppliers who met the prescribed

minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5).

Other information

41. 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 the selected development priority presented in the annual performance report that has been specifically reported in this auditor's report.
42. 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.
43. 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 development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
44. 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

45. 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 findings on the annual performance report and the findings on compliance with legislation included in this report.
46. Adequate oversight responsibility was not exercised regarding financial and performance reporting, compliance and related internal controls.
47. Leadership did not implement effective human resource management policies and procedures to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.
48. Management did not implement adequate controls over daily and monthly processing and reconciling of transactions.
49. Management did not adequately review and monitor compliance with applicable laws and regulations.

Material irregularities

50. In accordance with the PAA and the material irregularity regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities in progress

51. 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. This material irregularity will be included in the next year's auditor's report.

Other reports

52. I draw attention to the following engagement conducted 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.

53. A specific investigation was commissioned in 2014 by the President of the Republic of South Africa for the Special Investigation Unit to investigate various allegations at the municipality. The investigation was in progress at the date of this report.

Auditor-General

Mbombela

28 January 2022



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 development priorities 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 Bushbuckridge 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 communicate 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.

1.