

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Matjhabeng Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets, cash flow statement and the 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 Matjhabeng Local Municipality as at 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (Dora).

Basis for qualified opinion

Service charges

3. I was unable to obtain sufficient appropriate audit evidence for the sale of electricity and sale of water included in service charges in note 18 to the financial statements due to the status of the accounting records. I was unable to confirm the sale of electricity and sale of water by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the sale of electricity and sale of water included in service charges, stated at R1 119 943 891 (2022: R1 091 621 490) in note 18 to the financial statements.

Payables from exchange transactions

4. The municipality did not correctly account for trade payables in accordance with GRAP 1, *Presentation of financial statements* due to the municipality not recording the supplier's invoices in the accounting records of the municipality for the corresponding period. Consequently, the corresponding figure of trade payables disclosed in note 13 to the financial statements was understated by R49 167 522. Additionally, there was also an impact on the accumulated deficit.

Context for opinion

5. 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.

6. 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.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.
9. Note 45 to the financial statements indicates that the municipality incurred a net loss of R1 115 679 647 during the year ended 30 June 2023 and, as of that date, the municipality's total liabilities exceed its total assets by R4 197 678 664 whilst the total current assets cover only 21% of its total current liabilities. In addition, the municipality owed Eskom for R5 630 675 806 (2022: R4 763 669 846) and Bloem Water for R5 436 424 698 (2022: R4 897 035 157). These events or conditions, along with other matters as set forth in note 45, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Restatement of corresponding figures

11. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Material impairment

12. As disclosed in notes 5 and 6 to the financial statements, receivables from exchange transactions and receivables from non-exchange transactions were impaired by R4 495 085 681 (2022: R3 766 745 685) and R677 315 986 (2022: R557 408 294).

Material losses

13. As disclosed in note 34 to the financial statements, material electricity losses of R89 357 033 (2022: R127 890 866) were incurred due to the status/condition and age of the network, weather conditions, and load on the system as well as non-technical losses such as theft and vandalism. In addition, material water losses of R239 831 884 (2022: R323 991 257) were incurred due to metering inefficiencies, ageing pipeline infrastructure, burst water pipes, leakages and unmetered connections.

Underspending and withholding of conditional grants

14. As disclosed in note 15 to the financial statements, the municipality materially underspent the conditional grants by R118 957 275 (2022: R191 001 126). As disclosed in note 26 to the financial statements, the National Treasury withheld R75 100 000 (2022: R25 000 000) equitable share from the municipality due to an arrangement with the National Treasury for repayment of unspent conditional grants.

Material uncertainty relating to claims against the municipality

15. With reference to note 41 to the financial statements, the municipality is the defendant in various claims against the municipality. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result was made in the financial statements.

Unauthorised expenditure

16. As disclosed in note 47 to the financial statements, the municipality incurred unauthorised expenditure of R1 067 576 615 (2022: R1 474 880 001), due to overspending of the budget.

Fruitless and wasteful expenditure

17. As disclosed in note 48 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R339 841 917 (2022: R180 736 298), mainly due to interest and penalties on late payments to suppliers.

Irregular expenditure

18. As disclosed in note 49 to the financial statements, the municipality incurred irregular expenditure of R146 754 378 (2022: R336 297 196), mainly due to non-compliance with supply chain management regulations (SCM).

Other matter

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

Unaudited disclosure notes

20. 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

21. 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.

22. 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

23. 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.

24. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

25. 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 against predetermined objectives for the selected key performance area (KPA) presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

26. I selected the following KPA presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a KPA that measures the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

KPA	Page numbers	Purpose
Basic services	xx	Supporting the delivery of municipal services to the right quality and standard.

27. I evaluated the reported performance information for the selected KPA 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.

28. 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.

- the indicators are well defined and verifiable to ensure that they are easy to understand and apply consistently and 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 what was committed to in the approved initial or revised planning documents.
- the reported performance information is presented in the annual performance report in the prescribed manner.
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

29. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion.

30. I did not identify any material findings on the reported performance information for the KPA.

Other matter

31. I draw attention to the matter below.

Achievement of planned targets

32. The annual performance report includes information on reported achievements against planned targets and provides explanations for over-and underachievement.

33. The municipality plays a key role in delivering services to South Africans. The annual performance report includes the following service delivery achievements against planned targets:

Key service delivery indicator not achieved	Planned target	Reported achievement
Sewer networks and Wastewater Treatment Works developmental and maintenance (PMU projects) <i>Targets achieved: 53.33%</i> <i>Budget spent: 91,33%</i>		
Percentage refurbishment work completed on Kutlwanong, Wastewater Treatment Works by the 31st of December 2022. (multi-year project)	100%	79%
Percentage refurbishment work completed on Theronia final effluent pipeline. (multi-year project)	63%	0%

Key service delivery indicator not achieved	Planned target	Reported achievement
Percentage refurbishment work completed on Thabong Wastewater Treatment Works. (multiyear project)	100%	98%
Percentage refurbishment work completed on Phomolong, Wastewater Treatment Works. (multiyear project)	25%	0%
Percentage works completed on the refurbishment and upgrading of 2 sewer pumpstations and rising main in Virginia and Meloding by the 30th of June 2023. (multi-year project)	100%	66%
Percentage works completed on installation of sanitation to 617 stands in Thabong X15 and Bronville by 30th of June 2023. (Multi-year project)	100%	77%
Water networks and maintenance (PMU Projects) <i>Targets achieved: 79.00%</i> <i>Budget spent: 91,33%</i>		
Percentage of replaced old, galvanized pipes to UPVC in Kutlwanong (multi-year)	100%	79%
Roads, ancillaries and developmental maintenance <i>Targets achieved: 26,67%</i> <i>Budget spent: 91,33%</i>		
Kilometres portion of James Moroka road repaired in Thabong to improve traffic flow to be completed by 1st December 2022	0,15 km	0 km
Kilometres portion of Constantia road repaired between road 200 and Moshoeshoe road in Thabong to improve traffic flow to be completed by 31st March 2023	1,2 km	0 km
Kilometres portion of Constantia road repaired between Moshoeshoe road and Dr A Phakathi road in Thabong to improve traffic flow to be completed by 1st December 2022	0,065 km	0 km
Kilometres portion of Ndaki road repaired in Tandanani (2010) Thabong and kilometres of stormwater drainage system built to improve traffic flow to be completed by 1st December 2022	0,135 km	0 km
Kilometres of streets resurfaced in all wards of Matjhabeng such that the roads useful life are extended and are operationally safe by 30th June 2023	25 km	0 km
Kilometres of stormwater drainage pipes constructed in Ward 16 at Setshabelo school by 1st December 2022	0,208 km	0 km
Kilometres of stormwater drainage repaired at the entrance of Thabong in ward 30 by 1st December 2022	0,11 km	0 km

Key service delivery indicator not achieved	Planned target	Reported achievement
Kilometres of stormwater drainage repaired at Mxi retention dam in ward 29 by 1st December 2022	0,22 km	0 km
Kilometres of stormwater drainage to drain stormwater away from houses opposite Nkoane road by 30th June 2023	0,135 km	0 km
Electrical Distribution <i>Targets achieved: 5%</i> <i>Budget spent: 8,33%</i>		
Percentage progress on the provision and installation of 40MVA 132KV transformer at Urania substation by 30th June 2023	100%	5%

Report on compliance with legislation

34. 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.
35. 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.
36. 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.
37. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements

38. 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 and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

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

40. Reasonable steps were not taken to prevent irregular expenditure amounting to R146 754 378 as disclosed in note 49 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with the SCM regulations.
41. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R339 841 917, as disclosed in note 48 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 charged on overdue accounts.
42. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R1 067 576 615, as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the approved budget.

Revenue management

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

Asset management

44. 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.

Strategic planning and performance management

45. The integrated development plan (IDP) did not reflect the key performance indicators and targets, as required by sections 26(i) of the Municipal Systems Act 32 of 2000 (MSA) and municipal planning and performance management regulation 2(1)(e).

Procurement and contract management

46. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. A similar non-compliance was also reported in the prior year.
47. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA) and its regulations. A similar non-compliance was also reported in the prior year.
48. Sufficient appropriate audit evidence could not be obtained that invitations to tender for procurement of commodities designated for local content and production, stipulated the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulations 8(2). A similar limitation was also reported in the prior year.

Consequence management

- 49. Some of the unauthorised expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
- 50. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information in the annual report

- 51. 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 the selected KPA presented in the annual performance report that have been specifically reported on in this auditor's report.
- 52. My opinion on the financial statements, the report on 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.
- 53. 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 KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
- 54. 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

- 55. 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.
- 56. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the material findings on compliance with legislation included in this report.
- 57. Management did not implement daily and monthly processing and reconciling of transactions to ensure that trade payables, service charges, unauthorised and irregular expenditure were accurately updated on a regular basis.
- 58. Management did not implement adequate controls to ensure that records were accurate and complete resulting in material corrections to the financial statements.

