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

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Nketoana Local Municipality set out on pages … to …, which comprise the statement of financial position as at 30 June 2021, the 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. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment recognised by the municipality due to the status of the accounting records. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment, including work in progress stated at R952 177 607 (2020: R960 982 782) in the financial statements.

4. In addition, the municipality did not recognise property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment.* The municipality did not recognise all property, plant and equipment that met the definition of property, plant and equipment or capitalise all the construction costs to capital projects in progress. Furthermore, the municipality did not impair property plant and equipment where the carrying amount exceeded the recoverable amount. As a result, property, plant and equipment was understated by R16 053 922 (2020: R11 923 937), impairment loss was understated by R5 972 204 (2020: R3 033 130), provisions was understated by R6 662 775 (2020: R14 028 368), and accumulated surplus was understated by R15 363 351 (2020: R928 699). The municipality also did not capitalise all completed construction projects and did not recognise some projects at the correct amount. Consequently, the work in progress was overstated by R60 141 796 in note 13 to the financial statements.

Investment property

5. I was unable to obtain sufficient appropriate audit evidence for investment property recognised by the municipality due to the status of the accounting records. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to investment property stated at R111 258 440 (2020: R108 475 550) in the financial statements. In addition, during 2020 the municipality did not recognise investment property in accordance with GRAP 16, *Investment property,* as it did not measure investment property at its fair value reflecting market conditions at the reporting date.

The municipality also did not have adequate systems in place to ensure that all land and buildings that meet the definition of investment property were recognised. I was unable to determine the full extent of the misstatement as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and the accumulated surplus. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly.

Payables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions, due to the status of accounting records. I was unable to confirm payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transactions stated at R525 758 048 (2020: R470 271 840) in the financial statements. In addition, payables from exchange transactions were not recognised in accordance with GRAP 1, *Presentation of financial statements* as the municipality did not recognise all items that met the definition of liabilities. I was unable to determine the full extent of the misstatement as it was impracticable to do so.

Repairs and maintenance

7. I was unable to obtain sufficient appropriate audit evidence for repairs and maintenance, due to the status of the accounting records. I was unable to confirm repairs and maintenance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to repairs and maintenance as stated at R16 221 948 in the financial statements. In addition, the municipality did not classify expenses in accordance with GRAP 1, *Presentation of financial statements*. Lease rentals on operating leases were incorrectly classified as repairs and maintenance. As a result, repairs and maintenance was overstated and lease rentals on operating leases were understated by R11 141 356.

General expenses

8. I was unable to obtain sufficient appropriate audit evidence for general expenses, due to the status of the accounting records. I was unable to confirm general expenses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to general expenses, stated at R54 322 089 (2020: R44 808 635) in the financial statements.

9. In addition, the municipality did not correctly account for general expenditure in accordance with GRAP 1, *Presentation of financial statements* as general expenses was either not recorded in the correct financial year or were incorrectly classified in terms of the nature thereof, resulting in the below line items being misstated. There was also a resultant impact on accumulated surplus, and deficit for the year:

Line items	2021 Overstatement/(Understatement)	2020 Overstatement/(Understatement)
General expenses	R5 567 114	R4 052 900
Interest received (trading)	-	R101 016
Repairs and Maintenance	-	(R2 665 324)
Cash and cash equivalents	R132 685	-
Property Plant and Equipment	(R1 568 618)	(R2 063 552)
Payables from exchange transactions	-	(R4 131 181)
Accumulated surplus of the preceding financial year	(R4 131 181)	(R3 354 189)

Contracted services

10. I was unable to obtain sufficient appropriate audit evidence for contracted services, due to the status of the accounting records. I was unable to confirm contracted services by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contracted services as stated at R7 198 898 in the financial statements. In addition, the municipality did not account for contracted services in accordance with GRAP 1, *Presentation of financial statements* as contracted services were not recognised when the goods or services were received. As a result, contracted services and the opening balance for accumulated surplus was overstated by R1 661 292. Furthermore, there was an impact on the deficit for the year.

Service charges

11. I was unable to obtain sufficient appropriate audit evidence for revenue from service charges as the municipality did not have adequate systems in place to account for the billing of services and they did not have reliable data of actual consumption on which to base the billing of reasonable estimations of revenue. I was unable to confirm the revenue from service charges by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to service charges stated at R162 769 323 (2020: R154 533 628) in the financial statements.

12. During 2020, the municipality did not recognise all service charges in accordance with GRAP 9, *Revenue from exchange transactions,* as some consumers were not billed for the services they received, services were billed at the incorrect tariffs and estimated usage was incorrectly calculated. Consequently, service charges and receivables from exchange transactions were understated by R18 660 130. There was also an impact on the deficit for the year and accumulated surplus. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly.

Receivables from exchange transactions

13. The municipality did not recognise the allowance for impairment in accordance with GRAP 104, *Financial instruments* as receivables from exchange transactions were impaired where there was no objective evidence that it should be impaired. I was unable to determine the impact on the allowance for impairment for both the current and prior year included in note 8 to the financial statements as it was impracticable to do so.

14. During 2020 I was unable to obtain sufficient appropriate audit evidence to verify receivables from exchange transactions, due to the status of the accounting records. I was unable to confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from exchange transactions stated at R47 255 740 in the financial statements.

Receivables from non-exchange transactions

15. The municipality did not recognise receivables from non-exchange transactions in accordance with GRAP 104, *Financial instruments* as receivables for rates were recognised that did not meet the definition of a financial asset. In addition, the municipality did not correctly calculate the allowance for impairment as receivables from non-exchange transactions were impaired where there was no objective evidence that it should be impaired. I was unable to determine the impact on the net carrying amount of receivables from non-exchange transactions for both the current and the previous financial years as it was impracticable to do so. Additionally, there was an impact on the expenditure debt impairment, the deficit for the year and the accumulated surplus.

Government grants and subsidies

16. I was unable to obtain sufficient appropriate audit evidence for the municipal infrastructure - and water services infrastructure grant due to the status of the accounting records. I was unable to confirm the revenue from the municipal infrastructure- and water services infrastructure grants by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the municipal infrastructure- and water services infrastructure grants stated at R21 934 898 and R7 445 941 in note 32 to the financial statements respectively.

VAT receivable

17. I was unable to obtain sufficient appropriate audit evidence for the VAT receivable due to the status of the accounting records. I was unable to confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the VAT receivables stated at R19 103 277 (2020: R23 396 163) in the financial statements. In addition, the municipality did not recognise VAT on the allowance for the impairment of receivables from exchange transactions in accordance with GRAP 104, *Financial instruments* as the debt impairment in the statement of financial performance included VAT. Consequently, VAT receivable and debt impairment were misstated. I was unable to determine the impact on the VAT receivable and debt impairment for the current and prior year as it was impracticable to do so.

Other receivables

18. I was unable to obtain sufficient appropriate audit evidence for other receivables due to the status of the accounting records. I was unable to confirm the other receivables by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the other receivables stated at R7 980 337 (2020: R7 980 337) in the financial statements.

Employee benefit obligations

19. The municipality did not recognise the employee benefit obligation in accordance with GRAP 25, *Employee benefits* as management did not calculate the obligation in respect of all of the qualifying employees that were entitled to the benefit. I was unable to determine the impact on the employee benefit obligation as it was impracticable to do so.

Commitments

20. I was unable to obtain sufficient appropriate audit evidence for commitments, due to the status of the accounting records. I was unable to confirm commitments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments stated at R35 260 965 in note 48 to the financial statements. In addition, the municipality did not disclose all capital commitments as required by GRAP 17, *Property, plant and equipment* and in other instances did not record commitments at the correct amount. As a result, capital commitments were understated by R15 445 688 (2020: R18 423 900) in note 48 to the financial statements.

Irregular expenditure

21. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure, due to the status of the accounting records. I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to irregular expenditure stated at R326 124 844 (2020: R290 276 620) in note 56 to the financial statements. In addition, the municipality did not include the required information on irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the Municipal Finance Management Act 56 of 2003 (MFMA). The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements, resulting in the understatement of irregular expenditure by R12 460 700.

Unauthorised expenditure

22. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure due to the status of the accounting records. I was unable to confirm unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to unauthorised expenditure stated at R824 843 449 (2020: R561 458 092) in note 54 to the financial statements

23. During 2020, the municipality did not include the required information on unauthorised expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality did not include all overspending of the main divisions of the budget resulting in unauthorised expenditure being understated by R212 773 429.

Cash flow statement

24. The municipality did not correctly prepare and disclose the net cash flows from operating activities and net cash flow from investing activities as required by GRAP 2, *Cash flow statements.* This was due to multiple errors in determining the cash flows from operating activities and cash flows from investing activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities or net cash flows from investing activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to cash flows from operating activities stated at R38 435 429 (2020: R39 405 757) or cash flow from investing activities as stated at R33 406 543 (2020: R39 474 784) in the financial statements.

Segment information

25. I was unable to obtain sufficient appropriate audit evidence for the total segment expenditure of R484 558 501, total segment assets of R1 164 330 244 and the total segment liabilities of R635 389 638 as stated in note 62 to the financial statements, due to the status of the accounting records. I was unable to confirm total segment expenditure, total segment assets and total segment liabilities by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to total segment expenditure, total segment assets and total segment liabilities as stated in note 62 to the financial statements. In addition, the municipality did not include segment information in accordance with GRAP 18: *Segment reporting* as no reconciliation of the segment expenditure, segment assets and segment liabilities to the total expenditure, total assets and total liabilities were disclosed. I was unable to determine the full extent of the errors as it was impractical to do so.

Material distribution losses

26. I was unable to obtain sufficient appropriate audit evidence for the material water distribution losses, due to the status of the accounting records. I was unable to confirm the material water distribution losses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the material water distribution losses stated at R5 825 779 in note 58 to the financial statements.

Statement of comparison of budget and actual amounts

27. I was unable to obtain sufficient appropriate audit evidence for the reasons for the variances between the actual and final budgeted amounts disclosed in the financial statements. I was unable to confirm these reasons for the variances by alternative means. Consequently, I was unable to determine if any adjustment was necessary to the reasons for the variances disclosed in the financial statements. In addition, the municipality did not present the statement of comparison of budget and actual amounts in accordance with GRAP 24, *Presentation of budget information in financial statements*, due to unexplained differences between the budget and the financial statements I was unable to determine the full extent of the errors as it was impracticable to do so.

Material uncertainty relating to going concern

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

29. Note 52 to the financial statements indicates that the municipality incurred a net loss of R59 827 517 during the year ended 30 June 2021 and, as of that date, the municipality's current liabilities exceeded its current assets by R476 532 563. In addition, the municipality owed Eskom R429 239 011 as at 30 June 2021, which was long overdue. 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

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

Material losses

31. As disclosed in note 39 to the financial statements, material losses of R18 762 995 (2020: R38 091 625) were incurred as a result of a write-off of irrecoverable consumer debtors.

Fruitless and wasteful expenditure

32. As disclosed in note 55 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R12 260 221 (2020: R29 930 160), due to interest and penalties charged on overdue accounts.

Restatement of corresponding figures

33. As disclosed in note 51 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Material uncertainty relating to claims against the municipality

34. With reference to note 49 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.

Other matter

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

Unaudited disclosure notes

36. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA 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 thereon.

Responsibilities of the accounting officer for the financial statements

37. 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 the Division of Revenue Act 10 of 2020 (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.

38. 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.

Auditor-general's responsibilities for the audit of the financial statements

39. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

40. 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 the other ethical requirements that are relevant to my audit of the financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

Introduction and scope

41. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected key performance area (KPA) presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.

42. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected KPA presented in the municipality's annual performance report for the year ended 30 June 2021:

KPA	Pages in the annual performance report
KPA 5 – basic service delivery	x – x

43. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

44. The material findings on the usefulness and reliability of the performance information of the selected KPA are as follows:

KPA 5 – basic service delivery

Farms provided with clean, potable water on request

45. The achievement of four farms provided with potable water on request was reported against the target of 4 – 8 farms provided with potable water on request in the annual performance report. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of three.

Construction of 19.4 km mPVC pipeline from Lindley to Arlington Phase 1: 3km

46. The measures taken to improve performance against the target of 3km were not reported in the annual performance report.

Various indicators

47. I was unable to obtain sufficient appropriate audit evidence for the reported achievements noted below. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

Indicator description	Planned target	Reported achievement
14 043 households in formal urban areas, as defined in the integrated development plan, have access to at least reconstruction and development programme (RDP) level of potable water	14 043	14 043
17 026 households have access to at least RDP level of sanitation	17 026	17 026

Various indicators

48. I was unable to obtain sufficient appropriate audit evidence for the reported achievements noted below. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report. The planned indicator and targets were to improve the blue drop and green drop assessment of the municipality but the reported achievements referred to assessment scores achieved. The reported measures taken to improve performance against the planned targets were also not reported in the annual performance for the indicators listed below:

Indicator description	Planned target	Reported achievement
Improve the blue drop assessment result of the municipality by a minimum of 10%.	80%	71,40%
Improvement of the municipality's green drop assessment score template	40%	40%

Various indicators

49. I was unable to obtain sufficient appropriate audit evidence for the reported achievements noted below. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report. The planned indicator and targets were not consistently reported as the planned target was to report a percentage achievement against all registered indigents whilst the actual achievement was reported as the number of indigents for the indicators listed below:

Indicator description	Planned target	Reported achievement
All registered indigents have access to free basic water	100% (5 000 households/ registered indigent households)	5 364
All registered indigents having access to at least RDP level of free basic sanitation	100% of 5 000 registered Indigent households	6 366

Various indicators

50. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the targets, as reported in the annual performance report for the indicators listed below. This was due to the lack of accurate and complete records. I was unable to confirm the reported measures taken by alternative means. Consequently, I was

unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Indicator description	Planned target	Reported achievement
Reitz to Mamafubedu pipeline, 42km Phase 1 : planning Phase 2 : 15km Phase 3: 15km Phase 4: 12km	27	0
Reitz water treatment works: upgrading of raw water pump station and high lift pump station	2 1 raw water pump station 1 high lift pump station to be completed	0

Other matters

51. I draw attention to the matters below.

Achievement of planned targets

52. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and management's explanations provided for the under and over achievement of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 45 to 50 of this report.

Report on the audit of compliance with legislation

Introduction and scope

53. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

54. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

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

56. The annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA. The non-compliance resulted in a material irregularity as reported in the section on material irregularities.

Expenditure management

57. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control as required by section 65(2)(a) of the MFMA.

58. An adequate management and accounting system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.

59. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for disclaimer paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance to supply chain management laws and regulations.

60. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R12 260 221, as disclosed in note 55 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest incurred on overdue supplier accounts.

61. 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 disclaimer opinion paragraph. The majority of the disclosed unauthorised expenditure was caused by the overspending of the main division of a vote.

Revenue management

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

Asset management

63. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

64. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Strategic planning and performance management

65. The performance management system and related controls were not maintained or were inadequate and did not ensure effective monitoring measurement and review of the reported performance information as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

66. 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). A similar non-compliance was also reported in the prior year.

67. 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 non-compliance was also reported in the prior year.

68. 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. A similar non-compliance was also reported in the prior year.

Utilisation of conditional grants

69. I was unable to obtain sufficient appropriate audit evidence that the municipal infrastructure grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Dora.

70. I was unable to obtain sufficient appropriate audit evidence that the water services infrastructure grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Dora.

Consequence management

71. 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.

72. Some of the 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.

Internal control deficiencies

73. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

74. There is a lack of effective consequence management that resulted in the control environment not being strengthened and improved. Additionally, there was still instability in the position of accounting officer during the financial year under review which impacted the effective management of the municipality during this period.

75. Management was slow in responding to the weaknesses in municipal processes that were identified through the prior year's external audit. As a result, management did not ensure that they implement and effectively monitor controls over daily and monthly processing and reconciling of transactions and that they adequately safeguard the information to ensure the integrity of the underlying records for both financial and performance reporting.

76. The municipality's internal audit and audit committee did not function effectively during the year under review and did not provide any assurance to the leadership of the municipality or to those charged with governance.

Material irregularities

77. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

78. The material irregularity identified is as follows:

Annual financial statements not submitted for auditing (2020-21)

79. The annual financial statements for the year ending 30 June 2021 were not submitted to the auditor-general for auditing within two months after the end of the financial year (31 August 2021), as required by section 126(1)(a) of the MFMA. The non-submission of the annual financial statements for auditing, and the subsequent non-tabling of the annual report, is likely to result in substantial harm to the municipality, as there is a lack of accountability and transparency for the fiscal and financial affairs of the municipality. This is due to the legislative processes that follow after the submission of the annual financial statements relating to the financial year ending 30 June 2021 being delayed or not implemented.

80. The accounting officer was notified of the material irregularity on 14 April 2022 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer submitted the annual financial statements for auditing on 13 May 2022.

81. Therefore the material irregularity has been resolved.

Material irregularity in progress

82. I identified another material irregularity during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the response from the accounting officer. This material irregularity will be included in the next year's auditor's report.

Other reports

83. In addition to the investigations relating to material irregularities, I draw attention to the following engagement which had, or could have, an impact on the matters reported in the municipality's financial statements, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on compliance with legislation.

84. The Directorate for Priority Crime of the South African Police Services is investigating alleged fraud and corruption relating to monies paid to companies for work not done. No detail on the status of the investigation could be confirmed but the case is still in progress.

Auditor General

Bloemfontein

26 September 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence