

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Setsoto 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 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, the financial statements present fairly, in all material respects, the financial position of the Setsoto 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 opinion

3. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Unauthorised expenditure

7. As disclosed in note 48.1 to the financial statements, unauthorised expenditure of R150 478 952 (2022: R176 617 291) was incurred, due to the overspending of the budget.

Irregular expenditure

8. As disclosed in note 48.2 to the financial statements, irregular expenditure of R19 868 984 (2022: R53 609 988) was incurred, due to non-compliance with supply chain management (SCM) requirements.

Restatement of corresponding figures

9. As disclosed in note 55 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, and for the year ended, 30 June 2023.

Material uncertainty relating to claims against the municipality

10. With reference to note 43 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.

Material impairment

11. As disclosed in note 3 and note 4 to the financial statements, receivables from exchange transactions and non-exchange transactions were impaired by R232 808 314 (2022: R214 882 249) and R28 740 221 (2022: R26 854 436) respectively.

Material losses

12. As disclosed in note 52 to the financial statements, material water distribution losses of R 13 982 330 (2022: R 12 717 711) and electricity distribution losses of R7 437 349 (2022: R7 161 780) were incurred by the municipality.

Other matters

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

Unaudited disclosure notes

14. 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.

Unaudited supplementary schedules

15. The supplementary information set out on pages 137 to 138 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

16. 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.
17. 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

18. 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.
19. 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

20. 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 areas (KPA's) presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
21. I selected the following KPA presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected the 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 service delivery	XX	Supporting the delivery of municipal services to the requires quality and standard

22. I evaluated the reported performance information for the 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.

23. 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 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 is presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the measures taken to improve performance.

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

25. The material findings on the reported performance information for the selected KPA are as follows:

Basic service delivery

Percentage of households with access to electricity

26. An achievement of 96% of households with access to electricity was reported against a target of 100% of households with access to electricity. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved. In addition, a measure of percentage of households with access to electricity was reported to improve the performance against the above mentioned target. I could not determine if the measure was correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measure was reliable.

Various indicators

27. I could not determine how the planned indicators listed below would be measured and what evidence would be needed to support the achievements, as adequate supporting evidence was not provided for auditing. In addition, the municipality did not provide evidence to confirm that processes had been established to consistently measure and reliably report on these indicators. This was due to a lack of measurement definitions and processes. Consequently, I could not confirm the reliability of the reported achievement. Lastly, measures were reported to improve the performance against the targets. I could not determine if the measure was correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measure was reliable.

Indicator	Target	Reported achievement
Percentage of households with access to refuse removal (Municipal Manager)	91%	92%
Percentage of households with access to refuse removal (Director)	90%	92%

Various indicators

28. The municipality did not provide evidence to confirm that processes had been established to consistently measure and reliably report on this indicator. This was due to a lack of measurement definitions and processes. Consequently, I could not confirm the reliability of the reported achievement. In addition, the measures were reported to improve the performance against the targets listed below. I could not determine if the measure was correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measure was reliable.

Indicator	Target	Reported achievement
Percentage of households with access to basic sanitation (Municipal manager)	74%	0%
Percentage of households with access to basic sanitation (Director)	72%	81%
Percentage green drop compliance	30%	0%
Percentage of household with access to basic water supply (Municipal Manager)	100%	0%
Percentage of household with access to basic water supply (Director)	100%	97%
Percentage blue drop compliance	70%	0%

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. 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.

Material misstatements

31. 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

32. 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.

33. 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.

34. 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.

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

Expenditure management

36. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
37. Reasonable steps were not taken to prevent irregular expenditure amounting to R19 868 984 as disclosed in note 48 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 SCM requirements.
38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R844 245, 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 late payments to suppliers.
39. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R150 478 952, as disclosed in note 48 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 budget.

Consequence management

40. 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.
41. 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.
42. 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

43. The performance management system and related controls were inadequate as it did not describe how the performance reporting processes should be conducted, as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

44. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1)(a) and (c).

45. Some of the goods and services of a transaction value above R200 000 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). Similar non-compliance was also reported in the prior year.
46. 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.
47. 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)(b) of the MFMA. Similar non-compliance was reported in the prior year.
48. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA. Similar limitation was also reported in the prior year.
49. The invitation to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2). This non-compliance was identified in the procurement processes for the construction of the new 11MI water treatment works in Senekal/Matwabeng.

Other information in the annual report

50. 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 KPAs presented in the annual performance report that have been specifically reported on in this auditor's report.
51. 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.
52. 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 Key Performance Area presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
53. 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 the other information to 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

54. 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.
55. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
56. Ineffective monitoring and supervision over performance reporting resulted in material misstatements in the annual performance report. The internal controls within the municipality did not improve, as repeat findings were reported in the current year.
57. Slow corrective measures were taken by management to address the drivers of non-compliance with laws and regulations. Management did not prioritise the review and monitoring of compliance with legislation, which resulted in repeat findings. This was due to a lack of consequence management, as officials were not held accountable for non-compliance to laws and regulations.

Material irregularities

58. 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

59. The material irregularities identified are as follows:

Status of previously reported material irregularities

60. The accounting officer did not take all reasonable steps to ensure that amounts due to Eskom for the bulk purchases of electricity were paid within 30 days of receiving the relevant invoice or statement, as required by section 65(2)(e) of the MFMA. The late payment resulted in interest of R2 837 021 being incurred for the period 1 April 2019 to 31 March 2020. The interest incurred is likely to result in a material financial loss for the municipality due to the liability to pay the interest to Eskom.
61. The accounting officer was notified of the material irregularity on 30 March 2021 and was invited to make written submission on the actions taken and those that will be taken

to address this matter. The following actions have been taken to resolve the material irregularity:

- The municipality had several engagements with Eskom to reach a mutual agreement on a payment agreement. Following a meeting held on 19 September 2022, the municipality submitted a proposed payment plan for the period October 22 to 30 June 2023, which was subsequently accepted by Eskom. The municipality is continuing to make payments to Eskom in line with the payment agreement.
- The municipality further reached agreement with Eskom to extend the payment terms from 15 days to 30 days, and to reduce the interest rate on amounts due by 2.5%. The municipality were consequently able to reduce the interest for the 2022-23 financial year to R766 405 (2021-22: R1 428 456) and did not incur any interest since January 2023.
- The municipality planned to reduce the electricity distribution losses through various interventions as part of their revenue enhancement strategy implemented within the various departments at the municipality. Electricity distribution for the 2022-23 financial year was assessed to be 7%, which is within the acceptable norm of 7% - 10%.

62. Therefore, the material irregularity has been resolved.

Auditor-General

Bloemfontein

14 December 2023



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 [consolidated and separate] financial statements and the procedures performed on reported performance information for selected objectives 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 separate financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the separate 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 separate 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 separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the [consolidated and separate] 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 [type of auditee] to cease operating as a going concern

- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and determine whether the separate 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	Section 1 - Paragraph (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)

Legislation	Sections or regulations
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)