

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

## Report on the audit of the consolidated and separate financial statements

### Qualified opinion

1. I have audited the consolidated and separate financial statements of the Thaba Chweu Local Municipality, set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2020, the consolidated and separate statement of financial performance, statement of changes in net assets, and cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the consolidated and separate financial statements present fairly, in all material respects, the statement of financial position of the Thaba Chweu Local Municipality as at 30 June 2020, 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 16 of 2019 (Dora).

### Basis for qualified opinion

#### VAT receivable

3. I was unable to obtain sufficient appropriate audit evidence for VAT receivable, as the municipality did not maintain a reconciliation between the VAT statement of account as per the South African Revenue Service and the value disclosed in the consolidated and separate financial statements. I was unable to confirm the balance of VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to VAT receivable, disclosed at R61 648 358 in note 7 to the consolidated and separate financial statements. Since the VAT receivable is included in the determination of net cash flows from operating activities reported in the consolidated and separate statement of cash flows, I was unable to determine whether cash flows from operating activities was accurate and complete.

#### Consumer debtors

4. The municipality did not recognise the allowance for impairment in accordance with GRAP 104, *Financial instruments*. The municipality inaccurately processed journals that did not agree with the supporting documents. Consequently, consumer debtors in note 4 and debt impairment in note 34 to the consolidated and separate financial statements are overstated by R47 253 749. Additionally, there was an impact on the deficit for the period.

## Expenditure

5. The municipality did not recognise expenditure in accordance with GRAP 1, *Presentation of financial statements*. The municipality incorrectly calculated allowances paid to employees and the leave provision, resulting in employee costs in note 27 to the consolidated and separate financial statements and payables from exchange transactions in note 13 to the consolidated and separate financial statements being overstated by R9 770 895, and in consumer debtors in note 4 to the consolidated and separate financial statements being understated by the same amount. Furthermore, the municipality recognised as expenditure goods and services that did not meet the definition of expenditure but that of commitments. This resulted in expenditure being overstated by R14 154 944, as disclosed in the statement of financial performance and payables from exchange transactions in note 13 to the consolidated and separate financial statements. Additionally, there was an impact on the deficit for the period.

## Employee benefit obligation

6. The municipality did not recognise employee benefit obligation in accordance with GRAP 25, *Employee benefits*. I identified the following variances on the input data and key assumptions used by the expert to value the employee benefit obligation: net discount rate used, average annual salary, average age, average employer monthly contributions, and differences on age band for active employees and pension employees. I was unable to determine the full extent of the understatement of the employee benefit obligation in note 16 to the consolidated and separate financial statements as it was impracticable to do so.

## Revenue from exchange transactions

7. The municipality did not accurately account for all transactions of revenue in accordance with GRAP 9, *Revenue from exchange transactions*. The amount per the electricity meter reading did not agree with the amount disclosed in the billing report in determining revenue from conventional electricity. Consequently, revenue from service charges in note 18 to the consolidated and separate financial statements and consumer debtors in note 4 to the consolidated and separate financial statements are overstated by R14 220 386. Additionally, there was an impact on the deficit for the period.

## Statement of comparison of budget and actual amounts

8. The municipality did not accurately disclose amounts in the consolidated and separate statement of comparison of budget and actual amounts, in accordance with GRAP 24, *Presentation of budget information in financial statements*. I was unable to determine the full extent of the misstatement of the statement of comparison of budget and actual amounts, as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments were necessary to the statement of comparison of budget and actual amounts as disclosed in the consolidated and separate financial statements.

## Commitments

9. The municipality did not disclose the commitments in accordance with GRAP 19, *Provisions, contingent liabilities and contingent assets*. The municipality used incorrect contract details to calculate the commitments disclosed in note 39 to the consolidated and separate financial statements, leading to an understatement of R11 653 192.

### **Irregular expenditure**

10. The municipality did not have adequate controls to prevent and detect irregular expenditure to ensure that all irregular expenditure was disclosed in accordance with section 125(2) of the MFMA. In addition, the municipality made payments in contravention of the supply chain management (SCM) requirements, resulting in additional irregular expenditure of R80 970 571 that was not disclosed in note 43 to the consolidated and separate financial statements. I was unable to determine whether any further adjustments were necessary to irregular expenditure, disclosed at R506 342 097 (2018-19: R448 549 106) in note 43 to the consolidated and separate financial statements.

### **Unauthorised expenditure**

11. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure as the municipality processed adjustments for which no supporting documents were submitted for audit. I was unable to confirm the balance of unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to unauthorised expenditure, disclosed at R196 260 226 in note 41 to the consolidated and separate financial statements.

### **Cash flow from operating, investing and financing activities**

12. The municipality did not prepare the cash flow statement in accordance with the requirements of GRAP 2, *Cash flow statements*. The calculations of the cash flow from operating, investing and financing activities were materially misstated due to inclusion of non-cash items and unexplained differences in the cash flow calculations. Consequently, I was unable to determine the full extent of the misstatement as it was impractical to do so.

### **Context for the opinion**

13. 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 consolidated and separate financial statements section of this auditor's report.
14. 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.
15. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Material uncertainty relating to going concern**

16. I draw attention to the matter below. My opinion is not modified in respect of this matter.
17. I draw attention to note 49 to the consolidated and separate financial statements, which indicates that the municipality incurred a net loss of R28 192 436 during the year ended 30 June 2020 and, as of that date, the municipality's current liabilities increased by

R194 878 225 (26%) and cash flow generated from operating activities decreased by R27 254 520. As stated in note 49 to the consolidated and separate financial statements, these events or conditions, along with other matters as set forth in note 49, 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**

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

### **Restatements of corresponding figures**

19. As disclosed in note 38 to the consolidated and separate financial statements, the corresponding figures for 30 June 2019 were restated as a result of an error in the consolidated and separate financial statements of the municipality at, and for the year ended, 30 June 2020.

### **Material losses – electricity**

20. As disclosed in note 44 to the consolidated and separate financial statements, material electricity losses of 53 240 271 units (2018-19: 31 425 258 units) was incurred, which represents 36% (2018-19: 23%) of total electricity purchased.

### **Material losses – water**

21. As disclosed in note 44 to the consolidated and separate financial statements, material water losses of 6 434 724 kilolitres (2018-19: 7 206 340 kilolitres) was incurred, which represents 66% (2018-19: 69%) of total water purchased.

### **Events after the reporting period**

22. I draw attention to note 49 in the consolidated and separate financial statements, which deals with subsequent events and specifically the possible effects of the future implications of covid-19 on municipality's future prospects, performance and cash flows. My opinion is not modified in respect of this matter.

### **Other matter**

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

### **Unaudited disclosure notes**

24. 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 consolidated and separate financial statements. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and, accordingly, I do not express an opinion on it.

## **Auditor-general’s responsibilities for the audit of the consolidated and separate financial statements**

25. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.
26. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor’s report.

### **Report on the audit of the annual performance report**

#### **Introduction and scope**

27. 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.
28. 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/measures included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to 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.
29. 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 objectives presented in the municipality’s annual performance report for the year ended 30 June 2020:

<b>Objectives</b>	<b>Pages in the annual performance report</b>
KPA 1 – basic services and infrastructure development	x – x

30. 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.

31. I did not identify any material findings on the usefulness and reliability of the reported performance information for this objective:

KPA 1 – basic services and infrastructure development.

## **Other matters**

32. I draw attention to the matters below.

### **Achievement of planned targets**

33. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year.

### **Adjustment of material misstatements**

34. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic services 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**

35. 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.
36. The material findings on compliance with specific matters in key legislation are as follows:

### **Financial statements, performance reports and annual reports**

37. 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 cash and cash equivalents, accumulated surplus, fruitless and wasteful expenditure, and contingencies identified by the auditors in the submitted consolidated financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records resulted in the consolidated financial statements receiving a qualified audit opinion.
38. The consolidated financial statements were not submitted to the auditor-general for auditing within five months after the end of the financial year, as required by section 126(1)(b) of the MFMA.
39. The oversight report adopted by the council on the 2018-19 annual report was not made public, as required by section 129(3) of the MFMA.

## **Expenditure management**

40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
41. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred, as indicated in the basis for qualification paragraph.
42. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R47 103 888, as disclosed in note 42 to the consolidated 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 on the overdue Eskom account.
43. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified, as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending on the budget.

## **Revenue management**

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

## **Strategic planning and performance management**

45. The performance of the Thaba Chweu Local Economic Development Agency was not monitored and reviewed as part of the annual budget process, as required by section 93B(b) of the Municipal Systems Act 32 of 2000.

## **Consequence management**

46. 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.
47. Losses resulting from unauthorised expenditure were not recovered from the liable person, as required by section 32(2)(a) of the MFMA.
48. 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.
49. Losses resulting from irregular expenditure were not recovered from the liable person, as required by section 32(2) of the MFMA.
50. 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.
51. Allegations of financial misconduct laid against officials of the municipality were not investigated, as required by section 171(4)(a) of the MFMA.



## Procurement and contract management

52. Some of the 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. Similar non-compliance was also reported in the prior year.
53. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
54. Some of the contracts and quotations were awarded to bidders based on functionality criteria that were not stipulated or that differed from those stipulated in the original invitation for bidding and quotations, in contravention of Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
55. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with Construction Industry Development Board regulations 17 and 25(7A).
56. Bid documentation for the procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was also reported in the prior year.
57. Some of the commodities designated for local content and production were procured from suppliers that did not meet the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5).
58. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
59. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.
60. Awards were made to providers that were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

## Other information

61. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report and the audit committee's report. The other information does not include the consolidated and separate 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.



62. My opinion on the consolidated and separate 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.
63. 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 consolidated and separate 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.
64. 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**

65. I considered internal control relevant to my audit of the consolidated and separate 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 qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
66. The accounting officer did not exercise adequate oversight responsibility for financial reporting and compliance with legislation.
67. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.
68. Management did not prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.
69. Although the internal audit unit and the audit committee operated during the current period as per their legislated mandate, recommendations made to management on improving internal controls to ensure reliable reporting on financial and performance information as well as compliance with legislation were not always implemented.

### **Material irregularity**

70. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

## Material irregularity in progress

71. 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 received the accounting officer's responses. This material irregularity will be included in the next year's auditor's report.

Auditor - General

Mbombela

15 June 2021



AUDITOR - GENERAL  
SOUTH AFRICA

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## **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 consolidated and separate 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 consolidated and separate financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 Thaba Chweu 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 consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated and separate 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 consolidated and separate financial statements, including the disclosures, and determine whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation
  - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

### **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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.