

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Moqhaka Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets and cash flow statement and the 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 Moqhaka Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended 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 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 54 to the financial statements indicates that the municipality incurred a net loss of R194 585 384 during the year ended 30 June 2022 and, as of that date, the municipality's current liabilities exceeded its current assets by R263 208 958. In addition, as disclosed in note 16, for bulk electricity, the municipality owed Eskom R710 025 320 (2021: R84 346 670) which was long overdue. These events or conditions along with other matters as set forth in

note 54, indicate that a material uncertainty exists that may cast a significant 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 47 to the financial statements, the municipality incurred irregular expenditure of R120 483 256 (2021: R137 163 687), due to non-compliance with supply chain management requirements.

Unauthorised expenditure

10. As disclosed in note 49 to the financial statements, the municipality incurred unauthorised expenditure of R104 156 372 (2021: R76 693 867), due to the overspending of the budget.

Fruitless and wasteful expenditure

11. As disclosed in note 48 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R29 794 512 due to interest and penalties charged on overdue accounts and costs incurred on the refurbishment of the Kroonstad Waste Water Treatment Plant .

Restatement of corresponding figures

12. As disclosed in note 51 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.

Material losses

13. As disclosed in note 53 to the financial statements, material water distribution losses of R42 387 110 (2021: R21 673 734) and electricity distribution losses of R75 705 534 (2021: R29 155 243) were incurred by the municipality mainly due to faulty meters, tampering and theft.

Material impairment

14. As disclosed in notes 6 to the financial statements, receivables from exchange transactions were impaired by R656 751 410 (2021: R584 769 588).

15. As disclosed in note 7 to the financial statements, receivables from non-exchange transactions were impaired by R33 016 327 (2021:R R30 183 668).

Material uncertainty relating to claims against the municipality

16. With reference to note 57 to the financial statements, the municipality is the defendant in various claims against the municipality. The municipality is opposing the claims. The ultimate

outcome of the matters could not be determined and no provision for any liabilities that may result was made in the financial statements.

Other matter

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

Unaudited disclosure notes

18. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

19. 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 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.
20. 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

21. 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.
22. 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

23. 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) presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

24. 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.
25. 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:

Key Performance Area	Pages in the annual performance report
KPA 1 – basic services and infrastructure investment	x – x

26. 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.
27. I did not identify any material findings on the usefulness and reliability of the reported performance information for the KPA:
 - KPA 1 – basis services and infrastructure investment

Other matters

28. I draw attention to the matters below.

Achievement of planned targets

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

Adjustment of material misstatements

30. 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 investment. As management subsequently corrected the

misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

31. 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.
32. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

33. 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 non-current assets, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, resulting in the financial statements receiving an unqualified audit opinion.

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 R120 483 256, as disclosed in note 47 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with the Preferential Procurement Policy Framework Act 5 of 2020 (PPPFA) and for the use of panels.
36. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R29 794 512, as disclosed in note 48 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 on late payments to suppliers.
37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R104 156 372, as disclosed in note 49 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by overspending of the main division of the vote by the technical services department.

Procurement and contract management

38. 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).

39. Some of the 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. Similar non-compliance was also reported in the prior year.
40. The preference point system was not applied to some of the procurement of goods and services above R30 000 as required by section 2(1) (a) of the (PPPFA).
41. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of (PPFA) and 2017 Preferential Procurement Regulations 11.
42. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA. Similar limitation was also reported in the prior year.
43. 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 limitation was also reported in the prior year

Consequence management

44. 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.
45. 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.
46. 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

47. The performance management system and related controls were inadequate as it did not describe how the performance review process should be managed as required by municipal planning and performance regulation 7(1).

Other information

48. 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 those selected KPA presented in the annual performance report that have been specifically reported in this auditor's report.
49. 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.

50. 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.
51. 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

52. 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, the findings on compliance with legislation included in this report.
53. The leadership did not always take timely and adequate action to address weaknesses in the reporting of financial and performance management due to a lack of adequate monitoring and supervision of controls put in place, which again resulted in material adjustments to the financial statements and annual performance report.
54. The leadership's lack of accountability for sound financial management had a negative impact on the municipality's financial sustainability, overspending of the budget, irregular and fruitless and wasteful expenditure not being prevented.
55. Management did not ensure that internal control processes were adequately designed and implemented to ensure cost-effective procurement in certain instances and prevent non-compliance with SCM requirements. Management relied on internal control processes to ensure compliance with procurement requirements, but it is evident from the amount of irregular expenditure that these internal control processes were ineffective and subject to abuse.
56. Consequence management was not effective as the council did not investigate all instances of unauthorised, irregular and fruitless and wasteful expenditure to determine whether any person was liable for the expenditure.

Material irregularities

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

Material irregularities in progress

58. 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.

Auditor-General

Bloemfontein

30 November 2022



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected KPA and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Moqhaka Local Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease operating as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and

other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards.