

Report of the auditor-general to the Free State Legislature and the council on Maluti-a-Phofung Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Maluti-a-Phofung Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2020, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information 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

Receivables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions due to the status of the municipality's accounting records. I was unable to confirm the receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions, stated at R814 895 442 (2019: R468 610 105) in notes 10 and 13 to the financial statements. In addition, the municipality did not disclose an impairment reconciliation by consumer receivables, ageing of impaired consumer receivables and consumer debt past due not impaired for receivables from exchange transactions as required by the Standards of Generally Recognised Accounting Practice (GRAP) 104, *Financial instruments*.

Receivables from non-exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions due to the status of the municipality's accounting records. I was unable to confirm the receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from non-exchange transactions, stated at R170 664 939 (2019: R83 827 727) in notes 11 and 13 to the financial statements. In addition, the municipality did not present an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired and an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired for receivables from non-exchange transactions as required by GRAP 104, *Financial instruments*, resulting in the note being misstated.

Employee benefit obligation

- I was unable to obtain sufficient appropriate audit evidence that the employee benefit obligation had been properly accounted for due to the status of the municipality's accounting records. I was unable to confirm the employee benefit obligation by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to employee benefit obligation, stated at R88 065 000 (2019: R91 752 000) in the financial statements. In addition the municipality did not disclose the reconciliation of the opening to the closing balance of the employee benefit obligation in note 8 to the financial statements and did not make all the required disclosures in accordance with GRAP 25, *Employee benefits*.

Operating costs

- I was unable to obtain sufficient appropriate audit evidence that operating costs had been properly accounted for due to non-submission of information in support of the recorded transactions. I was unable to confirm the operating costs by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to operating costs, stated at R646 067 278 (2019: R640 584 475) in note 37 to the financial statements. In addition, the municipality did not properly account for operating costs transactions in accordance with GRAP 1, *Presentation of financial statements*, resulting in finance costs being understated by R555 651 324 and operating costs being overstated by the same amount.

Operating leases

- The municipality included operating leases as part of contracted services and did not disclose future minimum lease payments in a separate note to the financial statements as required by GRAP 13, *Leases*, in the current and comparative year. The financial statements did not include this disclosure, consequently I was unable to determine the full extent of the misstatements as it was impracticable to do so.

Commitments

- I was unable to obtain sufficient appropriate audit evidence that commitments had been properly accounted for due to the status of the municipality's accounting records. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments, stated at R511 090 060 (2019: R511 090 060) in note 40 to the financial statements. Additionally, in 2019, the municipality did not disclose all contractual commitments for the acquisition of property, plant and equipment, as required by GRAP 17 *Property, plant and equipment*, resulting in commitments being understated by R138 380 334.

Employee-related costs

- I was unable to obtain sufficient appropriate audit evidence that employee-related costs had been properly accounted for due to the status of the municipality's accounting records. I was unable to confirm the employee-related costs by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to employee-related costs, stated at R592 498 849 (2019: R749 563 089) in note 29 to the financial statements. In addition, in 2019 the municipality did not account for employee-related costs in accordance with GRAP 25,

Employee benefits, as the municipality paid employees after the employment contracts were terminated, resulting in the employee-related costs being overstated by R36 136 074.

Contingencies

10. I was unable to obtain sufficient appropriate audit evidence that contingencies had been properly accounted for due to the status of the municipality's accounting records. I was unable to confirm the contingencies by alternative means. In addition, the municipality did not disclose comparatives for contingencies in line with GRAP 1, *Presentation of financial statements*. Consequently, I was unable to determine whether any adjustment was necessary to contingencies, as stated in note 41 to the financial statements.

Unauthorised expenditure

11. I was unable to obtain sufficient appropriate audit evidence that unauthorised expenditure had been properly accounted for due to non-existence of supporting records. I was unable to confirm unauthorised expenditure by alternative means. Additionally, the municipality did not correctly disclose all instances of unauthorised expenditure in the notes to the financial statements, as required by section 125(2)(d) of the Municipal Finance Act 56 of 2003 (MFMA). The municipality made payments exceeding its budget, which resulted in unauthorised expenditure being understated by R533 452 155 (2020: R136 232 179) in note 46 to the financial statements. Consequently, I was unable to determine whether any further adjustment was necessary to the unauthorised expenditure, stated at R3 319 678 052 (2019: R3 319 678 052) in note 46 to the financial statements.

Fruitless and wasteful expenditure

12. I was unable to obtain sufficient appropriate audit evidence that fruitless and wasteful expenditure had been properly accounted for due to the status of the municipality's accounting records. I was unable to confirm the fruitless and wasteful expenditure by alternative means. In addition, in the prior year fruitless and wasteful expenditure was understated by R23 375 205. Consequently, I was unable to determine whether any further adjustment was necessary to fruitless and wasteful expenditure, stated at R1 868 697 341 (2019: R1 313 046 017) in note 47 to the financial statements.

Irregular expenditure

13. I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure included in the notes to the financial statements due to the status of the accounting records and unavailability of credible registers for the current and comparative year. 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 R809 174 353 (2019: R781 245 703) in note 48 to the financial statements.

Net cash flows from operating activities

14. The municipality did not correctly prepare and disclose the net cash flows from operating activities in the current and previous year, as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flow from operating activities. I was unable to determine the full extent of the errors in the net cash flows from operating activities as it was

impracticable to do so. Consequently, I was unable to determine whether any adjustment was necessary to net cash flows from operating activities, as stated at R794 393 409 (2019: R138 663615) in the financial statements.

Net cash flows from financing activities

15. The municipality did not correctly prepare and disclose the net cash flows from financing activities in the comparative year, as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flow from financing activities. I was unable to determine the full extent of the errors in the net cash flows from financing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustment was necessary to cash flows from financing activities, as stated at R5 146 545 (2019: (R83 345 429)) in the financial statements.

Prior period error

16. The municipality did not disclose previous period errors in the notes to the financial statements, as required by GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period were not disclosed. I was unable to determine the full extent of the misstatement as it was impracticable to do so

Budget statement

17. The municipality did not disclose the statement of comparison of budget and actual amounts in compliance with GRAP 24, *Presentation of budget information in financial statements*. The final budget amounts included in the statement of comparison of budget did not agree to the final approved budget of municipality. Furthermore, the municipality did not provide an explanation for variances between the actual and final budgeted amounts. Consequently, I was unable to quantify the misstatement as it was impracticable to do so.

Other MFMA disclosures

18. The municipality did not include the required information on distribution losses in the note 49 to the financial statements, as required by section 125(2)(d) of the MFMA. I was unable to determine the full extent of the omission in the financial statements as it was impracticable to do so.

19. The municipality did not correctly disclose amounts paid for pension and medical aid deduction, as well as the total amounts paid in taxes, as required by section 125(1)(c) of the MFMA, resulting in amounts owed being understated by R164 264 371 (2019: R120 526 829).

Property, plant and equipment

20. I was unable to obtain sufficient appropriate audit evidence that property, plant and equipment had been properly accounted for due to the status of the municipality's accounting records and an inadequate asset register. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property, plant and equipment, stated at R3 791 741 851 (2019: R3 361 810 623) in note 4 to the financial statements.

Investment property

21. I was unable to obtain sufficient appropriate audit evidence that investment properties had been properly accounted for due to the status of the municipality's accounting records and an inadequate investment property register. I was unable to confirm the investment properties by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to investment properties, stated at R53 717 241 (2019: R53 343 834) in note 3 to the financial statements.

VAT receivable

22. I was unable to obtain sufficient appropriate audit evidence for value-added tax (VAT) receivable due to the status of the municipality's accounting records. I was unable to confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to VAT receivable, stated at R493 789 877 (2019: R789 970 730) in note 12 to the financial statements.

Cash and cash equivalents

23. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents due to the status of the municipality's accounting records. I was unable to confirm the cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to cash and cash equivalents, stated at R49 628 562 in note 14 to the financial statements.

Payables from exchange transactions

24. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to the status of the municipality's accounting records. I was unable to confirm the payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to payables from exchange transactions, stated at R6 643 956 706 (2019: R5 006 850 038) in note 18 to the financial statements.

Consumer deposits

25. I was unable to obtain sufficient appropriate audit evidence for consumer deposits due to the status of the municipality's accounting records. I was unable to confirm the consumer deposits by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consumer deposits, stated at R24 874 437 in note 19 to the financial statements.

Revaluation reserve

26. I was unable to obtain sufficient appropriate audit evidence that the revaluation reserve had been properly accounted for due to the status of the municipality's accounting records. I was unable to confirm the revaluation reserve by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the revaluation reserve, stated at R276 825 205 (2019: R276 825 205) in the financial statements.

Service charges

27. I was unable to obtain sufficient appropriate audit evidence that service charges were correctly accounted for due to the status of the municipality's accounting records. I was unable to confirm the service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to service charges, stated at R321 266 742 (2019: R365 912 025) in note 21 to the financial statements.

Interest received (trading)

28. I was unable to obtain sufficient appropriate audit evidence that interest received (trading) was correctly accounted for due to the status of the municipality's accounting records. I was unable to confirm the interest received (trading) by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to interest received (trading), stated at R25 650 407 in note 26 to the financial statements.

Depreciation and amortisation

29. I was unable to obtain sufficient appropriate audit evidence that depreciation and amortisation expenses for the current and previous years had been properly accounted for due to the status of the municipality's accounting records, which resulted in differences between the assets register and financial statements. I was unable to confirm the depreciation and amortisation expenses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to depreciation and amortisation expenses, stated at R331 497 693 (2019: R232 326 419) in note 32 to the financial statements.

Contracted services

30. I was unable to obtain sufficient appropriate audit evidence that contracted services had been properly accounted for due to non-submission of information in support of the transactions processed. I was unable to confirm the contracted services by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to contracted services, stated at R82 195 034 (2019: R71 551 862) in note 36 to the financial statements.

Government grants and subsidies

31. I was unable to obtain sufficient appropriate audit evidence for government grants and subsidies due to the status of the municipality's accounting records. I was unable to confirm the government grants and subsidies by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to government grants and subsidies, stated at R836 768 243 (2019: R776 445 410) in note 28 the financial statements.

Property rates

32. The municipality did not appropriately account for property rates in accordance with GRAP 23 *Revenue from non-exchange transactions* due to inaccurate billing of consumers, resulting in receivables from non-exchange transactions and revenue from non-exchange transactions each being understated by R25 191 192. Additionally, there was an impact on the deficit for the period and on the accumulated deficit.

33. In 2019, I was unable to obtain sufficient appropriate audit evidence for property rates as billing information was not provided for property rates. I was unable to confirm the property rates by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property rates, stated at R155 134 598 in note 27 to the financial statements.

Risk management

34. The municipality not make adequate disclosures on risk management in note 43, as required by GRAP 104, *Financial instruments*. This resulted in the financial statements being materially misstated. I was unable to determine the full extent of the misstatement as it was impracticable to do so.

Debt impairment

35. I was unable to obtain sufficient appropriate audit evidence that debt impairment had been properly accounted for due to the status of the municipality's accounting records. I was unable to confirm the debt impairment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to debt impairment, stated at R0 (2019: R121 950 525) in note 34 to the financial statements.

Related parties

36. I was unable to obtain sufficient appropriate audit evidence that related parties had been properly accounted for due to non-submission of information and the status of the municipality's accounting records. I was unable to confirm the related parties by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to related parties, as stated in note 42 to the financial statements for both the current and comparative years.

Unspent conditional grants and receipts

37. In 2019 I was unable to obtain sufficient appropriate audit evidence for unspent conditional grants due to the status of accounting records. I was unable to confirm the unspent grants by alternative means. Additionally, the municipality did not correctly account for unspent conditional grants in accordance with GRAP 23, *Revenue from non-exchange transactions*. As a result, unspent conditional grants was understated and government grants and subsidies was overstated by R49 889 103, respectively. Consequently, I was unable to determine whether any adjustment was necessary to unspent grants, stated at R1 380 797 in note 15 to the financial statements.

Bulk purchases

38. In 2019, the municipality did not accrue for bulk purchases in arrears, in accordance with GRAP 1, *Presentation of financial statements*. Consequently, bulk purchases and payables from exchange transactions were each overstated by R49 611 076. Additionally, there was an impact on the deficit for the period and on the accumulated deficit. My audit opinion on the financial statements for the period ended 30 June 2019 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the operating expenditure for the current period.

Finance costs

39. In 2019, the municipality did not account for finance costs in accordance with GRAP 1, *Presentation of financial statements*, as the interest incurred was not accounted for when it was accrued, Consequently finance costs and payables from exchange transactions were each understated by R476 590 031. Additionally, there was an impact on the deficit for the period and on the accumulated deficit. My audit opinion on the financial statements for the period ended 30 June 2019 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the operating expenditure for the current period.

