

Report of the auditor-general to the Free State Legislature and the council on the Thabo Mofutsanyana District Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Thabo Mofutsanyana District Municipality set out on pages ... to ..., which comprise of the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Thabo Mofutsanyana District Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the and the Division of Revenue Act 10 of 2020) (Dora).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Irregular expenditure

7. As disclosed in note 31 to the financial statements, the municipality incurred irregular expenditure of R16 920 949 (2020: R24 507 042) due to non-compliance with supply chain management (SCM) requirements. In addition, the full extent of irregular expenditure is in the process of being determined.

Restatement of corresponding figures

8. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Material uncertainty relating to claims against the municipality

9. With reference to note 25 to the financial statements, the municipality is the defendant in various claims. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result were made in the financial statements.

Material impairment

10. As disclosed in notes 4 and 5 to the financial statements, receivables from exchange transactions and receivables from non-exchange transactions were impaired by R3 526 919 (2020: R3 641 796).

Other matter

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

Unaudited disclosure notes

12. 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 them.

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 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.

Auditor-general's responsibilities 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

Introduction and scope

17. 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.
18. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
19. 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 2021:

KPA	Pages in the annual performance report
KPA 1 – basic service delivery	x – x

20. 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.
21. The material findings on the usefulness and reliability of the performance information of the selected KPA are as follows:

KPA 1 – basic service delivery

Various indicators

22. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against targets, as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance for the indicators listed below.

Indicator description	Planned target	Reported achievement
Financial assistance for youth business initiatives on 30th June 2021	Financial assistance for 2 youth owned businesses on 30 th June 2021	Financial assistance was not done to youth owned businesses on the 30 th June 2021
Number of food premises inspected	1 495 food premises inspections	1 320 food premises inspected
	Dihlabeng 350 inspections	233 inspections
	Nketoana 174 inspections	61 inspections
	Phumelela 101 inspections	92 inspections
	Maluti A Phofung 400 inspections	337 inspections
Number of milk samples taken	371 milk samples	251 milk sampled
	Dihlabeng 78 samples	49 samples
	Setsoto 84 samples	65 samples
	Mantsopa 47 samples	40 samples
	Nketoana 45 samples	25 samples
	Phumelela 44 samples	21 samples
	Maluti A Phofung 73 samples	51 samples
Number of water samples taken	434 water samples	400 water sampled
	Dihlabeng 89 samples	66 samples
	Nketoana 48 samples	40 samples
	Phumelela 48 samples	32 samples

Indicator description	Planned target	Reported achievement
	Maluti A Phofung 137 samples	136 samples
Number of childcare facilities inspected	381 childcare facilities inspections	327 childcare facilities inspections
	Dihlabeng 80 inspections	36 inspections
	Nketoana 31 inspections	21 inspections
	Phumelela 30 inspections	23 inspections
	Maluti A Phofung 150 inspections	125 inspections
Number of healthcare risk waste generations inspected	87 health care risk waste generators inspections	78 health care risk waste generators inspections
	Setsoto 22 inspections	16 inspections
	Nketoana 11 inspections	4 inspections
	Phumelela 8 inspections	6 inspections
	Maluti A Phofung 13 inspections	9 inspections

Other matters

23. I draw attention to the matters below.

Achievement of planned targets

24. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 22 of this report.

Adjustment of material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 1 - basic service delivery. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

26. 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.
27. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

29. The service delivery and budget implantation plan for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.
30. The performance management system and related controls were inadequate as they did not describe how the performance planning, monitoring, measurement, review and reporting processes should be conducted, organised and managed, as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

31. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
32. Some quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
33. Some contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
34. Some contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.

35. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and the 2017 preferential procurement regulation 11.
36. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by the 2017 preferential procurement regulation 5(1) and 5(3).
37. Sufficient appropriate audit evidence could not be obtained that tenders that failed to achieve the minimum qualifying score for functionality were disqualified as unacceptable tender in accordance with the 2017 preferential procurement regulations.
38. Sufficient appropriate audit evidence could not be obtained that tenders that failed to achieve the minimum qualifying score for functionality were not evaluated further in accordance with the 2017 preferential procurement regulation 5(7).
39. The performance of contractors or providers was not monitored monthly, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
40. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA.

Utilisation of conditional grants

41. Performance in respect of programmes funded by the rural road asset management system (RRAMS) grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of Dora.

Consequence management

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

Asset management

45. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Expenditure management

46. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of R16 920 949 , as disclosed in note 31, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure.

Other information

47. 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 KPA presented in the annual performance report that have been specifically reported in this auditor's report.
48. 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.
49. 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.
50. 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

51. 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 the annual performance report and the findings on compliance with legislation included in this report.
52. Leadership and management did not always oversee compliance with legislation, as instances of non-compliance with applicable legislation reported in the previous year were also identified in the current year. This was due to lack of consequence management being implemented.
53. The processes followed during the preparation and review of the annual performance report and financial statements were not adequate, resulting in material misstatements being identified in the financial statements and annual performance report. This was due to lack of consequence management being implemented.
54. The municipality did not have a proper records management system in place to maintain information that supported the reported performance information in the annual performance

report and the financial statements, resulting in significant delays in the audit of performance information and financial statements.

Auditor-General

Bloemfontein

30 November 2021



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 KPA 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 Thabo Mofutsanyana 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 communicate 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.