Report of the auditor-general to Free State Provincial 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 2021, the statement of financial performance, statement of changes in net assets, cash flow statement, the statement of comparison of budget and actual amounts for the year then ended, as well as the 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 matter 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

Financial statements

3. I was unable to obtain sufficient appropriate audit evidence regarding the financial statements as a whole, as the financial statements were presented for audit purposes without accurate and complete underlying accounting records, including the general ledger, trail balance, asset register and supporting registers and schedules. I was unable to audit the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the financial statements as a whole.

Responsibilities of the accounting officer for the financial statements

4. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act No.4 of 2020 (Dora), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

5. 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

6. 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 matter 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.

7. 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

8. 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 (KPAs) presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.

9. 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 key performance area (KPA) presented in the municipality's annual performance report for the year ended 30 June 2021:

KPA	Pages in the annual performance report
KPA – Basic Service Delivery	x - x

10. I was unable to audit the usefulness and reliability of the selected KPA, Basic Service Delivery 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 and appropriate audit evidence and to audit the reported performance information by alternative means.

Report on the audit of compliance with legislation

Introduction and scope

11. 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.

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

Annual Financial statements

13. In respect of annual financial statements the municipality did not comply with sections 122(1), 126(1)(a) and 133(1)(a) of the MFMA.

Expenditure management

14. The municipality did not have the required expenditure management systems in place, as required by sections 65(2)(a), 65(2)(b), 62(1)(d) and 29(1) of MFMA and Municipal budget and reporting regulation(s) 71(1), 71(2) and 72.

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

Revenue management

16. The municipality did not have the required revenue management systems in place, as required by sections 62(1)(f)(i), 62(1)(f)(ii), 62(1)(f)(iii), 64(2)(e) and 64(2)(f) of MFMA.

17. 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.

Asset management

18. The municipality did not have the required asset management systems in place, as required by sections 63(2)(a), 63(2)(c), 13(2), 14(1), 14(2)(a) and 14(2)(b) of MFMA and Municipal investment regulations 3(1)(a), 6, 7, 12(2) and12(3).

19. I was unable to obtain sufficient appropriate audit evidence that all investments were made in accordance with the requirements of the investment policy, as required by municipal investment regulation 3(3).

Strategic planning and performance management

20. The municipality did not have the prescribed strategic planning and performance management systems in place, as required by sections 53(1)(c)(ii) and 72(1)(a)(ii) of the MFMA and sections 34(a), 41(1)(c)(ii) 38(a), 93B(a) and 93B(b) of the Municipal Systems Act 32 of 2000 (MSA).

Procurement and contract management

21. I was unable to obtain sufficient appropriate audit evidence that all contracts and quotations were awarded in accordance with the legislative requirements as management did not submit information requested. Similar limitation was also reported in the prior year.

Utilisation of conditional grants (DoRA)

22. The municipality did not have the required systems in place for utilisation of conditional grants, as required by 12(5) and 17(3) of the Dora.

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

Consequence management

24. The municipality did not have the prescribed consequence management systems in place, as required by sections 32(2)(a) and 32(2)(b) of the MFMA.

Internal control deficiencies

25. 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 performance reportand the findings on compliance with legislation included in this report.

26. Management did not prepare accurate and complete financial and performance reports that are supported and evidenced by reliable information due to weak internal controls over processing of transactions and safeguarding of supporting documents.

27. Adequate Information technology governance processes were not in place due to the leadership not prioritising the resources of the IT function, this in turn resulted the municiipalitye IT system to producing information necessary for audit purposes

28. Management did not ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations. The financial statements under review were not reviewed by the audit committee.

29. 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, mainly due to weaknesses in the control environment.

Material irregularities

30. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

Material irregularities in progress

31. I identified material irregularities during the audit and notified the accounting officer of these, 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 responses from the accounting officer. These material irregularities will be included in the next year's auditor's report.

Status of previously reported material irregularities

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

32. 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.

33. 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 46 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.

34. 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.

35. I recommended 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

36. I further recommended 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.

37. I am in the process of evaluating whether the accounting officer has implemented the recommendations that were due on 14 April 2022. I will evaluate the remaining recommendations after the due date of 14 July 2022.

Auditor - General

Bloemfontein

23 June 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence