

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Nala 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, 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 Nala 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

Receivables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for consumer debtors included in the receivables from exchange transactions as some debtors recorded in the debtor's age analysis could not be verified. I was unable to confirm consumer debtors by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the consumer debtors stated at R582 511 805 in note 8 to the financial statements.
4. During 2023, the municipality did not account for receivables from exchange transactions in accordance with GRAP 104, *Financial instruments*, as some of the debtors recorded in the debtor's age analysis could not be verified. Consequently, this resulted in an overstatement of the receivables from exchange transactions by R88 332 206. Additionally, there was 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 financial statements was also modified because of the possible effect of this matter on the comparability of the pension included in the receivables from exchange transactions for the current period.

Employee related costs

5. I was unable to obtain sufficient appropriate audit evidence for basic salaries included in the employee related costs in note 27 to the financial statements due to the non-submission of information in support of these basic salaries. I was unable to confirm the basic salaries by alternative means. Consequently, I was unable to determine whether any adjustments were

necessary to the basic salaries included in employee related costs stated at R122 139 411 (2023: R107 543 977) in note 27 to the financial statements.

6. During 2023, I was also unable to obtain sufficient appropriate audit evidence for pension contributions included in employee related costs in note 27 to the financial statements due to the non-submission of information in support of these contributions. I was unable to confirm the pension included in employee related costs by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the pension included in the employee related costs stated at R18 864 136 in note 27 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 financial statements was also modified because of the possible effect of this matter on the comparability of the pension contributions included in the employee related costs for the current period.

Unauthorised expenditure

7. The municipality did not disclose all instances of unauthorised expenditure incurred in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality incurred unauthorised expenditure due to the overspending of the budget, which was not disclosed in the financial statements. Consequently, I was unable to determine the full extent of the understatement to unauthorised expenditure, stated at R508 280 260 in note 47 to the financial statements, as it was impracticable to do so.

Bulk purchases

8. The municipality did not account for bulk water purchases in accordance with GRAP 1, *Presentation of financial statements*, as material differences were identified between the quantities recorded in the invoices and the meter reading reports. Consequently, I was unable to determine the full extent of the misstatements to the bulk purchases stated at R209 419 902 (2023: R170 309 693) in note 33 and payables from exchange transactions stated at R709 399 533 (2023: R1 122 685 209) in note 14 to the financial statements, as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and accumulated surplus.
9. During 30 June 2023, I was unable to obtain sufficient appropriate audit evidence for bulk purchases, due to the non-submission of information in support of these bulk purchases. I was unable to confirm the bulk purchases by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to bulk purchases, stated at R170 309 693 in note 33 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 financial statements was also modified because of the possible effect of this matter on the comparability of the bulk purchases for the current period.

Receivables from non-exchange transactions

10. The municipality did not classify receivables from non-exchange transactions in accordance with GRAP 108, *Statutory receivables*, as receivables from exchange transactions were incorrectly included in receivables from non-exchange transactions. Consequently, this

resulted in an overstatement of receivables from non-exchange transactions by R16 043 273 in note 9 to the financial statements and an understatement of receivables from exchange transactions in note 8 to the financial statements by the same amount.

Service charges

11. The municipality did not account for the sale of electricity and the sale of water included in service charges in note 18 to the financial statements in accordance with GRAP 9, *Revenue from exchange transactions*. This was because some electricity and water accounts were not billed during the current and prior years. Consequently, this resulted in an understatement of the sale of electricity and the sale of water included in service charges in note 18 to the financial statements and an understatement of receivables from exchange transactions included in note 8 to the financial statements by R14 386 795 (2023: R36 827 514). Additionally, there was an impact on the deficit for the year and accumulated surplus.
12. During 2023, the municipality also did not account for the sale of electricity and water included in service charges as the municipality did not read meters regularly. This resulted in unreliable electricity and water billings due to estimates not being calculated on the consumer's previous actual consumption. In addition, the municipality incorrectly recorded indigent subsidies for deceased consumers. I was unable to determine the full extent of the understatement to the sale of electricity and the sale of water included in service charges stated at R153 491 704 in note 18 to the financial statements and receivables from exchange transactions stated at R119 960 701 in note 8 to the financial statements, as it was impracticable to do so. My audit opinion on the financial statements for the period ended 30 June 2023 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the service charges for the current period.

Contracted services

13. I was unable to obtain sufficient appropriate audit evidence for contracted services due to the non-submission of information in support of these expenditures. I was unable to confirm these contracted services by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to contracted services, stated at R23 428 405 in note 34 to the financial statements.

Interest received - exchange receivables

14. The municipality did not account for the interest received – exchange receivables in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not charge interest for debtors in arrears in the current and prior year. In addition, interest received from exchange receivables was incorrectly classified as interest received from non-exchange receivables. Consequently, this resulted in an understatement of interest received - exchange receivables by R7 871 608 (2023: R3 974 482) and an understatement of receivables from exchange transactions by R3 435 539 (2023: R3 974 482) and interest received - non exchange receivables by R4 436 069. Additionally, there was an impact on the deficit for the year and accumulated surplus.

Segment reporting

15. The municipality did not include the required disclosures for segment information for the current and prior years in the financial statements in accordance with GRAP 18, *Segment reporting*. Consequently, I have not included the omitted information in this auditor's report as it was impracticable to do so.

Distribution losses

16. The municipality did not account for water distribution losses in accordance with section 125(2)(d)(i) of the MFMA as the municipality did not implement adequate systems to accurately determine the water distribution losses included in note 51 to the financial statements. Consequently, I was unable to determine the full extent of the misstatements to the water distribution losses stated at R34 416 980 (2023: R28 022 551) in note 51 to the financial statements, as it was impracticable to do so.

Prior-year adjustments

17. I was unable to obtain sufficient appropriate audit evidence for the prior-year adjustments, as adequate supporting information was not provided. I was unable to confirm the prior-year adjustment disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior year adjustments disclosed in note 43 to the financial statements.

Property plant and equipment

18. The municipality did not account for land included in the property, plant and equipment in note 4 to the financial statements in accordance with GRAP 17, *Property, Plant and Equipment* and iGRAP 18, *Recognition and Derecognition of Land*, as the municipal council wrote off land assets that were still under the ownership of the municipality. Consequently, this resulted in an understatement of the land included in property, plant and equipment by R7 739 223 (2023: R7 739 223), and an overstatement of prior year loss disposal of assets and liabilities by the same amount.
19. During 2023, the municipality did not account for the property, plant and *equipment in accordance* with GRAP 17, *Property plant and equipment*, as the municipality expensed repairs and maintenance that should have been capitalised. Consequently, this resulted in an understatement of property, plant and equipment by R13 552 148 and an overstatement of repairs and maintenance by the same amount. Additionally, there was 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 financial statements was 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

20. The municipality did not account for investment properties in accordance with GRAP 16, *Investment property* and iGRAP 18, *Recognition and Derecognition of Land* as the municipal council wrote off land assets that were still under the ownership of the municipality. Consequently, this resulted in an understatement of investment property by R33 867 442

(2023: R33 867 442) and an overstatement of prior year loss disposal of assets and liabilities by the same amount.

Payables from exchange transactions

21. During 2023, I was unable to obtain sufficient appropriate audit evidence for trade payables included in the payables from exchange transactions, due to non-submission of adequate information in support of these payables. I was unable to confirm the trade payables by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to trade payables, stated at R1 071 115 030 in note 14 to the financial statements. My audit opinion on the financial statements for the period ended 30 June was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of the possible effect of this matter on the comparability of the payables from exchange transactions for the current period.

