

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

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Metsimaholo 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 and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Metsimaholo Local Municipality as at 30 June 2021, 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 and the Division of Revenue Act 10 of 2020) (Dora).

### Basis for qualified opinion

#### Property plant and equipment

3. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, Property, plant and equipment. The municipality went into the process of unbundling its asset items. The new unbundled assets could not be traced back to the old assets in the fixed asset register to confirm from which asset they were unbundled. In addition, the value of the individual unbundled assets could not be reliably confirmed. Consequently, I was unable to determine the impact on the net carrying amount of property plant and equipment disclosed in note 4 to the financial statements as it was impracticable to do so. Additionally, The municipality did not correctly classify community assets pertaining to property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. The community assets were classified as investment property on the Annual Financial Statements. Consequently, community asset in property, plant and equipment was understated by R18 878 222, and investment property overstated by R18 878 222.
4. The disclosure of work-in-progress was not in accordance with GRAP 17, *Property, plant and equipment*. Infrastructure projects which have been finalised as at 30 June 2021 were incorrectly included in the closing balance of work-in-progress as reflected in the reconciliation of work-in-progress in note 4 to the financial statements. Consequently, work-in-progress was overstated by R29 271 762,86 (2020: R 23 740 444).

### Investment property

5. I was unable to obtain sufficient appropriate audit evidence relating to investment property. The municipality wrote-off investment property from the asset register and could not provide the appropriate sufficient supporting documentation for the write-offs. In addition, adequate supporting documentation could not be provided to confirm the restatement made to the investment property opening balance. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to investment property stated at R240 181 962 in note 3 to the financial statements. There is also a resultant impact on the prior period error note 46

### Depreciation and amortisation

6. The municipality did not correctly account for depreciation in terms of GRAP 17, Property, plant and equipment. The depreciation was calculated using the incorrect carrying amounts and in some instances the cost prices. Consequently, depreciation and amortisation was overstated by R18 378 703 and property, plant and equipment understated by R18 378 703.

### Service charges

7. The municipality did not correctly provide for service charges in accordance with GRAP 9, *Revenue from exchange transactions*. Consumer detectors registered as indigents did not qualify for the indigent status but they were awarded subsidies. Consequently, service charges were overstated by R19 559 657 and receivables from exchange transactions was overstated by the same amount.

### Contracted services

8. During 2020, I was unable to obtain sufficient appropriate audit evidence relating to contracted services. Adequate supporting documentation could not be provided to confirm that the goods and services were actually received and at the correct quantity, quality and price. I could not confirm contracted services by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to contracted services, stated at R79 498 478 in note 37 to the financial statements. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the contracted for the current period.

### Irregular expenditure

9. The municipality did not disclose all instances of irregular expenditure incurred in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality made payments in contravention of the supply chain management (SCM) requirements, which were not disclosed. I was unable to determine the full extent of the understatement of irregular expenditure as disclosed in note 53 to the financial statements, as it was impracticable to do so.

## Context for the opinion

10. 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.
11. 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.
12. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Emphasis of matters

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

### Unauthorised expenditure

14. As disclosed in note 52 to the financial statements, the municipality incurred unauthorised expenditure of R 15 837 338, due to overspending of the budget.

### Restatement of corresponding figures

15. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2021.

### Material uncertainty relating to claims against the municipality

16. With reference to note 43 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 were provided for in the financial statements.

### Material losses

17. As disclosed in note 37 to the financial statements, material water distribution losses of R65 888 545 (2020: R48 664 117) and electricity distribution losses of R48 296 420 (2020: R 38 820 966) were incurred by the municipality mainly due to leakages, burst water pipes, line losses, tampering and theft.

### Material impairment

18. As disclosed in notes 12 and 14 to the financial statements, receivables from non-exchange and consumer debtors were impaired by R1 811 491 139 (2020: R1 698 988 453).

## **Other matters**

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

### **Unaudited disclosure notes**

20. 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.

### **Unaudited supplementary schedules**

21. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

## **Responsibilities of the accounting officer for the financial statements**

22. 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.

23. 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**

24. 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.

