Report of the auditor-general to the Free State Legislature and the council on the 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 2022, 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 as the municipality did not provide adequate supporting evidence for the inputs used in assessing changes to the residual values and the useful lives of assets based on their impairment and useful lives assessment methodology. In addition, the municipality did not provide sufficient appropriate audit evidence for work-in-progress due to the status of the accounting records. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment, stated at R905 700 047 (2021: R955 467 493) in note 13 to the financial statements.

4. The municipality also did not account for property plant and equipment in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) 21, *Impairment of non-cash generating assets* as the municipality did not impair assets where the carrying value of these assets exceeded its recoverable amount. This resulted in an overstatement of property, plant and equipment and an understatement of impairment losses by R6 839 528 (2021: R5 972 204). There was also an impact on the deficit for the period and accumulated surplus.

5. Furthermore, the municipality did not account for property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*, as the municipality recognised assets that it did not own or were no longer under its control, incorrectly capitalised the cost to construct assets and depreciated assets that exceeded its residual values. As a result, the property, plant and equipment was overstated by R33 799 417 (2021: R48 091 362), provisions were understated by R5 042 736, depreciation and amortisation was overstated by R8 820 798, finance costs was understated by R2 607 855 and the accumulated surplus was overstated by R45 055 096 (2021: R48 091 362).

Investment property

6. The municipality did not recognise investment property in accordance with GRAP 16, *Investment property,* as it did not measure investment properties at their fair value reflecting market conditions at the reporting date. In addition, the municipality did not recognise properties held for distribution in terms of a housing scheme as inventory in accordance with GRAP 12, *Inventory* for the current and previous financial years. These properties were incorrectly accounted for as investment property. I was unable to determine the full extent of the misstatement as it was impracticable to do so. There was also an impact on inventory, fair value adjustments, deficit for the period, accumulated surplus and the related disclosures on the valuation method and significant assumptions applied in note 12 to the financial statements.

Payables from exchange transactions

7. 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 R637 228 541 (2021: R539 811 870) in note 18 to the financial statements. In addition, the municipality did not recognise payables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements,* as the municipality did not record all items that met the definition of current liabilities. I was unable to determine the full extent of the misstatement as it was impracticable to do so. There was also an impact on the deficit for the period and accumulated surplus.

Unspent conditional grants and receipts

8. I was unable to obtain sufficient appropriate audit evidence for unspent conditional grants and receipts, due to the status of the accounting records. I was unable to confirm unspent conditional grants and receipts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to unspent conditional grants and receipts stated at R13 132 058 (2021: R8 450 058) in note 21 to the financial statements.

Employee related costs

9. I was unable to obtain sufficient appropriate audit evidence for employee related costs, as material differences were identified between the human resource system and the general ledger. I was unable to confirm employee related costs by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to employee related costs stated at R127 051 428 in note 34 to the financial statements.

Repairs and maintenance

10. 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 stated at R21 642 572 (2021: R16 455 758) in note 40 to the financial statements.

11. During 2021, the municipality did not classify expenses in accordance with GRAP 1, *Presentation of financial statements* as lease rentals on operating leases was incorrectly classified as repairs and maintenance. As a result, repairs and maintenance was overstated and lease rentals on operating leases was understated by R11 141 356 in the prior year.

General expenses

12. 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 R70 667 521 (2021: R52 524 266) in note 43 to the financial statements.

Contracted services

13. 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 stated at R22 506 420 (2021: R7 909 775) in note 42 to the financial statements.

Service charges

14. I was unable to obtain sufficient appropriate audit evidence for the revenue from the sale of water included in note 24 to the financial statements as the municipality did not have reliable data of actual consumption to estimate consumer billings for water consumption. I was unable to confirm the revenue from the sale of water by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to revenue from the sale of water stated at R59 840 002 (2021: R53 830 870) in note 24 to the financial statements.

15. In addition, during 2021, I was also unable to obtain sufficient appropriate audit evidence for the sale of electricity, sewerage and sanitation services and refuse removal included in note 24. The municipality did not have adequate systems in place to account for the billing of all services and did not have reliable data of actual consumption to estimate consumer billings for the sale of electricity. I was unable to confirm the corresponding figures for the sale of electricity, sewerage and sanitation services and refuse removal by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the corresponding figures for the sale of electricity, sewerage and sanitation services and refuse removal stated at R112 206 861 in note 24 to the financial statements.

Receivables from non-exchange transactions

16. The municipality did not recognise receivables from non-exchange transactions in accordance with GRAP 104, *Financial instruments,* as the municipality recorded receivables from non-exchange transactions for debtors whose

ownership of the properties did not transfer to them. 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. There was also an impact on the propery rates , the deficit for the year and the accumulated surplus.

