

Report of the auditor-general to the Free State Provincial Legislature and the council on the Xhariep District Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Xhariep District 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 the statement of comparison of budget information 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 Xhariep District Municipality as at 30 June 2022 and its 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 the 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. Note 34 to the financial statements indicates that the municipality incurred a net loss of R14 459 929 for the year ending 30 June 2022 and, as of that date the municipality's current liabilities exceeded current assets by R18 806 196.
7. These events or conditions, along with other matters as set out in note 34, 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

Unauthorised expenditure

8. As disclosed in note 36 to the financial statements, the municipality incurred unauthorised expenditure of R6 110 077 (2021: R1 861 390) due to overspending of the approved budget.

Irregular expenditure

9. As disclosed in note 38 to the financial statements, the municipality incurred irregular expenditure of R3 354 493 (2021: R3 979 537) due to non-compliance with supply chain management (SCM) regulations requirements.

Restatement of corresponding figures

10. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the financial statements of the municipality, and for the year end, 30 June 2022.

Material impairment

11. As disclosed in note 3 to the financial statements, receivables from exchange transactions were impaired by R5 396 984.

Responsibilities of the accounting officer for the financial statements

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

14. 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.
15. 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

16. 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 key performance areas (KPAs) presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
17. 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 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.
18. 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 KPA presented in the municipality's annual performance report for the year ended 30 June 2022:

KPA	Pages in the annual performance report
KPA – basic service delivery and infrastructure development	x – x

19. 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.
20. I did not identify material findings on the usefulness and reliability of the performance information for KPA – basic service delivery and infrastructure development

Other matters

21. I draw attention to the matters below.

Achievement of planned targets

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

Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA: basic service 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

24. 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.
25. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements and annual report

26. 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 liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements.
27. The oversight report adopted by the council on the 2020/21 annual report was not made public, as required by section 129(3) of the MFMA.

Procurement and contract management

28. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
29. Sufficient appropriate audit evidence could not be obtained that written quotations were accepted from prospective providers who were on the list of accredited providers and met the listing requirements as prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(1)(b).

30. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).
31. 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.

Expenditure management

32. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
33. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA.
34. Reasonable steps were not taken to prevent unauthorised expenditure of R6 110 077, as disclosed in note 36 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by expenditure incurred exceeding the budget.
35. Reasonable steps were not taken to prevent irregular expenditure expenditure of R3 354 493, as disclosed in note 38, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with procurement prescripts.
36. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R183 988, as disclosed in note 37 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 and penalties incurred.

Consequence management

37. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.

Strategic planning and performance management

38. The IDP was not drafted in close consultation with the local municipalities in the district, as required by section 29(2)(a) of the Municipal Systems Act 32 of 2000 (MSA).
39. The local community was not afforded the opportunity to comment on the final draft of the IDP before adoption, as required by section 42 of the MSA and municipal planning and performance management regulation 15(3).

40. The IDP did not reflect the key performance indicators and targets as required by section 26(i) of the MSA and municipal planning and performance management regulation 2(1)(e).

Other information

41. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected KPA presented in the annual performance report that has been specifically reported in this auditor's report.
42. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
43. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
44. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

45. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation:
46. The leadership was slow to implement and monitor the audit action plan to address the prior year's findings and internal control deficiencies identified during the previous audits, as well as misstatements that were subsequently corrected by management and repeated non-compliance with relevant laws and regulations. The management implemented a last-minute effort during the audit to resolve the internal control deficiencies and material misstatements to avoid audit report matters.

47. The leadership did not take effective steps to ensure that there were consequences for poor performance and transgressions, as most of the irregular expenditure was not investigated during the financial year.

Auditor General
Bloemfontein

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 key performance area 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 Xhariep District 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 to 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.