25. 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

26. 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 performed procedures to identify material findings but not to gather evidence to express assurance.
27. 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.
28. 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 2021:

KPA	Pages in the annual performance report
KPA 1 – Basic Service Delivery and Infrastructure Investment	x – x

29. 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.
30. The material findings on the usefulness and reliability of the performance information of the selected KPA[s] are as follows:

### KPA 1 – Basic service delivery and Infrastructure Investment

#### Various Indicators:

31. Reported achievements were not consistent with planned and reported indicator and target

No	Planned and Reported indicators per APR and Planning Documents	Planned targets per APR	Reported actual achievement per APR
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1	1.2.3 Number of Conventional water meters replaced with prepaid meters in all the identified areas	1000 targeted meter installations and replacement of meters by prepaid meters completed by June 2021	Target not achieved- 0% Completed
2	1.2.4.2 % compliance with the blue drop water quality accreditation system	> 99 % compliance with the blue drop water quality accreditation system	Target not achieved Sasolburg Micro 99,9% Oranjeville Micro:99.9% Denesville Micro:99.9% Sasolburg Chemical:99,9% Oranjeville Chemical:99,9% Deneysville Chemical 99.9%
3	1.2.5.2 % .compliance with the green drop quality accreditation system	> 99 % compliance with the green drop water quality accreditation system	Target not achieved- (Micro 33,3%, Chem 33,3% and Physical 87,5% and 0% operation)

### Various indicators

32. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicator description	Reported achievement	Audited value
1.2.5.2 % compliance with the green drop quality accreditation system	Target not achieved- (Micro 33,3%, Chem 33,3% and Physical 87,5% and 0 operation)	Micro 25%, Chem 33,35% and Physical 79,15% and Operation 39,3%
1.2.4.2 % compliance with the blue drop water quality accreditation system	Target not achieved, (Sasolburg Micro: 99,9%, Oranjeville Micro: 99.9%, Denesville Micro: 99.9% Sasolburg Chemical: 99.9%, Oranjeville Chemical:99.9%, Deneysville Chemical:99.9%,	Non Health Aesthetic 99,21% Operational 83.3% Disinfectant 41,83% Microbiological 99.9% Chemical 99.9%
1.2.5 Upgrade the WWTW	40,00%	0

### Other matters

33. I draw attention to the matters below.

### Achievement of planned targets

34. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and management's explanations provided for the [under/over achievement of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) x to x of this report.

### Introduction and scope

35. 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.
36. The material findings on compliance with specific matters in key legislation are as follows:

### Annual financial statements

37. 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 current assets, and disclosures identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

### Expenditure management

38. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred, as indicated in the basis for qualified opinion paragraphs.
39. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R 3 594 516 as disclosed in note 52 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

### Procurement and contract management

40. 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). Similar non-compliance was also reported in the prior year.
41. Sufficient appropriate audit evidence could not be obtained that bid specifications unbiased and allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the Re-advertisement of Construction for the Upgrading of Oranjeville Waste Water Treatment Plant
42. Invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the Re-advertisement of Construction for the Upgrading of Oranjeville Waste Water Treatment Plant
43. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

44. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
45. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e).

### **Consequence management**

46. Unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
47. Irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
48. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### **Asset management**

49. 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.
50. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services and/or considered the fair market value of the assets and the economic and community value to be received in exchange for the assets as required by section 14(2)(a) and 14(2)(b) of the MFMA.

### **Strategic planning and performance management**

51. A performance management system was not established, as required by section 38(a) of the Municipal Systems Act.

### **Utilisation of conditional grants**

52. I was unable to obtain sufficient appropriate audit evidence that the Integrated National Electrification Programme Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Division of Revenue Act (Act 4 of 2020).

## Other information

53. 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 KPA presented in the annual performance report that has been specifically reported in this auditor's report.
54. 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.
55. 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.
56. 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

57. 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 qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
58. The positions reporting directly to the municipal manager have been vacant for a very long period. This has resulted in various officials acting in these positions, contributing to the instability in the leadership of the municipality.
59. The implementation of the corrective measures included in the audit action plan were inadequate and not effectively monitored to ensure that the weaknesses relating to the finance, performance and supply chain management were addressed.
60. Management did not implement proper recordkeeping to ensure that complete and accurate information was available to support financial and performance reporting.
61. Management's inability to prioritise, develop and apply standard operating procedures to manage financial and performance reporting, including the effective monitoring and evaluation of reported financial and performance information, resulted in significant findings.

62. Management's lack of detailed review of the financial statements and the underlying records resulted in material misstatements that were not detected by the department's internal processes.

Bloemfontein

30 November 2021



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

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## **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[s] 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 Metsimaholo 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 applied.

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