VAT receivable

17. I was unable to obtain sufficient appropriate audit evidence for VAT receivables 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 776 654 (2021: R20 437 066) in note 9 to the financial statements. In addition, the municipality did not adequately recognise VAT on the allowance for the impairment of receivables from exchange transactions in accordance with GRAP 104, *Financial instruments.* The debt impairment included in the statement of financial performance was recorded inclusive of VAT. I was unable to determine the full extent of the misstatement for the current and previous financial years as it was impracticable to do so. There was also an impact on the debt impairment expenditure, the deficit for the year and the accumulated surplus.

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 (2021: R7 980 337) in note 5 to the financial statements.

Commitments

19. 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 R47 411 610 (2021: R42 204 474) in note 49 to the financial statements. In addition, the municipality did not disclose capital commitments in accordance with GRAP 17, *Property, plant and equipment*, as it did not disclose all capital commitments. The municipality also did not record commitments at the correct amount and recognised commitments that did not meet the criteria for recognition as they were not contractual commitments. I was unable to determine the full extent of the misstatement as it was impracticable to do so.

Irregular expenditure

20. 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 the irregular expenditure stated at R426 883 446 (2021: R386 068 200) in note 57 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 an understatement of irregular expenditure by R56 237 105.

Unauthorised expenditure

21. 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 was necessary to unauthorised expenditure stated at R810 658 560 (2021: R581 167 415) in note 55 to the financial statements. In addition, the municipality did not include all 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 R213 283 689.

Net cash flow from operating activities

22. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by GRAP 2, *Cash flow statements.* This was due to multiple errors in determining the cash flows from operating activities. I was unable to determine the full extent of the errors in the net cash flow from operating 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 389 419 (2021: R41 076 056) in the financial statements.

Net cash flow from investing activities

23. The municipality did not correctly prepare and disclose the net cash flows from investing activities as required by GRAP 2, *Cash flow statements.* This was due to multiple errors in determining the cash flows from investing activities. I was unable to determine the full extent of the errors in the net cash flow 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 investing activities stated at R37 348 923 (2021: R39 262 494) in the financial statements.

Segment information

24. I was unable to obtain sufficient appropriate audit evidence for the total reportable segments surplus or deficit, assets and liabilities, due to the status of the accounting records. I was unable to confirm the segment information by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the total reportable segment surplus or deficit stated at (R186 061 102) (2021: (R64 377 734)) and the total reportable segment assets and liabilities stated at R343 117 217 (2021: R529 178 327) in note 63 to the financial statements.

Budget differences

25. I was unable to obtain sufficient appropriate audit evidence for the reasons for the variances between the actual and final budgeted amounts disclosed in note 64 to the financial

statements. I was unable to confirm these reasons for the variances by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the reasons for the variances disclosed in the financial statements.

Contingencies

26. The municipality did not disclose all contingent liabilities in the notes to the financial statements as required by GRAP 19, *Provision, contingent liabilities, and contingent.* The municipality did not recognise all the active litigation claims that was brought against it as at the year end. Consequently, contingent liabilities in note 50 to the financial statements was understated by R23 138 802.

Additional disclosure in terms of the MFMA

27. I was unable to obtain sufficient appropriate audit evidence for pay as you earn (PAYE) and unemployment insurance fund (UIF), material water distribution losses and pension and medical aid deductions, due to the status of the accounting records. I was unable to confirm PAYE and UIF, material distribution losses and pension and medical aid deductions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to PAYE and UIF stated at R11 125 135, material water distribution losses stated at R9 945 842 (2021: R8 600 425) and pension and medical aid deductions stated at R8 862 579 in note 59 to the financial statements.

Government grants and subsidies

28. During 2021, 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 respectively in note 32 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2021 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 municipal infrastructure and water services infrastructure grants for the current period.

Employee benefit obligations

29. During 2021, 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. My audit opinion on the financial statements for the period ended 30 June 2021 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 benefit obligation for the current period.

Total expenditure

30. Total expenditure was materially misstated by R8 845 193 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

- Bulk purchases stated at R75 721 476 were understated by R5 745 498.
- Remuneration of councillors stated at R5 652 458 was understated by R2 407 920
- General expenditure stated at R70 667 521 was understated by R1 133 364
- Lease rentals on operating lease stated at R2 581 259 were overstated by R525 279.
- Contracted services stated at R22 506 420 was overstated by R367 137
- Employee related cost stated at R127 051 428 was understated by R272 523
- Finance cost stated at R33 747 623 was understated by R178 304.

