Report of the auditor-general to the Free State Provincial Legislature and the council on the Kopanong Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Kopanong Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, and 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. I do not express an opinion on the municipality's financial statements. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence that the municipality recognised all items of property, plant and equipment due to the status of the accounting records. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment stated at R912 879 379 (2020: R913 069 241) in note 3 to the financial statements. There is a resultant impact on the depreciation and amortisation expense.

Receivables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions had been properly accounted for due to the status of the accounting records. I was unable to confirm the receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the receivables from exchange transactions stated at R27 988 219 (2020: R48 306 347) in note 9 to the financial statements. There is a resultant impact on the depreciation and amortisation expense.

Receivables from non-exchange transactions

5. I was unable to obtain sufficient and appropriate audit evidence that receivables from non-exchange transactions had been properly accounted for due to the status of the accounting records. I was unable to confirm the receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the

receivables from non-exchange transactions stated at R21 539 470 (2020: R6 285 639) in note 10 to the financial statements.

VAT receivable

6. I was unable to obtain sufficient appropriate audit evidence that the VAT receivable had been properly accounted for due to the status of the accounting records. I was unable to confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the VAT receivable stated at R22 359 951 in note 8 to the financial statements.

Payables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to the status of the accounting records. I could not confirm payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to payables from exchange transactions stated at R733 217 140 in note 15 to the financial statements.

8. During 2020, the municipality did not account for payables from exchange transactions in accordance with the South African Standards of Generally Recognised Accounting Practices (GRAP) 1, *Presentation of financial statements*. The municipality did not have adequate systems in place to ensure that retention liabilities were appropriately recorded and that debtors with credit balances were appropriately classified. Consequently, payables from exchange transactions was understated by R34 495 346, receivables from exchange transactions was understated by R13 772 679, property, plant and equipment was understated by R17 609 469 and general expenses were understated by R3 113 198.

Employee benefit obligation

9. I was unable to obtain sufficient and appropriate audit evidence that the employee benefit obligation had been properly accounted for due to the unavailability of supporting documentation informing the calculation at year end. I was unable to confirm the employee benefit obligation by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the employee benefit obligation stated at R17 083 444 in note 5 to the financial statements.

Provisions

10. The municipality did not correctly recognise the provision for landfill sites as required by GRAP 19, *Provisions, contingent liabilities and contingent assets,* due to the incorrect inclusion of the monitoring and inspection costs when calculating the present value of the provision. Additionally, the municipality did not correctly recognise the movement in the fair value of the provision. Consequently, the provision for the environmental rehabilitation was understated by R11 589 413 and property, plant and equipment was understated by R11 589 413.

Service charges

11. I was unable to obtain sufficient appropriate audit evidence that service charges had been properly accounted for due to the status of the accounting records. I was unable to confirm service charges by alternative means. Consequently, I was unable to determine whether any

adjustment was necessary to service charges of R127 212 097 (2020: R113 816 146) in note 18 to the financial statements.

12. During 2020, the municipality did not recognise revenue from service charges in accordance with GRAP 9, *Revenue from exchange transactions*. The municipality did not have adequate systems to ensure that service charges were levied in terms of approved tariffs and material differences were identified between the billing system and the general ledger. Consequently, service charges was overstated by R101 750 682, receivables from exchange transactions was overstated by R99 065 424 and VAT receivables was overstated by R2 685 259.

Property rates

13. I was unable to obtain sufficient appropriate audit evidence for property rates due to the unavailability of supporting documentation. I could not confirm property rates by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property rates of R37 386 282 (2020: R28 864 127) disclosed in note 22 to the financial statements.

14. During 2020, the municipality did not recognise all the revenue from property rates in accordance with GRAP 23, Revenue from non-exchange transactions, as the municipality did not have adequate systems in place to ensure that all rateable properties on the valuation roll were billed. I was unable to determine the full extent of the understatement of property rates, as it was impracticable to do so.

Government grants and subsidies

15. I was unable to obtain sufficient appropriate audit evidence to confirm the government grants and subsidies due to the status of the accounting records. Consequently, I was unable to confirm whether any adjustments were necessary to the government grant and subsidies stated at R154 011 426 in note 23 to the financial statements.

16. The municipality did not recognise all items of government grants and subsidies in accordance with GRAP 23, *Revenue from non-exchange transactions*. Revenue from conditional grants were recognised before the conditions relating to the grant were satisfied. Consequently, government grants and subsidies were overstated and unspent conditional grants understated by R11 584 204. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

Employee-related costs

17. I was unable to obtain sufficient appropriate audit evidence for employee-related costs due to the unavailability of supporting documentation for basic salaries, bonus, allowances, overtime payments, journals processed and employees not being available for physical verification. I was unable to confirm employee-related costs by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to employee-related costs stated at R124 107 810 (2020: R115 529 405) in note 24 to the financial statements.

Finance costs

18. I was unable to obtain sufficient appropriate audit evidence that finance costs had been properly accounted for due to the status of the accounting records. I was unable to confirm the finance

costs by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to finance costs stated at R58 329 560 (2020: R55 842 781) in note 27 to the financial statements.

Bad debts written off

19. I was unable to obtain sufficient appropriate audit evidence for bad debts written off due to the status of the accounting records. I was unable to confirm bad debts written off by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to bad debts written off stated at R11 533 497 (2020: R13 496 030) in the financial statements.

Repairs and maintenance

20. I was unable to obtain sufficient appropriate audit evidence that repairs and maintenance incurred was correctly accounted for due to the status of the accounting records. I was unable to confirm repairs and maintenance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to repairs and maintenance stated at R6 859 097 (2020: R7 399 286) in the financial statements.

Administration expenditure

21. I was unable to obtain sufficient appropriate audit evidence that administration expenditure incurred was correctly accounted for due to the status of the accounting records. I was unable to confirm administration expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to administration expenditure stated at R5 347 737 in note 26 to the financial statements.

General expenses

22. I was unable to obtain sufficient appropriate audit evidence that general expenses had been properly accounted for due to the status of the accounting records. I was unable to confirm the general expenses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to general expenses stated at R16 988 950 (2020: R20 569 262) in note 30 to the financial statements.

Commitments

23. I was unable to obtain sufficient appropriate audit evidence for commitments due to the status of the accounting records. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments stated at R21 521 754 (2020: R39 029 146) in note 34 to the financial statements.

Fruitless and wasteful expenditure

24. I was unable to obtain sufficient appropriate audit evidence for the fruitless and wasteful expenditure, as the municipality did not maintain adequate accounting records. I was unable to confirm the fruitless and wasteful expenditure by alternative means. In addition, an unexplained difference of R15 580 655 was identified between the fruitless and wasteful expenditure register and the amount disclosed in the financial statements. Consequently, I was unable to determine whether any adjustment was necessary to the fruitless and wasteful expenditure of R339 853 045 disclosed in note 42 to the financial statements.

25. During 2020, the municipality did not include all the fruitless and wasteful expenditure incurred in the notes to the financial statements, as required by section 125(2)(d) of the Municipal Finance Management Act 56 of 2003 (MFMA). The municipality incurred interest and penalty charges due to late payments, which were not disclosed, resulting in fruitless and wasteful expenditure in note 42 to the financial statements, being understated by R30 063 950.

Unauthorised expenditure

26. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure written off due to a lack of appropriate evidence that it was certified by the council as irrecoverable, as required by section 32(2)(a)(ii) of the MFMA. Consequently, I was unable to determine whether any adjustments were necessary to unauthorised expenditure stated at R217 652 643 in note 41 to the financial statements. In addition, the municipality did not include all unauthorised expenditure in the notes to the financial statements as required by section 125(2)(d) of the MFMA. The municipality did not have an adequate budget monitoring system in place to effectively monitor budget versus actual expenditure resulting in unauthorised expenditure being understated by R12 199 276.

Irregular expenditure

27. The municipality did not disclose all instances of irregular expenditure incurred in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality incurred expenditure in contravention of supply chain management (SCM) requirements, which was not disclosed. I was unable to determine the full extent of the misstatement of irregular expenditure stated at R323 509 651 (2020: R290 644 769) in note 43 to the financial statements, as it was impracticable to do so.

Material distribution losses

28. I was unable to obtain sufficient appropriate audit evidence that water and electricity distribution losses had been correctly accounted for due to the status of the accounting records. I was unable to confirm the water and electricity distribution losses calculations by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to water and electricity distribution losses stated at R18 996 035 (2020: R25 378 816) and R9 678 752 respectively in note 44 to the financial statements.

Bulk purchases

29. I was unable to obtain sufficient and appropriate audit evidence that the prior period adjustment on bulk purchases had been properly accounted for due to the unavailability of supporting documents. I was unable to confirm the prior period bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the corresponding figure, stated at R102 638 723 in note 29 and the prior period error disclosure in note 37 to the financial statements.

Current assets

30. Current asset was materially misstated by R209 856 due to the cumulative effect of individually immaterial uncorrected misstatements in current assets:

- Cash and cash equivalents stated at R856 771 was overstated by R209 856.

31. In addition, I was unable to obtain sufficient appropriate audit evidence and to current assets by alternative means:

- Other receivables of R4 178 882 as included in the disclosed balance of R4 178 882.

32. Consequently, I was unable to determine whether any further adjustment was necessary to total current assets.

Material uncertainty relating to going concern

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

34. Note 39 to the financial statements indicates that the municipality incurred a net loss of R102 041 221 during the year ended 30 June 2021 and, as of that date, the municipality's current liabilities exceeded its current assets by R686 808 696. These events or conditions, along with other matters as set forth in note 39 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Other matter

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

Unaudited disclosure notes

36. 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

37. 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 the Division of Revenue Act 10 of 2020 (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.

38. 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

39. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was

unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

40. 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 the other ethical requirements relevant to my audit of the financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

Introduction and scope

41. 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.

42. I was engaged to evaluate 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 KPAs presented in the municipality's annual performance report for the year ended 30 June 2021:

Key performance areas	Pages in the annual performance report
KPA – Service delivery and infrastructure development – technical services	x – x
KPA – Service delivery and infrastructure development – community services	x – x

43. I was unable to audit the usefulness and reliability of the selected KPAs listed below as the annual performance report was presented without accurate and complete underlying performance records. This placed a limitation on the scope of my work, as I was unable to obtain sufficient and appropriate audit evidence, and to audit the reported performance information by alternative means:

- KPA – Service delivery and infrastructure development – technical services
- KPA – Service delivery and infrastructure development – community services

Other matter

44. I draw attention to the matter below.

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. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 43 of this report.

Report on the audit of compliance with legislation

Introduction and scope

46. 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.

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

Annual financial statements

48. 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 identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer of audit opinion.

49. The financial statements were not submitted to the auditor-general for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA. The non-compliance resulted in a material irregularity as reported in the section on material irregularities.

50. The financial statements were not submitted to the auditor-general within two months after the end of the financial year and a written explanation setting out the reasons for the failure was not tabled in council, as required by section 133(1)(a) of the MFMA.

Expenditure management

51. An adequate management, accounting and information system was not in place that accounted for payments made, as required by section 65(2)(b) of the MFMA.

52. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM processes.

53. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred, as indicated in the basis for qualification paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on late payments.

54. Reasonable steps were not taken to prevent unauthorised expenditure of R161 011 882, as disclosed in note 41 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was due to overspending of the approved budget.

Revenue management

55. An adequate management, accounting and information system that accounts for revenue, debtors and receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.

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

57. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management

58. An adequate management, accounting and information system that accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

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

Strategic planning and performance management

60. A mid-year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.

61. The performance management system and related controls were not maintained as they did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Grants management

62. I was unable to obtain sufficient appropriate audit evidence that the municipal infrastructure grant, regional bulk infrastructure grant and the water services infrastructure grant were spent for their intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora.

63. Performance in respect of programmes funded by the regional bulk infrastructure grant and the water services infrastructure grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of Dora.

Procurement and contract management

64. Goods and services with a transaction value of 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.

65. 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). Similar non-compliance was also reported in the prior year.

66. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were 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.

67. 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 SCM regulations 21(b) and 28(1)(a)(i) and preferential procurement regulations. Similar non-compliance was also reported in the prior year.

68. Sufficient appropriate audit evidence could not be obtained that contracts were awarded through a competitive bidding process that was adjudicated by the bid adjudication committee, as required by SCM regulations 29(1)(a) and (b) and preferential procurement regulations.

69. 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.

70. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000, as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act 5 of 2000. Similar non-compliance was also reported in the prior year.

71. 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 regulation 5. Similar limitation was also reported in the prior year.

72. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored monthly, as required by section 116(2) of the MFMA.

73. 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.

Consequence management

74. Unauthorised 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) of the MFMA.

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

76. 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)(b) of the MFMA.

Internal control deficiencies

77. 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. These matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

78. Leadership was not effective in ensuring that good governance that set the tone of accountability was in place to protect and enhance the interests of the municipality. Instability in senior management hindered the creation of systems and processes to allow the municipality to build stable capacity, enhance the skills of officials and create a culture of good financial and performance disciplines and compliance.

79. Leadership did not provide sufficient oversight of the implementation and monitoring of a sound control environment and the development of policies and procedures. Leadership also did not act on audit recommendations made in the prior year and did not monitor the development and implementation of an effective action plan, resulting in recurring findings.

80. Leadership did not put measures in place to reduce continuous reliance on consultants by implementing processes to ensure that staff were sufficiently and adequately trained and staff performance was monitored. Additionally, there was limited transfer of skills and knowledge from consultants to staff to reduce the reliance on consultants in future. Consequently, the possible improvements to internal controls to address prior period audit findings relied on the actions of the consultants.

81. Management did not implement the required financial disciplines such as proper record keeping, monthly reconciliations and the review of accounting records, as well as ensuring financial statements adhere to the accounting framework. The material misstatements were exacerbated by management not ensuring that information was timeously gathered and filed appropriately to support information reported on. Financial statements were not regularly prepared to enable their adequate and regular review throughout the year to identify areas of issues relating to the reporting framework.

82. Governance structures, i.e. the audit committee and the internal audit, were not effective in ensuring that good governance practices were in place by engaging management to prepare and monitor action plans to address the previous year's audit issues, and their proper implementation.

Material irregularities

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

Material irregularities identified during the audit

84. The material irregularity identified is as follows:

Annual financial statements not submitted for auditing (2020-21)

85. The annual financial statements for the year ending 30 June 2021 were not submitted to the auditor-general for auditing within two months after the end of the financial year (31 August 2021), as required by section 126(1)(a) of the MFMA. The non-submission of the annual financial statements for auditing, and the subsequent non-tabling of the annual report, is likely to result in substantial harm to the municipality, as there is a lack of accountability and transparency for the fiscal and financial affairs of the municipality. This is due to the legislative processes that followed after the submission of the annual financial statements relating to the financial year ending 30 June 2021, being delayed or not implemented.

86. The accounting officer was notified of this material irregularity on 14 April 2022 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer submitted the annual financial statements for auditing on 16 September 2022.

87. Therefore the material irregularity has been resolved.

Material irregularities in progress

88. I identified other material irregularities during the audit and notified the accounting officer of these, as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the responses from the accounting officer. These material irregularities will be included in the next year's auditor's report.

Auditor General

Bloemfontein

23 June 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence