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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the City of Mbombela Local Municipality set out on pages xx to xx, 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 City of Mbombela Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for 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. As disclosed in note 62 to the financial statements, the cash coverage ratio of the municipality for the year ended 30 June 2022 was less than a month, which is below the norm of three months. Furthermore, the municipality's current liabilities exceeded the current assets by R1,65 billion (2020-21: R1,68 billion). These events or conditions, along with other matters as set forth in note 62, indicate that a material uncertainty exists 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 51 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.

Material losses – receivables

10. As disclosed in note 5 to the financial statements, the municipality incurred material impairment of statutory receivables of R136,84 million (2020-21: R173,35 million) as a result of an impairment provision for doubtful debts.

11. As disclosed in note 6 to the financial statements, the municipality incurred material impairment of trade receivables from exchange transactions of R91,84 million (2020-21: R83,13 million) as a result of an impairment provision for doubtful debts.

12. As disclosed in note 44 to the financial statements, the municipality incurred material losses of R187,41 million (2020-21: R298,90 million) as a result of a write-off of irrecoverable trade debtors.

Material losses – electricity

13. As disclosed in note 45 to the financial statements, the municipality incurred material electricity losses of R259,42 million (2020-21: R190,91 million), which represents 24,49% (2020-21: 21,54%) of total electricity purchased.

Transfer of functions

14. As disclosed in note 67 to the financial statements, there was a transfer of functions from City of Mbombela Development Agency to the municipality. The transfer of functions was due to the disestablishment of the entity by council at its special council meeting held on the 29 April 2022 and was finalised on this date.

Other matter

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

Unaudited disclosure notes

16. 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

17. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

18. 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

19. 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.

20. 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

21. 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 objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

22. 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.

23. 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 objective presented in the municipal's annual performance report for the year ended 30 June 2022:

Objective	Pages in the annual performance report
Key performance area (KPA) 3 – basic services delivery and infrastructure development	x – x

24. 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.

25. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objective.

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. Refer to the annual performance report on pages … to … for information on the achievement of planned targets for the year and management's explanations provided for the under/over achievement of targets.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 3 – basic services delivery 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

29. 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.

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

Annual financial statements

31. 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, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Consequence management

32. 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.

33. 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.

34. 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.

Expenditure management

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

36. Reasonable steps were not taken to prevent irregular expenditure of R152,67 million, as disclosed in note 61 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by tenders which did not comply with the stipulated qualifying criteria.

37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R85,55 million, as disclosed in note 60 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest for late payment of invoices.

38. Reasonable steps were not taken to prevent unauthorised expenditure of R539,77 million, as disclosed in note 59 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. All of the unauthorised expenditure was due to overspending on the approved operational expenditure budget.

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 supply chain management regulation 17(1)(a) and (c).

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

41. 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 2017 preferential procurement regulation 8(2).

42. Persons in service of the municipality whose close family members 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 Municipal Systems Act 32 of 2000 (MSA).

Strategic planning and performance management

43. Annual performance objectives and indicators were not established for the City of Mbombela Development Agency or included in the municipality's multiyear business plan, as required by section 93B(a) of the MSA.

44. The performance of the City of Mbombela Development Agency was not monitored and reviewed as part of the annual budget process, as required by section 93B(b) of the MSA.

Other information

45. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

46. 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.

47. 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 objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

48. 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

49. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion and the findings on compliance with legislation included in this report.

50. Management did not consistently implement daily, weekly and monthly financial and performance management disciplines. In addition, key risks relating to financial and performance reporting as well as compliance with applicable legislation were not actively managed during the year under review.

Material irregularities

51. 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 identified during the audit

Eskom not paid within 30 days of receiving the relevant invoice or statement

52. The municipality did not comply with section 65(2)(e) of the MFMA which states that the accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

53. The non-compliance was likely to result in a material financial loss for the municipality of R30,25 million as at 30 June 2020. This was due to the municipality still owing money to Eskom and continuously not making payments within 30 days.

54. The accounting officer was notified of the material irregularity on 21 April 2021 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer responded on 21 May 2021 with the actions taken to resolve the material irregularity. My assessment is that the actions taken are not appropriate to resolve the material irregularity.

55. I recommend that the accounting officer should take the following actions to address the material irregularity which should be implemented by 30 June 2023, with progress reports every 2 months:

    a) Negotiate a reasonable payment agreement with Eskom and properly budget for the amounts to be paid.

    b) Appropriate action should be taken to implement the financial plan and any revisions thereto, to address the financial problems of the municipality that are preventing it from paying Eskom within 30 days, as required by MFMA section 65(2)(e).

Sembcorp Silulumanzi not paid within 30 days of receiving the relevant invoice or statement

56. The municipality did not comply with section 65(2)(e) of the MFMA which states that the accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

57. The non-compliance has resulted in a material financial loss of R1,14 million for the municipality as at 30 June 2020.

58. The non-compliance was likely to result in further material financial loss for the municipality of R2,57 million as at 30 June 2020. This was due to the municipality still owing money to Sembcorp Silulumanzi and continuously not making payments within 30 days.

59. The accounting officer was notified of the material irregularity on 21 April 2021 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer responded on 21 May 2021 with the actions taken to resolve the material irregularity. My assessment is that the actions taken are not appropriate to resolve the material irregularity.

60. I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 30 June 2023 with progress reports every 2 months:

    a) Monitor the adherence to the terms of the payment agreement with Silulumanzi and properly budget for the amounts to be paid.

    b) Appropriate action should be taken to implement the financial plan and any revisions thereto, to address the financial problems of the municipality that are preventing it from paying Sembcorp Silulumanzi within 30 days, as required by MFMA section 65(2)(e).

Auditor-General

Mbombela

30 November 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 objectives 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 City of Mbombela 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 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.