31. In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm total expenditure by alternative means:

- Lease rentals on operating leases of R2 581 259 as included in the disclosed amount of R2 581 259.

32. Consequently, I was unable to determine whether any further adjustment was necessary to total expenditure.

Material uncertainty relating to going concern

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

34. Note 53 to the financial statements indicates that the municipality incurred a net loss of R186 061 107 during the year ended 30 June 2022 and, as of that date, the municipality's current liabilities exceeded its current assets by R613 927 795. In addition, the municipality owed Eskom R542 872 343 as at 30 June 2022, which was long overdue. These events or conditions, along with other matters as set forth in note 53, 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

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

Material impairments

36. As disclosed in note 8 to the financial statements, receivables from exchange transactions were impaired by R790 137 953 (2021: R644 127 093).

Material losses

37. As disclosed in note 39 to the financial statements, material losses of R34 439 537 (2021: R29 047 470) were incurred by the municipality, mainly due to the write-off of irrecoverable consumer debtors.

Fruitless and wasteful expenditure

38. As disclosed in note 56 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R22 310 301 (2021: R12 260 221), due to interest and penalties charged on overdue accounts.

Restatement of corresponding figures

39. As disclosed in note 52 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Other matter

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

Unaudited disclosure notes

41. 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 on it.

Responsibilities of the accounting officer for the financial statements

42. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP and the requirements of the MFMA and the Division of Revenue Act 9 of 2021 (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.

43. 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

44. 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.

45. 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

46. 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.

47. 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 2022:

KPA	Pages in the annual performance report
KPA 4 – basic service delivery and infrastructure development	x – x

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

KPA 4 – basic service delivery and infrastructure development

Improve the blue drop assessment result of the municipality by a minimum of 10%

49. The indicator was initially approved in the service delivery and budget implementation plan (SDBIP) to *ensure that the quality of drinking water complies with the South African national standards SANS 241 (between 95% and 99%)* but was changed without the necessary approval. The source information and method of calculation for the achievement of the planned indicator were not clearly defined. Additionally, I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 80% of test results. I was unable to confirm the reported

achievement 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 indicator.

Improvement of the municipality's green drop assessment score template

50. The indicator was initially approved in the SDBIP as *Wastewater quality compliance of ≥90% as per Green Drop standard* but was changed without the necessary approval. The source information and method of calculation for the achievement of the planned indicator was not clearly defined. Additionally, I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 40% of test results, I was unable to confirm the reported achievement 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 indicator.

Weekly refuse removal to households in formal settlements

51. The indicator was initially approved in the SDBIP as *Weekly refuse removal to households and business sites* but was changed without the necessary approval. The source information and method of calculation for the achievement of the planned indicator were not clearly defined as the frequency of collection set in the target was inconsistent with the frequency of collection as defined in the indicator. I was unable to obtain sufficient appropriate audit evidence for the reported achievements. 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 indicator.

To repair and maintain roads and storm water infrastructure on a continuous basis as required or on demand during the 2021/2022 financial year

52. The achievement of 12 monthly maintenance reports was reported against a target of 12 monthly maintenance reports in the annual performance report. However, some supporting evidence provided materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement in the annual performance report for the indicator.

Maintain 1 substation each in the following towns: Lindley 1, Reitz 1, Mamafubedu 1

53. I was unable to obtain sufficient appropriate audit evidence for the achievement of three substations maintained, reported against a target of maintaining one substation in each of the following towns: Lindley, Reitz and Mamafubedu in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement in the annual performance report for the indicator. Additionally, while the planned indicator and target were to maintain one substation in each of the specific towns: Lindley, Reitz, Mamafubedu, the reported achievement did not specify which towns the achievement of three substations maintained related to.

Purchasing of a compactor truck for waste removal

54. The measures taken to improve performance against target of one (1) were not reported in the annual performance report.

Various indicators

55. 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 descriptions	Planned targets	Reported achievements
14 043 households in formal urban areas, as defined in the IDP, have access to at least RDP level of potable water	14 043	14 043
17026 households have access to at least RDP level of sanitation	17 026	17 026
Clearing of illegal dumps on corners or open areas in residential areas.	2	2

Various indicators

56. 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. Additionally, the planned indicator and targets were not consistently reported as the planned target was to report a percentage achievement against all registered indigents while the actual achievement was reported as number of indigents for the indicators listed below:

Indicator descriptions	Planned targets	Reported achievements
All registered indigents have access to free basic water	100% of 5000 of the registered indigent households	5 173
All registered indigents having access to at least RDP level of free basic sanitation	100% of 5000 of the registered indigent households	Not reported

Various indicators

57. The achievements below were reported in the annual performance report for the listed indicators. However, some supporting evidence provided materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. 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 further adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

Indicator descriptions	Planned targets	Reported achievements
Farms provided with clean, potable water when required	4 – 8 farms	4 farms
Reconditioning of 5 transformers during 2021/2022 financial year	5	5

Other matters

58. I draw attention to the matters below.

Achievement of planned targets

59. Refer to the annual performance report on pages … to … for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 49 to 57 of this report.

Adjustment of material misstatements

60. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 4 - basic service delivery and infrastructure development objective. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above

Report on the audit of compliance with legislation

Introduction and scope

61. 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.

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

Annual financial statements

63. 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 current assets, liabilities, revenue, expenditure and 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.

64. 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.

Expenditure management

65. I was unable to obtain sufficient appropriate audit evidence that money owed by the municipality had always been paid within 30 days, as required by section 65(2)(e) of the MFMA.

66. I was unable to obtain sufficient appropriate audit evidence that payments from the municipality's bank accounts were approved by the accounting officer or the chief financial officer or a properly authorised official, as required by section 11(1) of the MFMA.

67. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval of expenditure and payment of funds, as required by section 65(2)(a) of the MFMA.

68. 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 of opinion paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM laws and regulations.

69. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R22 310 301, as disclosed in note 56 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.

70. 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 of opinion paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending the main divisions of a vote.

Procurement and contract management

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

72. Sufficient appropriate audit evidence could not be obtained that written quotations were accepted from prospective providers who were on the list of accredited providers and met the listing requirements, as prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(1)(b).

73. Some contracts and quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

74. Sufficient appropriate audit evidence could not be obtained that quotations were only accepted from bidders whose tax matters had been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

75. Some 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.

76. Some goods and services with 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.

77. Some construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the Construction Industry Development Board Act 38 of 2000 (CIDB) and CIDB regulations 17 and 25(7A).

78. 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).

79. Sufficient appropriate audit evidence could not be obtained that some of the commodities designated for local content and production, were procured from suppliers who submitted a declaration on local production and content as required by the 2017 preferential procurement regulation 8(5).

80. Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production, were procured from suppliers who met the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5).

81. Some contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.

82. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored monthly as required by section 116(2) of the MFMA. Similar non-compliance was also reported in the prior year.

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

Human resource management

84. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not adopted, as required by section 67(1)(d) of the Municipal Systems Act 32 of 2000 (MSA).

85. The municipal manager and a senior manager did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Revenue management

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

Consequence management

87. Unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.

88. Irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

89. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

90. Allegations of financial misconduct laid against officials of the municipality were not investigated, as required by section 171(4)(a) of the MFMA.

Asset management

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

92. 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

93. The service delivery and budget Implementation plan for the year under review was not approved by the mayor, as required by section 53(1)(c)(ii) of the MFMA.

94. A mid-year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.

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

Utilisation of conditional grants

96. The municipal infrastructure grant, regional bulk infrastructure grant, and water services infrastructure grant were not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of Dora.

97. I was unable to obtain sufficient appropriate audit evidence to confirm that the performance in respect of programmes funded by the regional bulk infrastructure grant was evaluated within two months after the end of the financial year, as required by section 12(5) of Dora.

Internal control deficiencies

98. 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.

99. A lack of effective consequence management resulted in the control environment not being strengthened and improved. Additionally, instability in the position of accounting officer and chief financial officer during the financial year impacted the effective management of the municipality during this period.

100. Management was slow in responding to the weaknesses in municipal processes identified through the previous year's external audit. As a result, management did not ensure that it implemented and effectively monitored controls over daily and monthly processing and reconciling transactions, nor did it adequately safeguard the information to ensure the integrity of the underlying records for both financial and performance reporting.

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

Material irregularities

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

103. The material irregularity identified is as follows:

Material irregularities identified during the audit

Annual financial statements not submitted for auditing (2021-22)

104. The annual financial statements for the year ending 30 June 2022 were not submitted to the auditor-general for auditing within two months after the end of the financial year (31 August 2022), 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 because the legislative processes that follow after the submission of the annual financial statements relating to the financial year ending 30 June 2022 were delayed or not implemented.

105. The accounting officer was notified of the material irregularity on 27 September 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 9 January 2023.

106. Therefore the material irregularity has been resolved.

Material irregularity in progress

107. I identified a 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.

Auditor - General

Bloemfontein

06 June 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence