

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

## Report on the audit of the financial statements

### Qualified 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 2024, 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, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Moqhaka Local Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with 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 5 of 2023 (Dora).

### Basis for qualified opinion

#### Services charges

3. The municipality did not recognise revenue from the sale of electricity and the sale of water included in service charges in note 20 to the financial statements in accordance with GRAP 9, Revenue from exchange transactions. This was because some consumers were not billed for service charges for the current and prior years. Consequently, this resulted in an understatement of the sale of electricity by R249 449 201 (2023: R 52 901 319), an understatement in the sale of water by R135 194 191 (2023: R 116 652 606) and an understatement of receivables from exchange transactions included in note 6 to the financial statements by R384 643 392 (2023: R 169 553 924). In addition, some electricity consumers who did not meet the minimum qualifying criteria were incorrectly granted indigent subsidies in the current year. Consequently, this resulted in an understatement of the sale of electricity by R15 500 654 and an understatement of receivables from exchange transactions by the same amount. Furthermore, material differences were identified in the sale of electricity between the current year's billing reports and consumer invoices. Consequently, this resulted in an overstatement of the sale of electricity included in service charges by R29 156 716 and an overstatement of receivables from exchange transactions by the same amount. Additionally, there was an impact on the deficit for the year and accumulated surplus.

4. In addition, I was unable to obtain sufficient appropriate audit evidence for the sale of electricity and the sale of water included as part of service charges in note 20 to the financial statements due to the non-submission of information in support of these service charges. I was unable to confirm the sale of electricity, and the sale of water included in service charges by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the sale of electricity and the sale of water included as part of the service charges stated at R567 186 849 in note 20 to the financial statements.

### Property, plant and equipment

5. The municipality did not impair infrastructure and community assets included as part of property, plant and equipment in note 12 to the financial statements, where indicators of impairment were identified in accordance with GRAP 26, Impairment of cash-generating assets as the municipality did not assess the physical condition of some of these assets. Consequently, infrastructure and community assets included as part of property, plant and equipment in note 12 to the financial statements were overstated by R83 267 238 (2023: R49 557 496) and impairment loss on assets included in note 43 to the financial statements was understated by the same amount. Additionally, there was an impact on the deficit for the year and accumulated surplus.
6. Furthermore, the municipality did not review the useful lives of property plant and equipment at each reporting date in accordance with GRAP 17, Property, plant and equipment. As a result, property plant and equipment of a gross carrying amount of R161 216 888 had a zero net carrying amount while still being in use. I was unable to determine the impact on the net carrying amount of property, plant and equipment assets in note 12 to the financial statements as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and accumulated surplus.

### Inventories

7. The municipality did not account for inventories in accordance with GRAP 18, Recognition and derecognition of land, as the municipality incorrectly recognised owner-occupied vacant sites not held for resale as inventory. Consequently, inventories included in note 4 to the financial statements were overstated by R22 999 849 (2023: R19 442 549) and land included as part of property, plant and equipment in note 12 to the financial statements were understated by the same amount. Additionally, there was an impact on the deficit for the year and accumulated surplus.
8. During 2023, the municipality did not implement adequate systems to record consumable stores included as part of inventories in note 4 to the financial statements in accordance with GRAP 12, Inventory as not all inventory items could be physically verified. Consequently, consumable stores included as part of inventories in note 4 to the financial statements were overstated by R23 450 312 and consumables stores included as part of general expenses in note 41 to the financial statements were overstated by the same amount. My audit opinion on the financial statements for the period ended 30 June 2023 was modified accordingly. My opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of the consumable stores for the current period.

## VAT receivable

9. I was unable to obtain sufficient appropriate audit evidence for value-added tax (VAT) receivable due to unsubstantiated material reconciling differences between the financial statements and supporting schedules. I was unable to confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the VAT receivable stated at R170 788 848 in note 8 to the financial statements.

