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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Dihlabeng 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, 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 Dihlabeng 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 General Recognised Accounting Practice (GRAP) and the requirement of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (Dora).

Basis for qualified opinion

Investment property

3. The municipality did not account for investment property in accordance with GRAP 16, *Investment property* as the municipality did not record investment properties that were under its control in the fixed asset register and the municipality also incorrectly recorded properties in the fixed asset register that they did not own. Consequently, the investment property was understated by R50 176 159 (2022: R23 852 195). In addition, the municipality did not accurately calculate the fair value of investment properties at the reporting date in accordance with the accounting standard. I was unable to determine the full extent of the misstatement to investment property stated at R547 450 541 (2022: R574 552 692) in note 10 to the financial statements as it was impracticable to do so. Additionally, there was an impact on the revaluation and fair value adjustments, deficit for the year and accumulated surplus.

Heritage assets

4. I was unable to obtain sufficient appropriate audit evidence for heritage assets, as the municipality could not provide adequate supporting evidence to confirm the inputs used to determine the fair value of heritage assets at the reporting date. I was unable to confirm the heritage assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to heritage assets stated mat R64 450 000 in note 13 to the financial statements.

5. During 2022, the municipality did not revalue its heritage assets in accordance with GRAP 103, *Heritage assets*. I was unable to confirm the revaluation amount of heritage assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the corresponding figures for heritage assets, stated at R48 660 000 in note 13 to the financial statements, as it was impracticable to do so.

Payables from exchange transactions

6. The municipality did not correctly account for payables from exchange transactions in accordance with GRAP 104, *Financial Instruments* as the municipality incorrectly classified finance lease obligations as payables from exchange transactions. Consequently, payables from exchange transactions were overstated and finance lease obligations were understated by R2 753 280 respectively. In addition, I was unable to obtain sufficient appropriate evidence for the payable from exchange transactions due to the status of the accounting records. I was unable to confirm the payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to payables from exchange transactions stated at R1 216 262 629 in note 19 to the financial statements.

Fines, penalties and forfeits

7. The municipality did not correctly account for fines, penalties and forfeits in accordance with GRAP 23, *Revenue from non-exchange transactions* as the municipality did not account for all the traffic fines that were issued to traffic offenders. Consequently, fines, penalties and forfeits and receivables from non-exchange transactions stated in note 6 to the financial statements were understated by R11 905 797 respectively. Additionally, there was an impact on the deficit for the year and accumulated surplus.

Contracted services

8. I was unable to obtain sufficient appropriate evidence to confirm the contracted services, due to the status of the accounting records. I was unable to confirm the contracted services payments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contracted services stated at R94 424 496 in note 38 to the financial statements.

9. During 2022, the municipality did not recognise all contracted services expenditure transactions in accordance with GRAP 1, *Presentation of financial statements* as some general expenses, repairs and maintenance, property, plant and equipment as well as receivables from exchange transactions were incorrectly classified as contracted services expenses. Consequently, contracted services were overstated by R44 147 678, general expenses were understated by R20 798 945, and property, plant and equipment were understated by R17 820 420 and repairs and maintenance by R5 339 403.

Irregular expenditure

10. The irregular expenditure incurred during the current financial year and related information on irregular expenditure was not included in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. Expenditure was incurred in contravention of the supply chain management (SCM) requirements, resulting in irregular expenditure. I was unable to determine the full extent of the irregular expenditure stated at R791 839 249 in note 56 to the financial statements as it was impracticable to do so.

Employee related costs

11. During 2022, I was unable to obtain sufficient appropriate audit evidence for overtime payments due to the status of accounting records. I was unable to confirm the overtime payments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the corresponding figure of overtime payments, stated at R15 633 470 in note 32 to the financial statements. 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 2022 was modified accordingly. My opinion on the current year's financial statements was also modified because of the possible effect of this matter on the comparability of the employee related costs stated in note 32 to the financial statements for the current period.

General expenses

12. During 2022, I was unable to obtain sufficient appropriate evidence to confirm that the corresponding general expenses were only recognised when goods and services were actually received, due to the status of the accounting records, I was unable to confirm the corresponding general expenses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the corresponding figures for general expenses stated at R82 069 849 in note 39 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year's financial statements was also modified because of the possible effect of this matter on the comparability of the general expenses stated in note 39 to the financial statements for the current period.

Consumer debtors from non-exchange transactions

13. During 2022, the municipality classified outstanding balances of consumers as consumer debtors from non-exchange transactions where the municipality received value for the maintenance of the meter boxes for water and electricity in accordance with GRAP 23, *Revenue from non-exchange transactions*. The outstanding balances of consumers for the maintenance of the meter boxes for water and electricity constitute consumer debtors from exchange transactions, but were accounted for as consumer debtors from non-exchange transactions. Consequently, the corresponding figures for consumer debtors from exchange transactions were understated and consumer debtors from non-exchange transactions were overstated by R12 975 787 respectively. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year's financial statements was also modified because of the possible effect of this matter on the

comparability of the consumer debtors from non-exchange transactions stated in note 7 to the financial statements for the current period.

Service charges

14. During 2022, the municipality did not correctly account for service charges revenue in accordance with GRAP 9, *Revenue from exchange transactions* and GRAP 1, *Presentation of financial statements*. Revenue from exchange transactions was incorrectly calculated and classified as revenue from non-exchange transactions whilst other revenue transactions were recorded in the incorrect financial year. Consequently, the corresponding figures for service charges revenue were overstated by R77 662 661 and receivables from exchange transactions were overstated by R60 573 700. 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 2022 was modified accordingly. My opinion on the current year's financial statements was also modified because of the possible effect of this matter on the comparability of the service charges revenue stated in note 25 to the financial statements for the current period.

Commitments

15. During 2022, I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality did not maintain accurate and complete records of some of the contractual information used to determine commitments. I could not confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments stated at R94 075 382 in note 46 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year's financial statements was also modified because of the possible effect of this matter on the comparability of the commitments stated in note 46 to the financial statements for the current period.

Context for opinion

16. 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.

17. 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.

18. 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

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

20. Note 52 the municipality had a net loss of R134 898 323 for the year ended 30 June 2023 and, as of that date, the municipality's total current liabilities exceeded its current assets by R988 846 861. In addition, the municipality owed Eskom R937 912 491 (2022: R726 132 377), Free State Fleet Management Trading Entity R62 684 617 (2022: R62 684 617), the Department of Water Affairs R62 293 443 (2022: R58 439 904) and the Department of Labour R27 124 489 (2022: R23 517 728) as at 30 June 2023. These events or conditions, along with other matters as set forth in note 52, 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

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

Unauthorised expenditure

22. As disclosed in note 54 to the financial statements, unauthorised expenditure of R366 737 446 (2022: R267 874 923) was incurred, due to the overspending of the budget.

Fruitless and wasteful expenditure

23. As disclosed in note 55 to the financial statements, fruitless and wasteful expenditure of R75 811 385 (2022: R41 114 932) was incurred, due to interest on late payments to suppliers.

Material losses

24. As disclosed in note 37 to the annual financial statements, material water distribution losses of R34 793 719 (2022: R37 245 896) and electricity distribution losses of R 41 913 033 (2022: R 42 151 959) were incurred by the municipality mainly due to leakage, burst water pipes, line losses, tampering and theft.

Contingencies

25. With reference to note 47 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 were made in the financial statements.

Restatement of corresponding figures

26. As disclosed in note 50 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.

Other matters

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

Unaudited disclosure notes

28. 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

29. 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.

30. 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

31. 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.

32. 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

33. 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.

34. 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 measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

KPA	Page numbers	Purpose
Accelerated Service Delivery & Infrastructure Development – Technical and community services	XX	Encouraging and creating conditions conducive for public involvement in the affairs of Dihlabeng Local Municipality

35. I was engaged to evaluate 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. An annual performance report prepared using these criteria provides useful and reliable information and insights to users of the report on the municipality's planning and delivery on its mandate and planned objectives. My objective was to perform procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

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

Accelerated Service Delivery & Infrastructure Development – Technical services

Clarens/Kgubetswana: Upgrading of the water purification works from 1.1 Ml to 4Ml/d by 2024

37. An achievement of realised: 69% was reported in the annual performance report. However, the target in the approved service delivery and budget implementation plan and integrated development plan was construction and budget progress at 50% completion stage. Furthermore, the audit evidence showed the actual achievement to be only construction progress 69%, budget progress 61,15%. Consequently, the achievement against the target was lower than reported.

10 reports submitted on compliance to the landfill site licence conditions and minimum requirements for waste disposal by landfill

38. An achievement of not realised: 3 monthly reports submitted was reported in the annual performance report. However, the target in the approved service delivery and budget implementation plan and integrated development plan was 9 monthly reports submitted on the daily operation, which includes receiving of waste, compacting and covering of waste as per the minimum requirements for waste disposal by landfill and licence conditions and 1 report on the tender process for the appointment of the service provider for management of the landfill site. In addition, a measure of operation and maintenance of the landfill site is in progress was reported to improve the performance against the target listed above. 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.

4 Quarterly submissions of reports for daily inspections, maintenance and operations of street patching, blading and regravelling, stormwater infrastructure, carpentry and painting, and railway derailment

39. An achievement of realised: ongoing exercise: routine and eriodic maintenance were reported in the annual performance report. However, the target in the approved service delivery and budget implementation plan and integrated development plan was the submission of 4 quarterly reports indicating daily milestones achieved for all sections. The municipality also did not provide evidence to confirm that processes had been established to consistently measure and reliably report on this indicator. This was due to insufficient measurement definitions and processes. Furthermore, a comparison of the performance of the year under review and that of the previous year was not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals. Lastly, 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.

Electrification of farm dwellers as per the approval of the farm owner and capacity availability from Eskom at least 12 farms will be targeted

40. An achievement of not realised was reported in the annual performance report. However, the target in the approved service delivery and budget implementation plan and integrated development plan was construction and budget progress at 100% completion stage. I could also not determine how the planned indicator would be measured and what evidence would be needed to support the achievement, as adequate supporting evidence was not provided for auditing. Furthermore, a comparison of the performance of the year under review and that of the previous year was not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals.

41. In addition, the municipality did not provide evidence was not provided to confirm that processes had been established to consistently measure and reliably report on this indicator. This was due to insufficient measurement definitions and processes. Consequently, I could not confirm the reliability of the reported achievement. Lastly, a measure of continue to request access and permission to electrify farm dwellers was reported to improve the performance against the target listed above. 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.

Upgrading of switchgears at Panorama substation

42. The approved initial annual performance plan and strategic plan and budget implementation plan and integrated development plan included an indicator of upgrading of switchgears at panorama substation and target of Construction and Budget Progress at 100% completion stage. However, the target was not reported on, in the annual performance report. Consequently, performance against the target was not accounted for.

Various indicators

43. Comparisons of the performance of the year under review and that of the previous year were not included in the annual performance report for the indicators listed below. This would make it difficult to track the achievement of service delivery goals. In addition, measures listed below were reported to improve the performance against the targets listed below. I could not determine if the measures were correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measure was reliable.

Indicators	Planned targets	Measures disclosed in the annual performance report
Upgrading of Saulspoort water treatment works Section A: Raw water abstraction point	Construction and budget progress at 100% completion stage	The pumps were purchased and delivery is expected in January 2023
Upgrading of Saulspoort water treatment works Section C: Mechanical, electrical and civil	Construction and budget progress at 100% completion stage	The contractor have commenced with the building of electrical panels and it is anticipated that they will be done by August 2023
Upgrading of Saulspoort water treatment works Section E: Upgrading of 40 Ml to 60 Ml/d module/plant	Advertise tender	Tender committees must be reinstituted
Replacement of two 450 mm diameter asbestos pipes from Saulsport WTW to Birdcage Hill reservoir with two 550 mm diameter pipelines for 6,5 km	Advertise tender	Tender committees must be reinstituted

Various indicators

44. Comparisons of the performance of the year under review and that of the previous year were not included in the annual performance report for the indicators listed below. This would make it difficult to track the achievement of service delivery goals.

Indicators	Planned targets	Reported achievements
Upgrading of Saulspoort water treatment works Section B: Replacement of asbestos cement pipe at water treatment works	Construction and budget progress at 100% completion stage	Realised 100%
Upgrading of Saulspoort water treatment works Section D: Filter automation.	Construction and budget progress at 100% completion stage	Realised 100%

Various indicators

45. Achievements listed below were reported in the annual performance report. However, the targets in the approved service delivery and budget implementation plan and integrated development plan listed below were not consistent. Comparisons of the performance of the year under review and that of the previous year were also not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals. In addition, measures were reported to improve the performance against the targets listed below. I could not determine if the measures were correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measures were reliable. Lastly, based on audit evidence, the actual achievement for 2 indicators did not agree to the achievements reported. Consequently, the targets were not achieved.

Indicators	Planned targets	Reported achievements	Measures disclosed in the annual performance report
Bohlokong construction of 0,8 km Ramakoko street to block paved road and stormwater	Construction and budget progress at 100% completion stage	Not realised	Project rolled-over for completion in the 23-24 financial year
Bohlokong/Morleg: Rehabilitation of Atbara street 1 km to a block paved street	Construction and budget progress at 100% completion stage	Not realised	Project rolled-over for completion in the 23-24 financial year

Various indicators

46. Achievements listed below were reported in the annual performance report. However, the targets in the approved service delivery and budget implementation plan and integrated development plan listed below were not consistent. I could also not determine how the planned indicators would be measured and what evidence would be needed to support the achievement, as adequate supporting evidence was not provided for auditing. Furthermore, comparisons of the performance of the year under review and that of the previous year were also not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals. 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 insufficient measurement definitions and processes. Consequently, I could not confirm the reliability of the reported achievement.

Indicators	Planned targets	Reported achievements
Maintenance of protection scheme at three main 11 kV substations	Construction and budget progress at 100% completion stage	Realised: Replaced one 630 amps and constructed 15 meter 11KV overhead line and installed two 11KV auto re-
Implementation of maintenance program for all public lighting, high mast light, traffic signals with DLM	Budget progress at 100% completion stage	Realised: Ongoing

Installation of electricity smart/split metering within the jurisdiction of DLM	Installation of smart metering within DLM jurisdiction 100%	Realised: Replaced 18 bulk meters with split metering

Other matters

47. I draw attention to the matters below.

Achievement of planned targets

48. 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.

Report on compliance with legislation

49. 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.

50. 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.

51. 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.

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

Annual financial statements

53. 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 and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

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

55. Payments were made from the municipality's bank accounts without the approval of the accounting officer, as required by section 11(1) of the MFMA.

56. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations. Irregular expenditure amounting to R9 083 137 was incurred on the:

- Upgrading of Saulspoort Water Treatment Works: Section D: Filter Automation.

57. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R75 811 385, as disclosed in note 55 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.

58. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R337 784 190, as disclosed in note 54 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 expenditure vote.

Revenue management

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

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

Consequence management

61. 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.

62. 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.

63. 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.

Utilisation of conditional grants

64. The municipal infrastructure grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Dora.

Strategic planning & performance

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

66. The performance management system and related controls were inadequate as the designed processes were not implemented by management, this resulted in the performance processes not being conducted and managed, as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

67. 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.

68. Invitation to tender for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).

69. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA. A similar limitation was also reported in the prior year.

Other information in the annual report

70. 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.

71. 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.

72. 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.

73. 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 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

74. 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.

75. 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 the annual performance report and the material findings on compliance with legislation included in this report.

76. Leadership and management of the municipality did not exercise adequate oversight over financial and performance reporting and compliance with legislation. The leadership did not take effective steps to ensure that there were consequences for poor performance and transgressions of laws and regulations, as limited steps were taken to prevent unauthorised, irregular and fruitless and wasteful expenditure during the current and prior period.

77. Slow corrective measures were taken by leadership and management to address the drivers of material financial and non-compliance with laws and regulations.

78. The action plan which was designed to address findings previously reported and to prevent repeat findings was not adequately implemented. This was due to instability in key positions.

79. Senior management did not implement adequate processes to ensure regular updating of schedules, adequate reviews and monitoring of action plans are in place.

80. The audit committee was not appropriately constituted, which affected the execution of its oversight roles.

Auditor-General

Bloemfontein

05 April 2024

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

2. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected KPA and on the municipality's compliance with selected requirements in key legislation.

Financial statements

3. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
   - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
   - conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

4. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

5. I also provide the [accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

1. 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)
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)

Legislation	Sections or regulations
	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)