SC 2227/01/2020
MC A/5187/01/2020

4.A.1 [CS]: OVERSIGHT REPORT IN TERMS OF SECTION 129 OF THE LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003: 2018/2019 ANNUAL REPORT: MUNICIPAL PUBLIC ACCOUNT COMMITTEE (MPAC)

3/2/3/2/15

COMPETENCY: COUNCIL

RESOLVED

1. That in terms of Section 129 of the Local Government: Municipal Finance Management Act, No. 56 of 2003 the 2018/2019 Annual Report be approved without reservation.

2. That the following recommendations of MPAC be approved and that the Mayoral Committee monitor progress thereon and give feedback on a quarterly basis to MPAC.

   2.1 Consumer debtor balance: That continuous effort be made to improve debt collection.

   2.2 Electricity losses: That measures be put in place by management to prevent the loss of electricity and that action be taken against persons who contravene the Electricity By-laws.

   2.3 Annual Report: That management must with regard to information provided for the Annual Report, put in place mechanisms to verify the information.

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3/2/3/2/15

COMPETENCY: COUNCIL

PURPOSE

To submit the Oversight Report on the 2018/2019 Annual Report, for consideration.

RECOMMENDATIONS

1. That in terms of Section 129 of the Local Government: Municipal Finance Management Act, No. 56 of 2003 the 2018/2019 Annual Report be approved without reservation.

2. That the following recommendations of MPAC be approved and that the Mayoral Committee monitor progress thereon and give feedback on a quarterly basis to MPAC.

   2.1 Consumer debtor balance: That continuous effort be made to improve debt collection.

   2.2 Electricity losses: That measures be put in place by management to prevent the loss of electricity and that action be taken against persons who contravene the Electricity By-laws.

   2.3 Annual Report: That management must with regard to information provided for the Annual Report, put in place mechanisms to verify the information.

REPORT

The Municipal Public Account Committee of Midvaal (MPAC) must consider the 2018/2019 Annual Report as well as the report of the Auditor- General attached as Annexure 'A'. The MPAC noted that Midvaal Local Municipality received it 6th "clean" audit report.

DISCUSSION: MATTERS OF EMPHASIS

The Auditor-General states in the attached Annexure 'A' that the audit evidence that was gathered is sufficient for him to provide his audit opinion. In his opinion the financial statements as at 30 June 2019 represent fairly and in al material respects, the financial position of Council.

He raised the following matters of emphasis that MPAC considered with a view to assist management, namely:-

Material impairments

1. As disclosed in note 4, 5, 6 and 36 to the financial statements, consumer debtors balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R159 373 336 :(2017-2018: R 125 239 484) which represent 51.6% (2017-2018: 49.7%) of the total consumer debtors.

2. As disclosed in note 32 and 60 to the financial statements, material losses amounting to R31 900 824 (2017-2018: R26 992 405) were incurred, which represent 12.2% (2017-2018: 11.2%) of the total electricity purchased. Technical losses amounted to R15 637 659 (2017-2018: R14 474 411). Non-technical losses amounted to R16 263 165 (2017-2018: R12 447 994), and re due to theft and illegal connections.

COMMENTS AND RECOMMENDATIONS FROM MPAC.

With regard to the material impairments the following:

1. Consumer debtor balance: That continuous effort be made to improve debt collection, and

2. Electricity losses: That measures be put in place by management to prevent the loss of electricity and that action be taken against those who contravene the Electricity By-laws.

Annual Report: That management must with regard to information provided for the Annual Report, put in place mechanisms to verify the information.

CONCLUSION

The clean Audit Report on the 2018/2019 financial year is again welcomed. The MPAC is of the opinion that the Executive and Administration should be acknowledged for the hard work done to obtain a clean audit report.

The MPAC will continue to carry out its oversight role, namely to assist the Municipality to be accountable to its ratepayers and to make meaningful recommendations to assist the municipality.

The MPAC Committee therefore, at its meeting held on 22 January 2020, unanimously resolved to recommend that 2018/2019 Annual Report be approved in terms of Section 129 of the Local Government: Municipal Finance Management Act No. 56 of 2003, without reservation.

CLLR J. MAZIBUKO

CHAIRPERSON

22/01/2020
DATE:

Report of the auditor-general to the Gauteng Provincial Legislature and the council on the Midvaal Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Midvaal Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the 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 Midvaal Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standard of Generally Recognised Accounting Practice (SA Standards of GRAP), and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act no.56 of 2003) (MFMA) and the Division of Revenue Act, 2018 (Act no. 1 of 2018) (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 this auditor's report.

4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants*, and parts 1 and 3 of the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA codes), as well as the 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 codes.

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 of the financial statements, the consumer debtors balance was significantly impaired. The allowance for impairment of consumer debtors amounts to R159 373 336 (2017-18: R125 239 484), which represents 51,6% (2017-18: 49,7%) of the total consumer debtors.

Material losses - electricity

8. As disclosed in notes 32 and 60 to the financial statements, material losses of R31 900 824 (2017-18: R26 922 405) were incurred, which represents 12,2% (2017-18: 11,2%) of the total electricity purchased. Technical losses amounted to R15 637 659 (2017-18: R14 474 411). Non-technical losses amounted to R16 263 165 (2017-18: R12 447 994), and are due to theft and illegal connections.

Other matter

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

Unaudited disclosure notes

10. 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

11. 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.

12. In preparing the financial statements, the accounting officer is responsible for assessing the Midvaal Local 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

13. 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.

14. 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

15. In accordance with the Public Audit Act of South Africa, 2004 (Act no. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

16. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did 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.

17. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance areas presented in the annual performance report of the municipality for the year ended 30 June 2019:

Key performance areas (KPAs)	Pages in the annual performance report
KPA 6 – Physical infrastructure and energy efficiency	x – x
KPA 7 – Services and customer care	x – x

18. 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.

19. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following these KPA's:

- KPA 6 – Physical infrastructure and energy efficiency
- KPA 7 – Services and customer care

Other matters

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

Achievement of planned targets

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

Report on the audit of compliance with legislation

Introduction and scope

22. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

23. I did not raise material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

Other information

24. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported in this auditor's report.

25. 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 thereon.

26. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. I have nothing to report in this regard.

Internal control deficiencies

27. 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. I did not identify any significant deficiencies in internal control.

Other reports

28. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

29. Five internal investigations into alleged irregularities in the supply chain management process was investigated in the 2018-19 financial year. The investigations are still in progress at the reporting date.

30. Three investigations into alleged irregularities in human resource management were completed at the reporting date. The necessary remedial actions are in the process of being implemented.

Auditor - General

Johannesburg

30 November 2019

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected key performance areas 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 related to events or conditions that may cast significant doubt on the Midvaal Local Municipality's ability 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 the 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 continuing as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and 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 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, related safeguards.