

Report of the auditor-general to Free State Legislature and the council of Letsemeng Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the separate financial statements of the Letsemeng Local Municipality set out on pages ... to ..., 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 statement of comparison of budget and actual amounts for the year then ended, as well as notes to the 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 financial statements present fairly, in all material respects, the financial position of the Letsemeng Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year ended in accordance with South African 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 qualified opinion

Service Charges

3. The municipality did not recognise service charges revenue, as required by GRAP 9, *Revenue from exchange transactions*, as properties were identified for which service charges for conventional water and electricity were not billed and recorded. Consequently, service charges for water and electricity included in note 20 to the financial statement is understated by 2 944 206 and R6 759 766 respectively. There was a resultant impact on the deficit for the period and on the accumulated surplus. Similar findings were raised in previous year.
4. The municipality did not recognise service charges revenue, as required by GRAP 9, *Revenue from exchange transactions*, as we identified instances where availability charges were incorrectly classified as service charges for refuse removal and sewerage charges. This resulted in misstatement of R 2 354 915 and R2 648 640 respectively. There was a resultant impact on the deficit for the period and on the accumulated surplus.
5. The municipality did not recognise service charges revenue, as required by GRAP 9, *Revenue from exchange transactions*, as identified instances where prepaid electricity transactions were recorded in the incorrect period. This resulted in misstatement of R 2 832 958. There was a resultant impact on the deficit for the period and on the accumulated surplus.

Revenue from non-exchange: Government grants and Subsidies

6. The municipality did not recognise and account revenue in accordance with GRAP 23, Revenue from non-exchange transactions, as revenue was recognised at incorrect amount and without conditions met. This led to revenue being overstated and unspent grant being understated by R 3 234 319. In addition, revenue amounting to R 12 190 467 was recognised in the incorrect period. The instances above led to an overstatement of R 22 292 632 to the Government grant and Subsidies disclosed in note 26 in the financial statements (Iss.105, 106, 113 and 125)

Revenue from non-exchange: Property Rates

7. The municipality did not recognise revenue from property rates in accordance with GRAP 23, Revenue from non-exchange transactions, as availability charges were incorrectly classified as property rates. In addition, differences were identified as accounts were billed at incorrect tariff rates. The effect of the classification and accuracy misstatements lead to an overstatement of R 3 627 045 to property rates as disclosed in note 25 to the financial statements and receivables from non-exchange as disclosed in note 6 to the financial statement. Additionally, there was an impact on the deficit for the period and the accumulated surplus.

Property, Plant and Equipment

8. The municipality did not recognise infrastructure assets in accordance with GRAP 17, Property, Plant and Equipment as instances of duplicate water meters and also could not verify the existence of water meters (Iss 57 and 114). This resulted in overstatement of R4 997 604 to the Property, Plant and Equipment disclosed in note 10 in the financial statements. This misstatement was identified in our follow-up of prior year findings. Furthermore, I was unable to confirm the existence of infrastructure assets due to the status of the accounting records (Iss 118 and 122). Consequently, I was unable to determine whether any adjustment were necessary to infrastructure assets stated at R614 851 364 note 10 in the financial statements. This misstatement was identified in our follow-up of prior year findings.
9. The Municipality did not recognise work in progress relating to infrastructure assets in accordance with GRAP 17, Property, Plant and Equipment, as projects that were completed in prior year were only transferred from WIP in the current period (Iss 69). In addition, there were instances where projects in the WIP register were recorded at incorrect amount (Iss 70). Furthermore, there were instances where work was re-performed by the consultants (Iss 177). The instances above led to an overstatement of R 12 102 863 to the Property, Plant and Equipment disclosed in note 10 in the financial statements.
10. The municipality did not account for disposal of assets in accordance with MFMA section 14(2)(a) and 14(2)(b) management dispose off assets of R4million without proper approvals from council. Iss.17. This assets were not safeguarded, and they were lost. This resulted in misstatement of R 1 718 499.
11. The municipality did not recognise infrastructure assets in accordance with GRAP 17, Property, Plant and Equipment, as we identified instances where costs which related to the infrastructure assets which were not capitalised (Iss 120 and 150). The instances above led to an understatement of R 1 115 699 to the Property, Plant and Equipment disclosed in note 10 in the financial statements.

12. The municipality did not assess work in progress that is taking significant longer period to complete for impairment. We could not determine the full extent of this (Iss 67).

Receivable from Exchange Transactions

13. The municipality did not recognise and classify interest included in receivables from exchange transactions in accordance with GRAP 104, Financial Instruments, as the total interest on outstanding debtors was incorrectly recognised under receivables from exchange transactions line item and not split between receivables from exchange transactions and receivables from non-exchange transactions. I was unable to determine the full extent of the misstatement on receivables from exchange transactions and receivables from non-exchange transactions as it was impracticable to do so. Furthermore, the municipality did not account for debtors aging accurately in the annual financial statement as differences were noted between the aging in AFS and debtors age analysis. This resulted in understatement of receivables in exchange and overstatement of revenue of R115 528 (Iss 128 and 185).
14. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions had been properly accounted for due to non-submission of supporting evidence. I was unable to confirm the receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amounts stated as R 281 636 954 (2021: R 239 174 386) in note 5 in the financial statements. Since the receivables from exchange balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R 15 708 531 in the financial statements (Iss. 85).

Receivables from non- Exchange Transactions

15. The municipality did not recognise and classify assessment rates included in receivables from non-exchange transactions in accordance with GRAP 104, Financial Instruments, as debtors with credit balance and service charges were included in assessment rate included in receivables from non- exchange transactions. In addition, we could not confirm the existence of the debtors. The above instances resulted in an overstatement of R 4 528 227 to the assessment rates included in receivables from non-exchange transactions amount disclosed in note 6 in the financial statements (Iss.102, 84 and 184)

Payables from exchange transactions

16. The municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*, as the age analysis for payables was misstated and it included items that do not qualify as payable such as contingent liabilities and others. The above instances resulted in an overstatement of R 11 922 236 to the trade payables included in payables from exchange transactions amount disclosed in note 15 in the financial statements (Iss.34). In addition, accrued leave recorded at incorrect amount as the incorrect leave credit were used in the calculation. There was a resultant impact on the deficit for the period and on the accumulated surplus.

General expenditure: Repairs and maintenance

17. The municipality did not classify repairs and maintenance in accordance with GRAP 1, Presentation of financial statements, as capital expenditure items were incorrectly included in repairs and maintenance account. In addition, there were instances where transaction were recorded in the incorrect period. The above instance resulted in overstatement of R 4 823 020 to the general expenditure disclosed in note 37 in the financial statements and understatement of R4 823 020 to the property plant and equipment in note 10 in the financial statement.

Context for the opinion

18. 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 separate financial statements section of my report.
19. 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.
20. 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/ financial sustainability

21. I draw attention to the matter below . My opinion is not modified in respect of this matter .
22. The municipal incurred a net loss of R 47 875 997 during the year ended 30 June 2022 and, as of that date the municipality's current liabilities exceeded its current assets by R 95 866 972. In addition , the municipality owe Eskom R 126 163 884 (2021: R 86 576 571) as at 30 June 2022, which was long overdue. These events or conditions, along with other matters as set forth in note 55, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matter

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

Underspending of the conditional grant

24. As discussed in note 18 and 26 to the financial statement, the municipality materially underspent the infrastructure grants by R23 002 924.

Restatement of corresponding figures

25. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statement of the municipality at and for the year ended, 30 June 2022.

Unauthorised expenditure

26. As disclosed in note 49 to the financial statements, the municipality incurred unauthorised expenditure of R206 285 385 (2021: R177 058 547), due to overspending on the budget.

Material losses - electricity

27. As disclosed in note 50 to the financial statements, material electricity and water losses of R5 822 608 (2021: 11 180 470) and R844 187 (2021: R3 158 304) respectively was incurred , which represents 32% (2021: 38%) and 62% (2021: 78%) respectively and was due to mainly inherent resistance of conductors , tempering of meters, incorrect ratio used on bulk meters and illegal connections .