Aggregation/ accumulation of immaterial uncorrected misstatements

Total current assets

40. In 2019, total current assets was materially misstated by R12 153 438 due to the cumulative effect of individually immaterial uncorrected misstatements in the following item:

- Cash and cash equivalents, stated at R12 730 185, was overstated by R12 153 438

41. In addition, in 2019 I was unable to obtain sufficient appropriate audit evidence and to confirm the following items by alternative means:

- Inventories of R10 815 000, as included in the disclosed balance of R7 464 846.

Consequently, I was unable to determine whether any further adjustment was necessary to total current assets.

Material uncertainty relating to going concern

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

43. Note 44 to the financial statements indicates that the municipality accumulated deficit of R1 699 485 289 as at 30 June 2020 and, as of that date, the municipality's total liabilities exceeded its total assets by R1 422 660 082. The municipality incurred a deficit for the year of R1 035 532 434 as per the statement of financial performance. In addition, the municipality owed Eskom R5 389 481 681 (2019: R4 301 990 076) as at 30 June 2020, which was long overdue. These events or conditions, along with other matters as set forth in note 44, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Other matters

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

Unaudited disclosure notes

45. 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

46. 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 16 of 2019 (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.

47. 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

48. 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.

49. 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 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

50. 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 selected key performance areas (KPA's) presented in the annual performance report. I was engaged to perform procedures to identify material findings but not to gather evidence to express assurance.

51. 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 2020:

KPA	Pages in the annual performance report
KPA 1 – basic services and infrastructure	x – x

52. The material finding on the usefulness and reliability of the performance information of the selected KPA is as follows:

53. I was unable to audit the usefulness and reliability of KPA 1 – basic services and infrastructure as the annual performance report was presented without accurate and complete underlying (performance) records. This placed limitation on the scope of my work as I was unable to obtain sufficient appropriate audit evidence and to audit the reported performance information by alternative means.

Other matter

1. I draw attention to the matter below.

Achievement of planned targets

2. 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 paragraph 55 of this report.

Report on the audit of compliance with legislation

Introduction and scope

54. 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.

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

Annual financial statements

56. 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 identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

57. The annual financial statements were not submitted to the auditor-general, for auditing, within four months after the end of the financial year, as required by section 126(1) (a) of the MFMA.
58. The annual financial statements were not submitted to the auditor-general within four months after the end of the financial year and a written explanation setting out the reasons for the failure was not tabled in council, as required by section 133(1)(a) of the MFMA.
59. The 2018-19 annual report was not tabled in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.

Assets management

60. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
61. Funds were invested at an unrecognised finance institution, in contravention of municipal investment regulation 6.

Utilisation of conditional grants

62. 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 Dora.
63. 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 Dora.
64. I was unable to obtain sufficient appropriate audit evidence that the integrated national electrification programme grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora.
65. Performance of programmes funded by the municipal infrastructure grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of Dora.
66. Performance of programmes funded by the water services infrastructure grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of Dora.
67. Performance of programmes funded by the integrated national electrification programme grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of Dora.

Strategic planning and performance management

68. The service delivery and budget implementation plan for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.
69. I could not obtain sufficient appropriate audit evidence that a mid-year performance assessment was performed, as required by section 72(1)(a)(ii) of the MFMA.

70. A performance management system was not established, as required by section 38(a) of the Municipal Systems Act 32 of 2000 (MSA).
71. A performance management system was not adopted, as required by municipal planning and performance management regulation 8.
72. The performance management system and related controls were not maintained, as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted, organised and managed, as required by municipal planning and performance management regulation 7(1).
73. Annual performance objectives and indicators were not established for Maluti-A-Phofung Water SOC Ltd and included in its multi-year business plan, as required by section 93B(a) of the MSA.
74. The performance of Maluti-A-Phofung Water SOC Ltd was not monitored and reviewed as part of the annual budget process, as required by section 93B(b) of the MSA.

Revenue management



75. A tariff policy was not adopted for the levying of fees for provision of municipal services, as required by section 74(1) of the MSA and section 62(1)(f)(i) of the MFMA.
76. A credit control and debt collection policy was not adopted, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.
77. A policy on the levying of rates on rateable property within the municipality was not adopted, as required by section 3(1) of the Municipal Property Rates Act 6 of 2004 and section 62(1)(f)(ii) of the MFMA.
78. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
79. I was unable to obtain sufficient appropriate audit evidence that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
80. I was unable to obtain sufficient appropriate audit evidence that accounts for municipal tax and charges for municipal services or service charges were prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.
81. I was unable to obtain sufficient appropriate audit evidence that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Expenditure management

82. Money owed by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
83. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA.

84. 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 qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management (SCM) regulations.
85. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred, as indicated in the basis for qualification paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by the interest paid due to late payments to suppliers.
86. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred, as indicated in the basis for qualification paragraph. The majority of the unauthorised expenditure was caused by overspending on votes.

Consequence management

87. 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.
88. 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.
89. 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.

Procurement and contract management

90. I was unable to obtain sufficient appropriate audit evidence that all contracts and quotations were awarded in accordance with the legislative requirements because quotations and tender information were not submitted.
91. I was unable to obtain sufficient appropriate audit evidence that goods and services with a transaction value of below R200 000 were procured using price quotations, as required by SCM regulation 17(1)(a) and (c).
92. I was unable to obtain sufficient appropriate audit evidence that written quotations were accepted from prospective providers that 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). Similar non-compliance was also reported in the prior year.
93. I was unable to obtain sufficient appropriate audit evidence that contracts and quotations were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

94. I was unable to obtain sufficient appropriate audit evidence that contracts and quotations were only accepted from bidders whose tax matters had been declared by the South African Revenue Service (SARS) to be in order, as required by SCM regulation 43.
95. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, in contravention of SCM regulation 19(a). The accounting officer approved deviations 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.
96. I was unable to obtain sufficient appropriate audit evidence that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM regulations 21(b) and 28(1)(a)(i) and the 2017 Preferential Procurement Regulations.
97. I was unable to obtain sufficient appropriate audit evidence that contracts were awarded through a competitive bidding process that was adjudicated by the bid adjudication committee, as required by SCM regulation 29(1)(a) and (b) and the 2017 Preferential Procurement Regulations.
98. I was unable to obtain sufficient appropriate audit evidence that bid adjudication committees were always composed in accordance with SCM regulation 29(2).
99. I was unable to obtain sufficient appropriate audit evidence that the accounting officer ratified the bid adjudication committee's decision to award contracts to bidders other than those recommended by the bid evaluation committee, as required by SCM regulation 29(5)(b).
100. I was unable to obtain sufficient appropriate audit evidence that councillors of the municipality participated in committees evaluating or approving tenders or quotations, or that they attended meetings of committees evaluating or approving tenders or quotations, in contravention of section 117 of the MFMA.
101. I was unable to obtain sufficient appropriate audit evidence that the preference point system was applied in all procurement of goods and services above R30 000, as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA).
102. I was unable to obtain sufficient appropriate audit evidence that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations.
103. I was unable to obtain sufficient appropriate audit evidence that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA and its regulations.
104. I was unable to obtain sufficient appropriate audit evidence that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by the 2017 Preferential Procurement Regulations.

105. I was unable to obtain sufficient appropriate audit evidence that contracts and quotations were awarded to bidders based on pre-qualification criteria that were stipulated in the original invitation for bidding and quotations, in contravention of the 2017 preferential procurement regulation 4(1) and 4(2).
106. Some of the construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) in accordance with section 18(1) of the CIDB Act 38 of 2000 and CIDB regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year.
107. I was unable to obtain sufficient appropriate audit evidence that invitations to tender for procurement of commodities designated for local content and production stipulated the minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was also reported in the prior year.
108. I was unable to obtain sufficient appropriate audit evidence that commodities designated for local content and production were procured from suppliers that submitted a declaration on local production and content, as required by the 2017 preferential procurement regulation 8(5).
109. I was unable to obtain sufficient appropriate audit evidence that commodities designated for local content and production were procured from suppliers that met the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5).
110. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
111. I was unable to obtain sufficient appropriate audit evidence that the performance of contractors or providers was monitored on a monthly basis, as required by section 116(2) of the MFMA. Similar non-compliance was also reported in the prior year.
112. I was unable to obtain sufficient appropriate audit evidence 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
113. I was unable to obtain sufficient appropriate audit evidence that awards were not made to providers that were in the service of other state institutions or whose directors or principal shareholders were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
114. I was unable to obtain sufficient appropriate audit evidence that persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality disclosed such interest, as required by SCM regulation 46(2)(e) and the codes of conduct for councillors and staff issued in terms of the MSA. Similar non-compliance was also reported in the prior year.
115. I was unable to obtain sufficient appropriate audit evidence that persons in service of the municipality whose close family members had a private or business interest in contracts

awarded by the municipality disclosed such interest, as required by SCM regulation 46(2)(e) and the codes of conduct for councillors and staff issued in terms of the MSA. Similar non-compliance was also reported in the prior year.

116. I was unable to obtain sufficient appropriate audit evidence that SCM officials and other SCM role-players who themselves – or whose close family members, partners or associates – had a private or business interest in contracts awarded by the municipality participated in the process relating to that contract, in contravention of SCM regulation 46(2)(f).

Internal control deficiencies

117. 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.
118. The administrative and political leadership did not take timely and adequate action to address internal control weaknesses, which resulted in non-compliance with applicable legislation.
119. Leadership did not ensure that adequate consequence management was implemented due to lack of investigations on irregular, unauthorised, and fruitless and wasteful expenditure. Without investigations, accountability is not emphasised and employees and service providers are not held accountable for failure to deliver on their responsibilities to the municipality.
120. Management did not implement controls over daily and monthly processing and reconciling transactions due to the instability in the leadership at the municipality.
121. Management did not prepare accurate and complete financial and performance reports that are supported and evidenced by reliable information. This was due to weak internal controls over processing of transactions and safeguarding of supporting documents.
122. Management did not implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored. This was due to instability in leadership.
123. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
124. Management did not develop and monitor the implementation of action plans to address internal control deficiencies due to the backlog and the short timeframes between the previous and current audit cycles.

125. The internal audit unit did not conduct internal audits or reviews of SCM and performance information systems and management that focused on the usefulness and reliability of the reported performance information.

Material irregularities

126. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit. The material irregularity identified is as follows

Full and proper records not kept (2018-19) – infrastructure assets, service charges, property rates and conditional grants

127. Reasonable steps were not taken in the 2018-19 financial year to ensure that full and proper records were kept of infrastructure assets, service charges, property rates and conditional grants, as required by section 62(1)(b) of the MFMA. The non-compliance contributed to a disclaimed audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosures in the financial statements.

128. The lack of full and proper records is likely to result in substantial harm to the municipality as it contributed to the material uncertainty regarding its ability to continue operations, as disclosed in note 50 to the 2018-19 financial statements. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery mandate.

129. The accounting officer was notified of this material irregularity on 11 June 2021 and invited to make a written submission on the actions taken and that will be taken to address this matter. The accounting officer could not provide sufficient and appropriate evidence of the actions that have been taken in response to being notified of the material irregularity as the planned actions to address the poor record keeping and financial problems were not adequate.

130. I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 14 April 2022:

- The non-compliance with section 62(1)(b) of the MFMA should be investigated to determine the reasons and circumstances that led to the non-compliance for the purpose of taking appropriate corrective actions and enhancing control weaknesses.
- Based on the reasons and circumstances identified, appropriate action should be taken to develop and commence with the implementation of an action plan to address poor record keeping so that full and proper records of the municipality's financial affairs are kept, in accordance with any prescribed norms and standards, as required by section 62(1)(b) of the MFMA. The plan should include anticipated timeframes and address the following key areas, as a minimum:
 - a) Complete asset register of all of the municipality's infrastructure assets and investment property
 - b) Billing information and reconciliations to support revenue from service charges

- c) Reconciliation of property rates income to the valuation roll
- d) Register and payment vouchers to support payments made from conditional grant funding, including reconciliations

131. I further recommend that the accounting officer should take appropriate action to develop and commence with the implementation of an action plan to address the municipality's financial problems, as required by section 135(1) and 135(3)(a) of the MFMA, by 14 July 2022. The plan should describe the anticipated timeframe and milestones to be achieved and include, as a minimum, strategies to:

- a) increase the collection of revenue
- b) efficiently manage the available cash of the municipality
- c) enter into payment arrangements with major suppliers.

Bloemfontein

1 March 2022



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence