

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Tokologo Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, and 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, except for the effects and possible 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 Tokologo Local Municipality as at 30 June 2024 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 Division of Revenue Act 5 of 2023 (Dora).

Basis for qualified opinion

Property plant and equipment

3. The municipality did not recognise property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment* as there were reconciling differences identified in the asset register impacting the opening balances relating to the infrastructure assets. Consequently, this resulted in property, plant and equipment being understated by R6 373 839. Additionally, buildings identified on the asset register could not be verified. Consequently, this resulted in property plant and equipment being overstated by R2 546 725. Furthermore, the municipality did not record all the infrastructure assets in its asset register. Consequently, this resulted in infrastructure and accumulated surplus being understated by R30 447 892. Lastly, the municipality incorrectly recorded land owned by private individuals in their asset register. Consequently, this resulted in land and accumulated surplus being overstated by R15 857 460. Additionally, there was an impact on the surplus for the period and accumulated surplus.
4. The municipality did not account for additions/capital expenditure included in the reconciliation of work-in-progress 2024 in property, plant and equipment in note 13 to the financial statements in accordance with GRAP 17, *Property, plant and equipment*, as the capital expenditure was not recorded in the financial statements. I was unable to determine the full extent of the understatement of additions/capital expenditure included in the reconciliation of work-in-progress 2024 stated at R589 264 257 in note 13 to the financial statements as it was impracticable to do so. Additionally, I was unable to obtain sufficient appropriate audit evidence that additions/capital expenditure included in the reconciliation of work-in-progress 2024 was properly accounted for due to the non-submission of information in support of the work-in-progress additions/capital

expenditure. I was unable to determine the additions/capital expenditure included in the reconciliation of work-in-progress 2024 by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to additions/capital expenditure included in the reconciliation of work-in-progress 2024, stated at R589 264 257 in note 13 to the financial statements.

5. The municipality did not recognise depreciation included in the reconciliation of property, plant and equipment – 2024 in property, plant and equipment in note 13 to the financial statements in accordance with GRAP 17, *Property, plant and equipment*. There were differences between the recalculated depreciation and the depreciation recorded in the asset register. Consequently, this resulted in depreciation included in the reconciliation of property, plant and equipment – 2024 being understated by R10 479 119. Additionally, there was an impact on the surplus for the period and accumulated surplus.
6. During 2023, the municipality did not recognise additions to infrastructure assets in the reconciliation of property, plant and equipment – 2024 in property, plant and equipment in note 13 in accordance with GRAP 17, *Property, plant and equipment*, as the municipality did not capitalise completed work-in-progress projects in the infrastructure asset register. Consequently, this resulted in additions/capital expenditure included in the reconciliation of work-in-progress - 2024 included in property, plant and equipment in note 13 to the financial statements being understated by R317 052 223 and infrastructure assets were understated by the same amount. My audit opinion on the financial statements for the period ended 30 June 2023 was modified accordingly. My opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of the property, plant and equipment for the current period.

Investment property

7. The municipality did not recognise investment property in accordance with GRAP 16, *Investment property*, as the municipality incorrectly recorded properties that they did not own. Consequently, investment property was overstated by R19 503 089. Additionally, there was an impact on the surplus for the year and accumulated surplus.

Payables from exchange transactions

8. The municipality did not account for salary control accounts included in payables from exchange transactions in accordance with GRAP 1, *Presentation of Financial Statements* as the municipality did not record all the transactions in the salary control account. Consequently, salary control accounts, trade payables and accrued leave were understated by R4 966 560, R2 356 603, and R54 409. Additionally, there was an impact on the surplus for the period and accumulated surplus. In addition, the municipality did not record all the retentions in the accounting records. I was unable to determine the full extent of the understatement of payables from exchange transactions. I was unable to determine payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transactions, stated at R479 575 688 (2023: 419 530 876) in note 17 to the financial statements.
9. The municipality did not account for payables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements* as they did not record all trade payables that should

have been recorded which resulted in payables from exchange transactions for the current and the corresponding figures being understated by R32 249 086.

Government grants and subsidies

10. The municipality did not recognise government grants and subsidies in accordance with GRAP 23, *Revenue from non-exchange transactions* due to differences identified between the grant register, general ledger, and the confirmation memos. Consequently, government grants and subsidies included in note 29 to the financial statements and the government grants receivable in note 9 to the financial statements were understated by R30 312 834. Additionally there was an impact on the unspent conditional grants and receipts, surplus for the period, and accumulated surplus.
11. I was unable to obtain sufficient appropriate audit evidence that government grants and subsidies were properly accounted for nor spent for their intended purpose due to the non-submission of information in support of these grants and subsidies. I was unable to determine the government grants and subsidies by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the government grants and subsidies stated at R 314 698 594 (2023: R184 026 640) in note 29 to the financial statements.

Unspent conditional grants and receipts

12. I was unable to obtain sufficient appropriate audit evidence that unspent conditional grants and receipts had been properly accounted for due to the non-submission of information in support of these grants and receipts. I was unable to determine unspent conditional grants and receipts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to unspent conditional grants and receipts, stated at R6 960 255 in note 20 to the financial statements.
13. During 2023, the municipality did not account for unspent conditional grants and receipts in accordance with GRAP 1, *Presentation of financial statements* as they did not include all unspent conditional grants and receipts in the grant register. This resulted in the unspent conditional grants and receipts recorded in note 20 to the financial statements being understated and government grants and subsidies overstated by R6 585 732. My audit opinion on the financial statements for the period ended 30 June 2023 was modified accordingly. My opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of the unspent conditional grants and receipts for the current period.

Service charges

14. The municipality did not recognise service charges in accordance with GRAP 9, *Revenue from exchange transactions*. Differences were identified between the billing reports relating to the sale of electricity and the general ledger. The municipality also did not implement adequate systems as incorrect tariffs were used to bill sewage and sanitation, sale of water and not all properties were billed for refuse removal and sewerage and sanitation. Consequently, service charges and consumer receivable from exchange transactions were understated by R4 674 424(2023: R27 023 202). Additionally, there was an impact on the surplus for the period and the accumulated surplus.

15. I was unable to obtain sufficient appropriate audit evidence that service charges had been properly accounted for due to the non-submission of information in support of these transactions. I was unable to determine service charges by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to service charges stated at R52 462 686 in note 22 to the financial statements.

General expenses

16. I was unable to obtain sufficient appropriate audit evidence that general expenses had been properly accounted for as the municipality did not have adequate systems in place to account for these expenses and also confirm that goods and services were actually received by the municipality at the correct quantity, quality and price. I was unable to confirm general expenses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to general expenses stated at R100 090 323 (2023: R67 285 530) in note 40 to the financial statements.
17. The municipality did not classify general expenses in accordance with GRAP 1, *Presentation of financial statements* as general expenses were incorrectly classified as repairs and maintenance. Consequently, repairs and maintenance were overstated by R4 843 324, property plant and equipment was understated by R2 875 400, contracted services was understated by R1 203 030 and cleaning understated by R764 892.

Prior period errors

18. The municipality did not disclose all the prior period errors in accordance with GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for some of the financial statement items affected, and the amount of the correction at the beginning of the earliest previous financial period were not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for those prior period errors disclosed in note 48 to the financial statements, as the supporting information was not provided. I was unable to confirm prior period errors by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior period errors disclosed in note 48 to the financial statements.

Consumer receivables from exchange transactions

19. During 2023, the municipality did not recognise consumer receivables from exchange transactions in accordance with GRAP 104, *Financial instruments*. This was due to properties being identified on the valuation roll that were not recorded in the debtor age analysis. I was unable to determine the full extent of the understatement of gross consumer receivables from exchange transaction balances, stated at R383 344 588 in note 8 to the financial statements, and service charges, stated at R57 313 244 121 in note 22 to the financial statements, as it was impracticable to do so. Additionally, there was also an impact on the deficit for the year and accumulated surplus. My audit opinion on the financial statements for the period ended 30 June 2023 was modified accordingly. My opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of the consumer receivables from exchange transactions.

VAT receivables

20. During 2023, I was unable to obtain sufficient appropriate audit evidence for the VAT receivables due to the due to the non-submission of supporting information in support of VAT receivables. I was unable to confirm the VAT receivables by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the VAT receivables stated at R55 364 472 in note 7 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2023 was modified accordingly. My opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of the VAT receivables for the current period.

Commitments

21. The municipality did not account for commitments in accordance with GRAP 17, *Property, plant and equipment*, as commitments included in the work-in-progress and contract register were not recorded in the financial statements. I was unable to determine the full extent of the understatement of commitments, stated at R0 in note 45 to the financial statements.
22. During 2023, I was unable to obtain sufficient appropriate audit evidence for commitments due to the non-submission of supporting information in support of these commitments. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to commitments stated at R130 406 656 in note 45 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2023 was modified accordingly. My opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of the commitments for the current period.

Irregular expenditure

23. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure, due to the non-submission of supporting information in support of this disclosure. I was unable to confirm irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure, stated at R265 571 693 (2023: R254 583 526) in note 55 to the financial statements. In addition, 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 made payments in contravention of the supply chain management (SCM) requirements, which were not disclosed. I was unable to determine the full extent of the understatement to irregular expenditure as it was impracticable to do so.

Unauthorised expenditure

24. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure, due to the non-submission of information in support of this disclosure. I was unable to confirm unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to unauthorised expenditure, stated at R694 084 094 (2023: R687 905 120) in note 53 to the financial statements.

Additional disclosures in terms of MFMA

25. I was unable to obtain sufficient appropriate audit evidence for distribution losses included in additional disclosure in terms of the MFMA due to the status of the accounting records. I was unable to confirm the distribution losses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to distribution losses, stated at R16 954 347 in note 56 to the financial statements.
26. In addition, the municipality did not disclose auditors remuneration included in additional disclosure in terms of the MFMA in accordance with section 125(2)(d)(i) of the MFMA as the municipality incorrectly classified other expenditure as auditors remuneration. Consequently, auditor remuneration was overstated by R13 162 226.

Employee related costs

27. During 2023, I was unable to obtain sufficient appropriate audit evidence for employee related costs, due to the status of accounting and personnel records. I was unable to confirm the employee related costs by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to employee related costs stated at R49 379 220 in note 32 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2023 was modified accordingly. My opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of the employee related costs for the current period.

Total revenue

28. Total revenue for the corresponding figures were materially misstated by R3 052 530 due to the cumulative effect of individually immaterial uncorrected misstatements for the following items:
- Property rates stated at R16 297 948 for the corresponding figure was understated by R219 605
 - Interest received stated at R13 515 386 for the corresponding figure was understated by R2 528 377
 - Interest received (trading) stated at R28 982 958 for the corresponding figure was understated by R304 548

Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

Current assets

29. Current assets for the corresponding figures were materially misstated by R3 127 262 due to the cumulative effect of individually immaterial uncorrected misstatements in the current assets:
- Inventories stated at R41 278 for the corresponding figure were understated by R117 000
 - Receivables from exchange transactions stated for the corresponding figure at R1 088 691 were overstated by R496 280
 - Statutory receivables from non-exchange transactions for the corresponding figure stated at R5 698 935 were understated by R2 747 982

Context for opinion

30. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
31. 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.
32. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Close call to going concern

34. Note 51 in the financial statements, which deals with the possible effects of the future implications of continuing deterioration in operational results on the municipality's prospects, performance, and cash flows.

Fruitless and wasteful expenditure

35. As disclosed in note 54 to the financial statements fruitless and wasteful expenditure of R37 207 567 (2023: R20 887 389) was incurred, due to penalties and interest on overdue accounts.

Material impairment

36. As disclosed in notes 6 and 8 to the financial statements, consumer receivables from exchange transactions and statutory receivables from non-exchange transactions were impaired by R449 459 425 (2023: R376 688 182) and R64 539 139 (2023: R56 233 582).

Other matters

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

Unaudited disclosure notes

38. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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

39. 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.
40. 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.

Responsibilities of the auditor-general for the audit of the financial statements

41. 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.
42. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page xx, forms part of our auditor's report.

Report on the annual performance report

43. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

44. I selected the following material performance indicators related to basic service delivery presented in the annual performance report for the year ended 30 June 2024. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.
- Number of households with access to water
 - Percentage of households with access to water services
 - Number of leakages attended
 - Status of blue drop and water samples tested
 - Percentage of budget spend on water services
 - Number of household provided with minimum standard of sanitation
 - Status of oxidation ponds
 - Number of drain and sewer blockages
 - Percentage of budget spend on sanitation
 - Approved energy plan
 - No of street light repaired and faulty meter
 - k/m of roads paved
 - Number of street gravelled and pedestrian walking built
 - Status of landfill sites
 - Number of sport facilities upgraded
 - Number of parks upgraded
 - Approved disaster strategies
45. I evaluated the reported performance information for the selected material performance indicators against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.
46. I performed procedures to test whether:
- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
 - all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included

- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
 - the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
 - the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
 - the reported performance information presented in the annual performance report in the prescribed manner
 - there is adequate supporting evidence for the achievements reported and for measures taken to improve performance
47. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.
48. The material findings on the reported performance information for the selected material indicators are as follows:

Status of landfill sites

49. An achievement of “achieved” was reported against a target of “registration of sites by 30th June 2024.” However, the target had not been clearly defined during the planning process. The target was not measurable because the method of calculation and supporting evidence were not clearly defined for this indicator. Consequently, the target is not useful for measuring and reporting on progress against the municipality’s planned objectives.
50. Adequate processes had not been established to consistently measure and reliably report on the achievement of this indicator and its target of “registration of sites by 30th June 2024.” The input, processing and actual output for the planned target and achievement reported could not be verified with the support provided in the portfolio of evidence therefore systems in place are not sufficient to verify the intended output. Consequently, the municipality would have found it difficult to determine the correct achievement to be reported against the planned target. This would make it difficult for users to determine what actions will be taken to improve service delivery.
51. A comparison of the actual performance for the year against the prior year’s performance was not included in the annual performance report. Consequently, the reported information is not useful for evaluating progress over time and for identifying areas of improvement.
52. An achievement of “achieved” was reported against a target of “registration of sites by 30th June 2024.” I identified material differences between the actual and reported achievements. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Status of blue drop and water samples tested

53. An achievement of “not achieved” was reported against a target of “submission of water samples for testing by 30th June 2024.” However, the target had not been clearly defined during the planning process. This was because the target was not specific as it does not indicate a percentage or number of blue drop and water samples planned to be tested during the year. Consequently, the target is not useful for measuring and reporting on progress against the municipality’s planned objectives.
54. Adequate processes had not been established to consistently measure and reliably report on the achievement of this indicator and its target of “submission of water samples for testing by 30th June 2024.” The planned target and achievement reported could not be verified based on the support defined by the municipality. Consequently, the municipality would have found it difficult to determine the correct achievement to be reported against the planned target. This would make it difficult for users to determine what actions will be taken to improve service delivery
55. A comparison of the actual performance for the year against the prior year’s performance was not included in the annual performance report. Consequently, the reported information is not useful for evaluating progress over time and for identifying areas of improvement.
56. An achievement of “not achieved” was reported against a target of “submission of water samples for testing by 30th June 2024.” I identified material differences between the actual and reported achievements. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.
57. The indicator must be reviewed and ensure timely submission of water samples was reported as a measure aimed at improving performance against the target of “submission of water samples for testing by 30th June 2024.” However, I could not determine if the measure was actually implemented to improve performance because adequate supporting evidence was not provided for auditing. Consequently, I could not verify whether the reported measures were indeed taken.

Various indicators

58. A comparison of the actual performance for the year against the prior year’s performance was not included in the annual performance report. Consequently, the reported information is not useful for evaluating progress over time and for identifying areas of improvement.
59. Measures aimed at improving performance against targets were reported. However, I could not determine if the measures were actually implemented to improve performance because adequate supporting evidence was not provided for auditing. Consequently, I could not verify whether the reported measures were indeed taken.

| Indicators | Targets | Reported achievements | Reported measures |
|---|--|-----------------------|---|
| Status of oxidation ponds | Maintenance of 3 municipal oxidation ponds by June 2024 | Not achieved | Submission of credible evidence to measure the indicator |
| Percentage of budget spend on sanitation | 100% budget expenditure on sanitation by 30th June 2024 | Not achieved | Submission of expenditure report on budget spent on water services |
| Approved energy plan | Develop and energy master plan June 30th 2024 | Not achieved | Ensure timely submission of the energy plan to the next Council meeting for approval |
| Status of integrated waste management plan (IWMP) | Reviewed integrated Waste Management Plan by 30th June 2024 | Not achieved | Ensure timely submission of the IWMP to the next Council meeting for approval |
| Number of parks upgraded | Upgrading of one park in Hertzogville by 30th June 2024 | Not achieved | Submission of expenditure report on budget spent on water services |
| Approved disaster strategies | Development disaster Management strategies by 30th June 2024 | Not achieved | Ensure timely submission of the disaster management strategies to the next Council meeting for approval |
| Number of sport facilities upgraded | Upgrading of one Sports facility in Hertzogville by 30th June 2024 | Not achieved | Submission of expenditure report on budget spent on water services |

Various indicators

60. Achievements were reported against various targets but these targets had not been clearly defined during the planning process. Consequently, the targets are not useful for measuring and reporting on progress against the municipality's planned objectives.
61. Adequate processes had not been established to consistently measure and reliably report on various indicators. Consequently, the municipality would have found it difficult to determine the correct achievements to be reported against the planned targets.
62. A comparison of the actual performance for the year against the prior year's performance was not included in the annual performance report. Consequently, the reported information is not useful for evaluating progress over time and for identifying areas of improvement.

63. Some supporting evidence was not provided for auditing; or, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

| Indicators | Targets | Reported achievements |
|-------------------------------------|---|-----------------------|
| Number of leakages attended | Attended water leakages in Hertzogville, Boshof and Dealesville by 30th June 2024 | Achieved |
| Number of drain and sewer blockages | Attend drain and sewer blockages in Hertzogville, Boshof and Dealsville by 30th June 2024 | Achieved |

Various indicators

64. Various indicators and their targets were not clearly defined during the planning process. Consequently, the indicators and their targets are not useful for measuring and reporting on progress against the municipality's planned objectives.
65. Adequate processes had not been established to consistently measure and reliably report on various indicators. Consequently, the municipality would have found it difficult to determine the correct achievements to be reported against the planned targets.
66. A comparison of the actual performance for the year against the prior year's performance was not included in the annual performance report. Consequently, the reported information is not useful for evaluating progress over time and for identifying areas of improvement.
67. Measures aimed at improving performance against targets were reported. However, I could not determine if the measures were actually implemented to improve performance because adequate supporting evidence was not provided for auditing. Consequently, I could not verify whether the reported measures were indeed taken.

| Indicators | Targets | Reported achievements | Reported measure | Details |
|---|--|-----------------------|---|---|
| No of streetlight repaired and faulty meter | Develop operations and maintenance plan for Streetlight s and faulty electrical meters by 30th June 24 | Not achieved | Ensure timely submission of the operations and maintenance plan for streetlights to the next Council meeting for approval | Target is not measurable as it relates to the development of operations and maintenance plans for repairs of streetlights and faulty meters and not the actual output of repairs conducted as stated in the definition and name of the indicator. |
| k/m of roads paved | Develop road operations and maintenance plan by 30th June 2024 | Not achieved | Ensure timely submission of the road operations and maintenance plan to the next Council meeting | The target is not measurable as it relates to the development of operations and maintenance plans for roads and not the actual output of kms paved as stated by the name and definition of the indicator. |

| | | | | |
|---|---|--------------|--|--|
| Number of street gravelled and pedestrian walking built | Develop road operations and maintenance plan 30th June 2024 | Not achieved | Ensure timely submission of the road operations and maintenance plan to the next Council meeting for | The target is not measurable as it relates to the development of operations and maintenance plans for roads and not the actual quantity of streets gravelled and pedestrian walks built. |
|---|---|--------------|--|--|

Material misstatements

68. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery. Management did not correct the misstatements, and I reported material findings in this regard.

Report on compliance with legislation

69. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.
70. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
71. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
72. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements

73. 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, liabilities, and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

74. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
75. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R37 207 567 as disclosed in note 54 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on overdue accounts.
76. 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 the SCM requirements.
77. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending of the approved budget.

Revenue management

78. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.
79. I was unable to obtain sufficient appropriate audit evidence that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Human resource management

80. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal System Act 32 of 2000 (MSA) and regulation 31 of municipal staff regulations.

Consequence management

81. 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.
82. Irregular 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.
83. 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.

Asset management

84. 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.

85. Capital assets were disposed of that were needed to provide the minimum level of basic municipal services, in contravention of section 14(1) of the MFMA.
86. 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 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.

Strategic planning and performance management

87. The performance management system and related controls were inadequate as it did not adequately 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).

Utilisation of conditional grants

88. I was unable to obtain sufficient appropriate audit evidence that the water services infrastructure grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Dora.
89. Performance in respect of programmes funded by the regional bulk infrastructure grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.
90. Performance in respect of programmes funded by the municipal infrastructure grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.
91. Performance in respect of programmes funded by 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 the Dora.

Procurement and contract management

92. Goods and services within the prescribed transaction value for competitive bids were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
93. Goods and services within the prescribed transaction values for formal written price quotations 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.
94. 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.

95. The preference point system was not applied to the procurement of goods and services as required by section 2(1)(a) of the preferential procurement policy framework Act 5 of 2000 (PPPFA). Similar non-compliance was also reported in the prior year.
96. Contracts were awarded to bidders based on points given for legislative requirement that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the preferential procurement regulations.
97. Sufficient appropriate audit evidence could not be obtained that quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of section 2(1)(a) (PPPFA) and its regulations. Similar non-compliance was also reported in the prior year.
98. Sufficient appropriate audit evidence could not be obtained that quotations were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of PPPFA and 2017 preferential procurement regulations 11 and 2022 preferential procurement regulation 4(4) and 5(4). Similar non-compliance was also reported in the prior year.
99. 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
100. 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.
101. 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.

Other information in the annual report

102. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected material indicators in the scoped-in key performance area (KPA) presented in the annual performance report that have been specifically reported on in this auditor's report.
103. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
104. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected material indicators in the scoped-in KPA presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

105. 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

106. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

107. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and, the findings on the selected material indicators included in the annual performance report and the material findings on compliance with legislation included in this report.

108. Management's lack of adequate procedures to monitor and enforce the implementation of the corrective measures included in the audit action plan to address internal control weaknesses relating to the financial statements, performance reporting as well as compliance with the applicable laws and regulations.

109. Management's lack of adequate review processes relating to financial statements and performance report as material misstatements were not detected and corrected before submission.

110. Management's failure to implement an adequate record keeping system resulted in material findings on supporting records that could not be submitted to support the financial statements and annual performance report.

111. Lack of adequate capacity and competence as the municipality has a number of vacant posts this has resulted in a weak control environment as there were material misstatements and non-compliances identified.

Material irregularities

112. 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 material irregularities as previously reported in the auditor's report.

113. The material irregularities identified are as follows

Status of previously reported material irregularities

Full and proper records not kept (2018-19) – infrastructure assets, services charges and conditional grants

114. In my 2019-20 auditor's report, I reported that the accounting officer did not take reasonable steps in the 2018-19 financial year to ensure that full and proper records were kept of infrastructure assets, service charges and conditional grants, as required by section 62(1)(b) of the MFMA. The non-compliance contributed to a disclaimed audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosures in the financial statements.
115. The lack of full and proper records is likely to result in substantial harm to the municipality as it contributed to the material uncertainty regarding its ability to continue operations, as disclosed in note 50 to the 2018-19 financial statements. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery mandate.
116. The accounting officer was notified of this material irregularity on 11 June 2021. The accounting officer could not provide sufficient and appropriate evidence of the actions that have been taken in response to being notified of the material irregularity, as the planned actions to address the poor record keeping and financial problems were not adequate. I recommended that the accounting officer should take the following actions to address the material irregularity, which should have been implemented by 14 April 2022:
- The non-compliance with section 62(1)(b) of the MFMA should be investigated to determine the reasons and circumstances that led to the non-compliance for the purpose of taking appropriate corrective actions and enhancing control weaknesses.
 - Based on the reasons and circumstance, appropriate action should be taken to develop and commence with the implementation of an action plan to address poor record keeping so that full and proper records of the financial affairs of the municipality are kept, in accordance with any prescribed norms and standards, as required by section 62(1)(b) of the MFMA. The plan should include anticipated timeframes and address the following key areas as a minimum:
 - (i) Complete asset register of all of the municipality's infrastructure assets, including work-in-progress, as well as payment certificates to support assets purchased
 - (ii) Meter-reading records for revenue from service charges
 - (iii) Register and payment vouchers to support payments made from conditional grant funding, including reconciliations

117. I further recommended that the accounting officer should take appropriate action to develop and commence with the implementation of an action plan to address the financial problems of the municipality, as required by section 135(1) and 135(3)(a) of the MFMA, by 14 July 2022. The plan should describe the anticipated timeframe and milestones to be achieved and include as a minimum strategies to:

- increase the collection of revenue
- optimise costs in respect of bulk purchases
- efficiently manage the available cash of the municipality
- enter payment arrangements with major suppliers.

118. The accounting officer has not adequately implemented the above recommendations. I notified the accounting officer on 7 August 2023 of the following remedial actions to address the material irregularity, which must be implemented by 7 March 2024 with a progress report after three months:

- The non-compliance with section 62(1)(b) of the MFMA must be investigated to determine the reasons and circumstances that led to the non-compliance for the purpose of taking appropriate corrective actions and to address control weaknesses.
- Based on the reasons and circumstances, appropriate action must be taken to develop and commence with the implementation of an action plan to address poor record keeping so that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards, as required by section 62(1)(b) of the MFMA. The plan must include anticipated timeframes and address the following key areas as a minimum:
 - (a) Complete asset register of all of the municipality's infrastructure assets, including work-in-progress, as well as payment certificates to support assets purchased;
 - (b) Meter reading records for revenue from service charges; and
 - (c) Register and payment vouchers to support payments made from conditional grant funding, including reconciliations; and
- I further recommend that the accounting officer must take appropriate action to develop and commence with the implementation of an action plan to address the financial problems of the municipality, as required by section 135(1) and 135(3)(a) of the MFMA. The plan must describe the anticipated timeframe and milestones to be achieved and include as a minimum strategies to:
 - (a) Increase the collection of revenue;
 - (b) Optimise costs in respect of bulk purchases;
 - (c) Efficiently manage the available resources of the municipality; and
 - (d) Enter into payment arrangements with major suppliers.

119. A response with regard to the implementation of the remedial actions was received on 8 March 2024, however supporting documentation for each of the actions stated in the response was not provided. I have decided to request in terms of regulation 11(2) of the Material Irregularity Regulations, intervention from the following role-players and oversight structures in the accountability ecosystem to assist and support, as far as is necessary, the accounting officer with the implementation of the remedial action and to address the material irregularity appropriately:

- Member of the Executive Council: Finance;
- Member of the Executive Council: Cooperative Governance, Human Settlements and Traditional Affairs;
- Executive Mayor;
- Speaker of Council; and
- Member of the Mayoral Committee: Finance.

120. In addition to requesting intervention from the above role players, I have requested the following role players in the accountability ecosystem to exercise oversight by supporting and assisting, as far as is necessary, the accounting officer with the implementation of the remedial action and addressing the material irregularity appropriately:

- Premier of the province;
- Chairperson of the Municipal Public Accounts Committee; and
- Chairperson of the Audit Committee

121. I will follow-up on the outcome of the intervention during my next audit.

Other reports

122. I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

123. During 2017-18, the accounting officer requested that the Free State Provincial Treasury and the Free State Department of Co-operative Governance and Traditional Affairs consider an investigation in terms of section 106 of the MSA for possible maladministration and fraud as a result of the alleged theft of certain tender and payment documentation. The investigation was still in progress at the date of this auditor's report. A case was also opened at the South African Police Service and was still being investigated at the date of this auditor's report.

124. The president of South Africa has signed a proclamation on 11 December 2023 that the special investigations unit investigates the allegations relating to serious maladministration in connection with the affairs of the municipalities, improper or unlawful conduct by employees of the municipalities; unlawful expenditure of public money; unlawful or improper conduct by any person, which has caused or may cause serious harm to the interests of the public. The investigation was still in progress at the date of this auditor's report.

AUDITOR - GENERAL

Bloemfontein

30 November 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

1. The annexure includes the following:
 - The auditor-general's responsibility for the audit
 - The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

2. 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 material performance indicators and on the municipality's compliance with selected requirements in key legislation.

Financial statements

3. 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
 - conclude on the appropriateness of the 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 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

4. 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.
5. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and 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.

Compliance with legislation – selected legislative requirements

6. The selected legislative requirements are as follows:

| Legislation | Sections or regulations |
|---|---|
| Municipal Finance Management Act 56 of 2003 | Sections 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), Sections 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), Sections 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), Sections 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), Sections 171(4)(b) |
| MFMA: Municipal budget and reporting regulations, 2009 | Regulations 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), Regulations 72(c) |
| MFMA: Municipal Investment Regulations, 2005 | Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3) |
| MFMA: Municipal Regulations on financial Misconduct Procedures and Criminal Proceedings, 2014 | Regulations 5(4), 6(8)(a), 6(8)(b), 10(1) |
| MSA: Municipal Staff Regulations | Regulations 7(1), 31 |
| MFMA: Municipal Supply Chain Management Regulations, 2017 | Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a), 17(1)(b), Regulations 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), Regulations 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), Regulations 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), Regulations 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f) |
| Municipal Systems Act 32 of 2000 | Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), Sections 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 54A(1)(a), 56(1)(a), Sections 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b) |
| MSA: Municipal Planning and performance Management Regulations, 2001 | Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 12(1), Regulations 15(1)(a)(i), 15(1)(a)(ii) |
| MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006 | Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3) |

| Legislation | Sections or regulations |
|---|--|
| MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014 | Regulations 17(2), 36(1)(a) |
| MSA: Disciplinary Regulations for Senior Managers, 2011 | Regulations 5(2), 5(3), 5(6), 8(4) |
| Division of Revenue Act 5 of 2023 | Sections 11(6)(b), 12(5), 16(1); 16(3) |
| Construction Industry Development Board Act 38 of 2000 | Section 18(1) |
| Construction Industry Development Board Regulations, 2004 | Regulations 17, 25(7A) |
| Municipal Property Rates Act 6 of 2004 | Section 3(1) |
| Preferential Procurement Policy Framework Act 5 of 2000 | Sections 2(1)(a), 2(1)(f) |
| Preferential Procurement Regulations, 2017 | Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), Regulations 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 11(1), 11(2) |
| Preferential Procurement Regulations, 2022 | Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4) |
| Prevention and Combating of Corrupt Activities Act 12 of 2004 | Section 34(1) |