Contingent Liabilities

28. With reference to note 52 to the financial statements, the municipality is the defendant in a various lawsuit claims. The municipality is opposing the claims, as it believes that some of the claims are invalid. The ultimate outcome of the matters could have not been determined at year end.

Other matters

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

Unaudited disclosure notes

30. 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

31. 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.
32. 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

33. 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.

34. 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

35. 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 development priorities presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
36. 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.
37. 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 development priorities presented in the municipality’s annual performance report for the year ended 30 June 2022:

[Programmes/ objectives/ development priorities]	Pages in the annual performance report
KPA 1 – Basic Service Delivery and Infrastructure Development	x – x

38. I performed procedures to determine whether the reported performance information 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.
39. The material findings on the usefulness and reliability of the performance information of the selected development priorities are as follows:

KPA 1 – Basic Service Delivery and Infrastructure development

TL 10 – Number of sites pegged at Koffiefontein by 30 June 2022

40. The planned indicator and target were the number of sites pegged at Koffiefontein, but the reported achievement stated the draft layout plan were presented before the section 80 committee, subsequently to the EXCO. No ordinary council meeting was held to approve layout plans. The indicator made no reference to the actual number of sites pegged.

The reported measures taken to improve performance against the planned target, did not agree to the supporting evidence provided. Based on the supporting evidence provided, the measures taken to improve performance did not properly disclose the reason for non-achievement.

Various Indicators

41. The achievements below were reported in the annual performance report for the listed indicators. However, some supporting evidence provided materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements.

Indicator Description	Reported Achievement
TL4 - Number of households electrified and connected Phase 2 at Diamanthoogte by 30 June 2022	201
TL5 - Number of households electrified and connected Phase 2 at Jacobsdal by 30 June 2022	191
TL6 - Number of Business Units at Letsemeng areas on electrical meters by 30 June 2022	50

TL 8 – Number of progress made on the renovation of the community halls, 1xRelebohile, 1xBolokanang, 1xJacobsdal Town Hall by 30 June 2022

42. The planned indicator and target was the number of progress made on renovations of community halls under the KPA: Municipal Transformation and Institutional Development, but the reported achievement was included under the KPA: Basic Service Delivery.

TL 9 – Number of progress made on the renovation of the Municipal buildings at Petrusburg and Jacobsdal by 30 June 2022

43. The planned indicator and target was to renovate the municipal buildings at Petrusburg and Jacobsdal, but the reported achievement stated that the KPI could not be achieved due to budgetary constraints and did not state the actual achievement and/or non-achievement.

Other matters

44. We draw attention to the matters below. Our opinion is not modified in respect of these matters.

Achievement of planned targets

45. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year [and management's explanations provided for the [under/over achievement] of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) 24-34 of this report.

Adjustment of material misstatements

46. 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 and infrastructure development. 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

47. 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.
48. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements and annual reports

49. 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.
50. Material misstatements of non-current assets, current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Expenditure Management

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

52. Payments were made from the municipality's bank accounts without the approval of the Chief financial officer, as required by section 11(1) of the MFMA.
53. 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 / payment of funds, as required by section 65(2)(a) of the MFMA.
54. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R9 837 817, as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
55. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R206 285 385, as disclosed in note 49 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA

Revenue Management

56. An adequate management, accounting and information system which accounts for Revenue was not in place, as required by section 64(2)(e) of the MFMA
57. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA
58. I was unable to obtain sufficient appropriate evidence that revenue due to the Municipality was calculated on a monthly basis as required by the as required by section 64(2)(b) of the MFMA
59. I was unable to obtain sufficient appropriate audit evidence that accounts for municipal tax and charges for service charges] were prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.

Assets Management

60. 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.
61. Capital assets were sold that were needed to provide the minimum level of basic municipal service, in contravention of section 14(1) of the MFMA.
62. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services and/or considered the fair market value of the assets and the economic and community value to be received in exchange for the assets as required by section 14(2)(a) and 14(2)(b) of the MFMA.

Consequence Management

63. 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.
64. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

65. 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.

Strategic Planning and Performance

66. The IDP was not drafted considering the integrated development process and proposals submitted to it by the district municipality, as required by section 29(3)(b) of the MSA.
67. 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).

HR Management

68. I was unable to obtain sufficient appropriate audit evidence that appropriate systems and procedures to monitor, measure and evaluate performance of staff were developed and adopted, as required by section 67(1)(d) of the MSA.

Conditional Grants

69. The Municipal Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).
70. The Water Services Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).
71. Performance in respect of programmes funded by the Expanded Public Works Programme was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 9 of 2021).
72. The Financial Management Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).
73. Performance in respect of programmes funded by the (Integrated National Electrification Programme was not evaluated within two months after the end of the financial year, as required by section 11(6)(b) of the Division of Revenue Act (Act 9 of 2021).

Procurement and Contract Management

74. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
75. Some of the 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.

76. Some of the quotations were accepted from bidders 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.
77. Some of the 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).
78. Some of the 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.
79. The preference point system was not applied in some of the procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year.
80. Some of the contracts and quotations were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act and its regulations. Similar non-compliance was also reported in the prior year
81. Some of the contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and 2017 Preferential Procurement Regulations 11.
82. Construction contracts were awarded to contractors that were not registered with the CIDB in accordance with section 18(1) of the CIDB Act. This non-compliance was identified in the procurement processes for the Refurbishment of waste water treatment works 2021/WWTW/01.
83. Invitation to tender for procurement of commodities designated for local content and production, did not stipulated 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
84. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 Preferential Procurement Regulation 8(5).
85. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM Regulating 5. Similar limitation was also reported in the prior year.
86. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA. Similar limitation was also reported in the prior year
87. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA. Similar limitation was also reported in the prior year.

88. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(1)(j) 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

89. 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 development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
90. 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.
91. 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 development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
92. 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 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

93. 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 basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
1. Leadership did not monitor and enforce the implementation of the corrective measures included in the audit action plan and prevent the re-occurrence of qualifications reported in the audit report. These measures were to address the weaknesses of the finance and supply chain directorates in procurement and contract management and the prevention of irregular, fruitless and wasteful, unauthorised expenditure and performance information
 2. Key officials and supporting staff lacked the necessary commitment to implement and monitor internal controls over the daily and monthly processing of transactions, resulting in the audit findings reported in this audit report.

3. There was no consequence management at the municipality and officials were not held accountable for irregular, unauthorised, and fruitless and wasteful expenditure incurred in the current and previous financial years.
4. Ineffective monitoring and supervision over financial and performance reporting resulted in material misstatements in the financial statements and annual performance report. The municipality continued to rely on consultants to resolve the prior year's audit findings; however, internal controls within the municipality did not improve as repeat findings were reported in the current year.

Material irregularities

94. 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 the material irregularities reported in the previous year's auditor's report.

Status of previously reported material irregularities

Eskom not paid within 30 days

95. Summary of material irregularities in progress

Date of material irregularity notification	Description of material irregularity / suspected material irregularity	Status
25 February 2021	<p>ESKOM not paid within 30 days</p> <p>The accounting officer did not take all reasonable steps to ensure that amounts due to Eskom for the bulk purchase of electricity were paid within 30 days of receiving the relevant invoice or statement, as required by section 65(2)(e) of the MFMA. The late payment resulted in interest of R3 711 420 being incurred for the period 1 April 2019 to 31 March 2020. The interest incurred is likely to result in a material financial loss for the municipality due to the liability to pay Eskom.</p>	<p>We received your written submission on 30 September 2022. Where we considered the representations made by the Accounting officer and the substantiating documents provided, and have concluded that appropriate actions are being taken to address the material irregularity.</p> <p>Refer to the presentation made by the Accounting officer below.</p>

96. Details of the presentation of the accounting officer received is as follows:

- Meeting with Eskom to Negotiate a payment plan
Municipality indicated that they planned to have a meeting with Eskom before the end of June 2021 to discuss payment plan. The meeting could not materialize before 30 June 2021, we however had a meeting with Eskom on the 09 November 2021, the

discussion pertaining to payment plan was not concluded as the case between Eskom and Municipality was still sub-judice. The case was concluded on the 07 July 2022

Subsequent to this ruling, an order was made that Municipality must pay all the arrear debt as well as current account, a meeting was held again with Eskom to discuss conditions of the payment plan, this meeting was held on 6th September 2022, Eskom has in principle agreed to a payment plan, and they will not charge us any interest on condition that we comply with the payment plan, the payment plan is going to be discussed on the 03rd October 2022 by the Section 80 Finance Committee, there after an item will be taken to Council for approval. We anticipate that the payment plan will be effective from 01 November 2022.

- Recovery of Government Debt

Account have been sent timeously to government institutions and they have duly paid for their accounts, the total government debt accounts for less than 5% of the total outstanding debt. There is currently no government department that owes the Municipality for long periods, we continue engaging with the government departments to ensure that they settle their accounts when they become due.

- Recovery of Non-Government debt

We have implemented Mayoral Patala program, where residents and businesses that have long outstanding debt are encouraged to pay a portion of their account and the remaining portion is written off in full. For the first two months of the year under review we managed to collect just over R 1.7 million, and for the entire year, the amount collected thorough this initiative was just over R 3 million

- Registration of Indigent Households

Our target is to have all indigent households within the municipality to register on the indigent register, we currently have about 1800 households in the register, and as a short-term goal we want to increase this to 2 500 indigent household, and by 2022/2023 ensure that 70% of indigent households are registered on the indigent register. This will alleviate to a certain extend financial burden that is posed by the indigent households that are not registering as such. The plan is to appoint temporary workers will be appointed to assist Municipality with the indigent registration

- Improve payment percentage for the Municipality

- National Treasury has given us approval to participate in the Transversal Tender – Tender 27 for debt collection for state, we are in a process of appointing one of the service providers to assist us with debt collection initiative (Annexure 8 - Please find attached approval letter form National Treasury)
- Organisation structure has been amended to make provision for more positions within the Revenue Section particularly under debt collection section.
- We have embarked on Meter audit exercise, the target for now is Electricity meters as most meters within the municipality are by-passed and some are broken. Faulty and by-passed meters are replaced with split meters to mitigate against electricity theft, and to ensure that for those that are using conventional meters, the reading are taken monthly and we do not use estimates to bill customers anymore
- Domestic Water meters have been installed in some of the households to deal with revenue enhancement process and distribution losses, the distribution losses decreased by 16% from 2020/2021 financial year.

- Review our Tariff structure and ensure that the tariffs are cost reflective, this process is done through the budget process
- Minimise distribution losses

Distribution losses have substantially decreased, this is due to the fact that meter audit exercise was embarked on, and we also corrected some of the meter readings, e.g. some meters have factors in them, however, when we implemented MSCOA the take on values where not correct, and some meters that have factors where taken as if there was no factor on them, this affected distribution losses and revenue of the Municipality, this has been correct, and revenue increase by close to 26% for 2021/2022 financial year. Electricity distribution losses decreased by 6% please refer to note 50 of the AFS.

- Ring Fence Recoveries from Electricity department

The Municipality has not been able to implement this action, reason being that some of the services are not making profits and therefore subsidised by Electricity revenue. Payment percentage on areas that are supplied by Eskom is less than 25%, and this put Municipality in a precarious financial position as services in those areas must be supplied yet revenue is not collected satisfactory. This is due to the fact that the only mechanism that Municipality can use to collect revenue in those areas is to cut off electricity to households that are owing, but we are unable to implement this strategy as those areas are supplied by Eskom and Eskom indicated that they are not allowed to cut off electricity supply to residents that owe Municipality for services provided. We have requested Councillors to call community meeting to encourage residents to pay for services that they consume.

- Identification of an official liable for this material irregularity

From previous submission, it was indicated that no official is responsible for this material irregularity, the material irregularity came about as a result of financial constraints.

[Sign as 'Auditor-General']¹

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 development priorities 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 Letsemeng 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 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.

Explanatory information and examples

General

¹ The auditor's signature

In the public sector, the auditor is required to sign as the 'auditor-general' and to include the AGSA logo and pay-off line.

Annexure – Auditor-general's responsibility for the audit