59. Management did not implement appropriate controls to timeously identify non-compliance in applicable laws and regulations resulting in recurring material non-compliance findings. There was an inadequate implementation of investigation by leadership on the transgressions of laws and regulations.

Material irregularities

60. 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.

Material irregularities identified during the audit

61. The material irregularities identified are as follows:

Pollution of water resource not prevented – Witpan Wastewater Treatment Works

62. The Witpan wastewater treatment works has totally collapsed and has not been operating effectively. This resulted in continued spilling and discharge of raw/untreated sewage into the adjacent environment, including the groundwater, Sand river and its extended watercourse. The municipality did not take reasonable measures to prevent pollution or degradation of the environment and water resources from occurring, continuing or recurring, as required by section 28(1) of the National Environmental Management Act 107 of 1998 (NEMA) and section 19(1) of the National Water Act 36 of 1998 (NWA). The discharge of raw/untreated sewage into the environment is likely to cause substantial harm to the communities exposed to, and dependent on, the contaminated water resources.

63. The accounting officer was notified of the material irregularity on 13 February 2023 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer did not take appropriate action to resolve the material irregularity. I am in the process of referring the material irregularity for investigation to a public body as provided for in section 5(1A) of the PAA.

Status of previously reported material irregularities

Late payment of employee taxes

64. The municipality did not pay over money deducted from employees within seven days after the end of the month during which the amounts were deducted or withheld from employees in respect of their liability for normal tax, as required by section 2(1) of the fourth schedule of the Income Tax Act 58 of 1962. The late payment resulted in a material financial loss for the municipality due to interest of R650 640 and penalties of R1 881 783 incurred for the period 1 April 2019 to 30 June 2020.

65. The accounting officer was notified of this material irregularity on 15 April 2021. The accounting officer did not take appropriate action to address the material irregularity as adequate steps were not taken to prevent further losses. I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 14 July 2023:

- Appropriate action should be taken to develop and to commence with the implementation of a financial recovery plan as approved by council, to address the financial problems of the municipality that are preventing it from paying Sars within seven days, as required by section 2(1) of the Fourth Schedule of the Income Tax Act. The financial plan should include realistic timeframes and milestones to be achieved and include, as a minimum, strategies to:

(a) enhance the existing *Revenue enhancement and debt collection plan* with the intention to increase revenue; and

(b) efficiently manage the available resources of the municipality to optimise and reduce costs by eliminating wastage whilst obtaining value in respect of all costs incurred.

66. The accounting officer has not adequately implemented the above recommendations. I notified the accounting officer on 9 November 2023 of the following remedial actions to address the material irregularity, which must be implemented by 9 April 2024 with a progress report after two months:

- Appropriate action must be taken to formalise and commence with the implementation of the financial recovery plan. The financial recovery plan must be approved by Council and must address the financial problems of the municipality that are preventing it from paying SARS within seven (7) days, as required by Section 2(1) of the Fourth Schedule of the Income Tax Act 58 of 1962. The financial recovery plan must include realistic timeframes and milestones to be achieved.

67. I will follow up on the implementation of the remedial action after the due date.

Eskom not paid within 30 days

68. The accounting officer did not take all reasonable steps to ensure that amounts due to Eskom or the bulk purchase of electricity were paid within 30 days of receiving the relevant invoice or statement, as required by section 65(2)(e) of the MFMA. As a result of the late payment, the municipality incurred interest of R255 516 913 for the financial year ended 30 June 2019. The interest incurred is likely to result in a material financial loss for the municipality due to the liability to pay the interest to Eskom.

69. The accounting officer was notified of the material irregularity on 4 May 2020. The accounting officer did not take appropriate action to address the material irregularity. I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 30 June 2024 with progress reports every 2 months:

(a) Appropriate action should be taken to commence with implementation of the financial plan to address the financial problems of the municipality that are preventing it from paying Eskom within 30 days, as required by MFMA section 65(2)(e). The financial plan should include realistic timeframes and milestones to be achieved and include as a minimum strategies to:

- Increase revenue;
- Increase the collection of revenue;

- Efficiently manage the available resources of the municipality by accurate budgeting, budget management and cost cutting;
- Reduce electricity distribution losses; and
- Negotiate a reasonable payment arrangement with Eskom and properly budget for the amounts to be paid.

70. I will follow up on the implementation of the remedial action after the due date.

Payment for attenuation dam not constructed at Nyakallong storm water system phase 1

71. On 12 April 2017, the municipality awarded a contract of R13 744 408 for the construction of the Nyakallong storm water system to a contractor. Two variation orders amounting to R3 268 705 were approved in 2017 and 2019. Payments estimated at R7 214 719 were made for an attenuation dam after the consulting engineer certified it had been completed. However, during a site visit, the auditors confirmed that the project was incomplete, the attenuation dam had not been constructed, the contractor had abandoned the project site and the work performed was not of the required quality. This contravened section 65(2)(a) of the MFMA, as an effective system of expenditure control for the approval and payment of funds was not maintained. The overpayments made on the project are likely to result in a material financial loss for the municipality, if not recovered.

72. The accounting officer was notified of the material irregularity on 5 May 2020. The accounting officer could not provide sufficient and appropriate evidence of the actions that had been taken in response to being notified of the material irregularity. On 9 June 2021, I referred the material irregularity to the Directorate for Priority Crime Investigation (the Hawks) for investigation, as provided for in section 5(1A) of the PAA. The current progress with the investigation is that three individuals were arrested and appeared in court. The investigation is ongoing.

Pollution of water resource not prevented – Henneman Wastewater Treatment Works

73. The Henneman wastewater treatment works has totally collapsed and has not been operating effectively. This resulted in continued spilling and discharge of raw/untreated sewage into the adjacent environment, including the groundwater, Rietspruit and its extended watercourse. The municipality did not take reasonable measures to prevent pollution or degradation of the environment and water resource from occurring, continuing or recurring, as required by section 28(1) of the NEMA and section 19(1) of the NWA. The discharge of raw/untreated sewage into the environment is likely to cause substantial harm to the communities exposed to, and dependent on, the contaminated water resources.

74. The accounting officer was notified of the material irregularity on 7 December 2022 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer did not take appropriate action to resolve the material irregularity. I am in the process of referring the material irregularity for investigation to a public body as provided for in section 5(1A) of the PAA.

Pollution of water resource not prevented – Phomolong Wastewater Treatment Works

75. The Phomolong wastewater treatment works has totally collapsed and has not been operating effectively. This resulted in continued spilling and discharge of raw/untreated sewage into the

adjacent environment, including the groundwater, Slootspruit, and its extended watercourse. The municipality did not take reasonable measures to prevent pollution or degradation of the environment and water resource from occurring, continuing or recurring, as required by section 28(1) of the NEMA and section 19(1) of the NWA. The discharge of raw/untreated sewage into the environment is likely to cause substantial harm to the communities exposed to, and dependent on, the contaminated water resources.

76. The accounting officer was notified of the material irregularity on 7 December 2022 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer did not take appropriate action to resolve the material irregularity. I am in the process of referring the material irregularity for investigation to a public body as provided for in section 5(1A) of the PAA.

Other reports

77. In addition to the investigations relating to material irregularities, 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.
78. There was an ongoing investigation by the Directorate for Priority Crime Investigation (DPCI) into the allegation of payroll fraud as the IP address of the official was compromised and unauthorised access was obtained, which resulted in the alteration of the banking details of various employees. The investigation covers the specific incident that occurred on 22 January 2020. The outcome was unknown at the date of this auditor's report as the investigation was in progress.
79. There was an ongoing investigation by the DPCI into the allegation that a contractor claimed and was paid for goods and services not delivered. The last payment occurred on 3 August 2018. The outcome was unknown at the date of this auditor's report as the investigation was in progress.
80. There was an ongoing investigation by the South African Police Service (SAPS) into the allegation of unauthorised amendments to the supplier's banking details on the municipality's accounting system. The investigation covers the specific incident that occurred on 13 May 2016. The outcome was unknown at the date of this auditor's report as the investigation was in progress.
81. There was an ongoing investigation by the AGSA into procurement and contract management that the executive mayor requested the AGSA to perform. The outcome was unknown at the date of this auditor's report as the investigation was in progress.

82. There was an ongoing investigation into allegations of forgery of a signature of a municipal official that resulted in a payment being made without a service having been rendered to the municipality. This investigation is being conducted by the South African Police Service (SAPS) and covers a specific incident that occurred on 11 November 2015. The outcome was unknown at the date of this auditor's report as the investigation was in progress.

Auditor - General

Bloemfontein

30 January 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 the selected key performance area 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied

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	Section 1 - Paragraphs (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 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), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 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, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
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)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a) Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a) Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b) Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c) Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43 Regulations 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), 29(3)(b), 34(a), 34(b) Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a) Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 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)
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)
Annual Division of Revenue Act	Section 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	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) Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2) Regulations 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)