

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Phumelela 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. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Phumelela Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the 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 9 of 2021 (Dora).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. Note 48 to the financial statements indicates that the municipality incurred a net loss of R41 762 187 during the year ended 30 June 2022 and, as of that date, the municipality's current liabilities exceeded its current assets by R342 735 726. In addition, the municipality owed Eskom R160 529 130 (2021: R144 958 031) and the water board R137 339 494 (2021: R124 540 030) as at 30 June 2022, which was long overdue. These events or conditions, along with other matters as set forth in note 48, 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

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

Irregular expenditure

9. As disclosed in note 51 to the financial statements, the municipality incurred irregular expenditure of R14 284 537 (2021: R8 471 110) due to non-compliance with supply chain management (SCM) requirements.

Unauthorised expenditure

10. As disclosed in note 49 to the financial statements, the municipality incurred unauthorised expenditure of R92 504 657 (2021: R95 611 689), due to overspending of the budget and conditional grants not spent in accordance with the relevant grant frameworks.

Fruitless and wasteful expenditure

11. As disclosed in note 50 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R11 299 168 (2021: R11 610 415), because they did not pay creditors on time.

Restatement of corresponding figures

12. As disclosed in notes 45 and 46 to the financial statements, the corresponding figures for 31 June 2021 were restated as a result of errors in the financial statements of the municipality, and for the year ended, 30 June 2022.

Material losses

13. As disclosed in note 52 to the financial statements, material water distribution losses of R4 667 944 (2021: R6 730 725) and electricity distribution losses of R6 981 631 (2021: R3 257 975) were incurred by the municipality, mainly due to leakages, burst water pipes, line losses, tampering and theft.

Material impairment

14. As disclosed in note 13 to the financial statements, receivables from exchange transactions and receivables from non-exchange transactions were impaired by R414 708 591 (2021: R369 253 092).

Other matter

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

Unaudited disclosure notes

16. 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

17. 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 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.
18. 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

19. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
20. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

21. 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 performed procedures to identify material findings but not to gather evidence to express assurance.
22. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
23. I evaluated 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 1 – basic services and infrastructure development	x – x

24. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
25. I did not identify material findings on the usefulness and reliability of the reported performance information for KPA:
- KPA 1 – basic services and infrastructure development.

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 1 - basic services and infrastructure development. As management subsequently corrected the misstatements, I did not raise material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

29. 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.
30. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

31. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current liabilities, non-current liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

32. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
33. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(1)(a) and (c).

Expenditure management

34. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
35. Reasonable steps were not taken to prevent irregular expenditure amounting to R14 284 537 as disclosed in note 51 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance to the SCM requirements.
36. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R11 299 168 as disclosed in note 50 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by interest paid with regard to amounts due to suppliers.
37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R92 504 657 as disclosed in note 49 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the municipality exceeding its budget and conditional grants not spent in accordance with the relevant grant frameworks.

Utilisation of conditional grants

38. Performance in respect of programmes funded by the municipal infrastructure grant, regional bulk infrastructure grant, water services infrastructure grant, financial management grant, and 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 the Dora.
39. The regional bulk infrastructure grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Dora.

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

Consequence management

41. 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.

42. 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.

43. 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.

Strategic planning and performance management

44. No KPI were set in respect of the provision of basic solid waste removal services, as required by section 43(2) of the Municipal Systems Act 32 of 2000 (MSA) and municipal planning and performance management regulation 10(a).

Human resource management

45. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Other information

46. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected KPA presented in the annual performance report that has been specifically reported in this auditor's report.

47. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

48. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

49. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

50. 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 findings on compliance with legislation included in this report.
51. Management did not implement adequate controls to ensure compliance with laws and regulations. As a result, material non-compliance matters were reported.
52. Management did not implement effective human resource management measures to ensure that vacancies were filled, sufficiently skilled resources were in place to ensure effective controls over daily and monthly processing and reconciling of transactions was implemented. This resulted in material misstatements in the financial statements and performance reports that had to be corrected
53. The leadership did not take effective steps to ensure that there were consequences for poor performance and transgressions and did not ensure that all unauthorised, irregular and fruitless and wasteful expenditure incurred was investigated during the financial year.

Auditor-General

Bloemfontein

30 November 2022



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence