Report of the auditor-general to the Mpumalanga Provincial Legislature and the Council of the 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 2023, 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 2023 and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of 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 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 responsibilities of the Auditor-General 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

7. As disclosed in note 5 to the financial statements, the balance of Statutory receivables was reduced by an amount of R 287, 94 million (2021-22: R136, 84 million) as a result of a provision for impairment on the balance.

8. As disclosed in note 6 to the financial statements, the balance of Trade receivables from exchange transactions was reduced by an amount of R 261, 45 million (2021-22: R91, 84 million) as a result of a provision for impairment on the balance.

Material losses – Electricity

9. As disclosed in note 46 to the financial statements, material electricity losses of R270, 57 million (2021-22: R259,42 million) were incurred, which represents 24,46% (2021-22: 24,49%) of total electricity purchased.

Restatement of corresponding figures

10. As disclosed in note 52 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Other matter

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

Unaudited disclosure notes

12. Section 125 of the MFMA describes disclosures that management should include in the financial statements. Section 125(2)(e) specifically requires the disclosure of particulars of non-compliance with the MFMA. The auditor cannot audit compliance with all the requirements of the MFMA. It is therefore not practicable for the auditor to determine the completeness of such disclosure and to provide assurance on this. However, the AGSA does report material findings on compliance with specific matters in key legislation, as set out in the AG directive.

Responsibilities of the accounting officer for the financial statements

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

14. 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.

Responsibilities of the Auditor-General for the audit of the financial statements

15. 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.

16. 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

17. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected development priorities presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

18. I selected the following development priority presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a development priority that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Development priority	Page numbers	Purpose
Service delivery and infrastructure development	XX	To provide infrastructure and sustainable basic services. To provide sustainable social amenities to the communities. To strengthen the delivery of sustainable integrated human settlement and environmental management

19. I evaluated the reported performance information for the selected development priorities 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.

20. 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.

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

22. I did not raise any material findings on the reported performance information for the selected development priorities.

Other matter

23. I draw attention to the matters below.

Achievement of planned targets

24. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance.

25. The municipality plays a key role in delivering services to South Africans. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved, as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.

Service delivery and infrastructure development

Targets achieved: 70%

Budget spent: 91%

Key service delivery indicator not achieved	Planned target	Reported achievement
Number of Agnes Mine Package Plant constructed	1 Agnes Mine Package Plant constructed	0 Agnes Mine Package Plant constructed
Km of Kanyamazane bulk line water supply constructed	3 km of Kanyamazane bulk line water supply constructed	0 km of Kanyamazane bulk line water supply constructed
Number of Package Plants constructed	1 Package Plant constructed	0 Package Plant constructed
Number of Kanyamazane WTW refurbished	1 Kanyamazane WTW refurbished	0 Kanyamazane WTW refurbished

% of Provision of Nsikazi South Via Karino Bulk Water Supply Scheme Phase 2 (Mechanical and Electrical Works) constructed	100% of Provision of Nsikazi South Via Karino Bulk Water Supply Scheme Phase 2 (Mechanical and Electrical Works) constructed	95% of Provision of Nsikazi South Via Karino Bulk Water Supply Scheme Phase 2 (Mechanical and Electrical Works) constructed
Km of Mamindza Bulk Outfall sewer constructed	2.80km of Mamindza Bulk Outfall sewer constructed	0km of Mamindza Bulk Outfall sewer constructed
Number of HV poles procured	10 HV poles procured	0 HV poles procured
Number of HV Equipment procured	1 HV Equipment procured	0 HV Equipment procured
Number of intersections installed with traffic lights	3 Intersections installed with traffic lights	0 Intersections installed with traffic lights
Number of Bulk lines constructed	1 Bulk line constructed	0 Bulk line constructed
% of 5,1 km of gravel roads upgraded to interlocking paving within Umjindi areas	100% of 5,1 km of gravel roads upgraded to interlocking paving within Umjindi areas	69% of 5,1 km of gravel roads upgraded to interlocking paving within Umjindi areas
% of Jericho Pedestrian Bridge constructed	5% of Jericho Pedestrian Bridge constructed	0% of Jericho Pedestrian Bridge constructed
% of 4,7 km of Nkambule to Mkheyi bus route constructed	80% of 4,7 km of Nkambule to Mkheyi bus route constructed	67% of 4,7 km of Nkambule to Mkheyi bus route constructed
Square metres (m^2) of tar roads resealed	83 333m^2 of tar roads resealed	40 637m^2 of tar roads resealed
% of Chweni community hall constructed	25% of Chweni community hall constructed	7% of Chweni community hall constructed
% of Masoyi stadium constructed – Phase 1	100% of Masoyi stadium constructed – Phase 1	96% of Masoyi stadium constructed – Phase 1
Metres of security fence at Nelsville sports field completed	840m of security fence at Nelsville sports field completed	0m of security fence at Nelsville sports field completed
Number of Flood lights installed	2 Flood lights installed	0 Flood lights installed
Number of New additional formalised dwellings with access to weekly waste removal services	300 New additional formalised dwellings with access to weekly waste removal services	157 New additional formalised dwellings with access to weekly waste removal services
Number of Skip Bins procured	50 Skip Bins procured	0 Skip Bins procured
Number of rural cooperatives supported	10 rural cooperative s supported	0 rural cooperatives supported

Material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for service delivery and infrastructure development. Management subsequently corrected all the misstatements and I did not include any material findings in this report.

Report on compliance with legislation

27. 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.

28. 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.

29. 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 for 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.

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

Expenditure management

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

32. Reasonable steps were not taken to prevent irregular expenditure amounting to R204, 74 million as disclosed in note 62 to the annual financial statements, as required by section 62(1)(d) of the MFMA.

33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R136, 11 million as disclosed in note 61 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 non-compliance with section 65 of the MFMA due to interest and penalties on overdue accounts for payments not made within 30 days.

34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R780, 31 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 unauthorised expenditure was caused by overspending on the votes.

Consequence management

35. 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.

Annual financial statements

36. 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 current assets, 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.

Procurement and contract management

37. 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 SCM regulation 46(2)(e).

Other information in the annual report

38. 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 development priorities presented in the annual performance report that have been specifically reported on in this auditor's report.

39. 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.

40. 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 development priorities presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

41. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and 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

42. 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.

43. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on compliance with legislation included in this report.

44. Monitoring of the implementation of key controls by management was inadequate to ensure that non-compliance with applicable laws and regulations is prevented, and the municipality's accounting policies were not adequately reviewed to ensure compliance with GRAP, which resulted in material adjustments.

Material irregularities

45. 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.

Material irregularities in progress

46. 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 next year's auditor's report.

Status of previously reported material irregularities

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

50. 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 is paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

51. 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 failing continuously to make payments within 30 days.

52. 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 would 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.

53. I recommended that the accounting officer take the following actions to address the material irregularity which should be implemented by 30 June 2023, with progress reports every two 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).

54. On 5 July 2023, the accounting officer’s responses on the actions implemented was received. I evaluated the accounting officer’s responses and substantiating documentation received on the implementation of the recommendations. As some of the actions taken to address the material irregularity are still in progress and not yet completed, I granted the accounting officer an additional six months up to 31 May 2024 to implement the recommendations. A progress report must be provided on 1 April 2024 on the implementation of the recommendations.

55. I will follow up on the implementation of actions during my next audit.

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 is 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 failing continuously to make 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 would 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 recommended that the accounting officer take the following actions to address the material irregularity, which should be implemented by 30 June 2023, with progress reports every two 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).

61. On 5 July 2023, the accounting officer's response on the actions implemented was received. I evaluated the accounting officer's responses and substantiating documentation received on the implementation of the recommendations. As some of the actions taken to address the material irregularity are still in progress and not yet completed, I granted the accounting officer an additional six months up to 31 May 2024 to implement the recommendations. A progress report must be provided on 1 April 2024 on the implementation of the recommendations.

62. I will follow up on the implementation of actions during my 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	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), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 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, 2005	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 44, 46(2)(e), 46(2)(f)

Legislation	**Sections or regulations**
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(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)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 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	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
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), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 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)