Context for opinion

22. 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.
23. 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.
24. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Close calls relating to going concern

26. Note 45 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.

Material uncertainty relating to claims against the municipality

27. 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, has been made in the financial statements.

Material impairments

28. As disclosed in notes 8 and 9 to the financial statements, receivables from exchange transactions and receivables from non-exchange transactions were impaired by R477 538 906 (2023: R387 503 500) and R128 983 729 (2023: R108 051 527) respectively.

Material losses

29. As disclosed in note 51 to the financial statements, material electricity losses of R39 989 621 (2023: R21 064 089) was incurred, which represents 29% (2023: 20%) of total electricity purchased.

Fruitless and wasteful expenditure

30. As disclosed in note 48 to the financial statements, fruitless and wasteful expenditure of R32 247 055 (2023: R47 870 909) was incurred, due to interest on accounts that were not paid timeously.

Irregular expenditure

31. As disclosed in note 49 to the financial statements, irregular expenditure of R26 368 360 (2023: R11 839 769) was incurred, as a proper tender process was not followed.

Other matter

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

Unaudited disclosure notes

33. 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

34. 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.
35. 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

36. 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.
37. 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

38. 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.
39. 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.
- 500 households in Vergenog have access to potable water by 30 June 2024.
 - 450 households in Khalinkomo have access to potable water by end of June 2024.
 - Ensure access to potable water for 426 households in Botharnia Ext 15 by 30th June 2024.
 - To ensure that two (2) blue drop assessment tests are conducted per financial year.
 - Kgotsong/Bothaville: Replacement of 5,1 km AC pipeline with uPVC pipe by end of June 2024.
 - Waterborne sewer reticulation network 500 households in Vergenog by 30th June 2024.
 - Waterborne sewer reticulation network 450 households in Khalinkomo by 30 June 2024.
 - To ensure that one (1) green drop assessment tests are conducted per financial year.
 - Waterborne sewer reticulation network 426 households in Bothaville Ext 30th June 2024.
 - Kgotsong: Upgrading of outfall sewer pipeline: Phase 3: Ward 5, 11 and 12.

- Construction of 1,2 km paved road and storm water channel: Monnamoncho and Sebotsa Streets by end of June 2024.
- Bothaville/Kgotsong: Paving of 6 000 m2 of tarred roads by 30th June 2024.
- Wesselsbron/Monyakeng: Paving of 4 000 m2 of tarred roads by 30th June 2024.
- Bothaville/Kgotsong: Cleaning of 10 km of storm water channels and catch pits by end of June 2024.
- Wesselsbron: Cleaning of 6 km of storm water channels and catch pits by end of June 2024.
- WBN/Monyakeng: Electrification of 252 households in Ext. 12 and 13.
- Refurbishment and fencing of Kgotsong main sub-station by end of June 2024.

40. 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.

41. 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

42. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

43. The material findings on the reported performance information for the selected material indicators are as follows:

Various indicators

44. The reported achievements in the annual performance report were inconsistent with the commitments made in the approved planning documents. These discrepancies highlight misalignment between approved plans and operations, while the incorrect reporting undermines transparency and accountability.
45. Furthermore, 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.
46. Moreover, I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.
47. Lastly, measures taken to improve performance against underachieved targets were not reported in the annual performance report. Information was thus not provided to help with understanding the actions taken by the accounting officer to address performance gaps and for assessing the effectiveness of strategies to improve future performance against targets.

Indicators	Targets	Reported achievements
500 households in Vergenog have access to potable water by 30 June 2024.	500 households by 30 June 2024.	Not achieved
450 households in Khalinkomo have access to potable water by end of June 2024.	450 households by end of June 2024	Not achieved
Ensure access to potable water for 426 households in Botharnia ext. 15 by 30th June 2024.	426	Not achieved
Kgotsong/Bothaville: replacement of 5.1km AC pipeline with uPVC pipe by end of June 2024.	Kgotsong/Bothaville: replacement of 5,1 km AC pipeline with uPVC pipe.	Not achieved
Waterborne sewer reticulation network 500 households in Vergenog by 30th June 2024.	500 households in Vergenog by 30 June 2024.	Not achieved
Waterborne sewer reticulation network 450 households in Khalinkomo by 30 June 2024.	450 households by 30 June 2024.	Not achieved
Waterborne sewer reticulation network 426 households in Bothaville ext 30th June 2024.	426 households by 30 September 2024	Not achieved
WBN/Monyakeng: electrification of 252 households in ext. 12 and 13.	252 households by 30 June 2024	Not achieved

Various indicators

48. The reported achievements in the annual performance report were inconsistent with the commitments made in the approved planning documents. These discrepancies highlight misalignment between approved plans and operations, while the incorrect reporting undermines transparency and accountability.
49. Furthermore, a comparison of the actual performance for the year against the prior year 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.
50. Lastly, I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided for auditing. 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
Kgotsong: upgrading of outfall sewer pipeline: Phase 3: Ward 5, 11 and 12.	Project registration and design	Achieved
Construction of 1,2 km paved road and storm water channel: Monnamoncho and Sebotsa streets by end of June 2024.	1,2 km by 30 June 2024	Achieved
Bothaville/Kgotsong: paving of 6 000 m2 of tarred roads by 30th June 2024.	6 000 m2 by 30 June 2024	Achieved
Wesselsbron/Monyakeng: paving of 4 000 m2 of tarred roads by 30th June 2024.	4 000 m2 by 30 June 2024	Achieved
Bothaville/Kgotsong: cleaning of 10km of storm water channels and catch pits by end of June 2024.	10 km by 30 June 2024	Achieved
Wesselsbron: cleaning of 6 km of storm water channels and catch pits by end of June 2024.	6 km by 30 June 2024	Achieved
Refurbishment and fencing of Kgotsong main sub-station by end of June 2024.	Kgotsong: new electricity meters installations for 1 500 households by 30 June 2024	Achieved

Various indicators

51. The reported achievements in the annual performance report were inconsistent with the commitments made in the approved planning documents. These discrepancies highlight misalignment between approved plans and operations, while the incorrect reporting undermines transparency and accountability.
52. Furthermore, a comparison of the actual performance for the year against the prior year 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.

53. Various indicators were not clearly defined during the planning process. Consequently, the indicators are not useful for measuring and reporting on progress against planned objectives.
54. Moreover, I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.
55. Lastly, measures taken to improve performance against underachieved targets were not reported in the annual performance report. Information was thus not provided to help with understanding the actions taken by the accounting officer to address performance gaps and for assessing the effectiveness of strategies to improve future performance against targets.

Indicators	Targets	Reported achievements	Details
To ensure that two (2) blue drop assessment tests are conducted per financial year.	1	Not achieved	The indicator is not well defined so that data will be collected consistently, it could not be confirmed how the data for this indicator is thoroughly collected. Furthermore, no process is documented, nor could it be confirmed of how the data for this indicator is thoroughly collected.
To ensure that one (1) green drop assessment tests are conducted per financial year.	1	Not achieved	The indicator is not well defined so that data will be collected consistently, it could not be confirmed how the data for this indicator is thoroughly collected. Furthermore, no process is documented, nor could it be confirmed of how the data for this indicator is thoroughly collected.

Other matters

56. I draw attention to the matters below.

Achievement of planned targets

57. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.
58. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.

Basic service delivery

<i>Targets achieved: 46%</i>		
<i>Budget spent: 100%</i>		
Key service delivery indicators not achieved	Planned targets	Reported achievements

450 households in Khalinkomo have access to potable water by end of June 2024.	450 households by end of June 2024	Not achieved
Ensure access to potable water for 426 households in Botharnia ext. 15 by 30th June 2024.	426	Not achieved
To ensure that two (2) blue drop assessment tests are conducted per financial year.	1	Not achieved
Kgotsong/Bothaville: replacement of 5,1 km AC pipeline with uPVC pipe by end of June 2024.	Kgotsong/Bothaville: replacement of 5,1 km AC pipeline with uPVC pipe.	Not achieved
Waterborne sewer reticulation network 500 households in Vergenog by 30th June 2024.	500 households in Vergenog by 30 June 2024.	Not achieved
Waterborne sewer reticulation network 450 households in Khalinkomo by 30 June 2024.	450 households by 30 June 2024.	Not achieved
To ensure that one (1) green drop assessment tests are conducted per financial year.	1	Not achieved
Waterborne sewer reticulation network 426 households in Bothaville ext. 30th June 2024.	426 households by 30 September 2024	Not achieved
WBN/Monyakeng: electrification of 252 households in ext. 12 and 13.	252 households by 30 June 2024	Not achieved

Material misstatements

59. 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 all of the misstatements, and I reported material findings in this regard.

Report on compliance with legislation

60. 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.
61. 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.
62. 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.

63. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements and annual report

64. 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, revenue, expenditure 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.
65. The 2022-23 annual report was not tabled in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.
66. The 2022-23 annual report was not made public after being tabled in the council, as required by section 127(5)(a)(i) of the MFMA.
67. The local community was not invited to submit representations in connection with the 2022-23 annual report, as required by section 127(5)(a)(ii) of the MFMA.
68. The council failed to adopt an oversight report containing the council's comments on the 2022-23 annual report, as required by section 129(1) of the MFMA.

Revenue management

69. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
70. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Assets management

71. An investment policy was not adopted by the council, as required by section 13(2) of the MFMA and municipal investment regulation 3(1)(a).
72. Capital assets were permanently disposed of that were needed to provide the minimum level of basic municipal services, in contravention of section 14(1) of the MFMA.
73. 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 sections 14(2)(a) and 14(2)(b) of the MFMA.

Human resource management

74. The municipal manager did not develop the staff establishment and did not submit it to the municipal council for approval as required by section 66(1)(a) of the Municipal System Act 32 of 200 (MSA).
75. 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 MSA and regulation 31 of Municipal Staff Regulations.

Expenditure management

76. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
77. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred as required by section 65(2)(b) of the MFMA.
78. Reasonable steps were not taken to prevent irregular expenditure amounting to R26 368 360 as disclosed in note 49 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM requirements.
79. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R32 247 055, as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by interest charged on long outstanding creditor balances
80. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification. The majority of the-unauthorised expenditure was caused by overspending of the budget.

Consequences 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 were 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.

Strategic planning and performance management

84. A performance management system was not adopted, as required by municipal planning and performance management regulation 8.

Procurement and contract management

85. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).

Other information in the annual report

86. 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 areas (KPA) presented in the annual performance report that have been specifically reported on in this auditor's report.
87. 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.
88. 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.
89. 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

90. 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.
91. 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.
92. Management did not adequately monitor the implementation of action plans to address internal control deficiencies. This resulted in a re-occurrence of similar material findings in the current financial year.
93. Accounting officer did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance and related internal controls. This resulted in material misstatements on the financial statements and annual performance report.

94. Accounting officer did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.
95. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. This resulted in information not being submitted timeously for audit and material limitations.
96. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. This resulted in material misstatements of financial statements and performance information.
97. Management did not implement controls over daily and monthly processing and reconciling of transactions. This resulted in a weak internal control environment, resulting in material misstatements not being prevented.
98. Management did not review and monitor compliance with applicable laws and regulations. This resulted in instances of material non-compliance with legislation.
99. Council did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively. This resulted in significant control deficiencies identified at the municipality.
100. Council did not ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations. This resulted in a weak internal control environment that led to material misstatements in the financial statements and annual performance report and material findings on compliance with legislation.

Auditor - General

Bloemfontein

03 December 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

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

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

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

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

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)