## Provisions

10. During 2023, the municipality did not correctly classify the rehabilitation of landfill sites and rehabilitation cost of quarries included as part of provisions in note 17 to the financial statements in accordance with GRAP 1, Presentation of financial statements as the municipality incorrectly recognised the rehabilitation costs for the landfill sites and a quarry that reached the end of its useful life as a non-current liability. Consequently, the non-current portion of the rehabilitation of landfill sites and the rehabilitation cost of quarries included as part of note 17 to the financial statements were overstated by R68 889 630 and R7 875 223 respectively and the current portion of the rehabilitation of landfill sites and the rehabilitation cost of quarries was understated by the same amounts. My audit opinion on the financial statements for the period ended 30 June 2023 was modified accordingly. My opinion on the current year's financial statements was also modified because of the possible effect of this matter on the comparability of the rehabilitation of landfill sites and the rehabilitation cost of quarries included as part of provisions for the current period.

## Distribution losses

11. The municipality did not maintain adequate systems to accurately determine the electricity and water units distributed. Consequently, I was unable to determine the full extent of the misstatements to electricity and water distribution losses stated at R170 734 544 (2023: R84 159 822) and R81 097 138 (2023: R77 845 160) respectively in note 52 to the financial statements, as it was impracticable to do so.

## Fruitless and wasteful expenditure

12. The municipality did not disclose all instances of fruitless and wasteful expenditure incurred in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments made on infrastructure projects, materials left onsite that could not be verified, materials left onsite deteriorated and advance payments that could not be recovered. Consequently, I was unable to determine the full extent of the understatement of fruitless and wasteful expenditure as stated at R66 512 398 in note 47 to the financial statements, as it was impracticable to do so.

## Context for opinion

13. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
14. 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.
15. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Material uncertainty relating to going concern

16. I draw attention to the matter below. My opinion is not modified in respect of this matter.
17. Note 54 to the financial statements, indicates that the municipality incurred a net loss of R171 741 230 during the year ended 30 June 2024 and, as of that date, the municipality's current liabilities exceeded its current assets by R684 158 009. In addition, the payables from exchange transactions for periods longer than 30 days amounted to R1 369 468 704 as at 30 June 2024, 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 significant doubt on the municipality's ability to continue as a going concern.

## Emphasis of matters

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

## Unauthorised expenditure

19. As disclosed in note 48 to the financial statements, unauthorised expenditure of R122 592 687 (2023: R338 494 818) was incurred due to the overspending of the budget.

## Irregular expenditure

20. As disclosed in note 46 to the financial statements, the municipality incurred irregular expenditure of R83 899 225 (2023: R97 477 869), due to non-compliance with supply chain management (SCM) requirements.

## Material impairments

21. As disclosed in notes 6 and 7 to the financial statements, receivables from exchange transactions and receivables from non-exchange transactions were impaired by

R945 021 701 (2023: R770 477 484) and R56 119 910 (2023: R47 672 864) respectively.

### **Material uncertainty relating to claims against the municipality**

22. With reference to note 57 to the financial statements, the municipality is the defendant in various claims against the municipality. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result was made in the financial statements.

### **Restatement of corresponding figures**

23. As disclosed in note 50 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2024.

### **Other matter**

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

### **Unaudited disclosure notes**

25. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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 audit of the financial statements**

26. 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.

27. 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.

### **Responsibilities of the auditor-general for the audit of the financial statements**

28. My objectives are to obtain reasonable assurance about whether the financial statements 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.

29. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page xx, forms part of our auditor's report.

**Report on the audit of the annual performance report**

30. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected key performance area (KPA) presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

31. I selected the following KPA presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected a KPA that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

KPA	Page numbers	Purpose
Basic service delivery and infrastructure development	XX	To provide and maintain basic services (i.e. water, sanitation, electricity, roads and waste management) to the community of the municipality.

32. I evaluated the reported performance information for the selected KPA against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

33. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated

- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner and is comparable and understandable
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

34. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

35. The material findings on the reported performance information for the selected KPA are as follows:

### Basic service delivery and infrastructure development

#### Various indicators

36. Some supporting evidence was not provided for auditing; or, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

Indicators	Targets	Reported achievements
% electricity distribution losses (KWH billed/KWH acquired) (MFMA Circular 71)	16%	30%
% reduction in water losses in the municipal distribution area	28%	28%

#### Other matters

37. I draw attention to the matters below.

#### Achievement of planned targets

38. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

39. The table that follows provides information on the achievement of planned targets and list the key service delivery indicators that were not achieved as reported in the annual performance report. The reasons for any underachievement of targets are included in the annual performance report on pages xx to xx.

<i>Targets achieved: 41%</i> <i>Budget spent 100% on Basic service delivery</i>		
Key service delivery indicators not achieved	Planned targets	Reported achievements
% electricity distribution losses (KWH billed/KWH acquired) (MFMA Circular 71)	16%	30%
Kilometres of new paved roads to be built	3,286 km	1,41 km
Kilometres of stormwater drainages built, rehabilitated, or replaced in addition to existing one	2,6 km	1,426 km
Sanitation master plan that meets prescribed requirements developed and approved by Council	30-Jun	0
Number of households with access to basic sanitation	34 803	34 713
Number of new sewer connections meeting minimum standards	20	2
Wastewater quality compliance according to the water use license	90%	46%
Number of households in formal settlements including plots and small holdings that meet the minimum water services standard	34 896	34 846
Number of new water connections meeting minimum standards	20	3
Number of samples tests conducted to measure the water quality	1 779	736
Percentage of drinking water compliance to SANS241	95%	65%
Approved macro and micro organisational structure	30-Jun	0
Number of households in municipal area with access to refuse removal	35 164	35 114

## Material misstatements

40. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery and infrastructure development. Management did not correct all the misstatements, and I reported material findings in this regard.

## Report on compliance with legislation

41. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.
42. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
43. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
44. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

## Annual financial statement, performance reports and annual reports

45. The 2022/23 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.
46. 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 in liabilities, cashflow statements and the disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

## Asset management

47. 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.
48. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

## Expenditure management

49. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R122 592 687, as disclosed in note 48 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 overspending of the budget.
50. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the fruitless and wasteful expenditure could not be quantified as indicated in the basis for qualification paragraph. Fruitless and wasteful expenditure amounting to R19 358 397 was incurred on the following key projects:
  - Closure of the existing landfill in Viljoenskroon / Rammulotsi
  - Refurbishment of the wastewater treatment works (WWTW) in Kroonstad and
  - Supply for the establishment and development of a new landfill site
51. Reasonable steps were not taken to prevent irregular expenditure amounting to R83 899 225 as disclosed in note 46 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 with SCM legislation.
52. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

## Revenue management

53. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA.
54. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.
55. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
56. I was unable to obtain sufficient appropriate audit evidence that accounts for service charges were prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.

## Consequence management

57. 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.
58. Irregular 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.
59. 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.

## Human resource management

60. 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 Municipal System Act 32 of 2000 (MSA) and municipal staff regulation 31.

## Other information in the annual report

61. The accounting officer is responsible for the other information included in the annual report. The other information referred to 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 on in this auditor's report.
62. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
63. My responsibility is to read this other information and, in doing so, consider whether it 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.
64. I did not receive 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 material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be communicated. If the other information is not communicated, I may retract this auditor's report and re-issue an amended an amended report as appropriate. However, if it is corrected this will not be necessary.

## Internal control deficiencies

65. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
66. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
67. Leadership did not provide oversight responsibility regarding financial and performance reporting and compliance and related internal controls was not exercised.
68. Instability in senior management positions, including the position of municipal manager and chief financial officer resulted in management not implementing adequate oversight controls or implementing effective consequence management. As a result, misstatements were not prevented or detected and corrected, which resulted in the

modification of the auditors' opinion, the findings reported on performance information and non-compliance with laws and regulations.

69. Management did not implement controls to ensure that investigations are performed on the prior year's unauthorised, irregular expenditure and fruitless and wasteful expenditure so that such investigations are available for submission to the auditors.
70. Senior management and the Council did not approve the ICT strategic plan, as the plan was still in draft format at year-end. As such, there was a misalignment between ICT initiatives and the municipality's overall strategic goals, which resulted in misallocated resources, inefficient expenditures, and systems that did not fully support the needs of end users.

## Material irregularities

71. 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 material irregularities as previously reported in the auditor's report.

### Status of previously reported material irregularities

#### Eskom not paid within prescribed period

72. The accounting officer did not take all reasonable steps to ensure that amounts due to Eskom for the bulk purchase of electricity were paid within the prescribed period after receiving the relevant invoice or statement, as required by section 65(2)(e) of the MFMA. As a result of the late payment, the municipality incurred interest of R17 815 284 for the financial year ended 30 June 2022. The interest incurred is likely to result in a material financial loss for the municipality due to the liability to pay the interest to Eskom.
73. The accounting officer was notified of the material irregularity on 28 November 2022. The accounting officer did not take appropriate action to address the material irregularity. I recommended that the accounting officer should take the following actions to address the material irregularity, which should have been implemented by 30 June 2024 with progress reports every two months:
- (a) Appropriate action should be taken to commence with implementation of the financial plan to address the financial problems of the municipality that are preventing it from paying Eskom within 30 days, as required by section 65(2)(e) of the MFMA. The financial plan should include realistic timeframes and milestones to be achieved and include as a minimum strategy to:
- Increase revenue
  - Increase the collection of revenue
  - Efficiently manage the available resources of the municipality by accurate budgeting, budget management and cost cutting
  - Negotiate a reasonable payment arrangement with Eskom and properly budget for the amounts to be paid.

74. The accounting officer has not adequately implemented or made satisfactorily progress with implementation of the above recommendation. I am in the process of making a decision on further actions to be taken.

#### **Pollution of water resource not prevented – Kroonstad Wastewater Treatment Works**

75. The Kroonstad Wastewater Treatment Works has not been operating effectively and in need of maintenance and repair work. This has resulted in continued spilling and discharge of raw / untreated sewerage into the adjacent environment, including the groundwater, Vals River and its extended watercourse. The municipality did not take reasonable measures to prevent pollution or degradation from occurring, continuing or recurring, as required by section 28(1) of the National Environmental Management Act 107 of 1998 and section 19(1) of the National Water Act 36 of 1998. The discharge of raw / untreated sewage into the environment is likely to cause substantial harm to the communities exposed to, and dependent on, the contaminated water resources.

76. The accounting officer was notified of this material irregularity on 31 October 2022. The accounting officer did not take appropriate action to resolve the material irregularity. On 27 February 2024, I referred the material irregularity to the Department of water and sanitation for investigation as provided for in section 5(1A) of the PAA. The investigation is currently in progress.

#### **Pollution of water resource not prevented – Viljoenskroon Wastewater Treatment Works**

77. The Viljoenskroon Wastewater Treatment Works has not operated effectively due to mechanical and operational equipment either malfunctioning or not operational. This has resulted in continued spilling and discharge of raw/untreated sewerage into the adjacent environment, including the groundwater, Olifantsdrift River and its extended watercourse. The municipality did not take reasonable measures to prevent pollution or degradation from occurring, continuing or recurring, as required by section 28(1) of the National Environmental Management Act 107 of 1998 and section 19(1) of the National Water Act 36 of 1998. The discharge of raw/untreated sewage into the environment is likely to cause substantial harm to the communities exposed to, and dependent on, the contaminated water resources.

78. The accounting officer was notified of this material irregularity on 31 October 2022. The accounting officer did not take appropriate action to resolve the material irregularity. On 27 February 2024, I referred the material irregularity to the Department of Water and Sanitation for investigation as provided for in section 5(1A) of the PAA. The investigation is currently in progress.

## Other reports

79. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
80. The Directorate for Priority Crime Investigation investigated a case in which one of the accused had deceased and charges against three other accused were provisionally withdrawn on 1 October 2021. Additional suspects were arrested and brought before the court; however, their cases were postponed for trial from 18 September 2023 until 22 September 2023. On 18 September 2023, the cases were provisionally withdrawn due to disputes of the charge sheet and to allow further investigations to be completed. At the date of this report, these cases were not re-enrolled on the court roll.

*Auditor - General*

Bloemfontein

30 November 2024



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure to the auditor's report**

1. The annexure includes the following:
  - The auditor-general's responsibility for the audit
  - The selected legislative requirements for compliance testing

### **Auditor-general's responsibility for the audit**

#### **Professional judgement and professional scepticism**

2. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of financial statements and the procedures performed on reported performance information for the selected KPA and on the municipality's compliance with selected requirements in key legislation

#### **Financial statements**

3. 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
  - conclude on the appropriateness of the 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 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

4. 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
5. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and 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 applied

## Compliance with legislation – selected legislative requirements

6. The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Sections 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), Sections 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), Sections 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), Sections 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), Sections 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a) Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a) Regulations 27(2)(e), 28(1)(a)(i), , 29(1)(a), 29(1)(b) Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c) Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43 Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), , 34(a), 34(b) Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 54A(1)(a)56(1)(a), Sections 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)

Legislation	Sections or regulations
Division of Revenue Act 5 of 2023	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8) Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2) Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)